

The 14th Survey of the Business Environment in Hong Kong (1st half of 2024)

September 2024



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 2024 was -12.5 points, down 2.8 points from the last survey (Jul - Dec 2023), and the fifth consecutive period of negative growth since the 1st half of 2022. The DI for the 2nd half of 2024 (forecasted) is expected at -0.5 points, expecting an increase in sales from exports to overseas other than China.
2. Regarding the business environment in Hong Kong compared to a year ago, there continues to be strong concern about business costs and securing human resources, with many respondents indicating that it had 'deteriorated' or 'seriously deteriorated'. 30.4% (59 companies) said they had experienced employee turnover/drain of human resources in the past six months, of which 57.6% (34 companies) said they had not been able to secure replacement staff.
3. An increase of the logistic companies in the view of that a decline in the volume of imports and exports of trade through Hong Kong, particularly due to the impact of the stagnation of the Chinese market and the establishment of trade patterns that bypass Hong Kong. In the assessment of the logistics environment compared to pre-COVID, the number of respondents stating that (i) labour costs (64.7%) and (ii) warehouse fees (44.1%) increased from the last survey results and (iii) transport costs (58.8%) also remained high.
4. Compared to pre-COVID, only around half of respondents answered, "already recovered to normal", while over 30% of respondents said that internal business travellers, customers/clients had not recovered or is recovering insufficiently. Reasons for the lack of recovery in human traffic include "difficulties in coming and going, including to and from mainland China (obtaining Chinese visas)", "substitution by online meetings", "surge in travel expenses and yen depreciation", "slumping Hong Kong business", and "geopolitical risks".

Concept of the survey

1. Purpose of the survey

The purpose of this survey was to understand the business environment surrounding Japanese companies in Hong Kong, including the rising cost of doing business, the shortage of human resources that companies are facing, the decline in trade and logistics due to the economic downturn and the entrenchment of trade bypassing Hong Kong and to examine possible measures to be taken.

This survey has been conducted since September 2019 and is now in its 14th edition. From the 9th survey onwards, the frequency has changed from once a quarter to once every six months.

2. Coverage

Total: 648 companies

3. Term of the survey

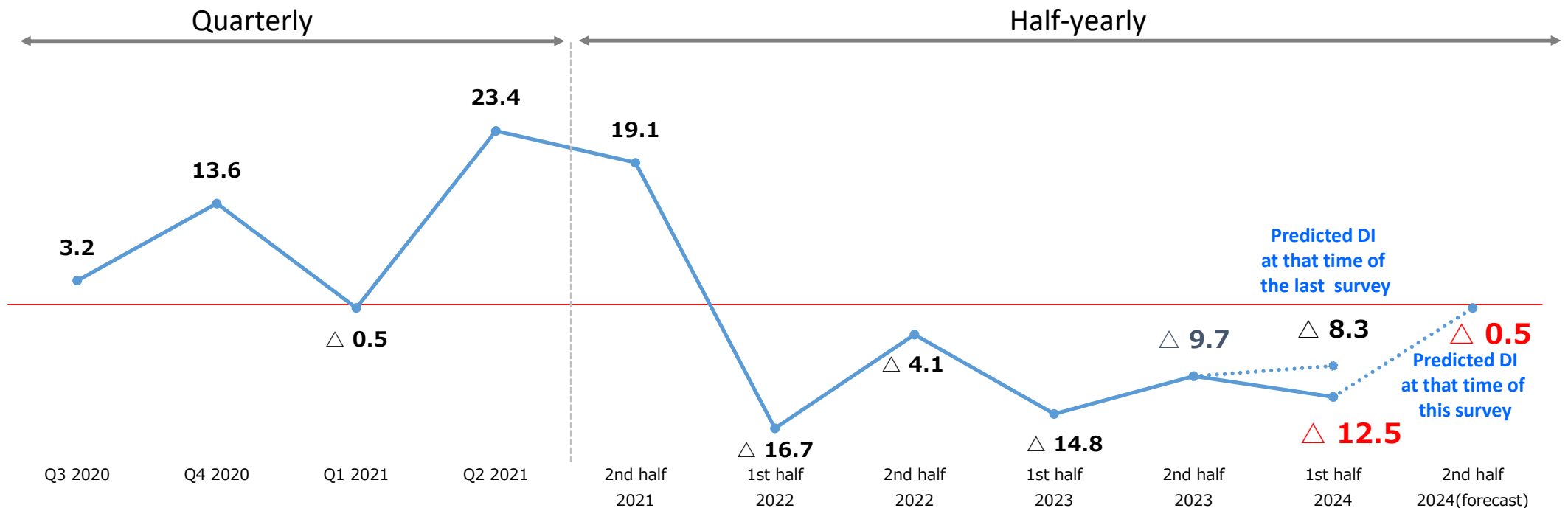
15th July – 4th August 2024

4. The number of respondents

194 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 2024 was **-12.5 points**, which **dropped 2.8% points** from that of the last survey (2nd half of 2023) and **the fifth consecutive period of negative growth since the 1st half of 2022**.
- The forecast for the 2nd half of 2024 was **-0.5 points**, which **rose by 12.0 points** from the DI value of **the 1st half of 2024**, with an increase of respondents expecting a recovery with export expansion overseas other than China.



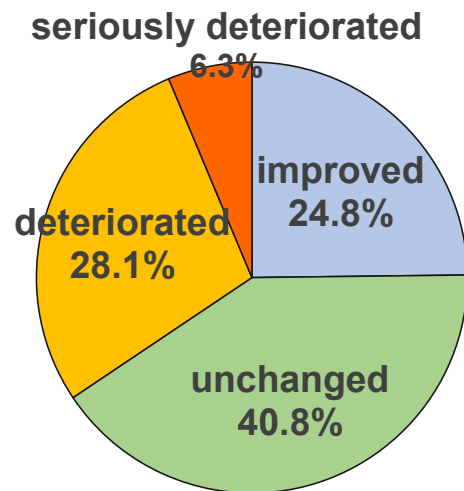
*DI stands for Diffusion Index and is calculated by subtracting the proportion of companies that responded 'deteriorated' and 'significantly deteriorated' from the proportion of companies that responded 'improved'.

