

The 12th Survey of the Business Environment in Hong Kong (1st half of 2023)

July 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 1st half of 2023 is -14.8 points, down 10.7 points from the last survey (Jul~Dec 2022). The DI for the 2nd half of 2023 (expected) increased by 26.2 points to 11.4, with an increasing number of companies expecting an improvement from the 1st half of 2023 to the 2nd half of 2023.
2. 33.6% of companies said that there had been a drain of human resources, of which 48.8% said that they had not been able to secure replacement staff. Back-office and assistant staff were the most in short supply, followed by sales and technical/engineering staff. Some companies also reported shortages in frontline staff such as food and beverage workers.
3. In assessing the logistics environment, the largest number of companies (43.7%) indicated that "labour costs" had worsened. Around half of the companies said that the volume of logistics had decreased, with many stating that the reason was due to the stagnation of the Chinese market and the global economy, as well as the entrenched trade pattern bypassing Hong Kong, which arose from the pandemic.
4. In terms of the status of recovery of human traffic, the number of companies that answered either 'not yet recovered' or 'recovering but still not enough' exceeded 50% in the areas of 'internal business travellers' and 'customers/clients', respectively. The reasons cited for this included 'the difficulty in planning to visit Hong Kong in combination with China due to the lack of a Chinese visa waiver', 'the rising cost of travel, accommodation', and 'the spread of web conferencing'.
5. Many companies have been hindered in carrying out their operations by China visa requirements and there were calls for the visa waiver programme to resume. Many are also concerned about tighter restrictions on imports and reputational damage as a result of the discharge of ALPS treated water and they expect appropriate dissemination of information to the HKSAR Government and the HK people to aid understanding.

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 12th edition. From the 9th survey onwards, the frequency has been changed from once a quarter to once every six months.

2. Coverage

Total: 657 companies

3. Term of the survey

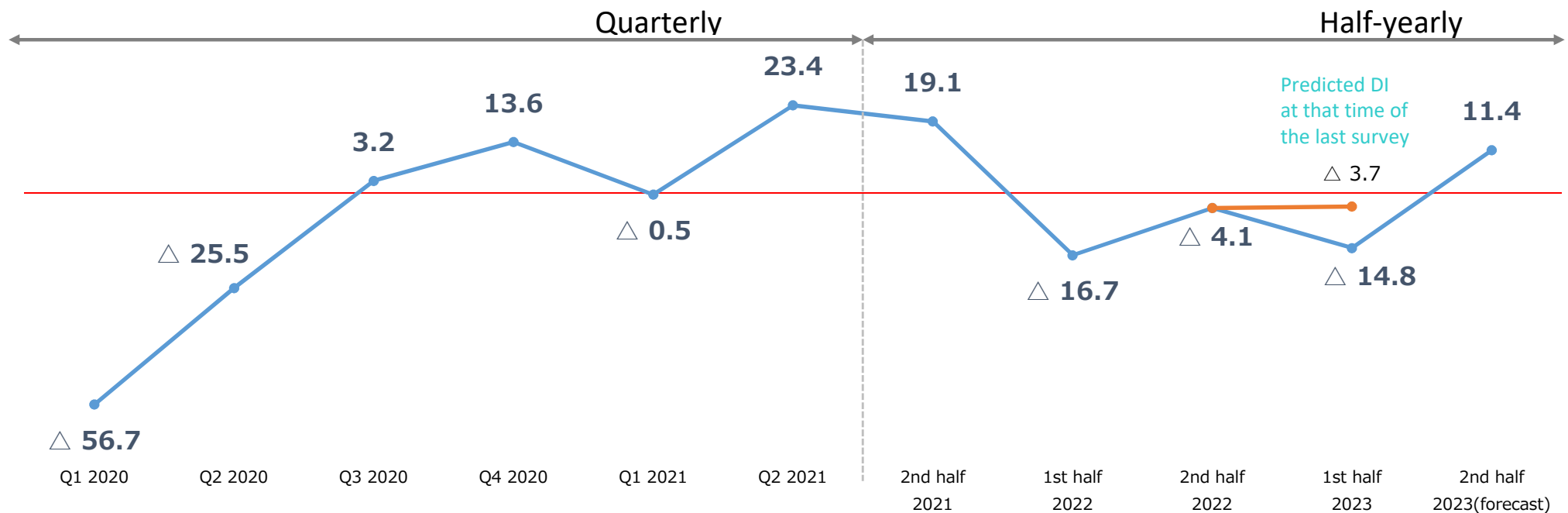
3rd–7th July, 2023

4. The number of respondents

241 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 1st half of 2023 is **-14.8 points**, which dropped **10.7 points** from that of the last survey (Jul-Dec 2022). **This value is 11.1 points lower than the predicted DI value** of -3.7 at the time of the last survey.
- The forecast for the 2nd half of 2023 is **11.4**, which rose by **26.2 points** from the DI value of the 1st half of 2023, with an increasing number of companies expecting an improvement of operating profit from the 1st half of 2023 to the 2nd half of 2023.

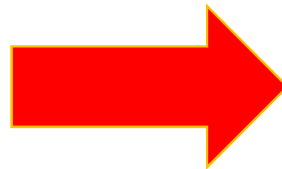
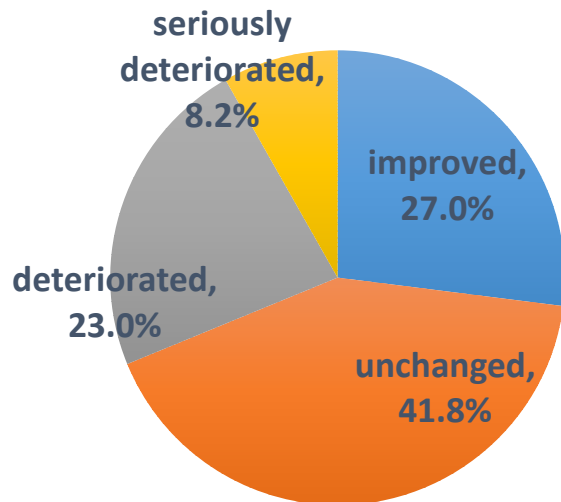


*DI stands for Diffusion Index and is calculated by subtracting the proportion of companies that responded 'deteriorated' and 'significantly deteriorated' from the proportion of companies that responded 'improved'.

