

The 9th Survey of the Business Environment in Hong Kong (2nd half of 2021)

January 2022



日本國駐香港總領事館
Consulate-General of Japan in Hong Kong

Consulate-General of Japan in Hong Kong



JETRO Hong Kong



The Hong Kong Japanese Chamber of Commerce & Industry

Survey Points

1. DI value in the 2nd half of 2021 is 19.1 points, down 4.3 points from the previous quarter (April~June 2021). The DI for the 1st half of 2022 (expected) is 3.7, down 15.4 points lower than the DI for the 2nd half of 2021.
2. 68.1% of respondents stated that "COVID-19" is the biggest factor affecting their business performance, 14.3% answered "economic trends in China", and 11.6% answered "other" factors such as "shortages of semiconductors and disruptions in supply chains".
3. 51.0% of respondents were 'very concerned' (8.8%) or 'concerned' (42.2%) about the National Security Law, while the ratio of respondents who answered that it had 'no impact' (66.9%) or 'don't know at the moment' (20.2%) is 87.1%. 12.5% of the respondents answered that the law had a negative impact.
4. 75.3% of the respondents answered that the National Security Law had "no significant impact" on their HK offices. In addition, 56.6% of the respondents answered that the travel restrictions had "no significant impact" on their HK offices.
5. About 64% of the respondents mentioned "Limitation of business activities due to travel restrictions between HK and China, between HK and Japan" as the most serious problems for business.
6. 36.6% of respondents answered that HQs in Japan were pessimistic about HK. Regarding the impact of pessimistic perceptions of the HQs on business, 42.9% answered that they had been ordered or urged to consider reducing headcount in the HK office.

Concept of the survey

1. Purpose of the survey

The business environment of Hong Kong has changed greatly due to the deterioration of the U.S.-Sino relationship, the economic downturn due to Covid-19 and the implementation of the National Security Law (NSL), which was enacted in June 2020. This survey was conducted with the aim of assessing the actual situation for Japanese companies in Hong Kong and examining possible measures in the midst of drastic changes in the business environment.

This survey has been conducted since September 2019 and is now in its ninth edition. From the 9th survey onwards, the frequency has been changed from once a quarter to once every six months.

2. Coverage

Total: 620 companies

3. Term of the survey

3rd–7th January, 2022

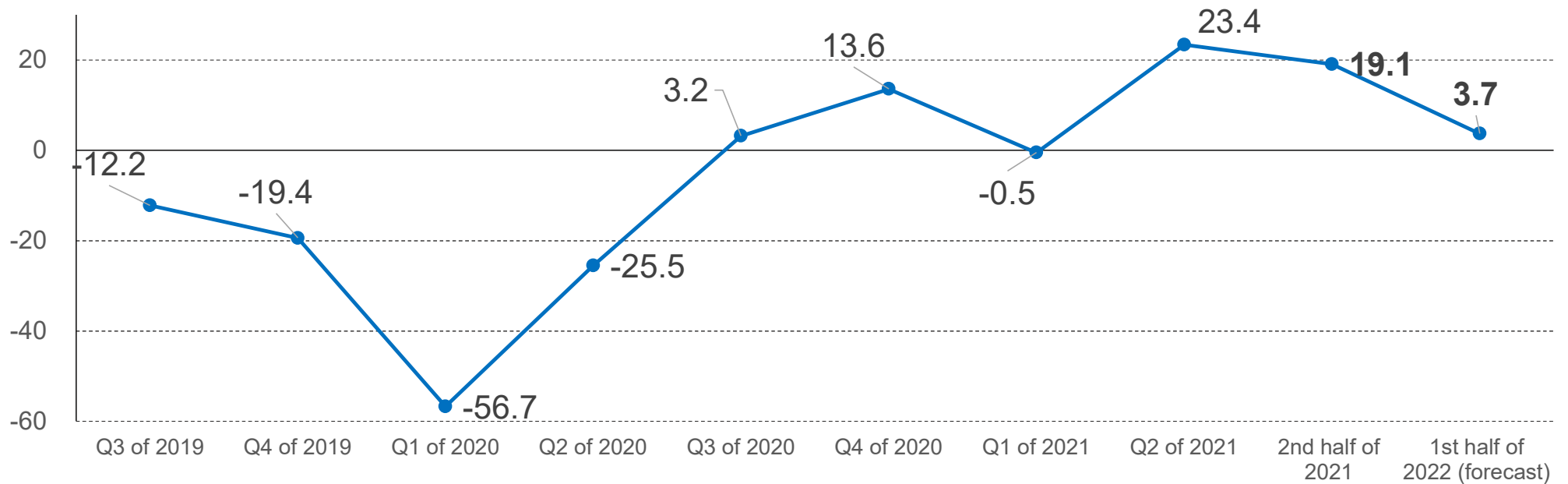
4. The number of respondents

232 (Response rate: 37.4%)

Diffusion Index

- DI value for the 2nd half of 2021 is 19.1 points, which dropped 4.3 points from that of the previous quarter, (April-June 2021).
- The forecast for the 1st half of 2022 is 3.7, which dropped by 15.4 points from that of the 2nd half of 2021.