Business Performance in the 1st half of 2024

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- Over 50% of respondents answered that their performance in the 1st half of 2024 was 'unchanged' compared with the last survey. The ratio of 'improved' slightly dropped to 17.9%, (previously 24.8%) and the ratio of 'deteriorated' or 'seriously deteriorated' dropped slightly to 30.5%, (previously 34.5%).
- In terms of performance trends compared to the last survey (Jul-Dec 2023), in no industry sector did the respondents answer that their business performance had 'improved' since the last survey. The ratio of respondents who answered 'deteriorated' or 'seriously deteriorated' has increased since the last survey in Transport & Warehousing (from 50.0% to 52.6%), Food, Beverage & Retail (from 50.0% to 54.5%) and Hotel & Tourism (from 0.0% to 33.3%).

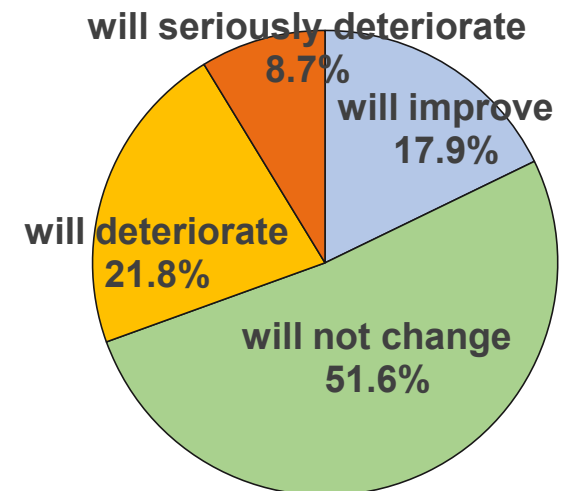
2nd Half of 2023



n=206



1st Half of 2024



n=184

Reasons for the improvement or deterioration of business performance in the 1st half of 2024

*Multiple answers allowed.

Reasons for 'improved' performance

Increase in sales in Hong Kong market	33.3%
Increase in exports overseas other than China	30.3%
Increase in exports to mainland China	27.3%
Reduction of employment costs	12.1%
Improvement of production and sales efficiency	12.1%
Reduction of other expenses (administrative fees, electricity and fuel fees)	12.1%
Exchange fluctuations	6.1%
Reduction of procurement costs	6.1%
Reduction of rent through office relocation or rent decrease	0.0%
Others	9.1%

Reasons for 'deteriorated' performance

Decrease in sales in Hong Kong market	46.4%
Decrease in exports overseas other than China	37.5%
Decrease in exports to mainland China	33.9%
Rise in employment costs	21.4%
Exchange fluctuations	14.3%
Rise in procurement costs	14.3%
Rise in other expenses (administrative fees, electricity and fuel fees)	8.9%
Insufficient transfer to sales price	8.9%
Shortage of human resources	5.4%
Rise in interest rates	5.4%
Rise in rent through office relocation or rent increase	1.8%
Others	12.5%

Forecast of business performance in the 2nd half of 2024

- The ratio of 'will improve' increased to 19.1%, an increase of 3.0 points compared with the last survey (16.1%) and the ratio of 'will deteriorate' or 'will seriously deteriorate' dropped to 19.7%, dropped 4.7 points from the last survey (24.4%).
- Compared to the performance in the period Jan-Jul 2024, the ratio of 'will improve' has increased in Trading & Wholesale (from 6.5% to 17.8%) and Transport & Warehousing (from 11.1% to 42.1%). The ratio of companies that answered 'will deteriorate' or 'will seriously deteriorate' has increased; Finance & Lease (from 5.0% to 11.8%), Food, Beverage & Retail (from 25.0% to 36.4%)



Reasons for the forecast of the improvement or deterioration of business performance in the 2nd half of 2024

*Multiple answers allowed.

Reasons for 'will improve' performance

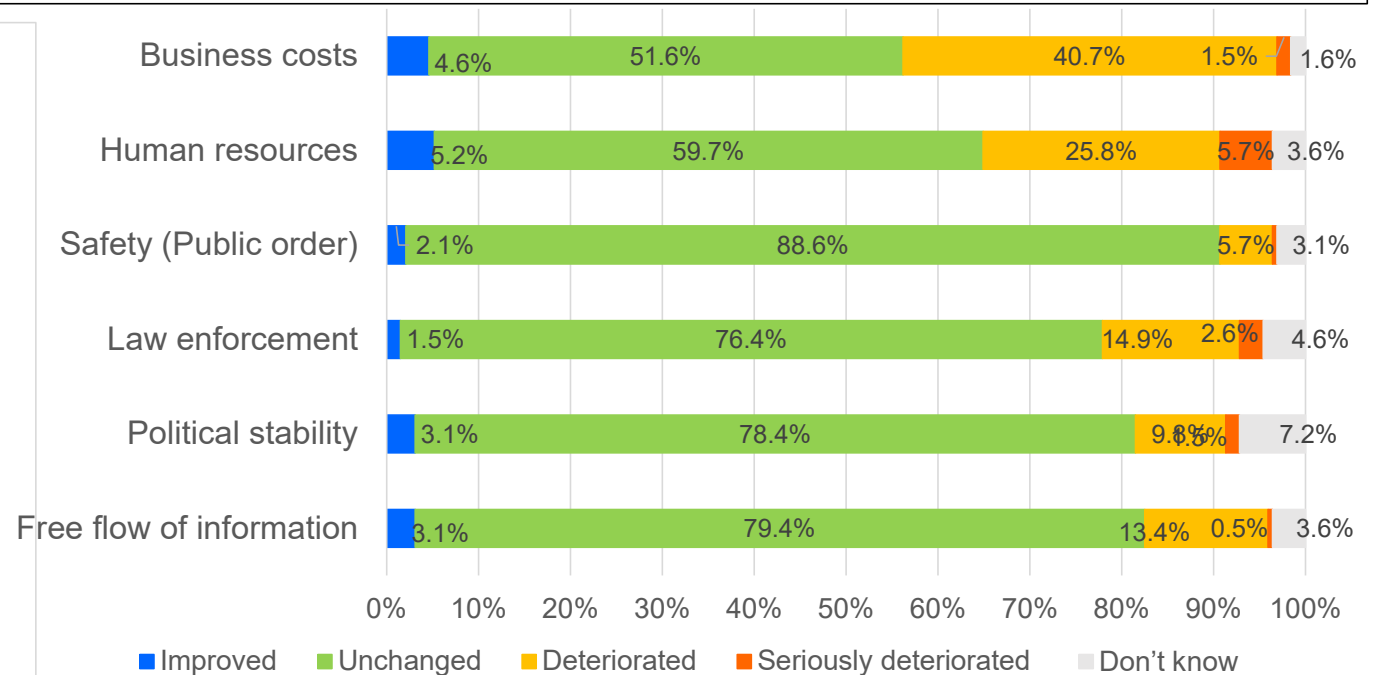
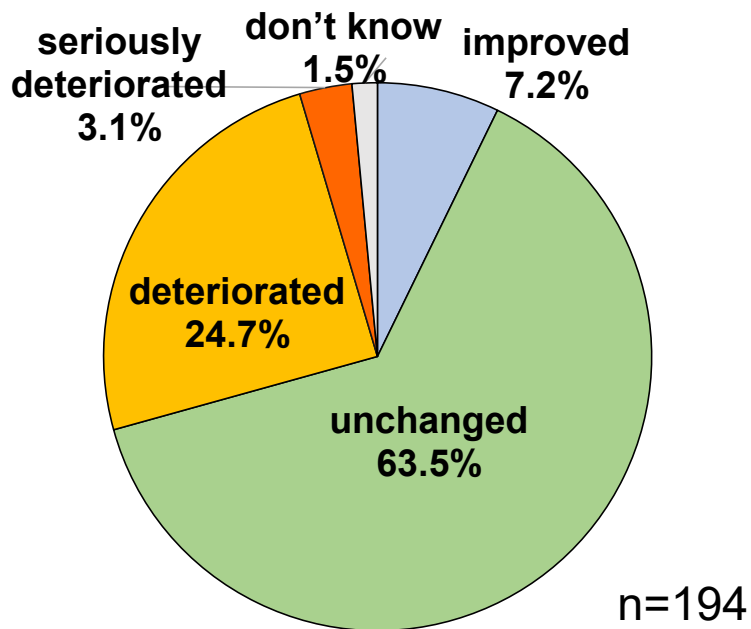
Increase in sales in Hong Kong market	42.9%
Increase in exports overseas other than China	42.9%
Increase in exports to mainland China	17.1%
Reduction of other expenses (administrative fees, electricity and fuel fees)	14.3%
Reduction of employment costs	8.6%
Reduction of rent through office relocation or rent decrease	8.6%
Improvement of production and sales efficiency	5.7%
Reduction of procurement costs	2.9%
Exchange fluctuations	2.9%
Others	11.4%