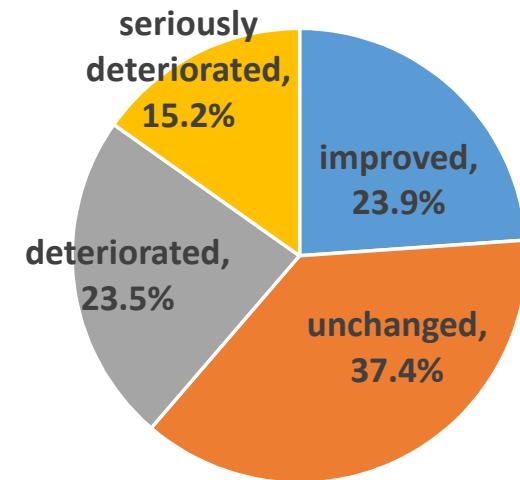
Business Performance in the 1st half of 2023

- The ratio of respondents who answered that their performance in the Jan-Jun 2023 period had 'improved' compared with the last survey (Jul-Dec 2022), decreased to 23.9%, (previously 27.0%), and the ratio of 'deteriorated' or 'seriously deteriorated' increased to 38.7%, (previously 31.2%).
- In terms of performance trends compared to the last survey (Jul-Dec 2022), the ratio of respondents answered their business performance has 'improved' has increased since the last survey in food, beverage and retail (from 40.0% to 75.0%) and finance and leasing (from 17.2% to 30.4%). The ratio of respondents answered 'deteriorated' or 'seriously deteriorated' increased since the last survey in **Transport & Warehousing (from 54.6% to 70.0%), Precision & Electrical /Electronic Equipment (from 33.3% to 50.0%) and Trading & Wholesale (from 33.3% to 47.4%).**

2nd Half of 2022



1st Half of 2023



n=230

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

*Multiple answers allowed.

Reasons for ‘improved’ performance

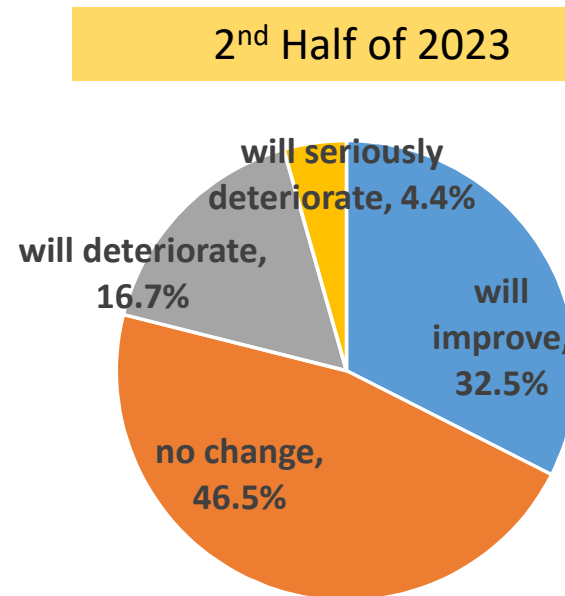
Increase in sales in Hong Kong market	66.7%
Increase in exports overseas other than China	18.5%
Others	16.7%
Reduction of employment costs	14.8%
Exchange fluctuations	13.0%
Increase in exports to Mainland China	9.3%
Reduction of other expenses (administrative fees, electricity and fuel fees)	9.3%
Improvement of production and sales efficiency	5.6%
Reduction of rent through office relocation or rent decrease	5.6%
Reduction of procurement costs	5.6%

Reasons for ‘deteriorated’ performance

Decrease in exports to Mainland China	55.1%
Decrease in exports overseas other than China	47.2%
Decrease in sales in Hong Kong market	24.7%
Rise in employment costs	19.1%
Rise in procurement costs	14.6%
Exchange fluctuations	12.4%
Others	11.2%
Insufficient transfer to sales price	11.2%
Rise in interest rates	10.1%
Rise in other expenses (administrative fees, electricity and fuel fees)	4.5%
Rise in rent through office relocation or rent increase	4.5%
Shortage of human resources	2.2%

Forecast of business performance in the 2nd half of 2023

- The ratio of 'will improve' increased to 32.5%, rose 8.6 points compared with the last survey (23.4%), and the ratio of 'will deteriorate' or 'will seriously deteriorate' decreased to 21.1%, dropped 17.6 points from the last survey (38.7%).
- Compared to the performance in the period Jan-Jun 2023, Trading & Wholesale (from 10.5% to 30.1%), Transport & Warehousing (from 15.0% to 20.0%) and Food, Beverage & Retail (from 75.0% to 91.7%) are the sectors where the ratio of companies that answered 'will improve' increased. On the other hand, the ratio of companies that answered 'will deteriorate' or 'will seriously deteriorate' increased only in Information, Communications & Media, Advertising (12.5%→25.0%), while the ratio of companies that answered 'will deteriorate' or 'will seriously deteriorate' decreased in a number of sectors.



n=228

Reasons for the forecast of the improvement or deterioration of business performance in the 2nd half of 2023

*Multiple answers allowed.

Reasons for 'will improve' performance

Increase in sales in Hong Kong market	51.4%
Increase in exports overseas other than China	32.4%
Increase in exports to Mainland China	25.7%
Exchange fluctuations	8.1%
Others	6.8%
Improvement of production and sales efficiency	5.4%
Reduction of other expenses (administrative fees, electricity and fuel fees)	5.4%
Reduction of employment costs	5.4%
Reduction of rent through office relocation or rent decrease	2.7%
Reduction of procurement costs	1.4%

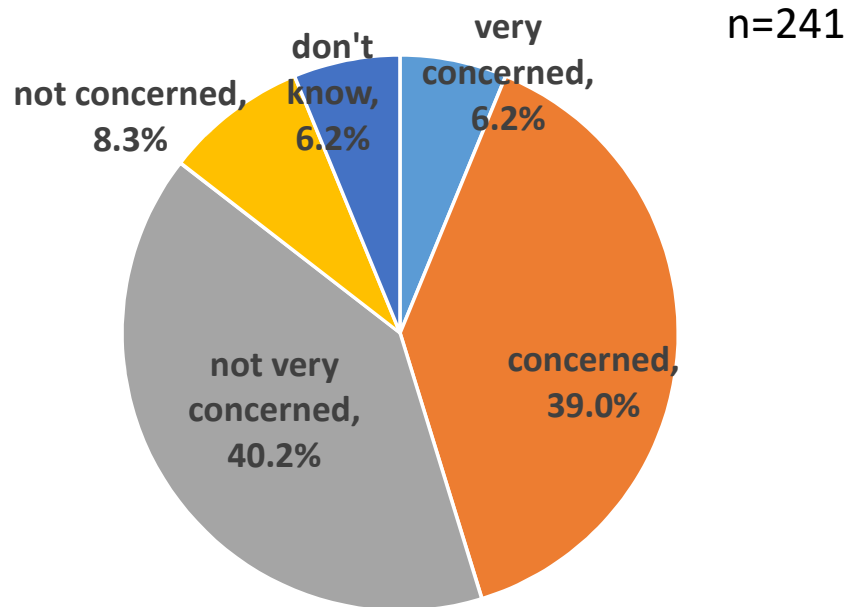
Reasons for 'will deteriorate' performance