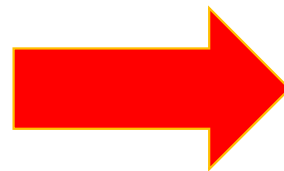
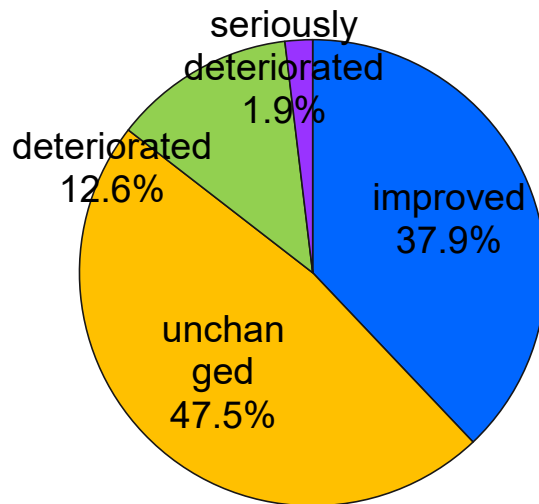
(point)



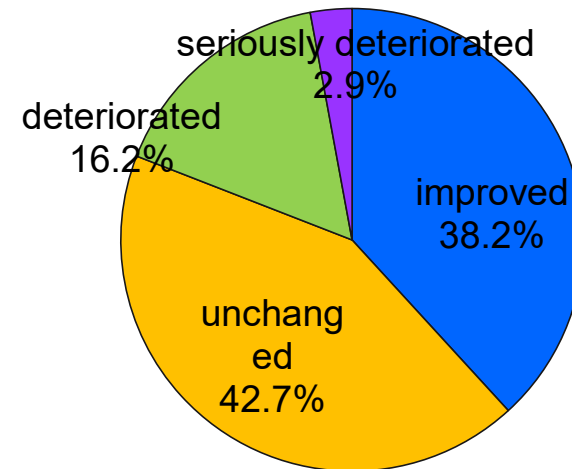
Business Performance in the 2nd half of 2021

- The ratio of respondents who answered that their performance in the July-December, 2021 period had 'improved' compared with the previous quarter, (April-June, 2021), increased slightly to 38.2%, (previously 37.9%), while both 'deteriorated' and 'seriously deteriorated' increased to 19.1%, (previously 14.5%).
- Compared with the previous quarter, the ratio of 'improved' in the Information Technology, Telecommunications, Media and Advertising sectors, (7.7%→46.2%) and the Food Services & Retail sectors, (33.3%→60.0%), increased significantly.

2nd Quarter of 2021



2nd Half of 2021



n=241

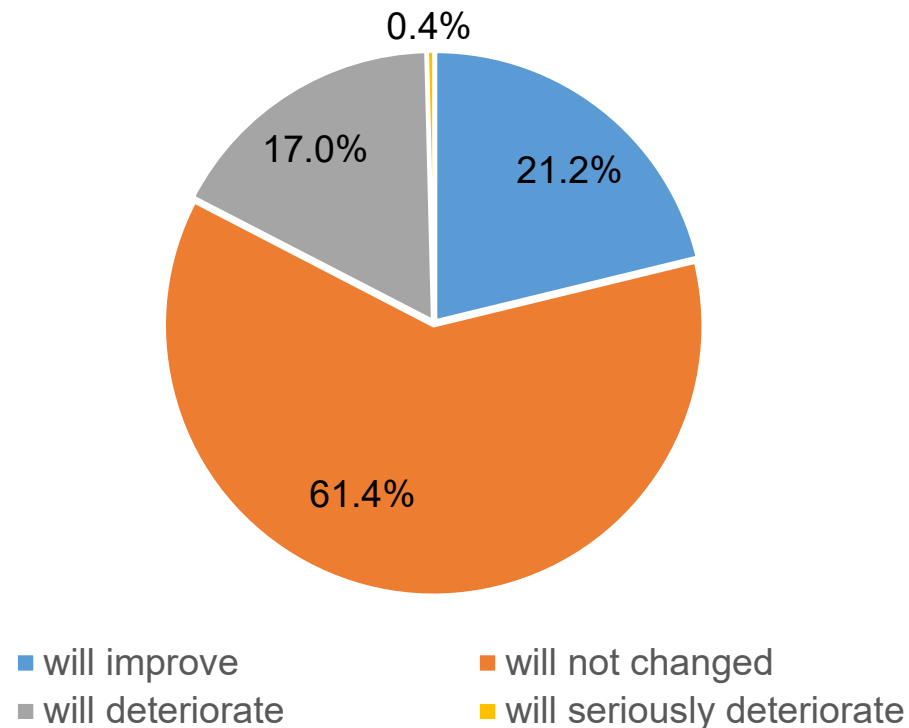
Reasons for the improvement or deterioration of business performance in the 2nd half of 2021

*Multiple answers allowed.

