

The 10th Survey of the Business Environment in Hong Kong (1st half of 2022)

July 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 1st half of 2022 is -16.7 points, down 35.8 points from the previous quarter (Jul~Dec 2021). The DI for the 2nd half of 2022 (expected) is 17.8, 34.5 points higher than the DI for the 1st half of 2022.
2. 71.6% of respondents stated that "COVID-19" is the biggest factor affecting their business performance, 11.5% answered "economic trends in China", and 13.6% answered "other" factors such as "rise in transportation cost", "stagnation in supply chains".
3. 41.1% of respondents were 'very concerned' (7.8%) or 'concerned' (33.3%) about the National Security Law, while the ratio of respondents who answered that it had 'no impact' (57.3%) or 'don't know at the moment' (24.2%) is 81.5%. 17.1% of the respondents answered that the law had a negative impact.
4. 84.1% of the respondents answered that "Dynamic zero COVID policy" had 'a negative impact' on their HK offices. The most common reason given for this was that "business activities have been hindered due to the travel restrictions".
5. 32.5% of respondents answered that HQs in Japan were pessimistic about HK. 65.9% of respondents answered that the reason given for this was that the media coverage in Japan is too pessimistic. Regarding the impact of pessimistic perceptions of the HQs on business, 47.5% answered that they had been ordered or urged to consider reducing headcount in the HK office.
6. As a solution to the current challenges, 70% expressed hope for the new HK SAR govt. to abolish or ease quarantine measures, such as "shift to a with-corona policy" and "removal of travel restrictions". In the medium to long term, expectations were also expressed for "maintaining HK's business environment and advantages".

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 10th edition. From the 9th survey onwards, the frequency has been changed from once a quarter to once every six months.

2. Coverage

Total: 627 companies

3. Term of the survey

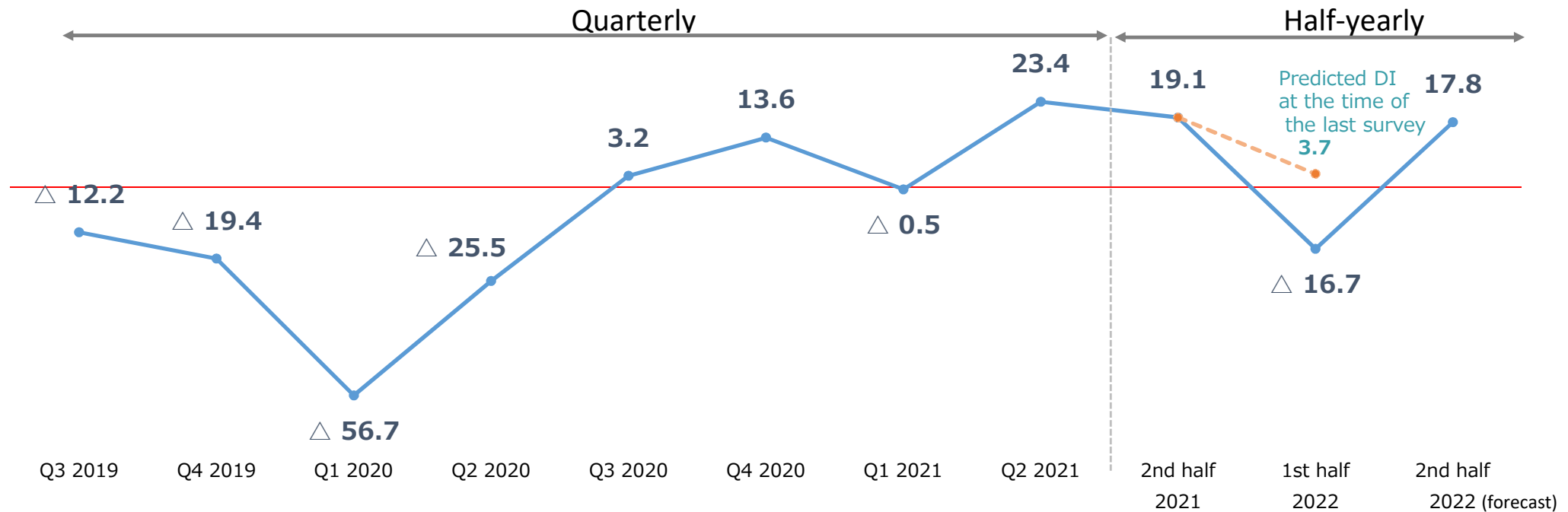
4th–8th July, 2022

4. The number of respondents

295 businesses including businesses belonging to "The Hong Kong Japanese Chamber of Commerce & Industry ", "NPO Hong Kong Wakyokai Ltd. " and "Hong Kong Japanese Restaurant Association ".