Reasons for 'will deteriorate' performance

Decrease in sales in Hong Kong market	44.4%
Decrease in exports overseas other than China	33.3%
Decrease in exports to mainland China	25.0%
Rise in employment costs	25.0%
Exchange fluctuations	16.7%
Rise in interest rates	13.9%
Rise in procurement costs	13.9%
Rise in other expenses (administrative fees, electricity and fuel fees)	11.1%
Insufficient transfer to sales price	8.3%
Shortage of human resources	5.6%
Rise in rent through office relocation or rent increase	2.8%
Others	13.9%

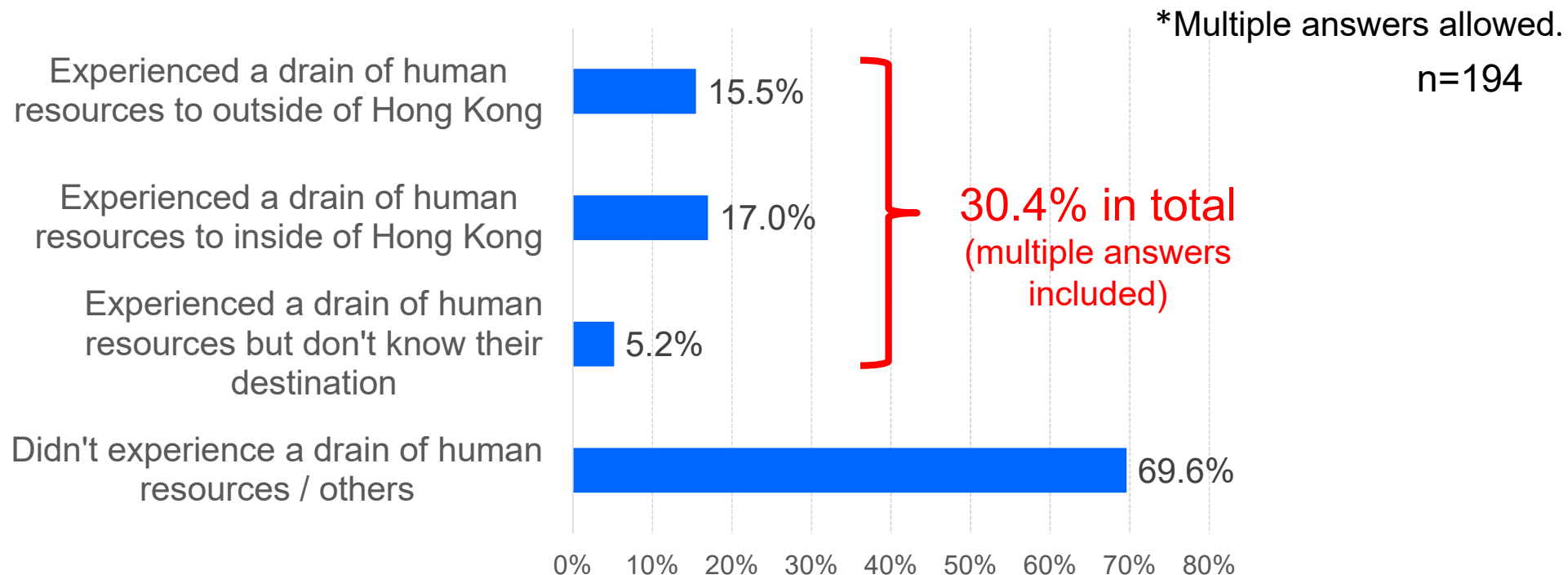
Evaluation of Hong Kong's business environment (compared with July 2023)

- As for the business environment, 63.5% of respondents answered that it had 'no change' (previously 55.9%). 7.2% answered that it had 'improved', which was 3.6 points lower than the previous survey (10.8%). 27.8% answered that it had 'seriously deteriorated' or 'deteriorated', which was 4.6 points lower than the previous survey (32.4%).
- In itemised assessments, 42.2% of the companies that answered 'deteriorated' or 'seriously deteriorated' in the area of 'Business Costs', which has improved since the last survey (38.4%). 31.5% of the companies answered 'deteriorated' or 'seriously deteriorated' in the area of 'securing human resources' (previously 39.0%). The number of respondents that answered 'deteriorated' or 'seriously deteriorated' in the area of 'Free flow of information' has increased, which was 4.0 points higher than the previous survey.