Decrease in exports overseas other than China	50.0%
Decrease in exports to Mainland China	50.0%
Decrease in sales in Hong Kong market	25.0%
Rise in employment costs	14.6%
Rise in procurement costs	12.5%
Insufficient transfer to sales price	12.5%
Others	12.5%
Rise in interest rates	10.4%
Exchange fluctuations	8.3%
Rise in other expenses (administrative fees, electricity and fuel fees)	4.2%
Shortage of human resources	2.1%
Rise in rent through office relocation or rent increase	2.1%

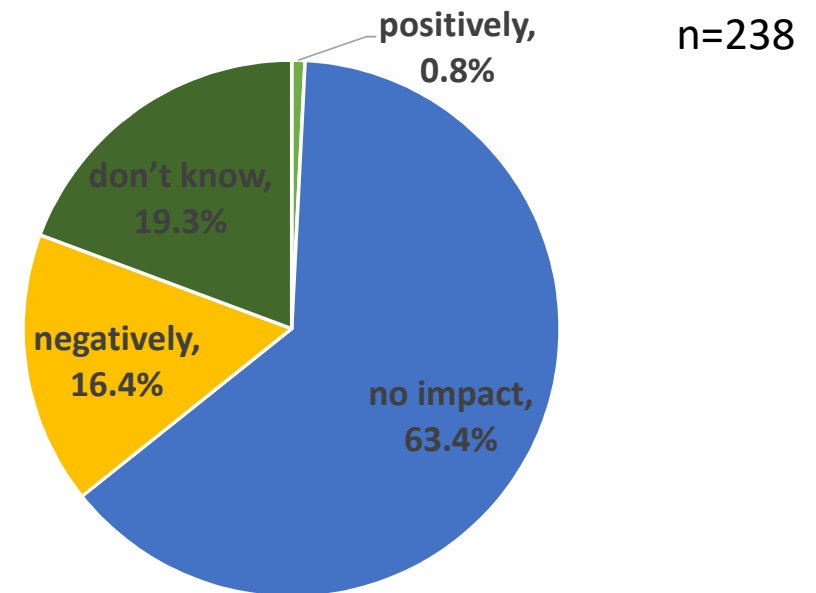
Impact of National Security Law (1)

- 45.2% of respondents answered that they were 'very concerned' (6.2%) or 'concerned' (39.0%) about the NSL. (The ratio of the last survey was 40.7%.)
- 16.4% of respondents answered that it had a 'negative impact on business', while 63.5% of respondents answered that the NSL had 'no impact'. (In the last survey's figures were 19.0% and 62.1%, respectively.)

How concerned about National Security Law?



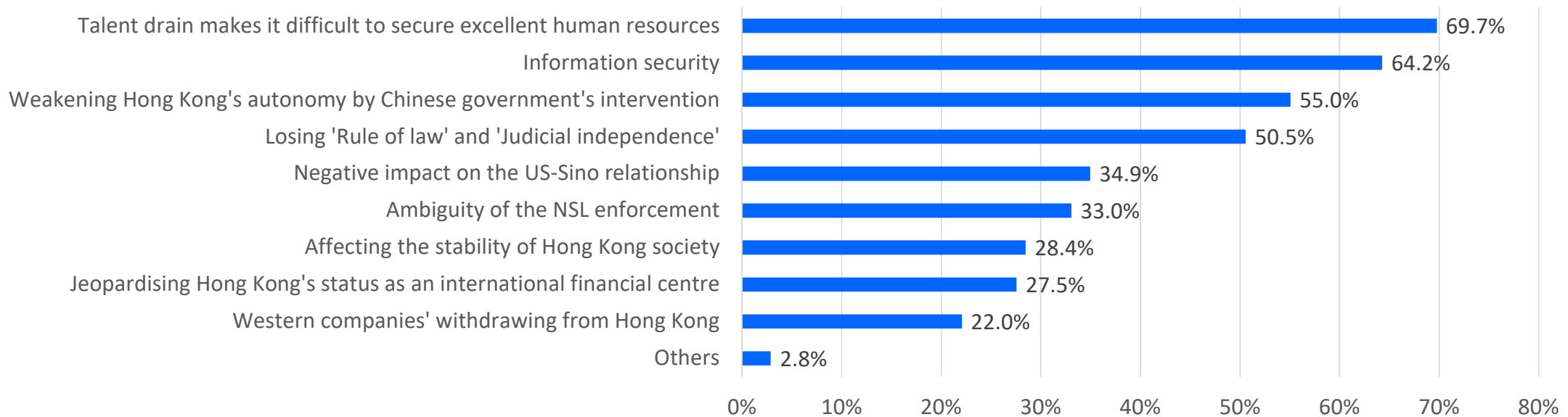
Impact on the business by National Security Law



Impact of the National Security Law (2)

- Regarding the NSL, most respondents were concerned that 'Talent drain makes it difficult to secure excellent human resources' (69.7%), followed by 'Information Security' (64.2%) and 'Weakening Hong Kong's autonomy by Chinese government's intervention' (55.0%). The ratio of these 2nd and 3rd answers, respectively, increased by more than 5 points from the last survey (Jan 2023).

*Multiple answers allowed. n=109



Impact of the National Security Law (3)

*Free description
n=34

Opinions from respondents regarding the impact of the NSL:

【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
- Increased business risk
- Deterioration in investment sentiment

【Positive impact】

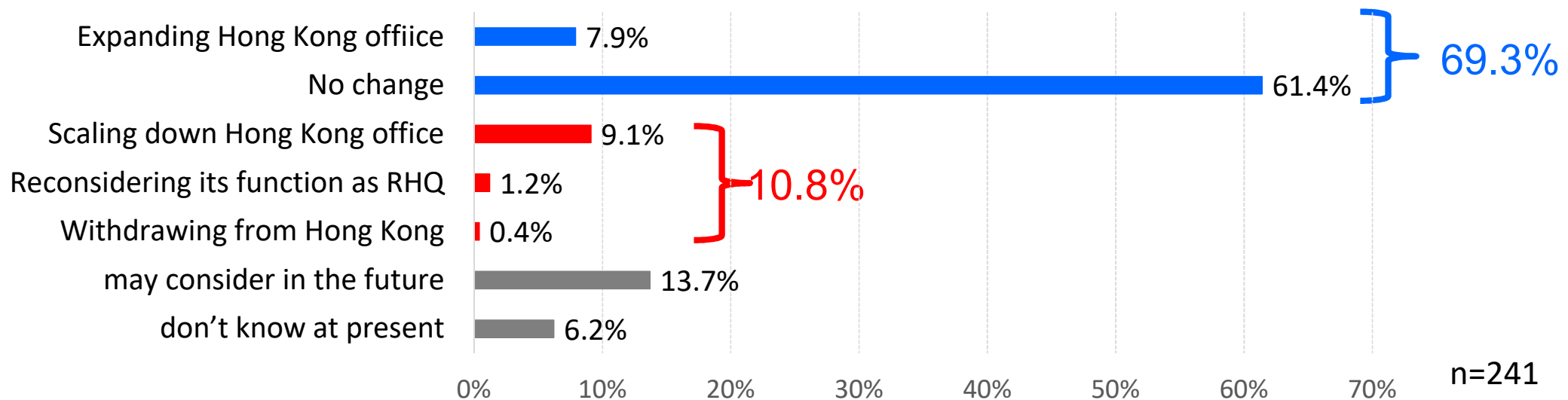
- Stability of the social and business environment^{※2}

※1 Nearly 70% of the respondents answered.

