The 11th Survey of the Business Environment in Hong Kong (2nd half of 2022)

January 2023

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 2022 is -4.1 points, up 12.6 points from the last survey (Jan～June 2022). The DI for the 1st half of 2023 (expected) is -3.7, is almost unchanged compared to the DI for the 2nd half of 2022.

2. Regarding the National Security Law (NSL), 40.7% of respondents were ‘very concerned’ (5.9%) or ‘concerned’ (34.8%) and 19.0% of respondents answered that it had a ‘negative impact on business’. Regarding reasons for concern about the NSL, most respondents were concerned about ‘Talent drain makes it difficult to secure excellent human resources’ (69.9%). Losing the “Rule of Law” and “Judicial independence” (61.2%) was the next highest response, a significant increase from 47.1% in the last survey.

3. 56.3% of respondents answered that there had been an exodus of personnel, of which 38.1% said that they had ‘not secured' or were ‘in the process of recruiting' replacements. Of the companies that experienced an exodus of personnel, 19.4% (25 companies) said that they were having problems securing personnel, which was affecting business execution and sales, leading to 'increased workload on existing employees' and 'lost opportunities due to lack of sales personnel'.

4. Despite the recent easing of quarantine measures in Mainland China and Hong Kong, challenges remain in restoring human traffic. The negative impact of the strict quarantine measures, which lasted for about three years, was cited as 'lost business opportunities due to restrictions on visiting customers and suppliers' in Mainland China and 'reduced attractiveness of Hong Kong compared to other countries' in Hong Kong.

5. When asked about their requests to the Consulate-General of Japan in Hong Kong, JETRO Hong Kong and the Japanese Chamber of Commerce and Industry in Hong Kong and expectations of respondents to the Hong Kong Government, there was a strong desire to improve the negative image of Hong Kong through correct information dissemination and information disclosure to the Japanese side.

Concept of the survey

1. Purpose of the survey

The business environment of Hong Kong has deteriorated greatly, due to global monetary tightening, foreign exchange losses caused by rapid exchange rate fluctuations, logistics stagnation, increased transport costs and shortage of human resources caused by a decrease in the working population due to migration, etc. 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 11th edition. From the 9th survey onwards, the frequency has been changed from once a quarter to once every six months.

2. Coverage

Total: 639 companies

3. Term of the survey

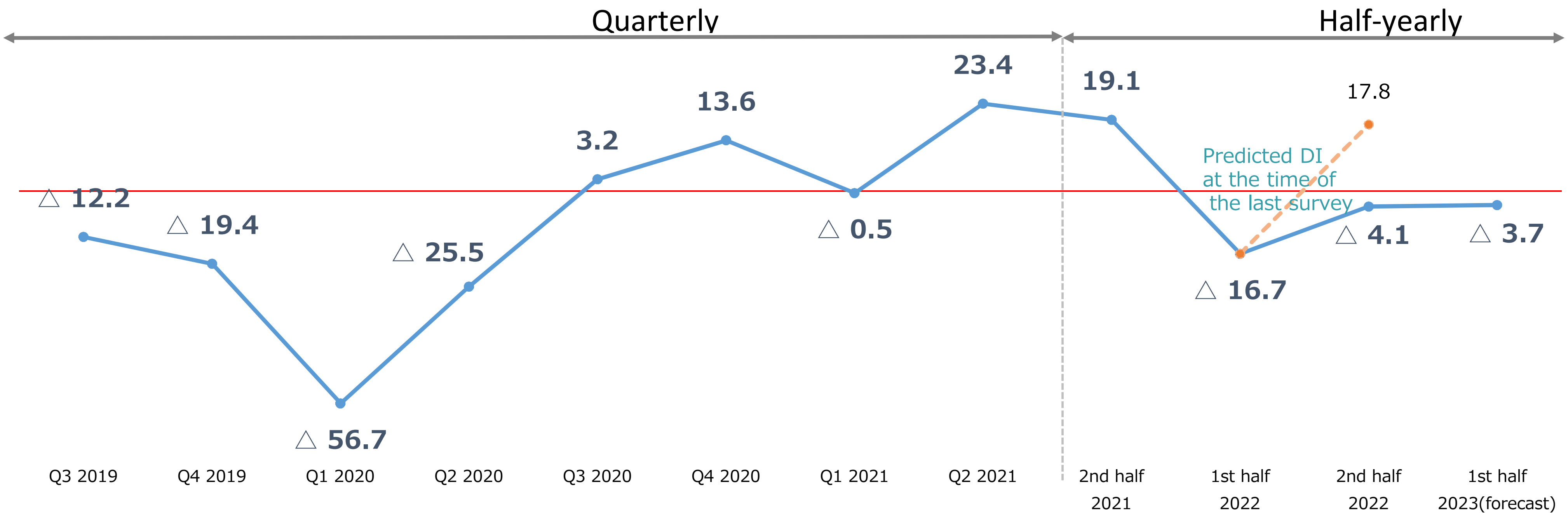
5th–11th January, 2023

4. The number of respondents

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

Diffusion Index

- DI value for the 2nd half of 2022 is -4.1 points, which rose 12.6 points from that of the last survey(January-June 2022). However, this value is 21.9 points lower than the predicted DI value of 17.8 at the time of the last survey (July 2022).
- The forecast for the 1st half of 2023 is -3.7, which rose by 0.4 points from the DI value of the 2nd half of 2022.