Diffusion Index

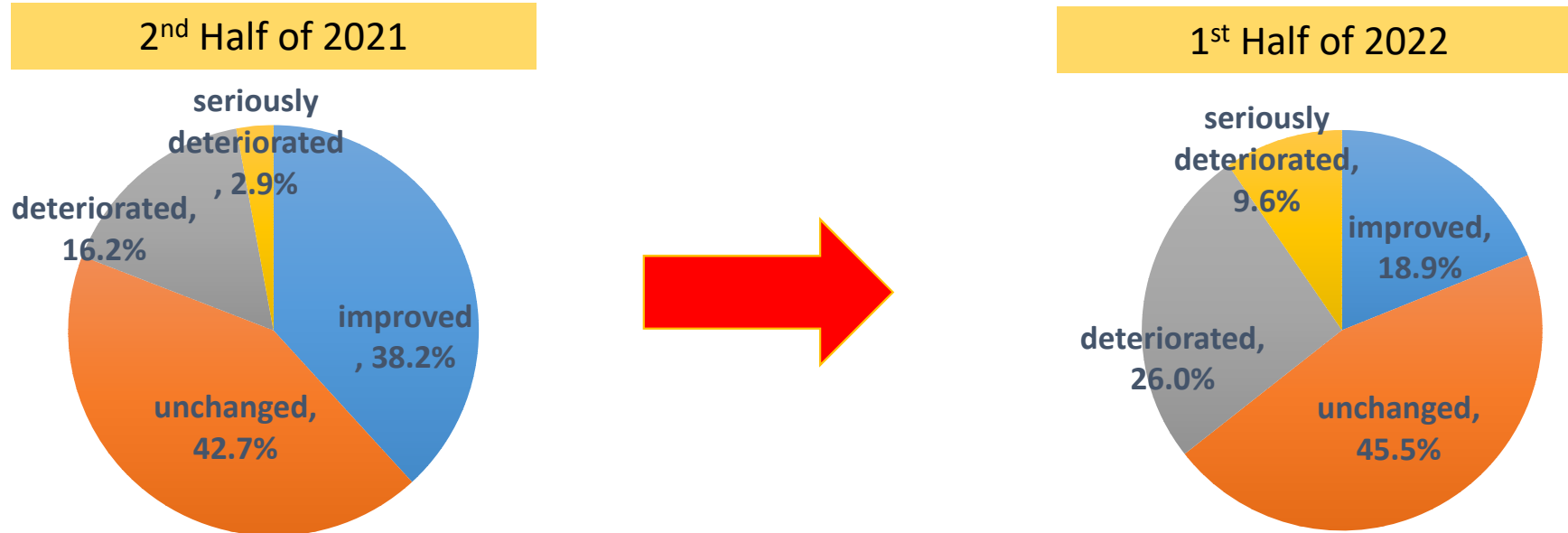
- DI value for the 1st half of 2022 is -16.7 points, which dropped 35.8 points from that of the last quarter (Jul –Dec 2021).
- The forecast for the 2nd half of 2022 is 17.8, which rose by 34.5 points from the DI value of the 1st half of 2022.



*DI stands for Diffusion Index and is calculated by subtracting the proportion of companies that responded 'deteriorated' and 'significantly deteriorated' from the proportion of companies that responded 'improved'.

Business Performance in the 1st half of 2022

- The ratio of respondents who answered that their performance in the Jan-Jun 2022 period had 'improved' compared with the last quarter (Jul- Dec 2021), decreased to 18.9%, (previously 38.2%), while both 'deteriorated' and 'seriously deteriorated' increased to 35.6%, (previously 19.1%).
- Compared with the previous quarter, the ratio of 'deteriorated' and 'seriously deteriorated' in the Transport & Warehousing sectors (12.5%→44.8%), the Trading & Wholesale sectors (19.8%→39.1%) and the Finance & Leasing sectors increased significantly.



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

*Multiple answers allowed.