※2 3 respondents answered.

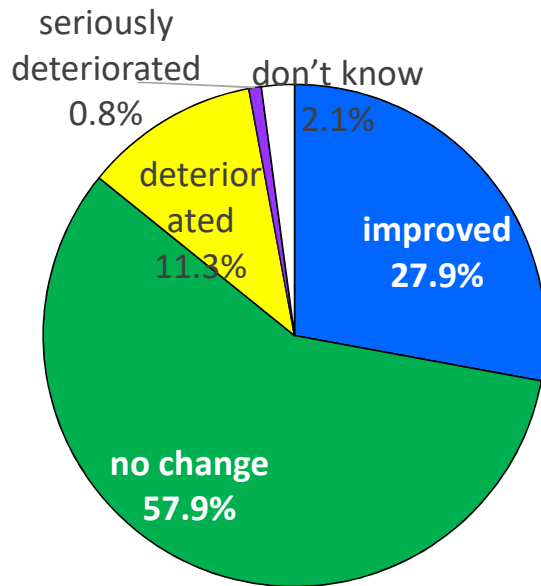
Future direction of Hong Kong offices

- 69.3% of respondents answered that they would either 'expand' (7.9%) or have 'no change' (61.4%) 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 "Increased inbound demand from Mainland China".
- On the other hand, 10.8% of respondents answered that they would be 'scaling down' (9.1%), 'reconsidering its function' (1.2%) or 'withdrawing' (0.4%). These reasons include; "Relocating to Mainland China or ASEAN Countries", "Shortage of human resources, recruitment difficulties", "Head office, shareholders' intentions" and "No expectation for sales increase".

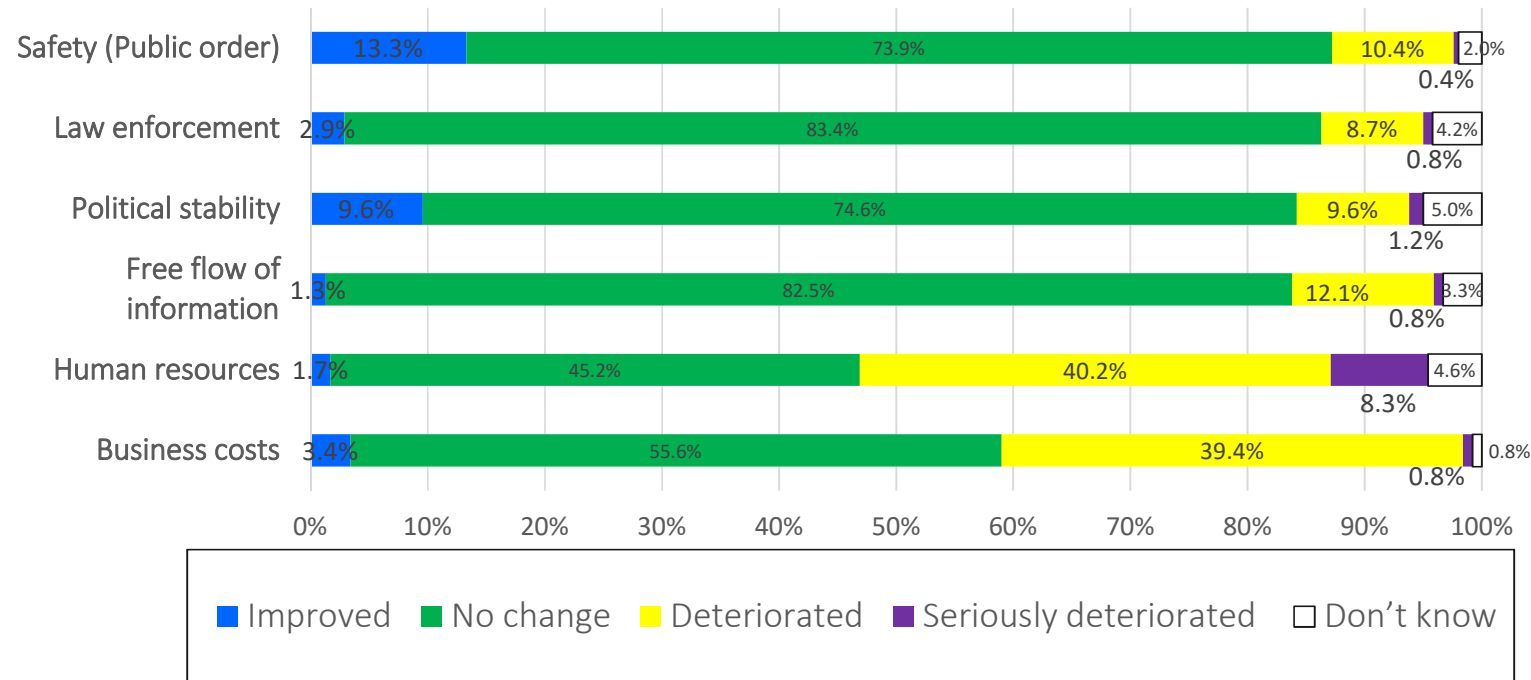


Evaluation of Hong Kong's business environment (compared with July 2022)

- As for the business environment, 57.9% of respondents answered that it had 'no change'. 27.9% answered it had 'improved', which is 10.3 points higher than the previous survey (17.6%), while 12.1% answered it had 'seriously deteriorated' or 'deteriorated', which is 7.5 points lower than the previous survey (19.6%).
- 48.5% of the companies answered 'deteriorated' or 'seriously deteriorated' in the area of 'securing human resources', the highest percentage as in the last survey (52.6% at the time of Jul 2022). 40.2% of companies (35.5% in the last survey) answered that their 'business costs' had 'deteriorated' or 'seriously deteriorated', the next highest percentage.