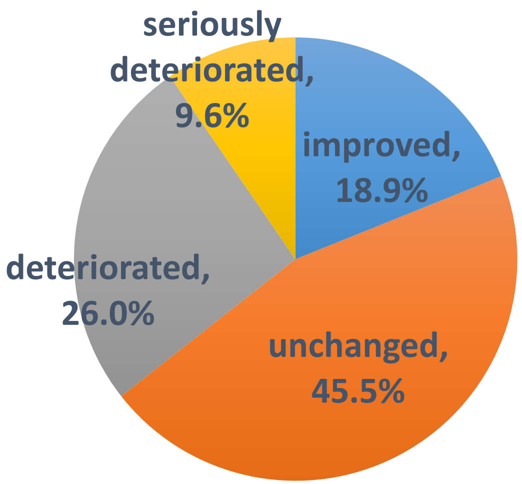


*DI stands for Diffusion Index and is calculated by subtracting the proportion of companies that responded 'deteriorated' and 'significantly deteriorated' from the proportion of companies that responded 'improved'.

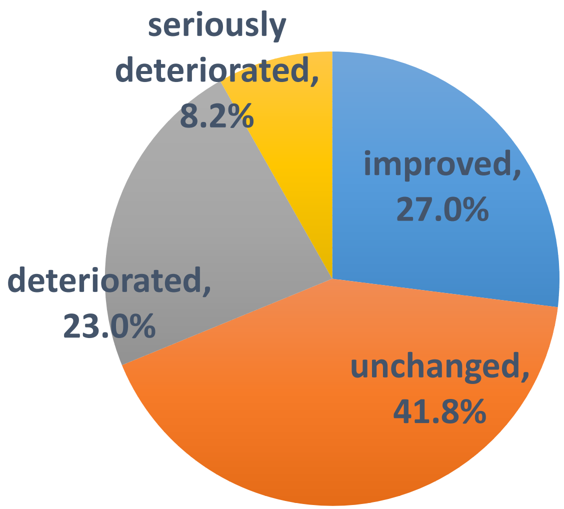
Business Performance in the 2nd half of 2022

- The ratio of respondents who answered that their performance in the July-December 2022 period had ‘improved’ compared with the last survey, (January-June 2022), increased to 27.0%, (previously 18.9%), while both ‘deteriorated’ and ‘seriously deteriorated’ decreased to 31.2%, (previously 35.6%).
- In many sectors, the proportion of ‘improved’ has increased since the last survey. The largest increase was in ‘Information/Communications and Media/Advertising’, up 28.6 points (14.3%→ 42.9). The proportion of ‘worsening’ or ‘significantly worsening’ increased only in finance/leasing (26.7%→37.9%) and transport/warehousing (44.8%→54.6%).

1st Half of 2022



2nd Half of 2022



n=244

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

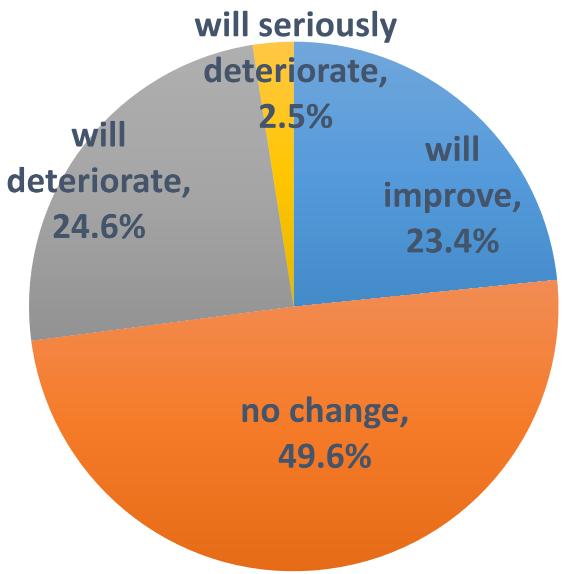
*Multiple answers allowed.

Reasons for 'improved' performance	
Increase in sales in Hong Kong market	50.0%
Increase in exports overseas other than China	27.3%
Reduction of employment costs	16.7%
Exchange fluctuations	16.7%
Increase in exports to Mainland China	12.1%
Others	12.1%
Reduction of other expenses (administrative fees, electricity and fuel fees)	10.6%
Improvement of production and sales efficiency	10.6%
Reduction of rent through office relocation or rent decrease	9.1%
Reduction of procurement costs	6.1%

Reasons for 'deteriorated' performance	
Decrease in exports to Mainland China	45.3%
Decrease in exports overseas other than China	30.7%
Decrease in sales in Hong Kong market	26.7%
Rise in procurement costs	26.7%
Exchange fluctuations	22.7%
Insufficient transfer to sales price	18.7%
Others	13.3%
Rise in interest rates	12.0%
Rise in employment costs	6.7%
Rise in other expenses (administrative fee, electricity and fuel fees)	4.0%
Shortage of human resources	2.7%

Forecast of business performance in the 1st half of 2023

- The ratio of 'will improve' (23.4%), dropped 3.6 points compared with the last survey (27.0%), while that of both 'will deteriorate' or 'will seriously deteriorate' together decreased to 27.1%, (the last survey 31.2%).
- Compared to the performance in the period Jul-Dec 2022, the food, beverage and retail sector (40% →70%) was the sector where the proportion of firms that reported a 'will improve' markedly increased. On the other hand, the proportion of firms that reported 'worsening' or 'significantly worsening' increased only in Information/Communications and Media/Advertising (7.1%→14.3%), while the proportion of firms that reported 'worsening' or 'significantly worsening' decreased in a number of sectors.



n=244

Reasons for the forecast of the improvement or deterioration of business performance in the 1st half of 2023

*Multiple answers allowed.