Drain of human resources from Hong Kong offices (Jan - Jun 2024)

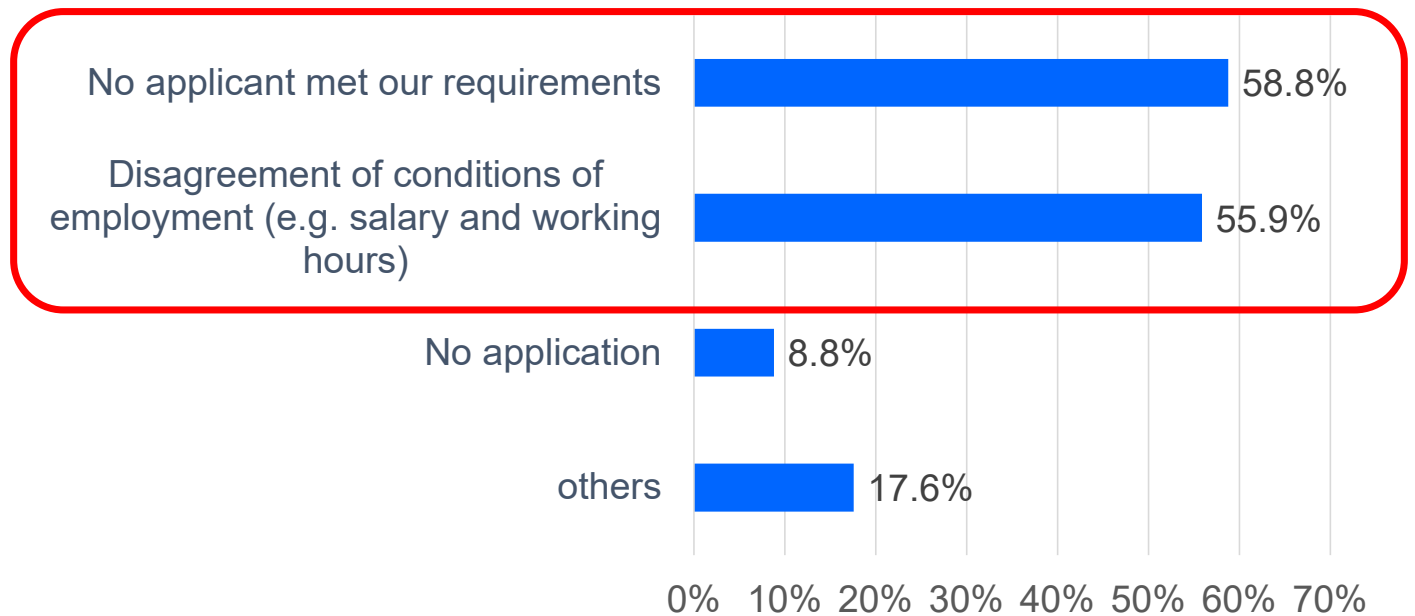
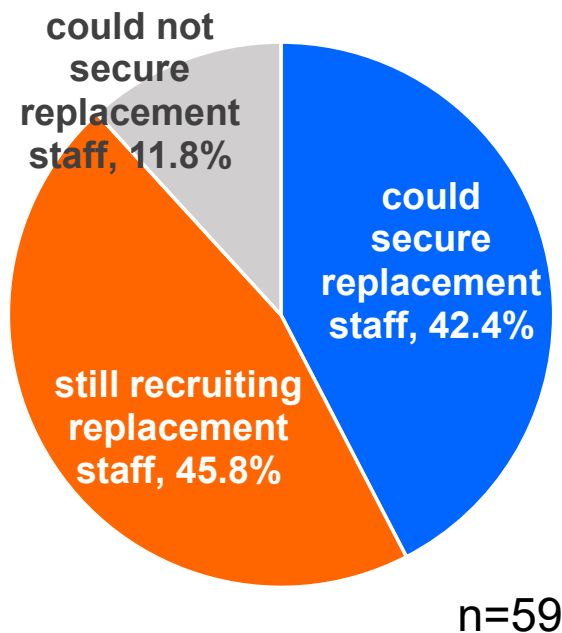
- 30.4% (previously 28.2%) of respondents answered that they had experienced a drain of human resources in the past half year (Jan - Jun 2024).



※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 – Jun 2024)

- Regarding replacement staff for a vacancy by a drain of human resources, **57.6% of the respondents (34 companies)** who had experienced the talent drain answered **'could not secure' or were 'still recruiting'** (previously 63.3% (38 companies)).
- 'No applicant met our requirements' and 'Disagreement of conditions of employment (e.g. salary and working hours)' were raised as the two main reasons.