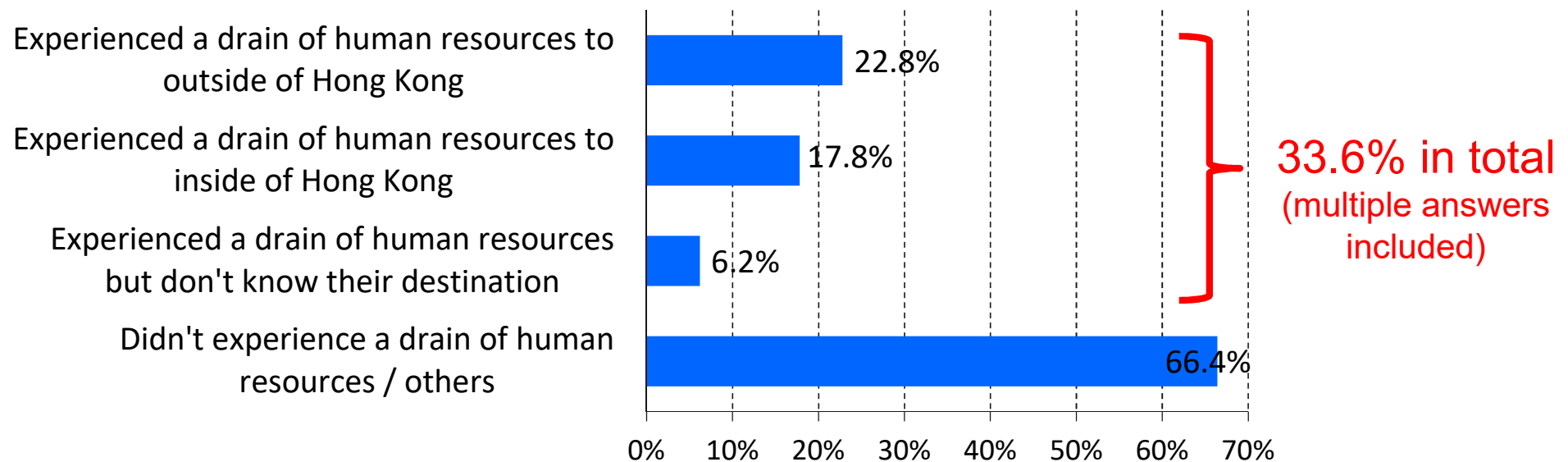


n=240



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

- 33.6% of respondents answered that they had experienced a drain of human resources in the past half year (Jan 2023-Jun 2023).



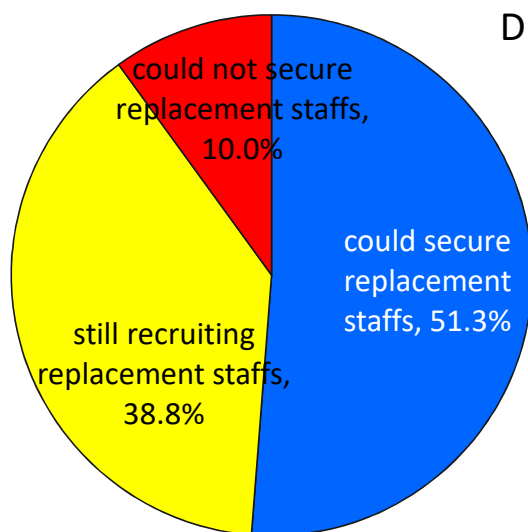
n=241

*Multiple answers allowed.

※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.

Securing replacement staff in Hong Kong offices (Jan 2023 - Jun 2023)

- Regarding replacement staff for a vacancy by a drain of human resources, **48.8% of the respondents (39 companies) who had experienced the talent drain answered 'could not secure' or 'still recruiting'.**
- As for its reasons, **'No applicant met our requirements' and 'Disagreement of conditions of employment (e.g. salary and working hours)'** were raised by more than a half of the respondents, respectively.



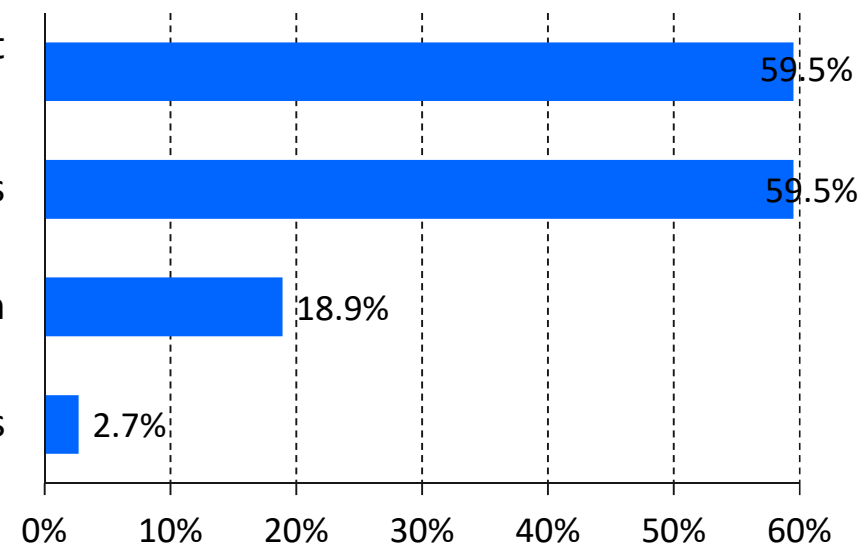
n=80

Disagreement of conditions of employment
(e.g. salary and working hours)

No applicant met our requirements

No application

others



*Multiple answers allowed.

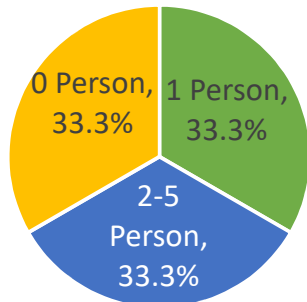
n=37

Size of shortage of staffs by occupation (Jan 2023 - Jun 2023)

16

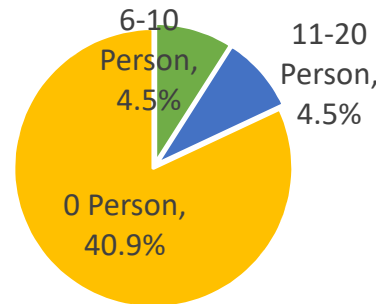
- **'Back office and Assistant positions'** (75.0%, 18 companies) are the most frequently mentioned as being in short of staffs, followed by **'Sales positions'** (66.6%, 14 companies) and **'Technical and Engineering positions'** (50.9%, 13 companies).
- There are also **shortages of frontline workers in 'Food & Beverage, Restaurant'** (100%, 3 companies) and **'Transport & Logistics'** (28.6%, 14 companies).

Sales



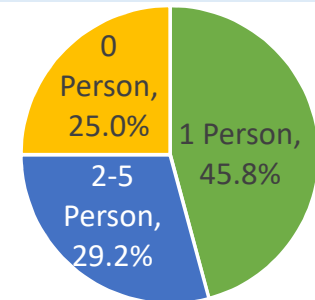
n=21

Technical and Engineering (IT, electronics, construction, medical, etc.)