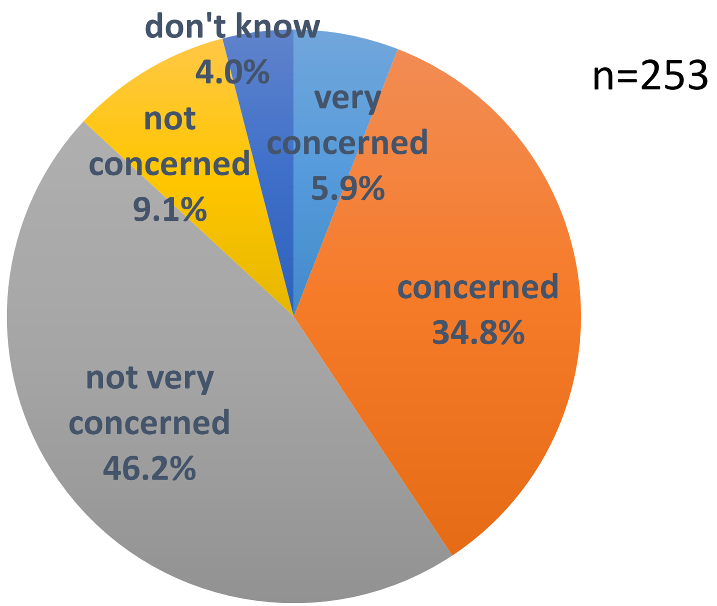
Reasons for 'will improve' performance	
Increase in sales in Hong Kong market	56.1%
Increase in exports overseas other than China	29.8%
Increase in exports to Mainland China	17.5%
Reduction of employment costs	15.8%
Improvement of production and sales efficiency	12.3%
Others	12.3%
Exchange fluctuations	10.5%
Reduction of other expenses (administrative fees, electricity and fuel fees)	10.5%
Reduction of rent through office relocation or rent decrease	8.8%
Reduction of procurement costs	7.0%

Reasons for 'will deteriorate' performance	
Decrease in exports overseas other than China	44.6%
Decrease in exports to Mainland China	38.5%
Decrease in sales in Hong Kong market	23.1%
Exchange fluctuations	20.0%
Rise in interest rates	13.8%
Insufficient transfer to sales price	12.3%
Others	10.8%
Rise in procurement costs	9.2%
Rise in employment costs	9.2%
Rise in other expenses (administrative fee, electricity and fuel fees)	3.1%
Shortage of human resources	1.5%

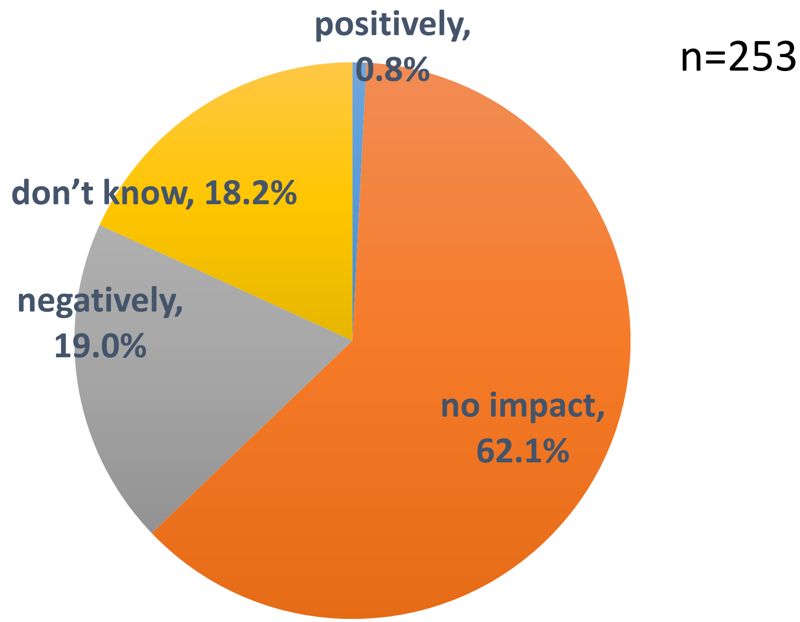
Impact of National Security Law (1)

- 40.7% of respondents answered that they were ‘very concerned’ (5.9%) or ‘concerned’ (34.8%) about the NSL. (The ratio of the last survey was 41.1%.)
- 19.0% of respondents answered that it had a ‘negative impact on business’, while 62.1% of respondents answered that the NSL had ‘no impact’. (In the last survey’s figures were 17.1% and 57.3%, respectively.)

How concerned about National Security Law?