Reasons for 'improved' performance		Reasons for 'deteriorated' performance	
Increase in sales in Hong Kong market	44.6%	Decrease in sales in Hong Kong market	28.3%
Increase in exports overseas other than China	38.0%	Decrease in exports to mainland China	28.3%
Increase in exports to mainland China	29.4%	Rise in procurement costs	23.9%
Reduction of other expenses (administrative fees, electricity and fuel fees)	10.9%	Insufficient transfer to sales price	19.6%
Reduction of rent through office relocation or rent decrease	9.8%	Decrease in exports overseas other than China	13.0%
Reduction of employment costs	7.6%	Rise in employment costs	6.5%
Improvement of production and sales efficiency	4.4%	Rise in other expenses (administrative fee, electricity and fuel fees)	4.4%
Others	13.0%	Others	34.8%

Forecast of business performance in the 1st half of 2022

- The ratio of 'will improve' (21.2%), dropped 4.2 points compared with the previous quarter, (April-June, 2021) (25.4%), while that of both 'will deteriorate' and 'will seriously deteriorate' increased to 17.4%, (the previous quarter 13.1%).
- The largest percentage of respondents in most industries answered that their business will remain unchanged.



n=241

Reasons for the forecast of the improvement or deterioration of business performance in the 1st half of 2022

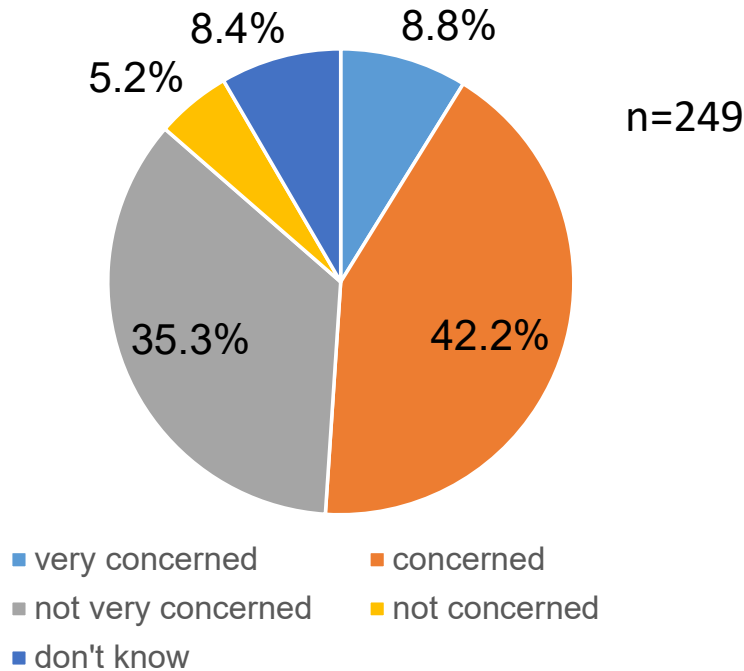
*Multiple answers allowed.

Reasons for 'will improve' performance		Reasons for 'will deteriorate' performance	
Increase in sales in Hong Kong market	56.9%	Decrease in exports to mainland China	34.9%
Increase in exports overseas other than China	39.2%	Decrease in exports overseas other than China	23.3%
Increase in exports to mainland China	27.5%	Rise in procurement costs	16.3%
Reduction of employment costs	9.8%	Decrease in sales in Hong Kong market	14.0%
Reduction of rent through office relocation or rent decrease	7.8%	Rise in employment costs	14.0%
Improvement of production and sales efficiency	5.9%	Insufficient transfer to sales price	9.3%
Reduction of other expenses (administrative fees, electricity and fuel fees)	3.9%	Rise in rent through office relocation or rent decrease	7.0%
Others	3.9%	Fluctuations of exchange rate	4.7%
		Others	25.6%

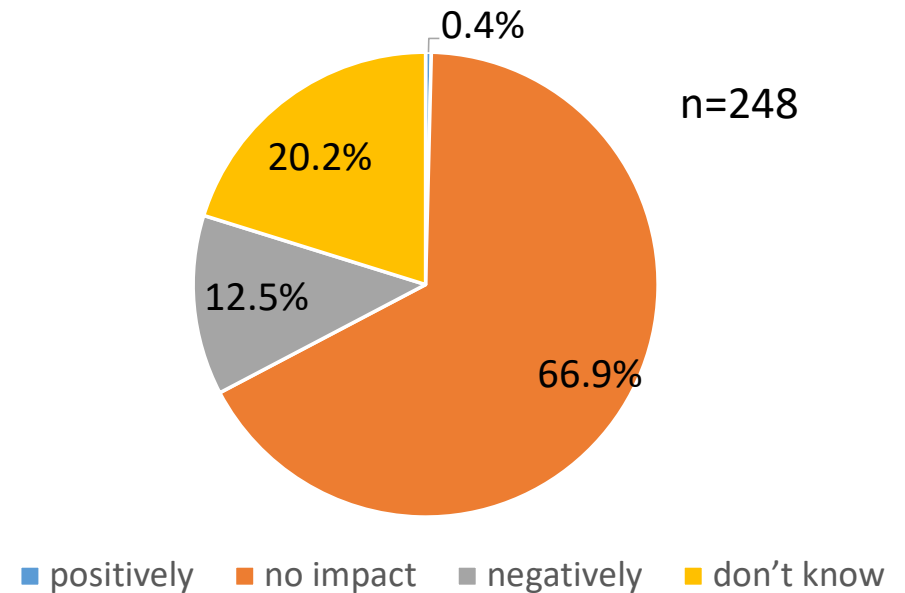
Impact of National Security Law (1)

- 51.0% of respondents answered that they were ‘very concerned’ (8.8%) or ‘concerned’ (42.2%) about the NSL. (The ratio of the previous quarter was 56.5%.)
- 12.5% of respondents answered that it had a ‘negative impact on business’, while 66.9% of respondents answered that the NSL had ‘no impact’. (In the previous quarter the figures were 15.5% and 60.3%, respectively.)