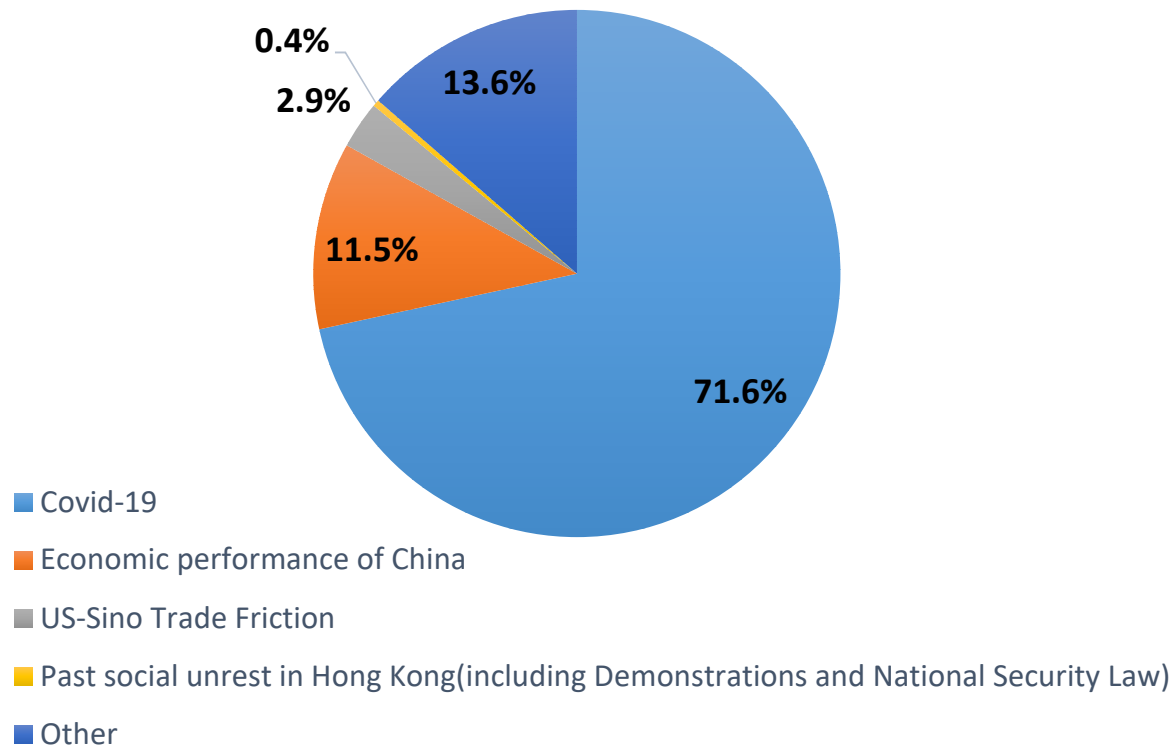
Reasons for 'improved' performance	
Increase in sales in Hong Kong market	59.6%
Increase in exports overseas other than China	32.7%
Reduction of employment costs	23.1%
Exchange fluctuations	19.2%
Increase in exports to mainland China	15.4%
Reduction of rent through office relocation or rent decrease	13.5%
Reduction of other expenses (administrative fees, electricity and fuel fees)	9.6%
Others	5.8%
Reduction of procurement costs	3.8%

Reasons for 'deteriorated' performance	
Decrease in exports to mainland China	44.0%
Decrease in sales in Hong Kong market	29.0%
Decrease in exports overseas other than China	28.0%
Rise in procurement costs	28.0%
Others	16.0%
Insufficient transfer to sales price	13.0%
Exchange fluctuations	12.0%
Rise in employment costs	8.0%
Rise in other expenses (administrative fee, electricity and fuel fees)	4.0%
Rise in rent through office relocation or rent increase	2.0%
Rise in interest rates	2.0%

Factors in the deterioration of business performance in the 1st half of 2022

Regarding the most significant factor for the deterioration in business performance, 71.6% of respondents answered 'Covid-19'.

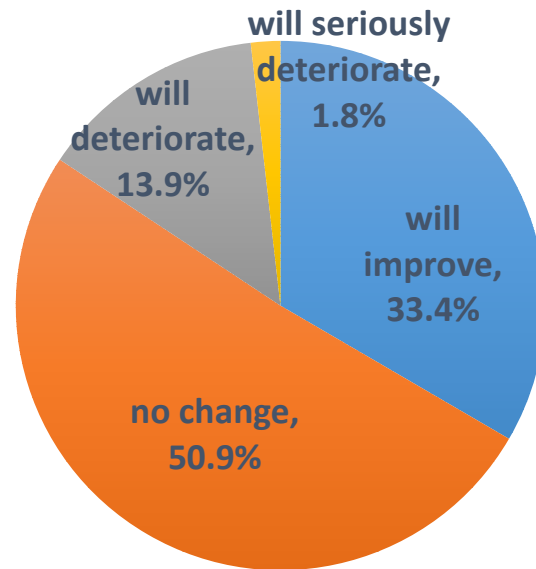
As for other reasons, 'China lockdown (especially Shanghai)', 'Rise in transport costs' and 'Stagnation of supply chains' were given.