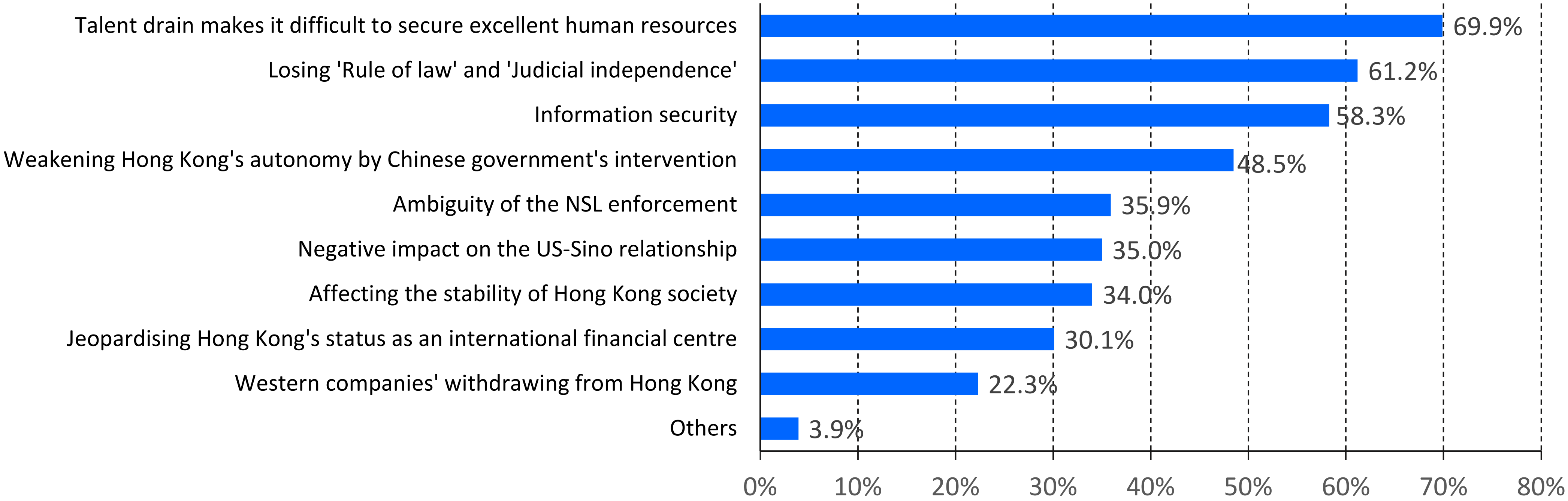
Impact on the business by National Security Law



Impact of National Security Law (2)

- Regarding the NSL, most respondents were concerned about 'Talent drain makes it difficult to secure excellent human resources' (69.9%). Losing "Rule of Law" and "Judicial independence"' (61.2%) was the next highest response, a significant increase from 47.1% in the last survey.

*Multiple answers allowed. n=103



Impact of the National Security Law (3)

Opinions from respondents regarding the impact of the NSL:

*Free description

n=48

【Negative impact】

- Resignation of local employees due to emigration (talent drain)※1
- Relocation or downsizing of own or customer sites
- Decline in Hong Kong's reputation
- Deterioration in investment sentiment

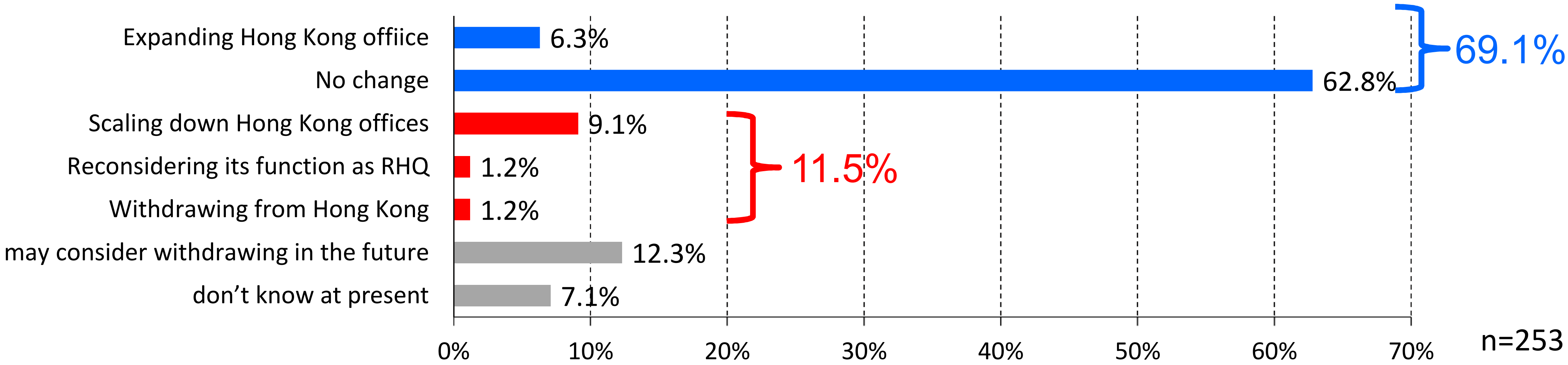
【Positive impact】

- Stability of the social environment※2

※1 Nearly half of the respondents answered.
※2 2 respondents answered.

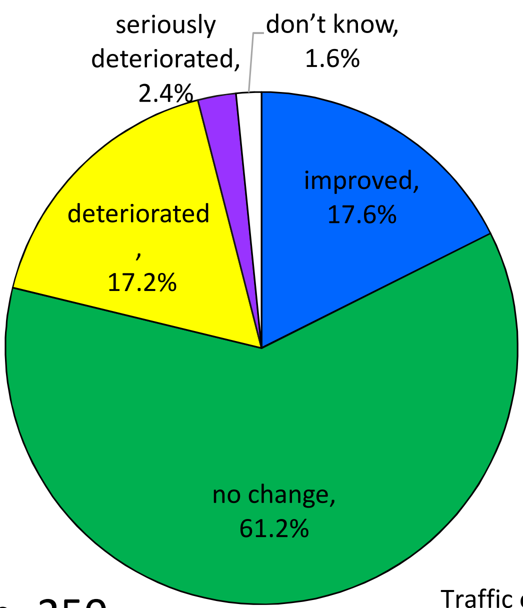
Future direction of Hong Kong offices

- 69.1% of respondents answered that they would either ‘expand’ (6.3%) or have ‘no change’ (62.8%) 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”, “Logistic function as a free port” and “Sales expansion of Japanese products”.
- On the other hand, 11.5% of respondents answered that they would be ‘scaling down’(9.1%), ‘reconsidering its function’ (1.2%) or ‘withdrawing’ (1.2%). These reasons include; “Relocating to Mainland China or Singapore”, “Changes of business model”, “No expectation for sales increase”, “Intensified competition”, and “Unclear prospects for the future”.