How concerned about National Security Law?



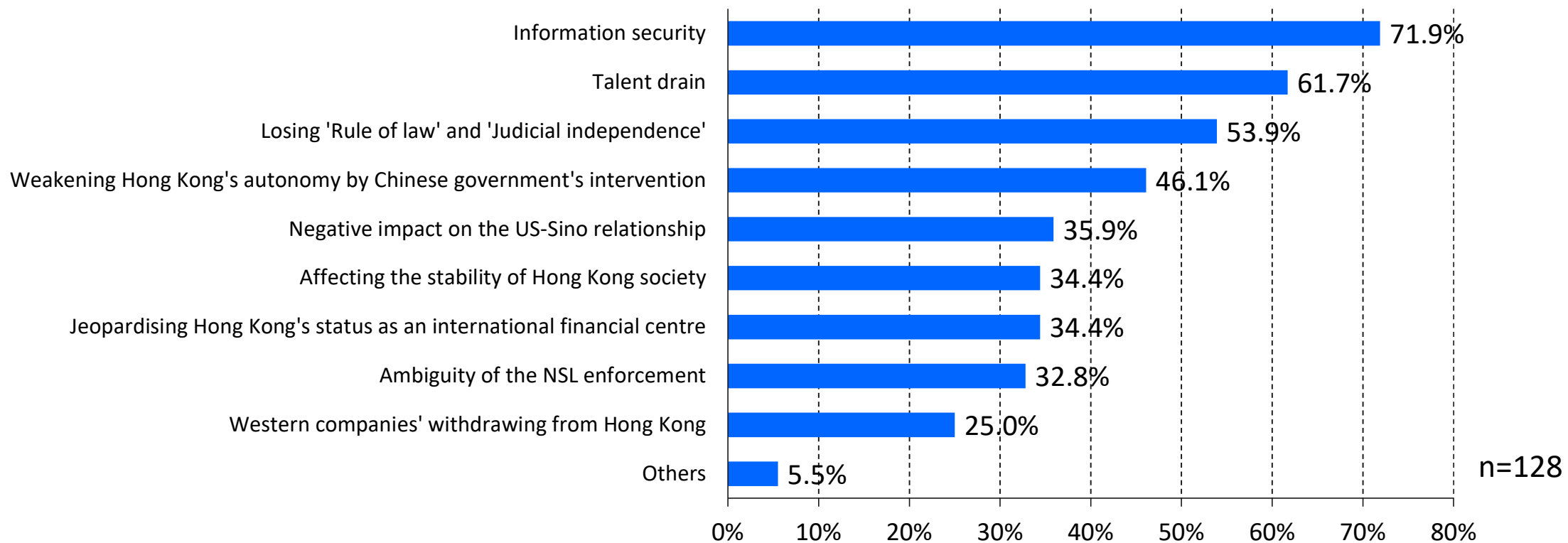
Impact on the business by National Security Law



Impact of National Security Law (2)

- Regarding the NSL, most of respondents were concerned about 'information security' (71.9%), followed by 'Talent Drain' (61.7%), 'losing the "Rule of Law" and "Judicial Independence"' (53.9%).

*Multiple answers allowed.



Impact of the National Security Law (3)

Opinions from respondents regarding the impact of the NSL:

*Free description

n=32

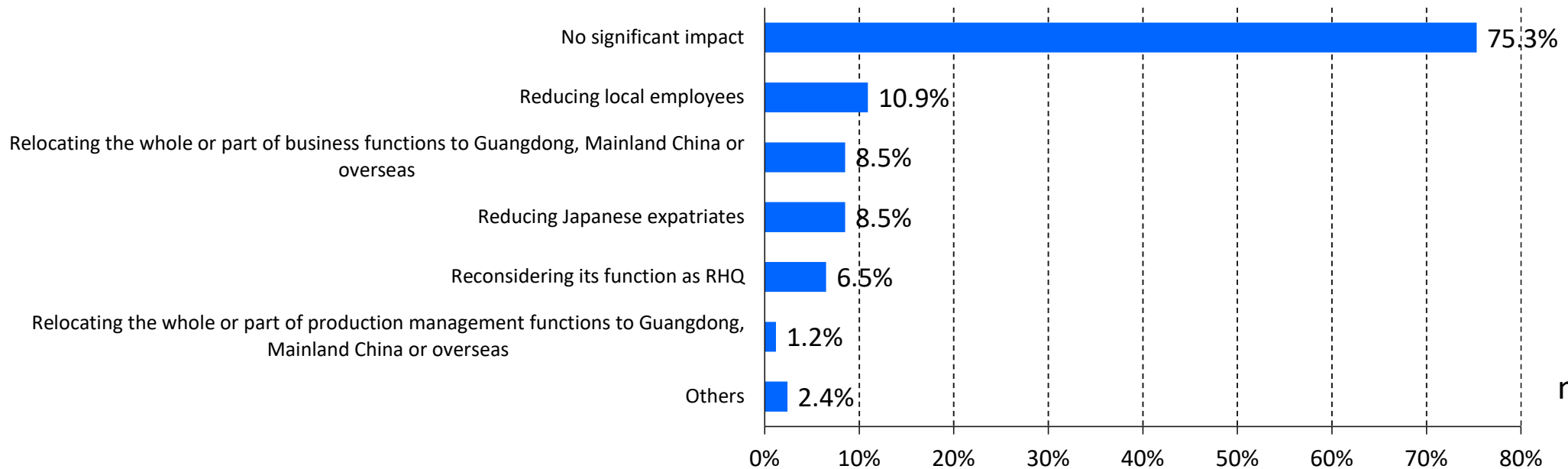
- Resignation of local employees due to emigration.
- Hong Kong's image by Japan HQs has been tarnished.
- Data storage functions should be moved outside of Hong Kong with a view to information security.
- Deterioration of investor sentiment in relation to Hong Kong.
- Reconsideration of business plan due to the Chinese government's growing influence.

Impact of National Security Law (4)

- Regarding the NSL impact on respondents' Hong Kong offices, 75.3% of respondents answered 'No significant impact'.
- On the other hand, 10.9% of them answered 'Reducing local employees', 8.5% answered 'Reducing Japanese expatriates', 8.5% answered 'Relocating business functions, in part or whole, to Guangdong, Mainland China or overseas', and 6.5% answered 'Reconsidering its function as RHQ'.