n=278

Forecast of business performance in the 2nd half of 2022

- The ratio of 'will improve' (33.4%), rose 14.5 points compared with the last survey (18.9%), while that of both 'will deteriorate' or 'will seriously deteriorate' together decreased to 15.7%, (the last survey 35.6%).
- The proportion of 'will improve' responses increased in all sectors. A marked significant improvement compared to the last survey was seen in Information/Communications and Media/Advertising (14.3% → 50.0%), Food, Beverages and Retail (33.3% → 66.7%), Transport & Warehousing (20.7% → 44.8%).



n=281

Reasons for the forecast of the improvement or deterioration of business performance in the 2nd half of 2022

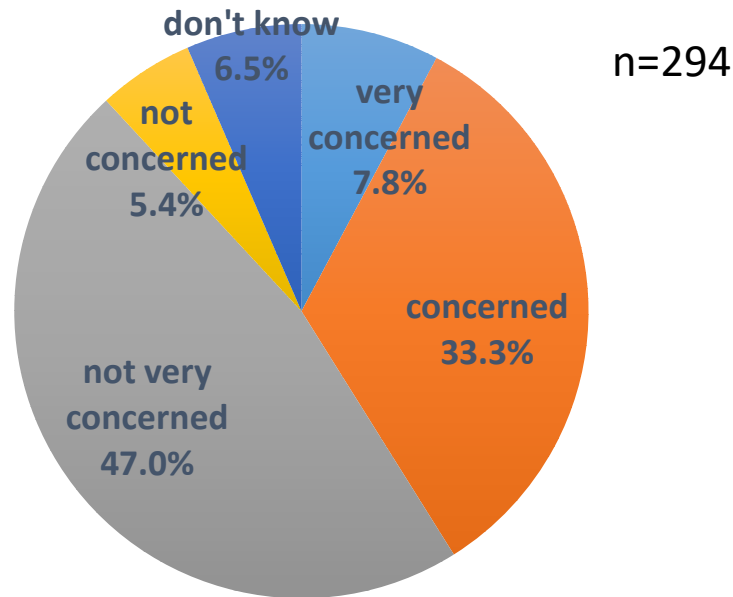
*Multiple answers allowed.

Reasons for 'will improve' performance		Reasons for 'will deteriorate' performance	
Increase in sales in Hong Kong market	51.6%	Decrease in exports to mainland China	45.5%
Increase in exports overseas other than China	29.0%	Decrease in sales in Hong Kong market	29.5%
Increase in exports to mainland China	26.9%	Decrease in exports overseas other than China	27.3%
Reduction of employment costs	12.9%	Insufficient transfer to sales price	27.3%
Exchange fluctuations	10.8%	Exchange fluctuations	20.5%
Reduction of other expenses (administrative fees, electricity and fuel fees)	8.6%	Rise in procurement costs	13.6%
Improvement of production and sales efficiency	7.5%	Others	9.1%
Others	7.5%	Rise in other expenses (administrative fee, electricity and fuel fees)	6.8%
Reduction of rent through office relocation or rent decrease	5.4%	Rise in interest rates	6.8%
Reduction of procurement costs	4.3%	Rise in employment costs	4.5%
		Rise in rent through office relocation or rent increase	2.3%

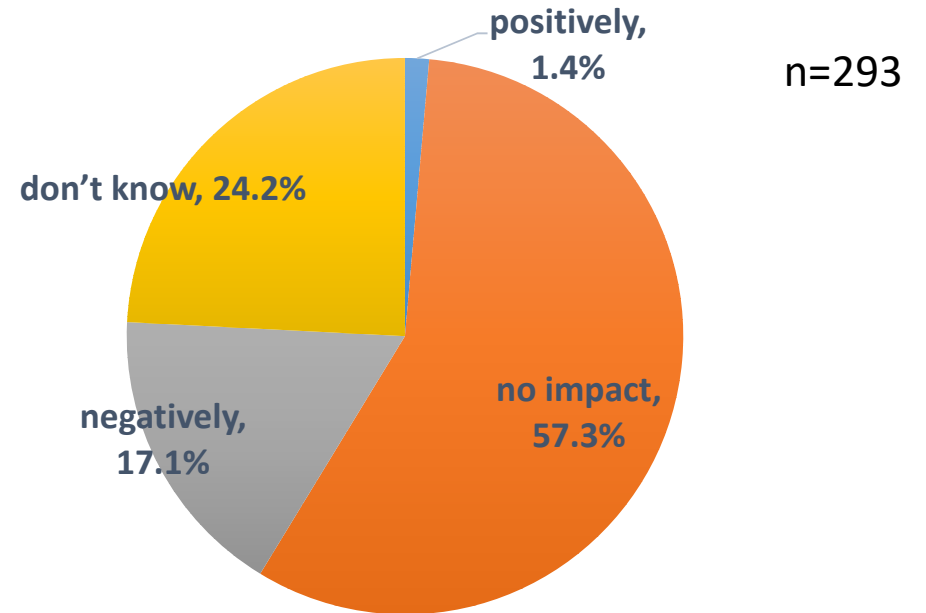
Impact of National Security Law (1)