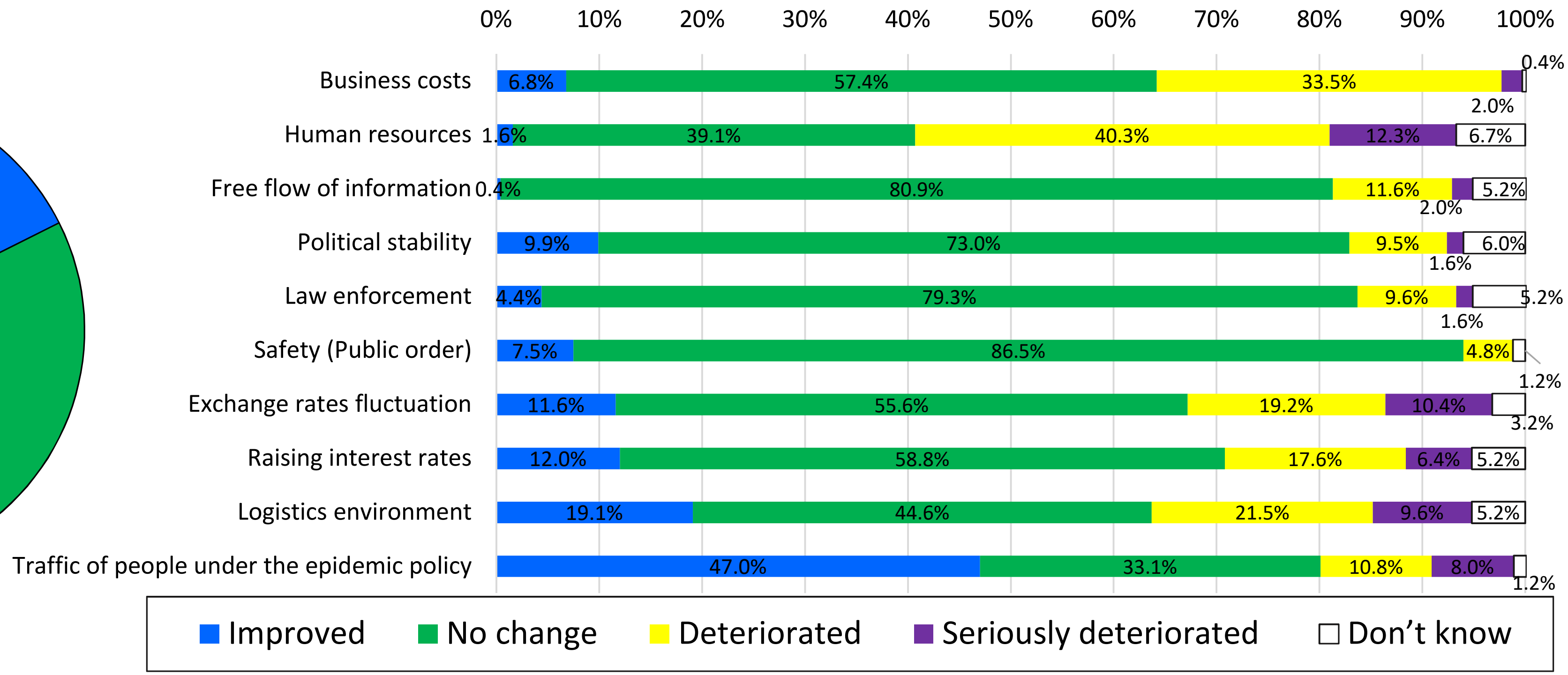


Evaluation of Hong Kong's business environment (compared with January 2022)

- As for the business environment, 61.2% of respondents answered that it had 'no change'. 17.6% answered it had 'improved', which is 11.1 points higher than the previous survey (6.5%), while 19.6% answered it had 'seriously deteriorated' or 'deteriorated', which is 3.8 points lower than the previous survey (23.4%).
- However, 52.6% answered securing human resources had 'deteriorated' or 'seriously deteriorated', which is 9.1 points higher than the previous survey (43.5%). Also, about 30% answered 'deteriorated' or 'seriously deteriorated' for 'Logistics environment' as well as 'Exchange rates fluctuation'.