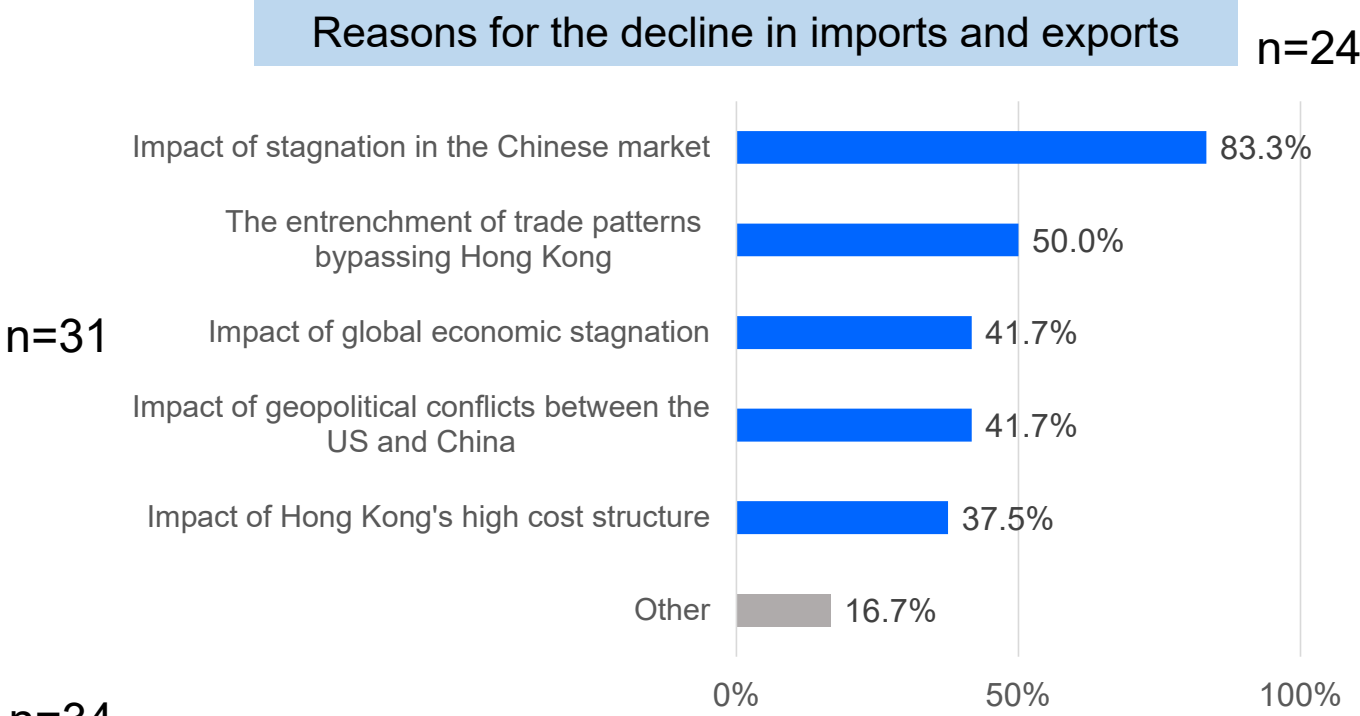
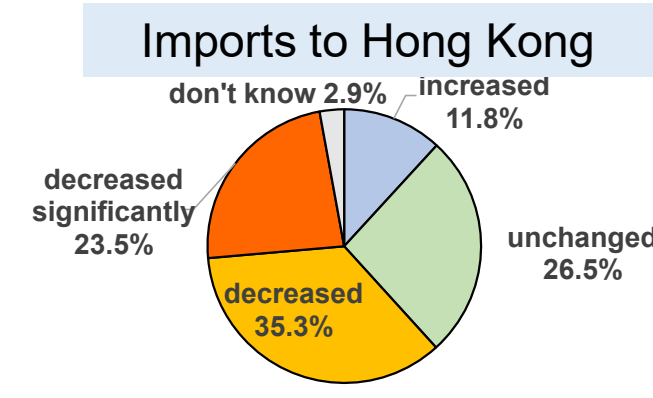
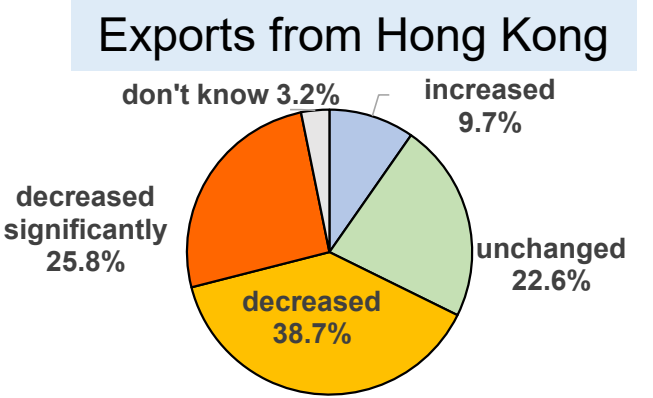
*Multiple answers allowed.

n=34

Changes in logistics volumes (Jan - Jun 2024, Compared with pre-COVID)

12

- The ratio of companies which answered that 'exports from Hong Kong' and 'imports to Hong Kong' had 'decreased' or 'decreased significantly' was 64.5% (previously 72.7%) and 58.8% (previously 68.5%) respectively, indicating a downward trend in import and export logistics volumes from around 60% of the respondents.
- 'The impact of the stagnation of the Chinese market' and 'the establishment of trade patterns bypassing Hong Kong' are cited as reasons for the decline in import and export volumes.



n=31

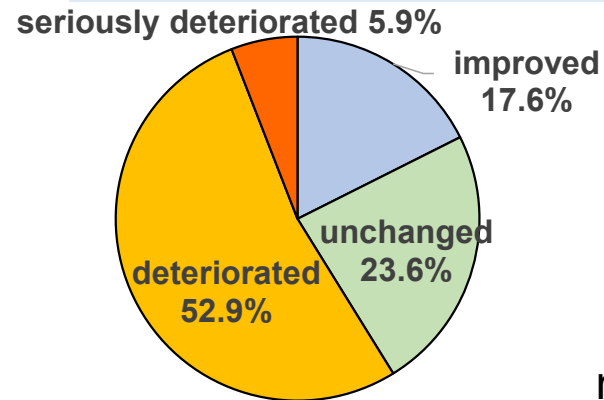
n=34

*Multiple answers allowed.

Logistics environment (Jan - Jun 2024, Compared with pre-COVID)

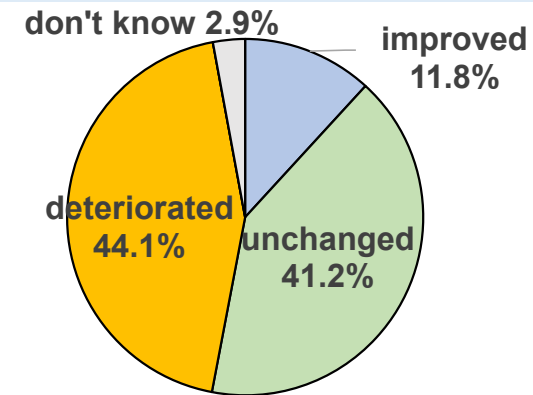
- Questions were asked of companies involved in logistics. The item with the highest ratio of companies that said the logistics environment had '**deteriorated**' or '**seriously deteriorated**' was '**Employment cost**' at 64.7% (previously 59.5%), followed by '**Transport cost**' at 58.8% (previously 62.2%) and '**Warehousing cost**' at 44.1% (previously 37.8%).