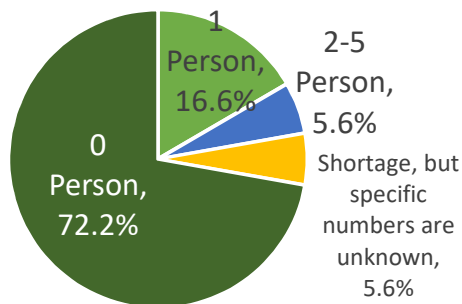
n=22

Back office and Assistant (Office Work)



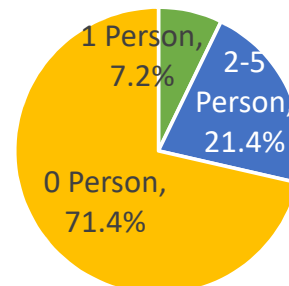
n=24

Professional (Professional, financial, real estate, consultancy, etc.)



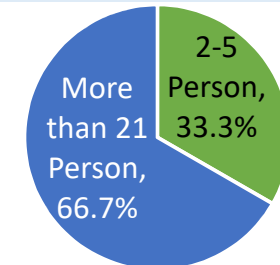
n=18

Transport and Logistics (Drivers, warehousing, security, etc.)



n=14

Food & Beverage, Restaurant (Chef, customer service, cleaning, administration, etc.)

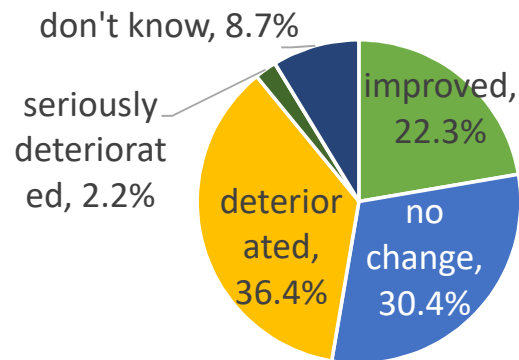


n=3

Logistics environment (Jan 2023 - Jun 2023, Compared with before COVID-19)

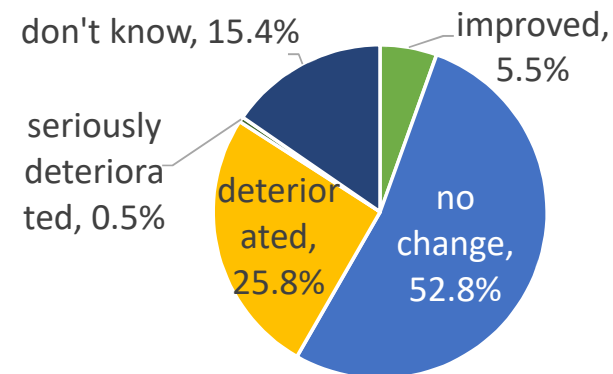
- Questions were asked of companies involved in logistics. The item with the highest ratio of companies answered that the logistics environment had 'deteriorated' or 'seriously deteriorated' was 'employment costs' at 43.7%, followed by 'transport costs' at 38.6%.