*Multiple answers allowed

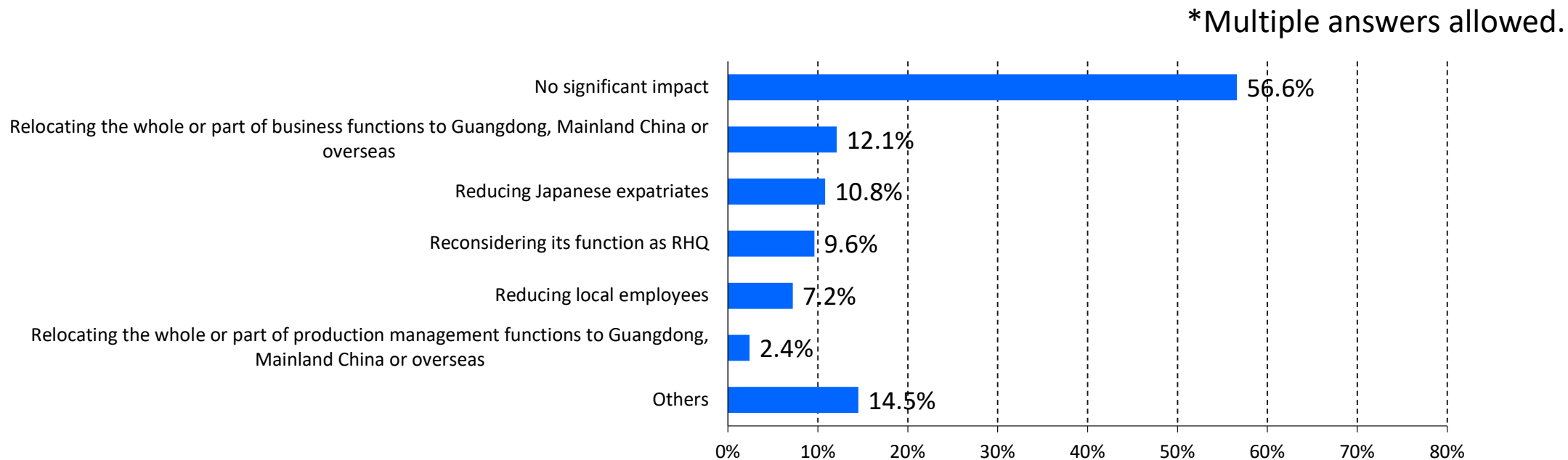
* * RHQ=Regional Head Quarter



n=247

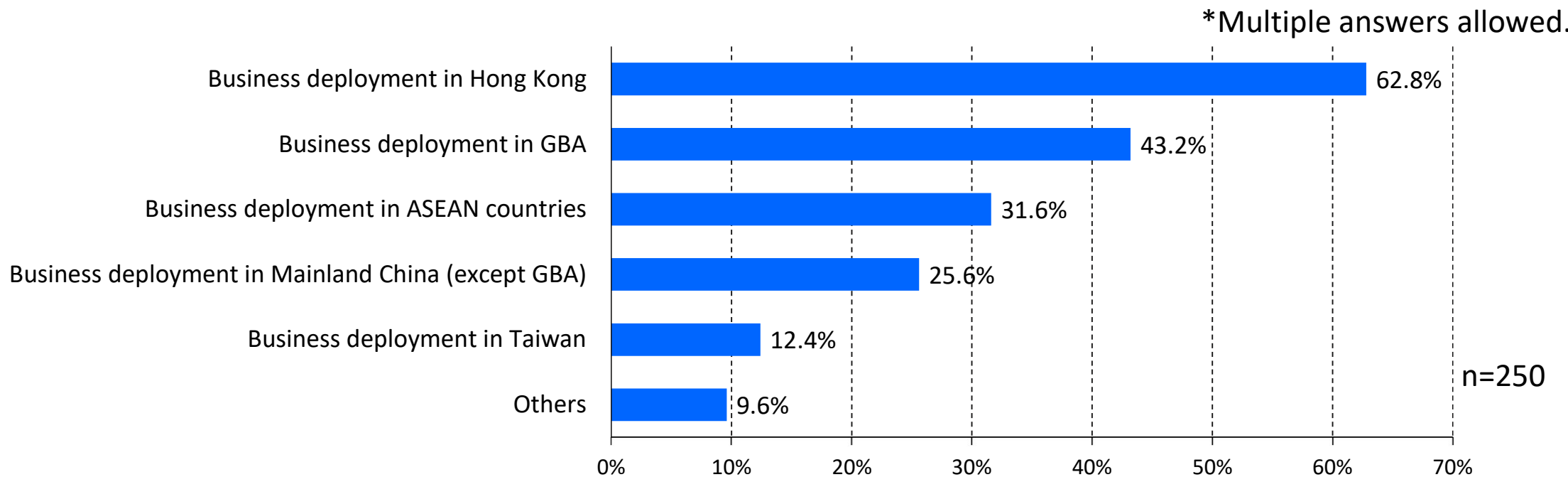
Impact of travel restrictions on Hong Kong offices

- Regarding travel restrictions' impact on respondents' Hong Kong offices, 56.6% of respondents answered 'No significant impact'.
- On the other hand, 12.1% of them answered 'Relocating business functions, in part or whole, to Guangdong, Mainland China or overseas', 10.8% answered 'Reducing Japanese expatriates', 9.6% answered 'Reconsidering its function as RHQ', and 7.2% answered 'Reducing local employees'.



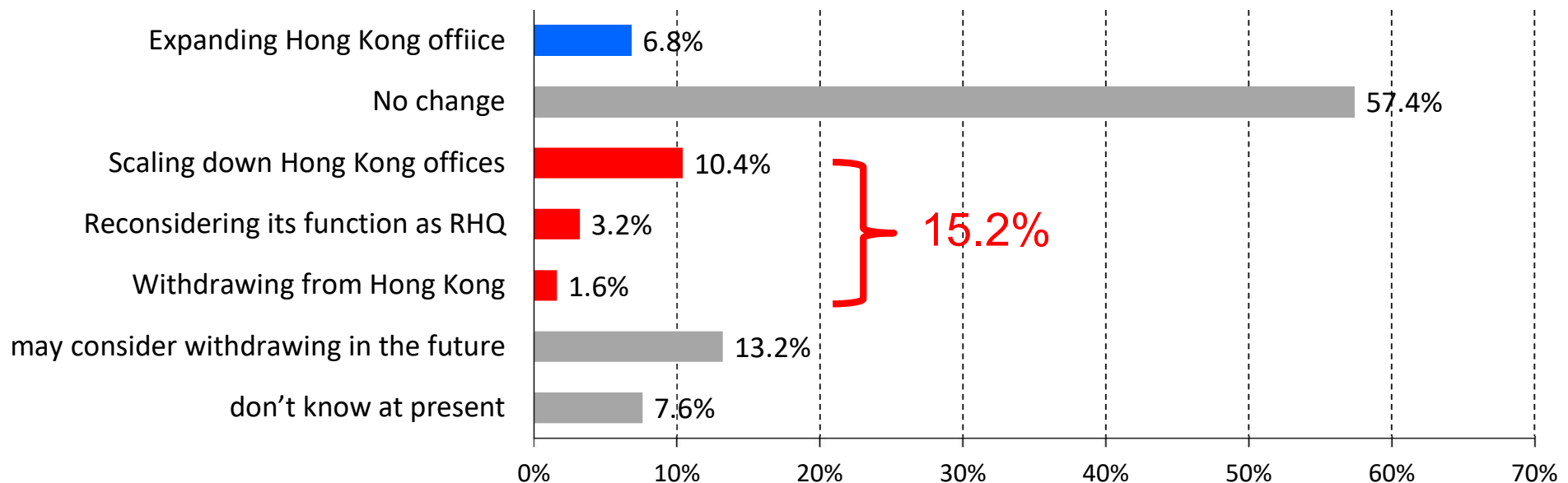
Function of Hong Kong offices

- 62.8% of respondents raised 'Business deployment in Hong Kong' as the function of their Hong Kong offices, followed by 'Business deployment in GBA' (43.2%), 'Business deployment in ASEAN countries' (31.6%) and 'Business deployment in Mainland China (except GBA)' (25.6%).
- 'Others' includes; "Logistics and procurement hub for multiple bases", "Business deployment in Asian and Oceanian countries (except ASEAN)" and "Operation base for procurement and sales on worldwide scale" as free descriptive answers.