Transport Cost



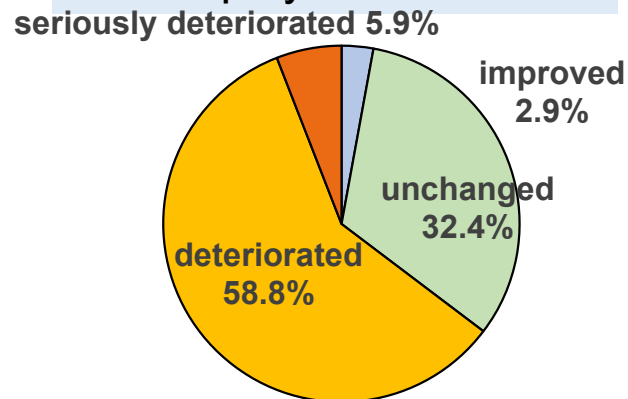
n=34

Warehousing Cost



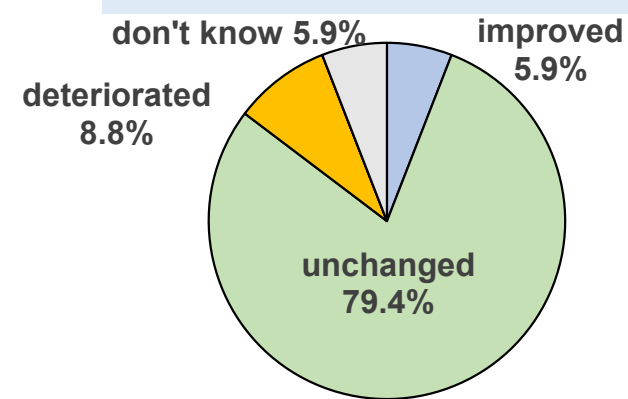
n=34

Employment Cost



n=34

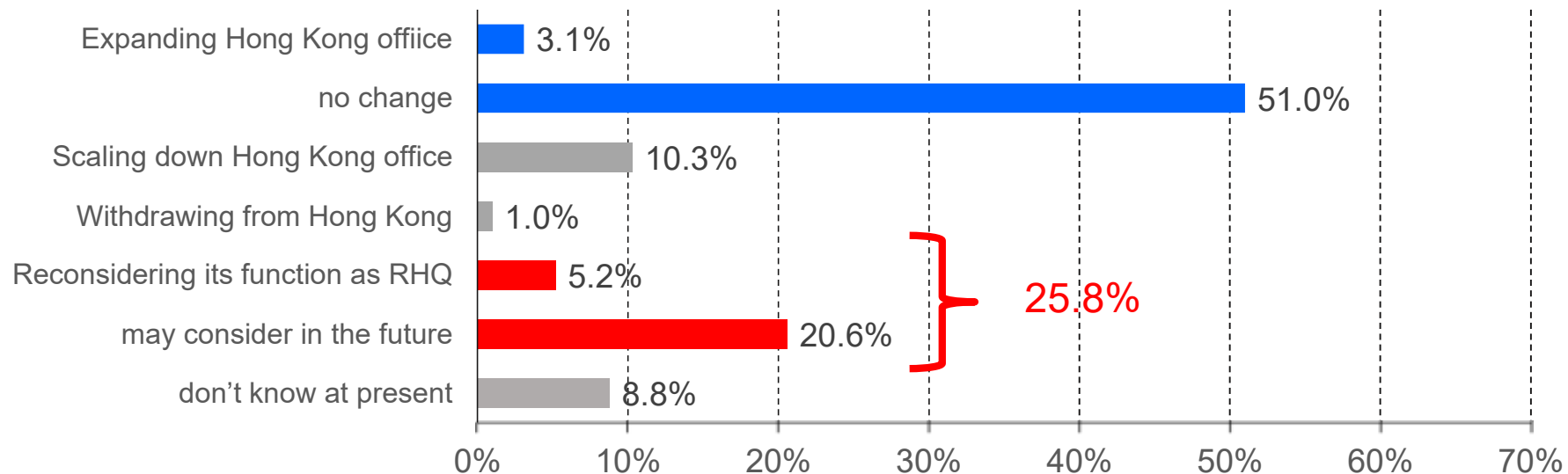
Customs Procedures



n=34

Future direction of Hong Kong offices

- 3.1% (previously 5.6%) of respondents answered that they would 'expand' in terms of the business functions of their Hong Kong offices. Reasons for expansion include: "Expectation of business expansion in Hong Kong (e.g. release new product and services)" and "High evaluation for Japanese products" etc.
- 5.2% (previously 2.3%) of respondents answered that they would 'reconsider its function'. These reasons include; "difficulties of securing resources" and "transferring around half of Asian supervisory function to Singapore and reducing the scale of Hong Kong function due to geopolitical risks". 20.6 % of respondents answered that they 'may consider in the future'.



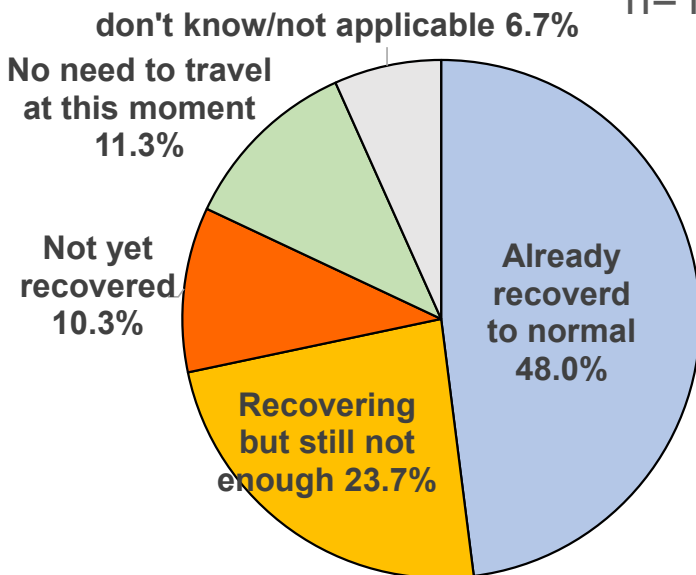
Status of recovery of human traffic (compared with normal times)

15

- Regarding the recovery of human traffic by internal business travellers, expats and customers/clients, **only around half of respondents answered, “Already recovered to normal”**.
- Reasons given for the lack of recovery in human traffic included **“difficult to travel to and from, including mainland China (Chinese visa required)”**, **“alternatives to online meetings”**, **“surge in travel expenses”** **“slumping Hong Kong business”** and **“geopolitical risks”**.