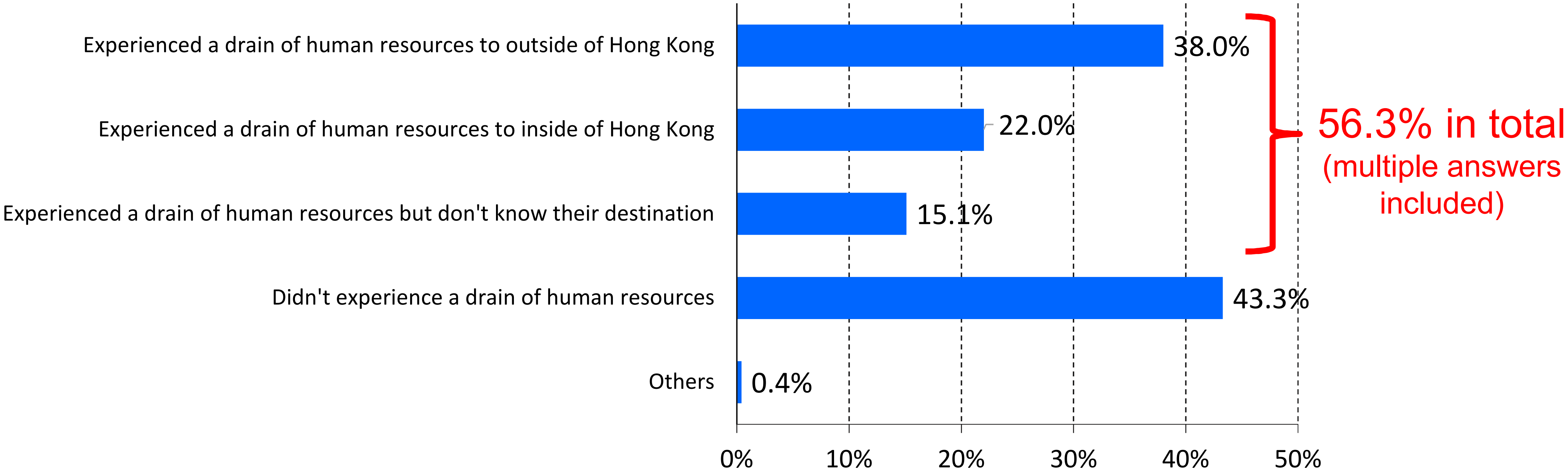


n=250



Drain of human resources from Hong Kong offices (Jan 2022 - Jan 2023)

- 56.3% of respondents answered that they had experienced a drain of human resources in the past year.



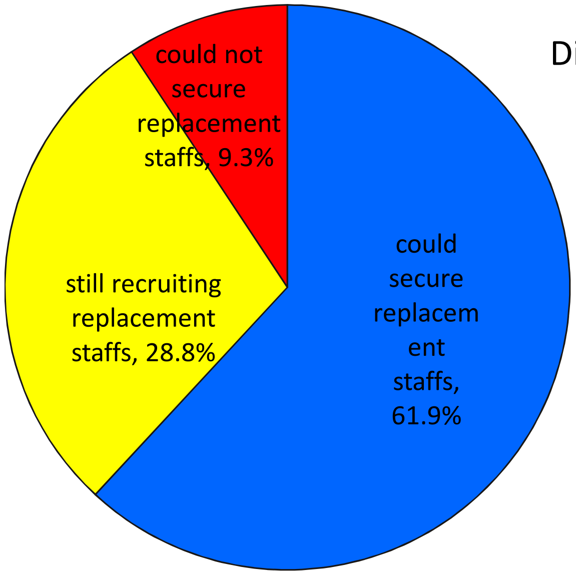
※This refers to the proportion of companies that selected one of the options 'there was an extraterritorial outflow from Hong Kong', 'there was an intra-regional outflow in Hong Kong' or 'there was an outflow, but we do not know where they have gone since they left'. As multiple responses are possible, the percentages do not correspond to the percentage of responses added to the respective response rates.

n=245

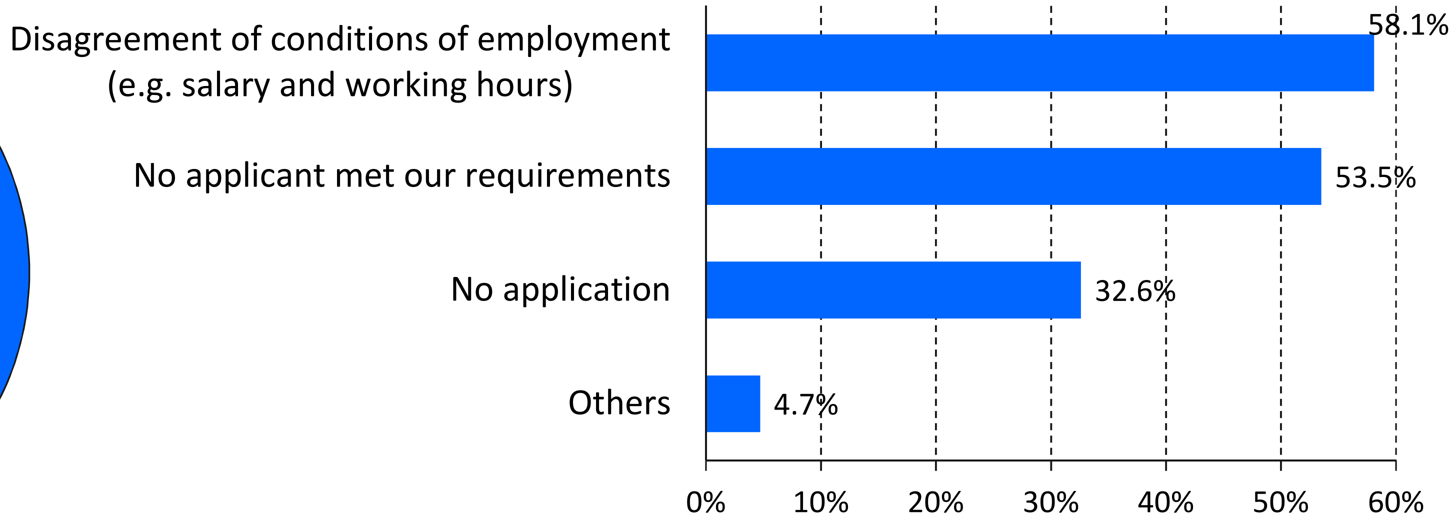
*Multiple answers allowed.