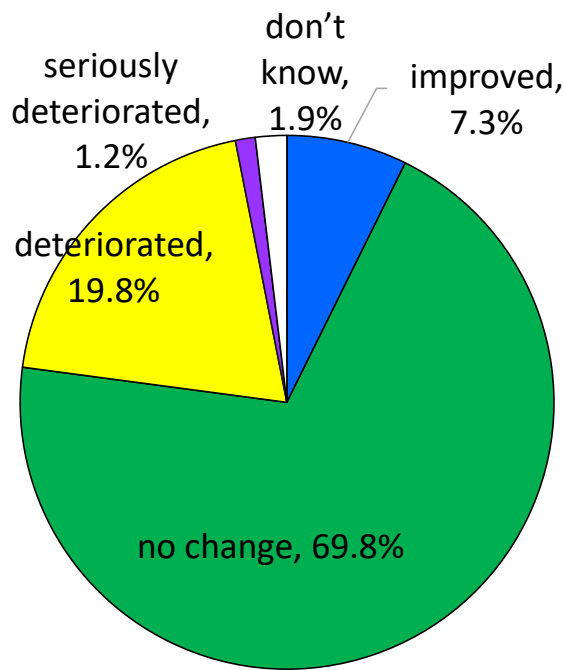
Future direction of Hong Kong offices

- 64.2% of respondents answered that they would either ‘expand’ (6.8%) or have ‘no change’ (57.4%) in terms of the business functions of their Hong Kong offices. Reasons for expansion include: “Sales expansion of Japanese products” and “Expectation for GBA and Northern Metropolis Development Strategy”.
- On the other hand, 15.2% of respondents answered that they would be ‘scaling down’(10.4%),or ‘reconsidering its function’ (3.2%) or ‘withdrawing’ (1.6%) from Hong Kong. These reasons include; “Relocating to overseas or Mainland China”, “Deterioration of business superiority in Hong Kong”, “Too stringent restrictions regarding COVID-19” and “Decline in demand”. Mainland China, Singapore, Vietnam and Thailand are raised as candidates for possible relocation.

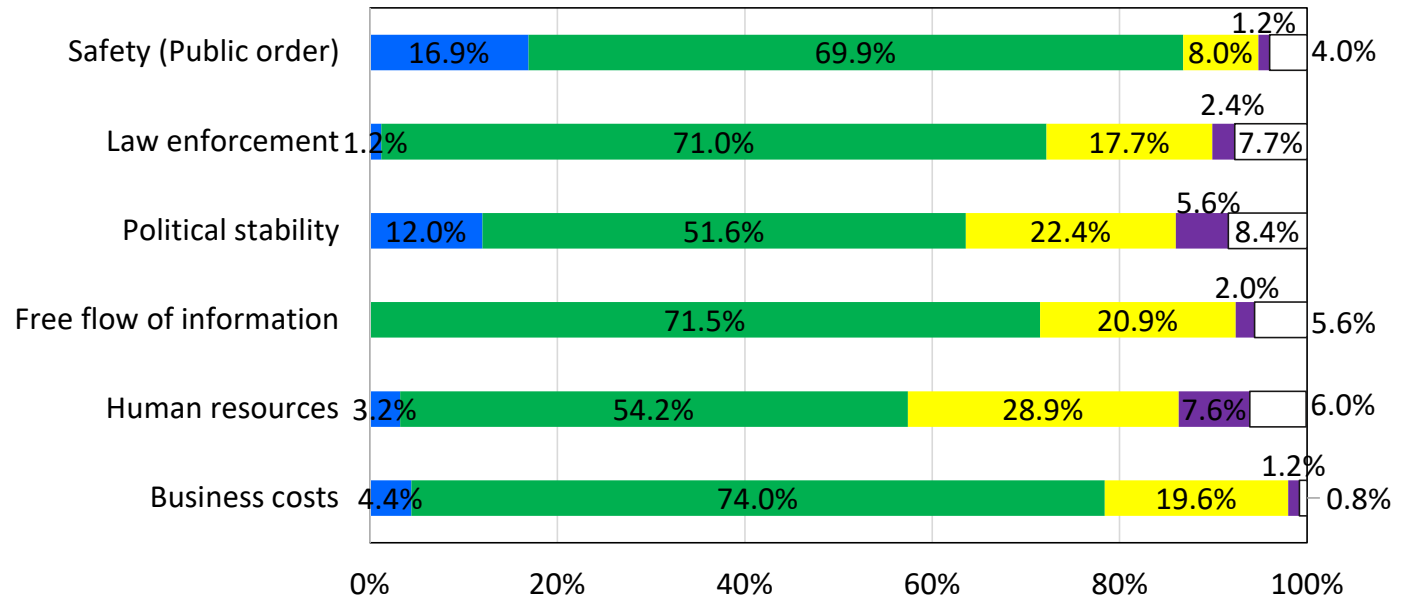


Evaluation of Hong Kong's business environment, (compared with January 2021)

- Regarding the business environment, 69.8% of respondents answered that it had 'no change', while 21.0% answered that it had 'seriously deteriorated' or 'deteriorated' compared to last year.
- 36.5% of respondents answered that securing human resources had 'seriously deteriorated' (7.6%) or 'deteriorated' (28.9%).



n=248



Problems in business operation

- 64%, (89 respondents), answered that 'Limitation of business activities due to travel restrictions' is the most serious problem for their operation.
- Also, "Difficulty of human resource recruitment", "Business downturn of clients" and "Rising office rent and labour costs", were raised as serious problems.