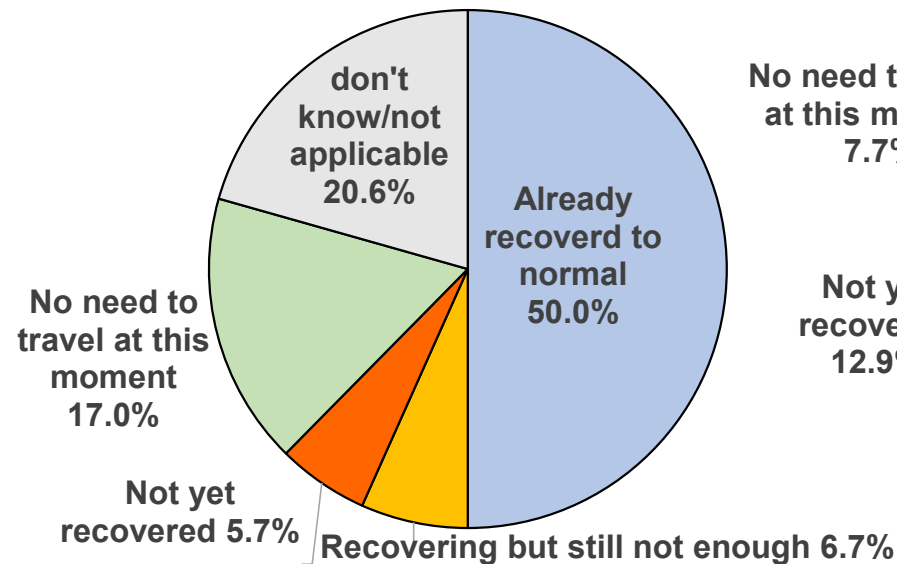
Internal Business Travellers

n=194



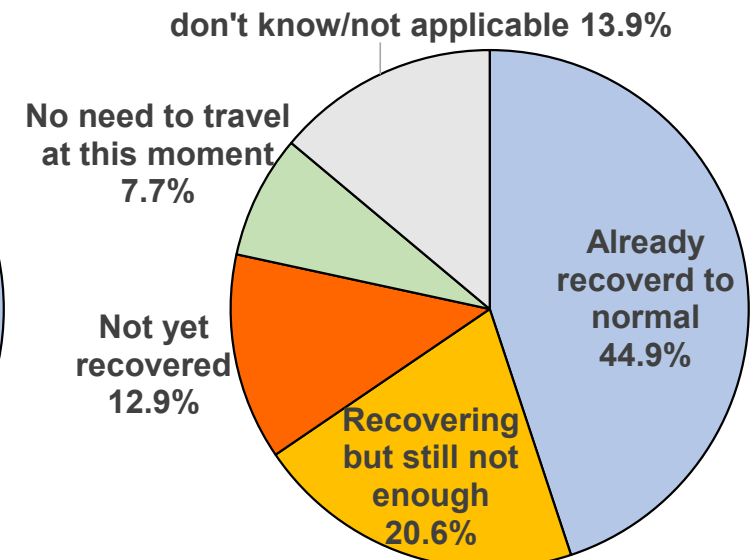
Expats

n=194



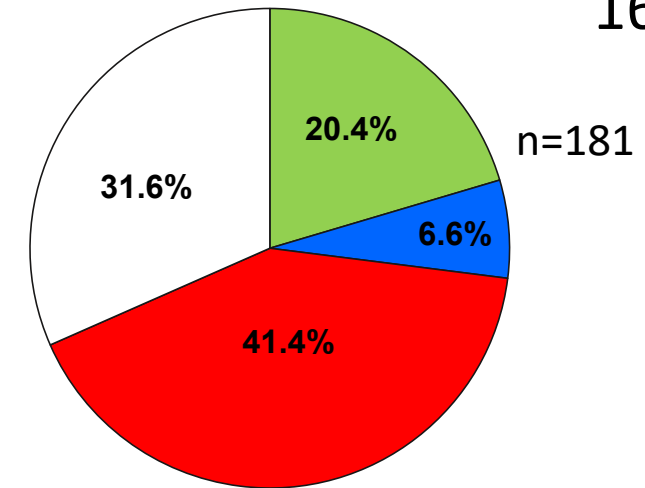
Customers/Clients

n=194

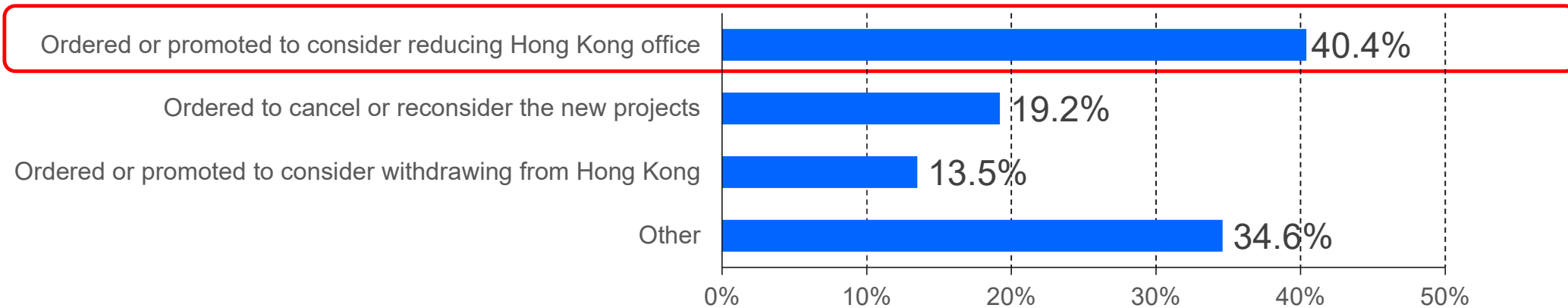


Japan HQs' view on Hong Kong

- The most common response to the Japan HQ's view on Hong Kong was 'pessimistic about Hong Kong's situation' at 41.4% (previously 37.8%) and an 'accurate view on the actual situation of Hong Kong' was 20.4% (previously 29.3%).
- Regarding the impact of the pessimistic view on business, 40.4% of respondents answered that they had been 'ordered or urged to consider scaling down their Hong Kong offices and/or business', which is 8.8 points lower than the last survey.