Securing replacement staffs in Hong Kong offices (Jan 2022 - Jan 2023)

- Regarding replacement staffs for a vacancy by a drain of human resources, 38.1% of the respondents (45 companies) who experienced the talent drain answered 'could not secure' or 'still recruiting'.
- As for its reasons, 'Disagreement of conditions of employment (e.g. salary and working hours)' and 'No applicant met our requirements' were raised by more than a half of the respondents, respectively.



n=118



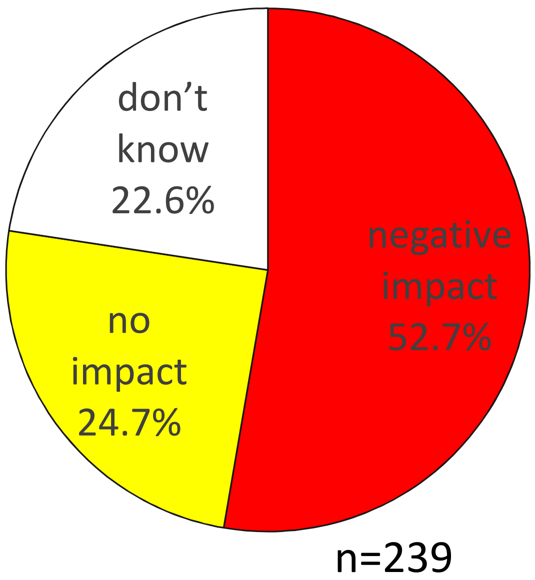
*Multiple answers allowed.

n=43

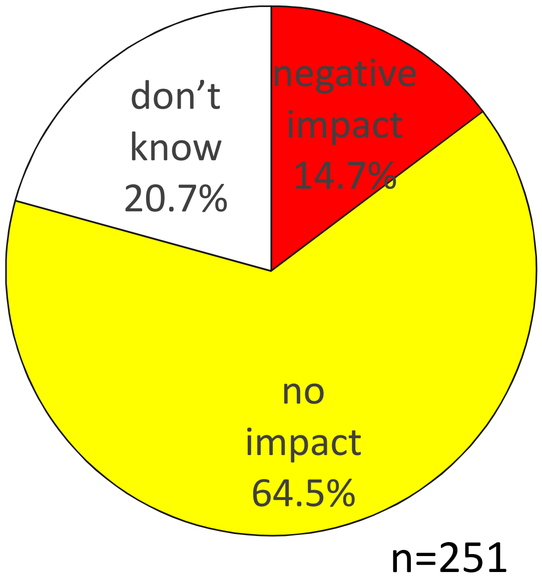
Evaluation of anti-epidemic policy (Mainland China and Hong Kong)

- Regarding the anti-epidemic policy for COVID-19 in Mainland China, 52.7% of respondents answered that they experienced a 'negative impact' (n = 239). As for its reasons, more than half of respondents raised "travel restrictions" and about a third raised "the stagnation of logistics".
- On the other hand, regarding the anti-epidemic policy in Hong Kong, 64.5% answered that they experienced 'no impact', whereas 14.7% of them still experienced a 'negative impact' (n = 251).

Anti-epidemic policy in Mainland China

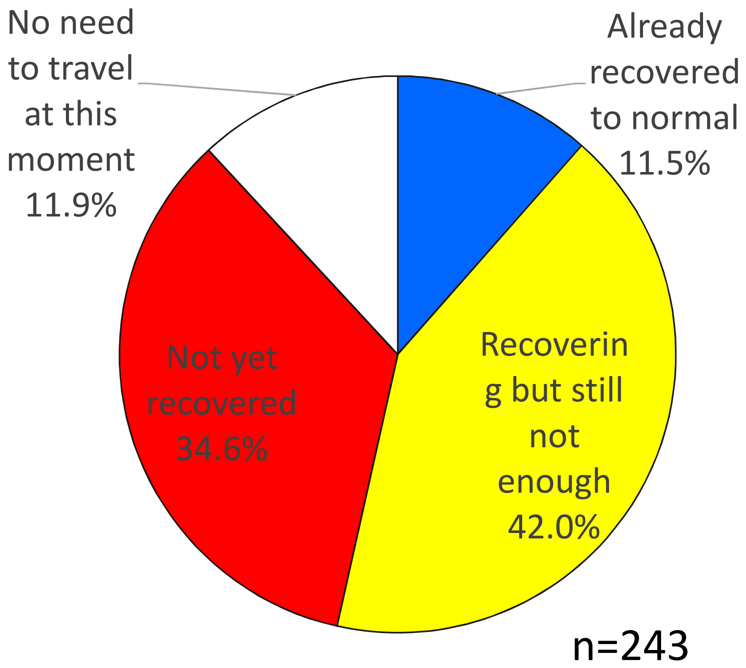


Anti-epidemic policy in Hong Kong



Recovery of travel and visits from Japan to Hong Kong

- Regarding the recovery of travel and visits by business travellers, expats and customers, including tourists from Japan to Hong Kong, 76.6% of respondents answered ‘not yet recovered’ or ‘recovering but still not enough’.
- As for the reasons, they raised “Travel restrictions of Mainland China”, “It’s not long since the lifting of travel restrictions in Hong Kong”, “Priority of travelling to Hong Kong and Mainland has lowered”, “Surge in travel expenses”, etc.