Transport Cost



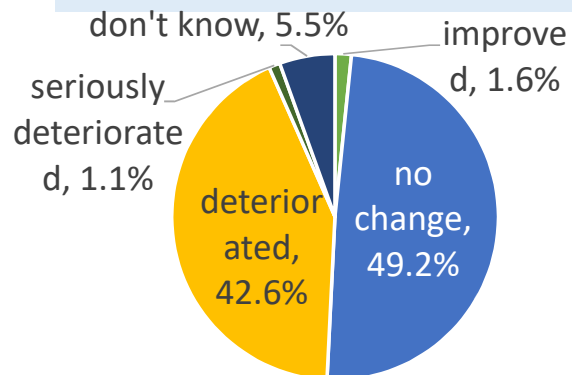
n=184

Warehousing Cost



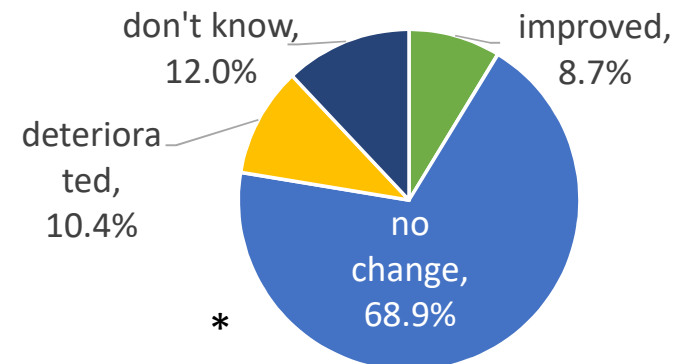
n=182

Employment Cost



n=183

Customs Procedures

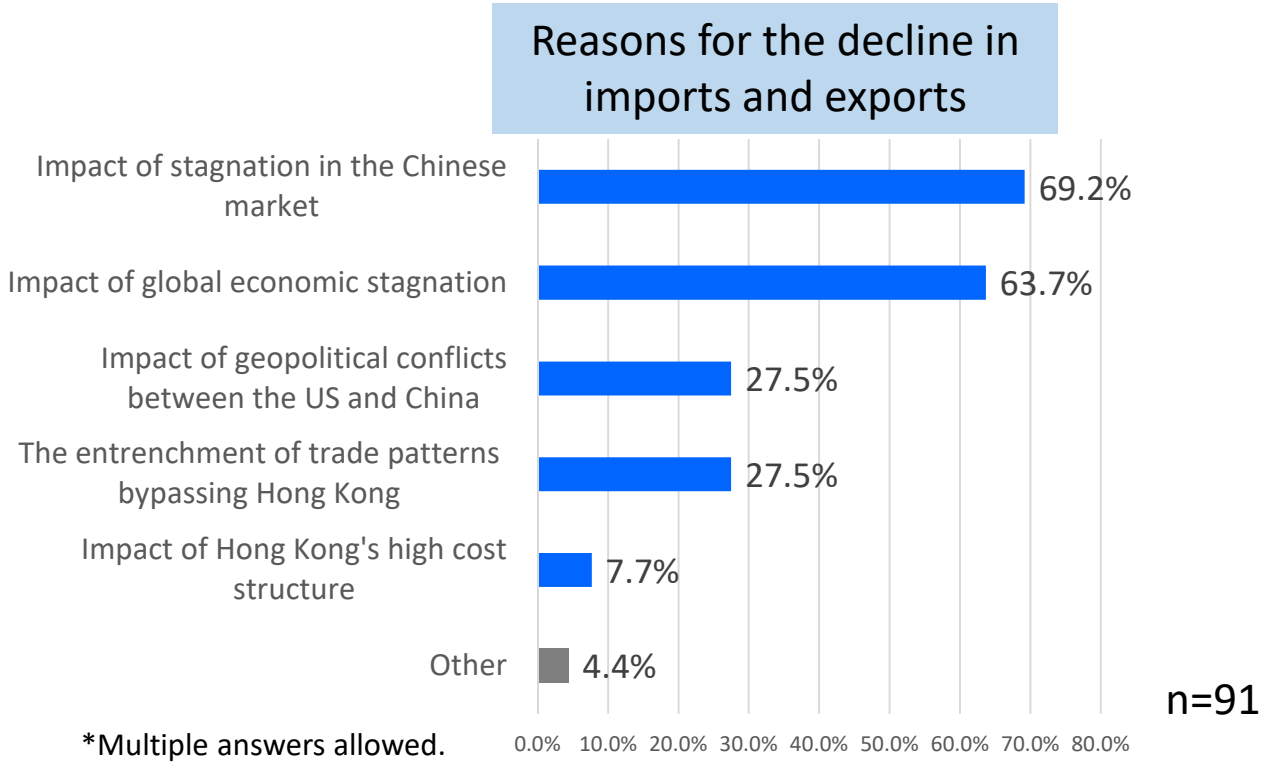
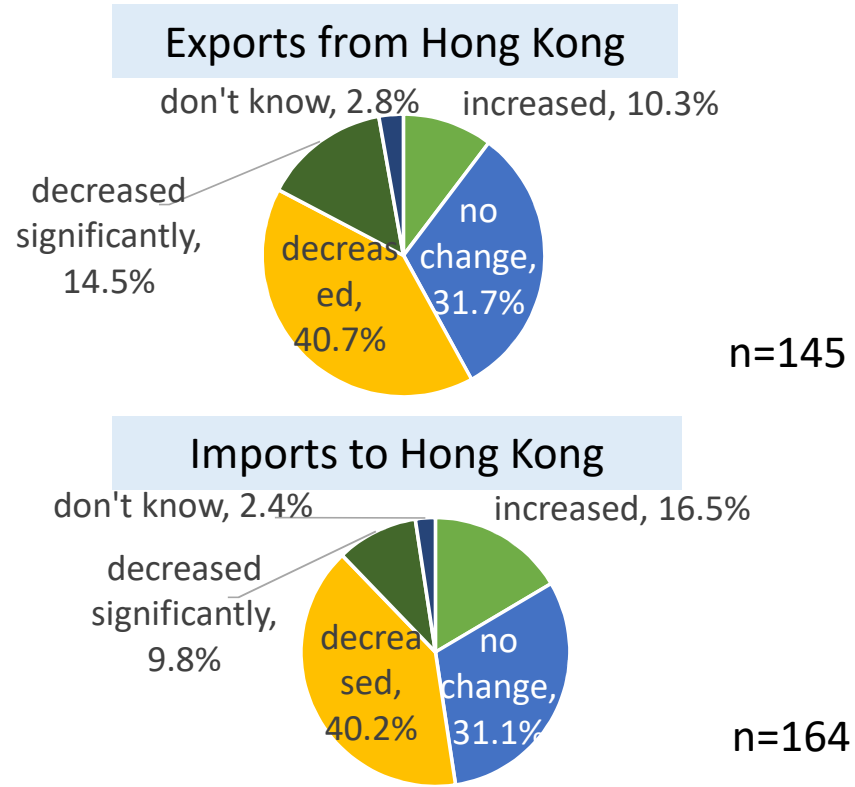


n=183

*

Changes in logistics volumes (Jan 2023 - Jun 2023, Compared with before COVID-19)¹⁸

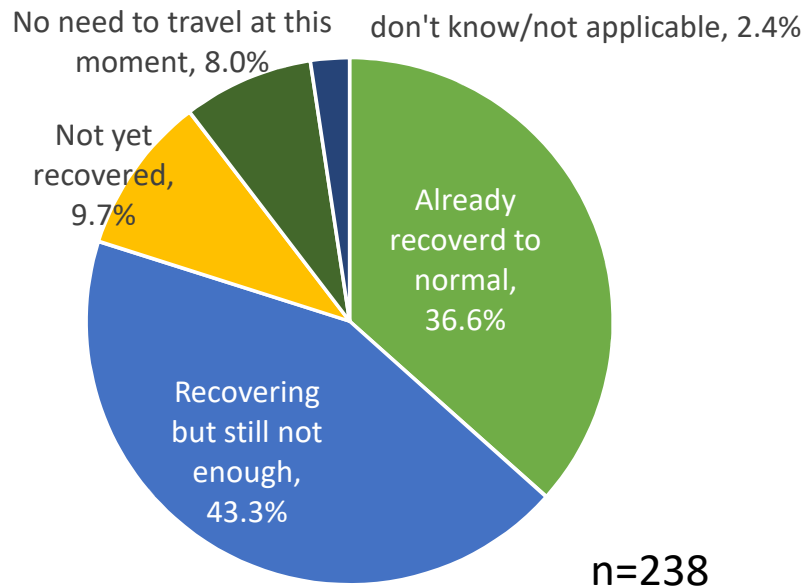
- The ratio of companies which answered that 'exports from Hong Kong' and 'imports to Hong Kong' had 'decreased' or 'decreased significantly' was 55.2% and 50.0% respectively, indicating a downward trend in logistics volumes for almost half of the respondents.
- 'The impact of the stagnation of the Chinese market and the global economy' and 'the establishment of trade patterns bypassing Hong Kong' are cited as the reason for the decline in import and export volumes.



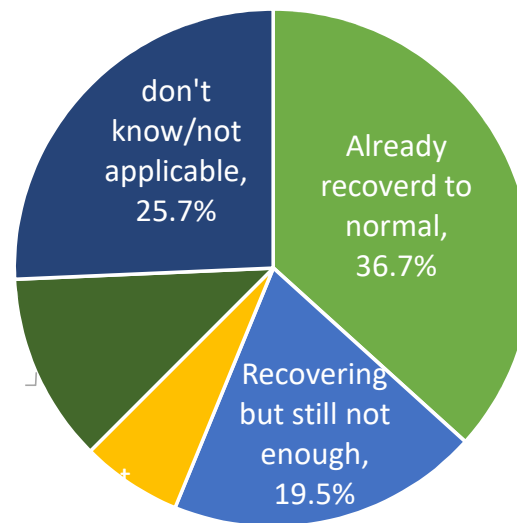
Status of recovery of human traffic

- Regarding the recovery of human traffic by internal business travelers, expats and customers, **the degree of recovery was low for 'internal business travelers' and 'customers/business partners', with 53%(126 companies) and 52.7%(125companies) respectively answering that the recovery was 'not yet recovered' and 'recovering but still not enough'.**
- As for the reasons, they raised “Difficult to travel to and from, including Mainland China (Chinese visa required).”, “Surge in travel and hotel expenses”, “Widespread use of Web conference”, “Deterioration of image of Hong Kong”, etc.