- 41.1% of respondents answered that they were 'very concerned' (7.8%) or 'concerned' (33.3%) about the NSL. (The ratio of the last survey was 51.0%.)
- 17.1% of respondents answered that it had a 'negative impact on business', while 57.3% of respondents answered that the NSL had 'no impact'. (In the last survey's figures were 12.5% and 66.9%, respectively.)

How concerned about National Security Law?



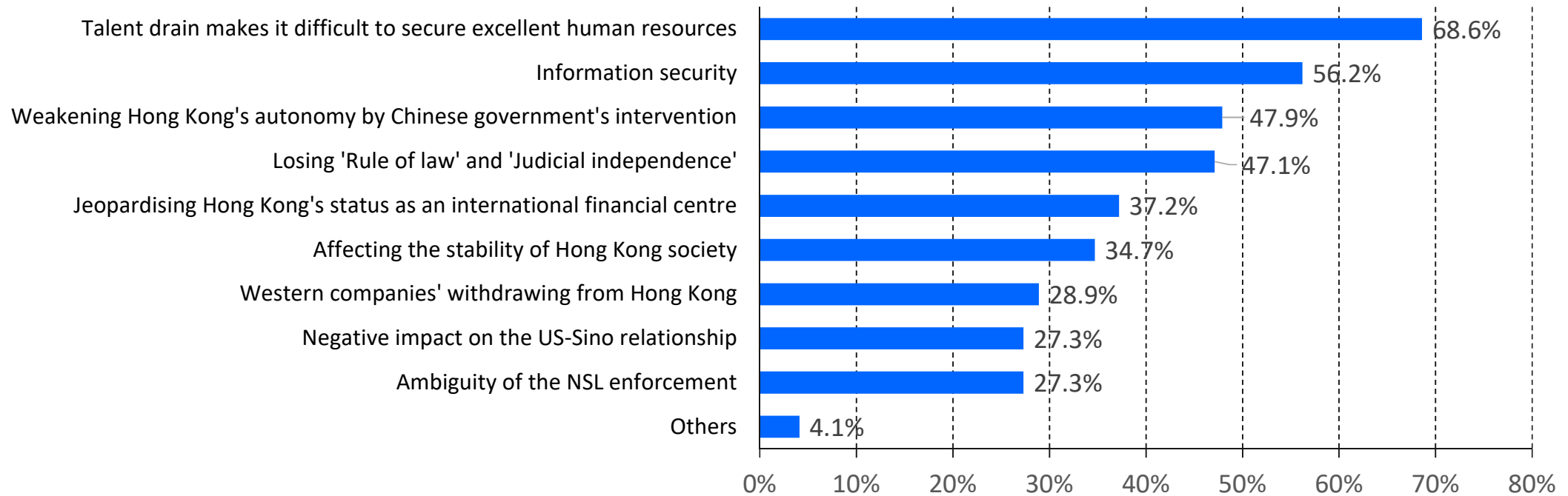
Impact on the business by National Security Law



Impact of National Security Law (2)

- Regarding the NSL, most of respondents were concerned about 'Talent drain makes it difficult to secure excellent human resources' (68.6%), followed by 'information security' (56.2%) , 'Weakening of HK`s autonomy by Chinese government`s intervention' (47.9%).

*Multiple answers allowed. n=121



Impact of the National Security Law (3)

Opinions from respondents regarding the impact of the NSL:

*Free description
n=50

【Negative impact】

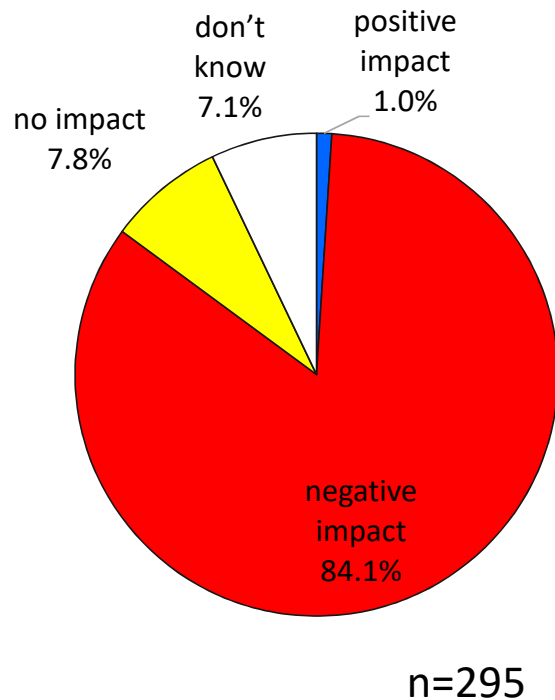
- Resignation of local employees due to emigration (talent drain).
- Decline in Hong Kong`s reputation.
- Deterioration of investor sentiment in relation to Hong Kong.
- Decrease in sales due to customers withdrawing from Hong Kong.
- Order from Japan HQs to downsize or review HK office viability.

【Positive impact】

- Security, stability

Evaluation of Dynamic zero COVID policy

- Under Mainland China and Hong Kong's Dynamic zero COVID policy, **84.1% of respondents answered that it had 'negative impact'** (n = 295).
- As for its reasons, about a half of respondents raised 'Difficulties in business activities due to the travel restrictions', followed by 'Difficulties due to the stagnation of logistics' (about 20%) and 'Negative impact on demand or sales by the decrease in inbound visitors' (about 20%).



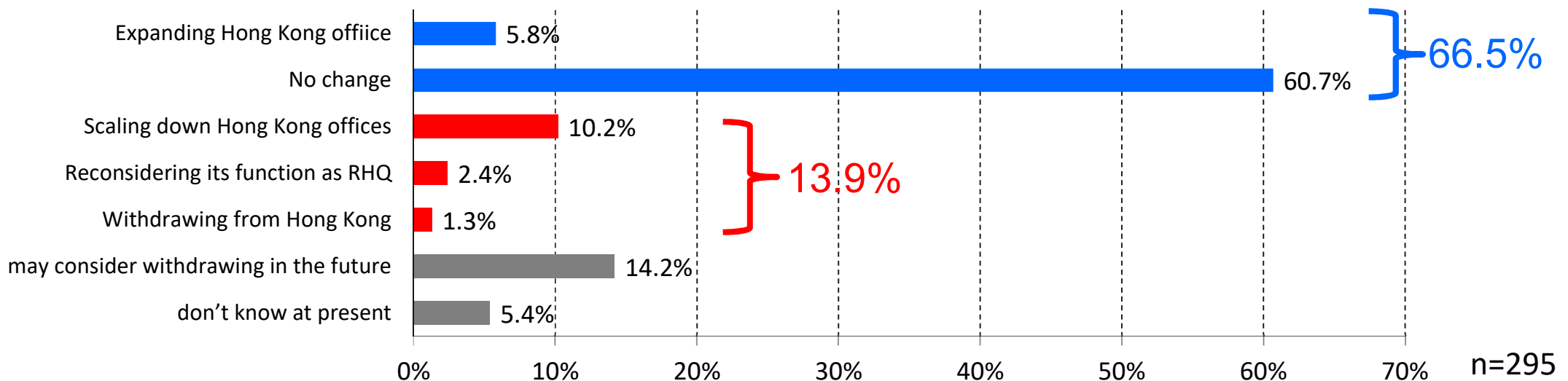
- Difficulties in business activities due to the travel restrictions.
- Delay and cost increase of shipping and purchases due to the stagnation of logistics.
- Reduction of demand or sales by the decrease in inbound visitors.
- Economic stagnation and deterioration of the attractiveness as a region due to the delay of transition to "Living with COVID".
- Reduction of operating efficiencies in production bases due to the lockdown.