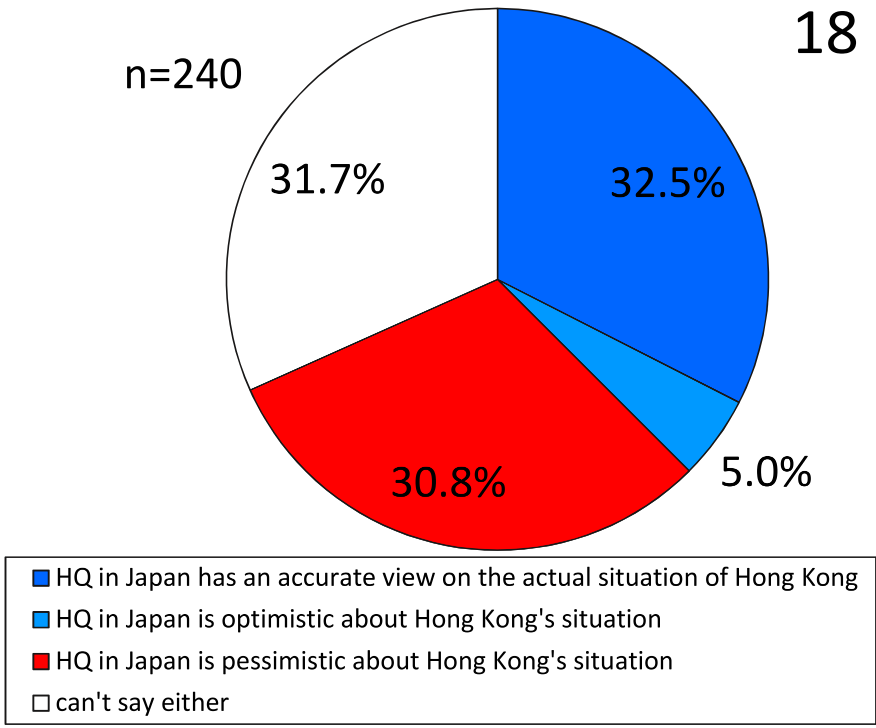


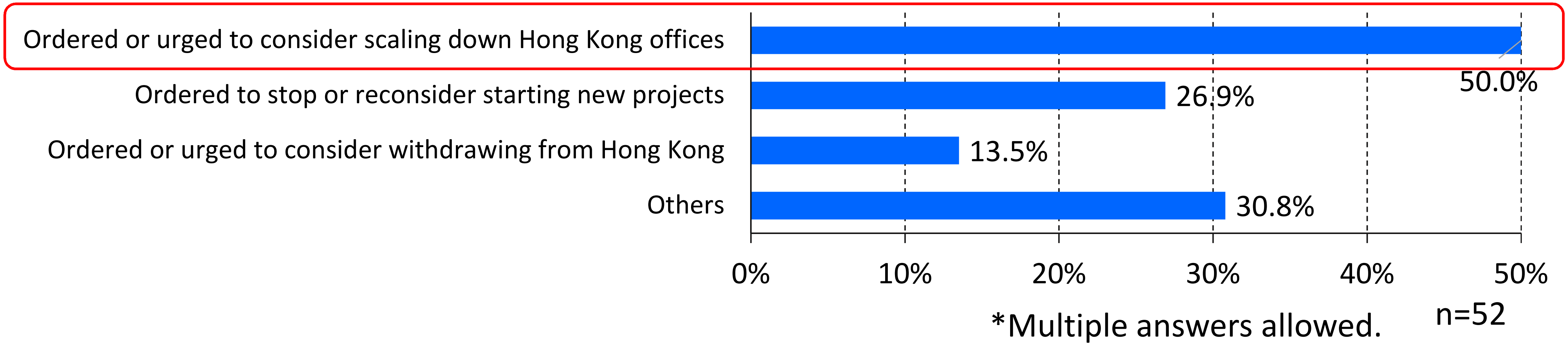
Main opinions from respondents :

- Travel restrictions in the Mainland have still not been lifted, though travellers used to visit Hong Kong and the Mainland together.
- It’s not long since the lifting of travel restrictions in Hong Kong (e.g. complicated procedure, situation is unstable, risk of regulation change).
- Priority of travelling to Hong Kong and the Mainland has lowered.
- Surge in travel expenses and limitation on the number of flights
- Infection risk and isolation measures for those who test positive still remain
- Travel limitation and self-restraint according to HQ’s rules
- No longer need to travel/visit due to changes in business environment (e.g. remote conference more popular)

Japan HQs' view on Hong Kong

- 32.5% of respondents answered that the 'HQs in Japan has an accurate view on the actual situation of Hong Kong', which is 7.1 points higher than the previous survey (25.4%), followed by 'can't say either' (31.7%), 'pessimistic about Hong Kong's situation' (30.8%) and 'optimistic about Hong Kong's situation' (5.0%).
- Regarding the impact of the pessimistic view on business, 50.0% of respondents answered that they had been 'ordered or urged to consider scaling down their Hong Kong offices and/or business', which is 2.5 points higher than the previous survey (47.5%),





Problems in business operation

- About a fourth of the 37 respondents raised “Difficulty of recruiting human resources” as a serious problem for their business operations.
- Besides, “Travel restriction with Mainland China”, “Surge of prices of commodities and other expenses”, “Frequent changes of restrictions” were raised.

Main opinions from respondents :

- Difficulty in recruiting human resources
- Travel restrictions between Hong Kong and Mainland China
- Surge of prices of commodities and other expenses (e.g. labour cost, transportation cost, rent, etc.)
- Frequent changes of restrictions (e.g. anti-epidemic policy for COVID-19)
- Elevated risk and information opacity of COVID-19 spread
- Difference of language and culture

n=37

*Free description

Expectations for the HKSAR Government

- More than 30% of the 38 respondents raised "Continuation of enterprise support and economic stimulus measures" as their expectation of the HKSAR Government.
- Some respondents raised, "Publicity activities to bring back businesses and investments to Hong Kong" as well as "Attractive economic support for non-local enterprises"

Main opinions from respondents :

- Continuation of enterprise support measures (e.g. ESS (Employment Support Scheme)
- Clearly understandable information dissemination regarding the economic policy
- Continuation of economic stimulus measures (e.g. Consumption Voucher Scheme)
- Publicity activities to bring back businesses and investments to Hong Kong
- Attractive economic support for non-local enterprises (e.g. providing matching service with local enterprises)
- Persistence of the "One country, two systems"
- Normalisation of cross-border logistics with Mainland China
- Accurate information disclosure
- Support to cover the shortage of human resources

n=38

*Free description