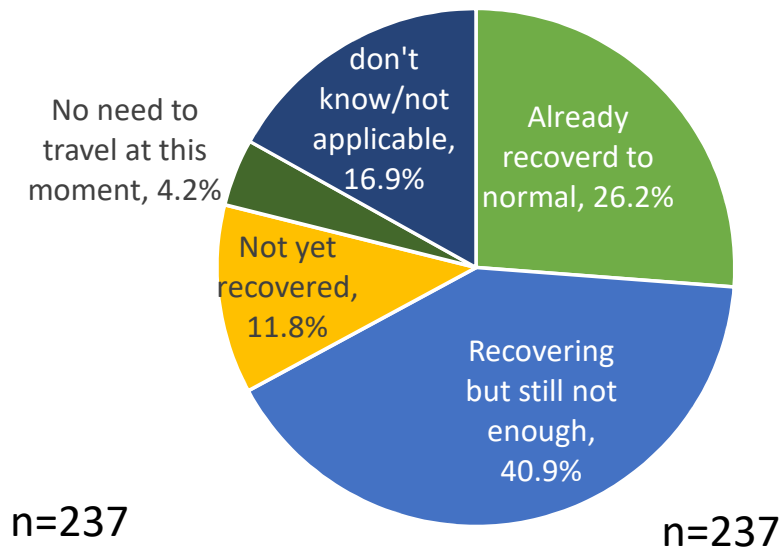
Internal Business Travelers



Expats



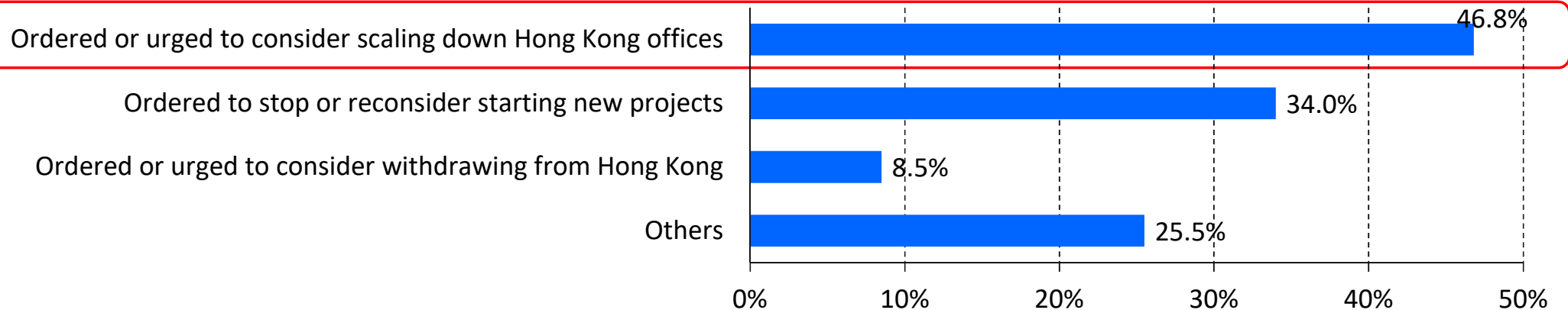
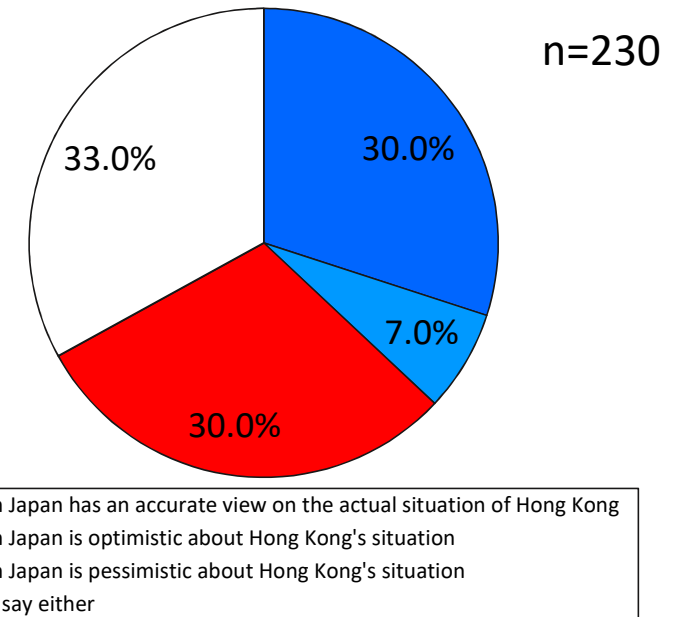
Customers/Business Partners



Japan HQs' view on Hong Kong

20

- The most common response to the Japan HQ's view on Hong Kong was 'can't say either' at 33.0%, while 30.0% of respondents were both 'accurate view on the actual situation of Hong Kong' and 'pessimistic about Hong Kong's situation'.
- Regarding the impact of the pessimistic view on business, 46.8% of respondents answered that they had been 'ordered or urged to consider scaling down their Hong Kong offices and/or business', which is 3.2 points lower than the last survey (50.0%),



*Multiple answers allowed. n=47

Problems in business operations

- Around 40% of the 45 respondents raised “Difficulty in travelling to and from Mainland China” (included “Complicated procedures for applying for business travel visas”, “Rejection of applications”, etc.), which was the most common response.
- “Difficulty of recruiting human resources”, “Surge of prices of commodities and other expenses”, “Impact of ALPS treated water releases on imports from Japan” were raised.

Main opinions from respondents:

*Free description

- Difficulty in travelling to and from Mainland China, due to not having resumed the visa waiver measure.
- Difficulty in recruiting human resources.
- Surge of prices of commodities and other expenses/weaker Yen.
- Tighter restrictions on imports from Japan and reputational damage in response to ALPS treated water discharge.
- Deterioration of investment sentiment due to negative Japanese media coverage of Hong Kong and Mainland China.
- Impact of business risks in Mainland China and Taiwan (e.g. deteriorating U.S.-China relations).

n=45

Expectations for the HKSAR Government

- More than 40% of the 37 respondents raised “Lobbying for visa waiver or relaxation of requirements to Mainland China” as their expectation of the HKSAR Government.
- “Disseminating unbiased information on Hong Kong to Japan” as well as “Dissemination of information on ALPS treated water”, “Providing information on business in Hong Kong and Mainland China” and “Timely provision of information and data”.

Main opinions from respondents :

*Free description

- Lobbying for visa waiver or relaxation of requirements to Mainland China.
- Disseminating unbiased information on Hong Kong to Japan (e.g. activities to improve the negative image of Hong Kong).
- Proactive and broad dissemination of information on ALPS treated water/ efforts to prevent reputational damage to Japanese food and products.
- Providing information on business in Hong Kong and Mainland China (Information on the utilisation of GBA, new regulations in Mainland China and the impact of U.S.-China relations, etc.)
- Publicity activities to bring back businesses and investment to Hong Kong.
- Timely provision of information and data.
- Organisation of exchange opportunities and seminars for companies in Hong Kong.

n=37