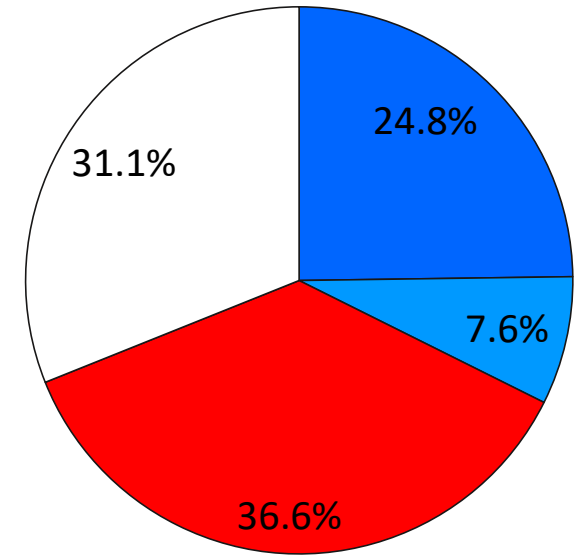
Main opinions from respondents :

- Travel restrictions between HK and China and between HK and Japan.
- Unable to visit customers and conduct sales activities in mainland China due to travel restrictions.
- Talent drain due to emigration, etc.
- Rise in material, logistics, energy and labour costs, etc.
- Regulations on restaurants.

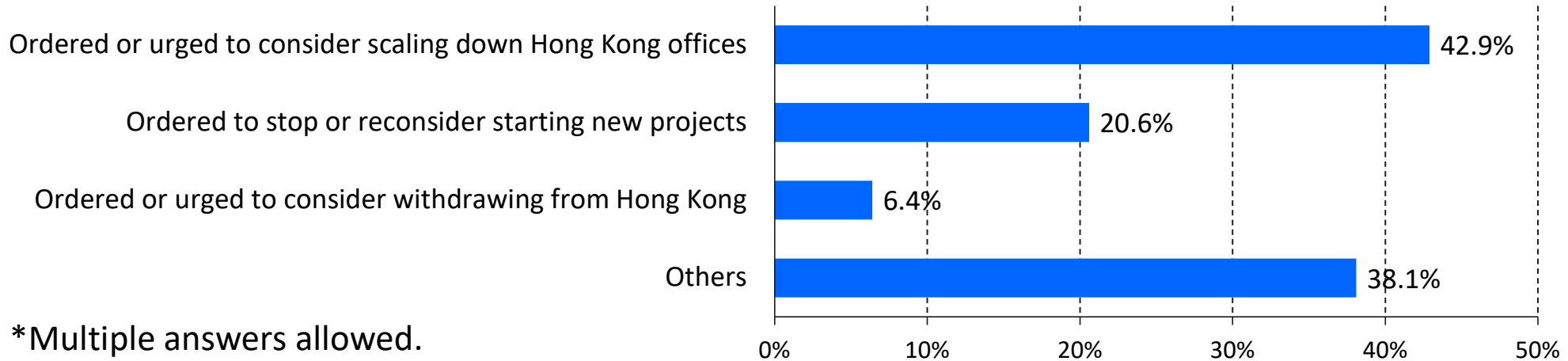
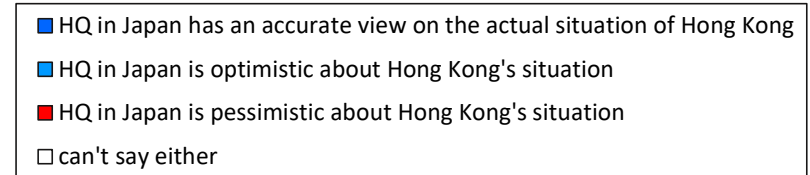
n=138 *Free description

Japan HQs' view on Hong Kong

- 36.6% of respondents answered that the HQs in Japan viewed Hong Kong pessimistically.
- Regarding the impact of the pessimistic view on business, 42.9% of respondents answered that they had been ordered or urged to consider scaling down their Hong Kong offices and/or business.



n=238



n=63

*Multiple answers allowed.

Requests to the Hong Kong SAR Government

n=54

*Free description

- Early relaxation of travel restrictions with Mainland China and Japan.
- Economic policies including resumption of ESS (Employment Support Scheme).
- Policy implementation regarding GBA, (e.g. relaxation of import restrictions and travel restrictions).
- Prompt and effective governmental measures on the Omicron variant.
- Under the global trend of electric payment systems, governmental initiative is needed to reduce domestic distribution volume of negotiable instruments.