n=232

*Free description

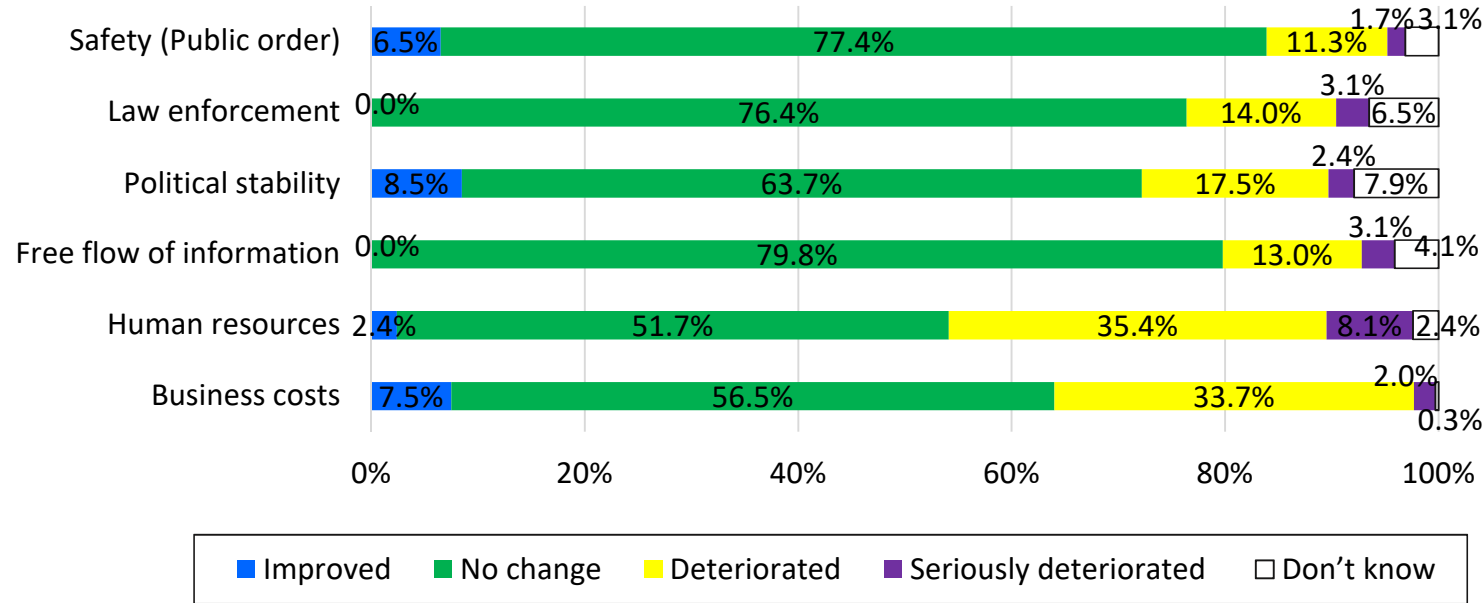
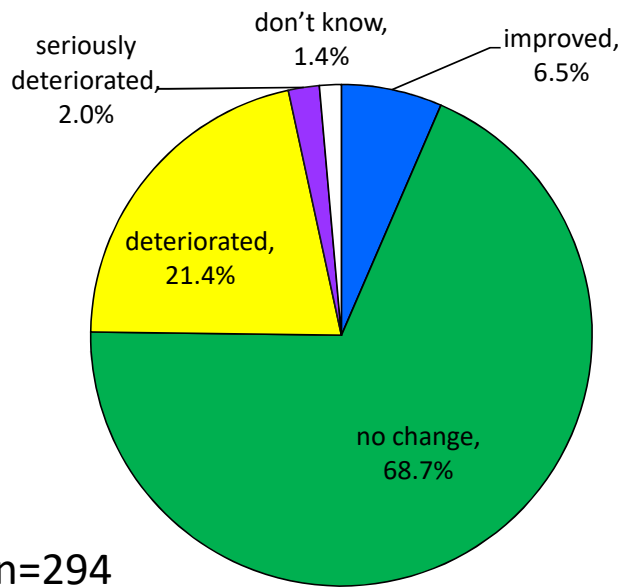
Future direction of Hong Kong offices

- 66.5% of respondents answered that they would either ‘expand’ (5.8%) or have ‘no change’ (60.7%) in terms of the business functions of their Hong Kong offices. Reasons for expansion include: “Increase in Hong Kong’s domestic demand”, “Expectation for GBA and Northern Metropolis Development Strategy” and “Sales expansion of Japanese products”.
- On the other hand, 13.9% of respondents answered that they would be ‘scaling down’(10.2%), ‘reconsidering its function’ (2.4%) or ‘withdrawing’ (1.3%). These reasons include; “Relocating to overseas or Mainland China”, “Reconsideration of RHQ function”, “Increase in logistics bypassing Hong Kong (completed within Mainland)” and “No expectation for sales expansion”.



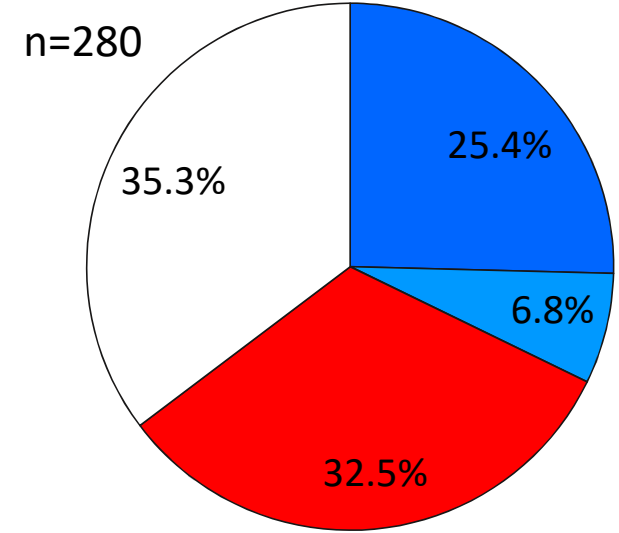
Evaluation of Hong Kong's business environment, (compared with July 2021)

- Regarding the business environment, 68.7% of respondents answered that it had 'no change', while 23.4% answered that it had 'seriously deteriorated' or 'deteriorated' compared with last year.
- More than 30% of respondents answered 'seriously deteriorated' or 'deteriorated' regarding securing human resources (43.5%) and business costs (35.7%). Most of the respondents raised "talent drain associated with emigration" as a reason of the deterioration of securing human resources.

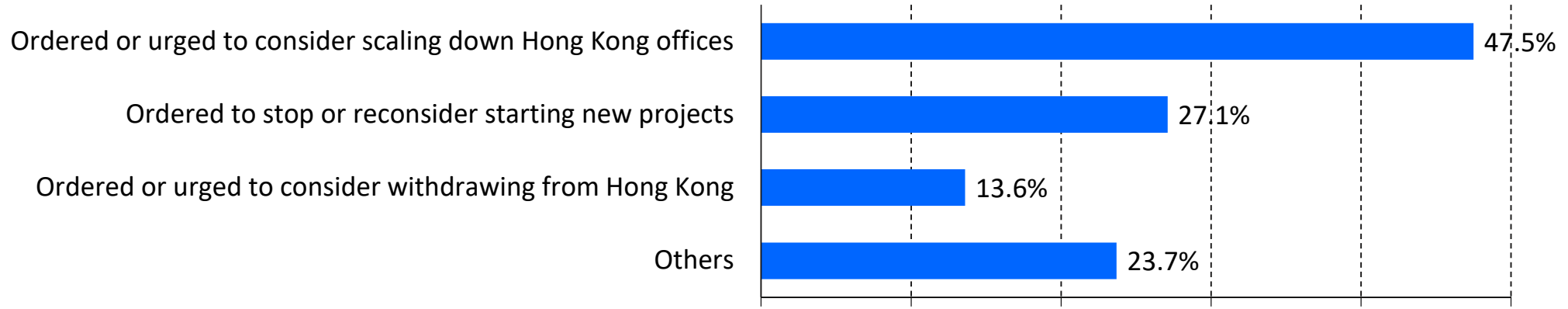


Japan HQs' view on Hong Kong

- 32.5% of respondents answered that the HQs in Japan viewed Hong Kong pessimistically, while 4.1 points decreased from the last survey in January 2022(36.6%).
- Regarding the impact of the pessimistic view on business, **47.5% of respondents answered that they had been ordered or urged to consider scaling down their Hong Kong offices and/or business.**



■ HQ in Japan has an accurate view on the actual situation of Hong Kong
■ HQ in Japan is optimistic about Hong Kong's situation
■ HQ in Japan is pessimistic about Hong Kong's situation
□ can't say either



*Multiple answers allowed.

n=59

Problems in business operation

- More than 60% of the 78 respondents raised 'Travel restrictions due to COVID-19' as a serious problem for their business operation.
- Besides, "Stagnation of logistics between Hong Kong and Mainland", "exchange fluctuations" and "difficulty of human resources recruitment" were raised.

Main opinions from respondents :

- Travel restrictions, particularly between HK and Mainland; HK and Japan.
- Delay and stagnation of logistics between Hong Kong and Mainland.
- Rapid exchange fluctuations and rising costs because of the weakening Yen.
- Difficulty recruiting human resources due to talent drain.
- Semiconductor shortage.
- Unvaccinated employees.

n=78

*Free description

Expectations for the New HKSAR Government

n=129

*Free description

- Early abolition / relaxation of travel restrictions, particularly with Mainland China and Japan.
- Reconsideration of “Dynamic zero COVID” policy (transition to “Living with COVID”).
- Normalisation of cross-border logistics with Mainland China.
- Economic policies including continuation of ESS (Employment Support Scheme).
- Sustaining Hong Kong’s predominance and international competitiveness (finance, economy and tax system).
- Maintaining “One Country, Two Systems”.
- Creating a good working environment for talented human resources.
- Fostering developments in GBA and Northern Metropolis Development Strategy.