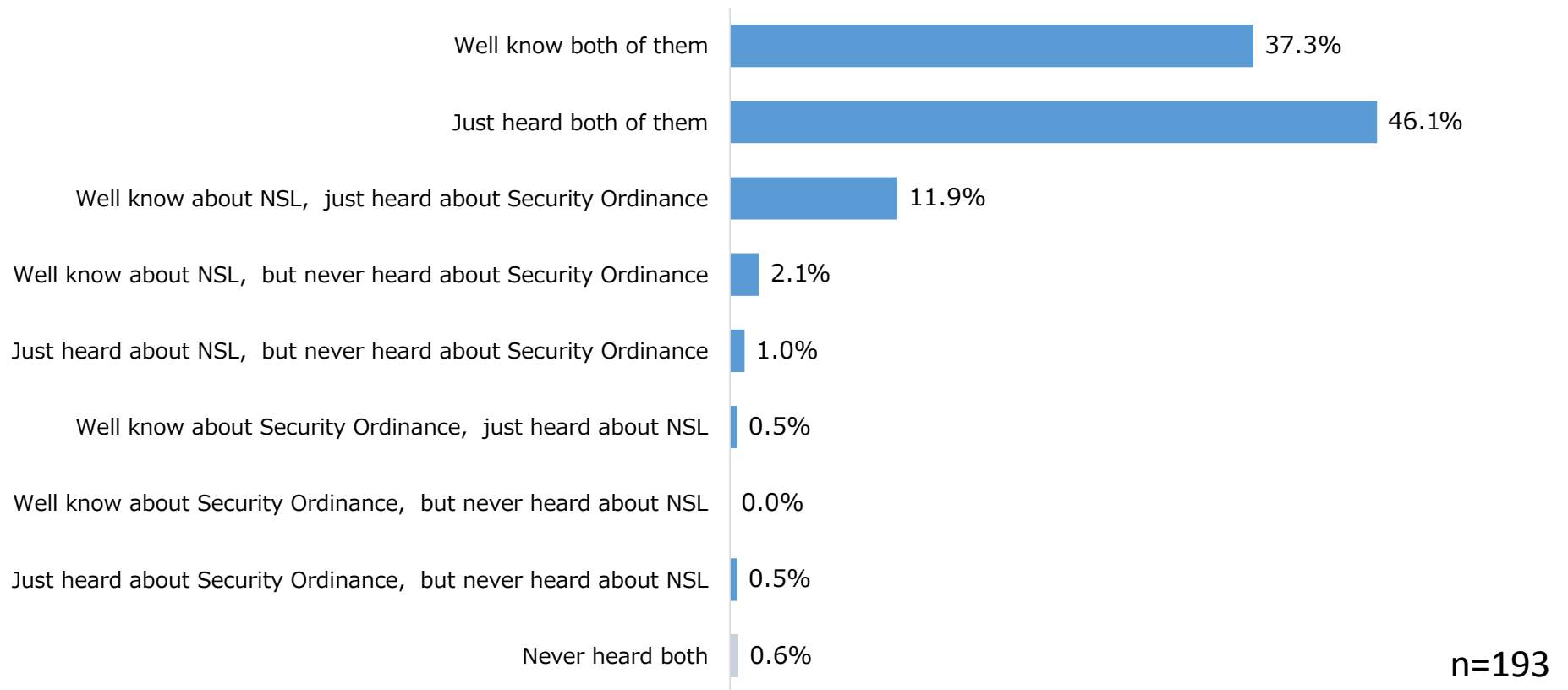
■ HQ in Japan has an accurate view on the actual situation of Hong Kong
■ HQ in Japan is optimistic about Hong Kong's situation
■ HQ in Japan is pessimistic about Hong Kong's situation
□ can't say either



*Multiple answers allowed. n=52

Recognition of the National Security Law (NSL) and the Safeguarding National Security Ordinance (SNSO) 【New question】

- The percentage of respondents who answered “well know” or “just heard” of both the NSL and SNSO was 83.4%
- The NSL was recognised much more than the SNSO.

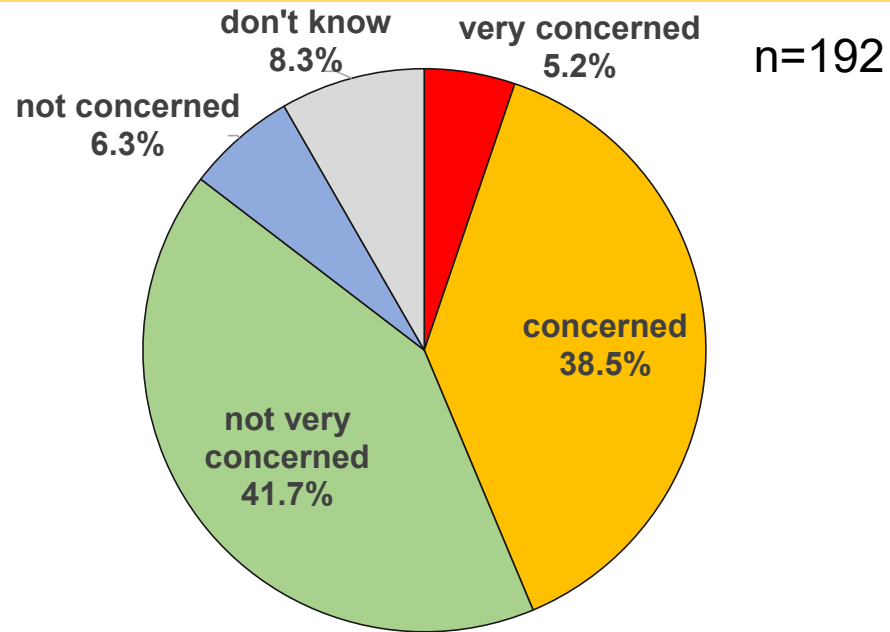


Impact of National Security Law (1)

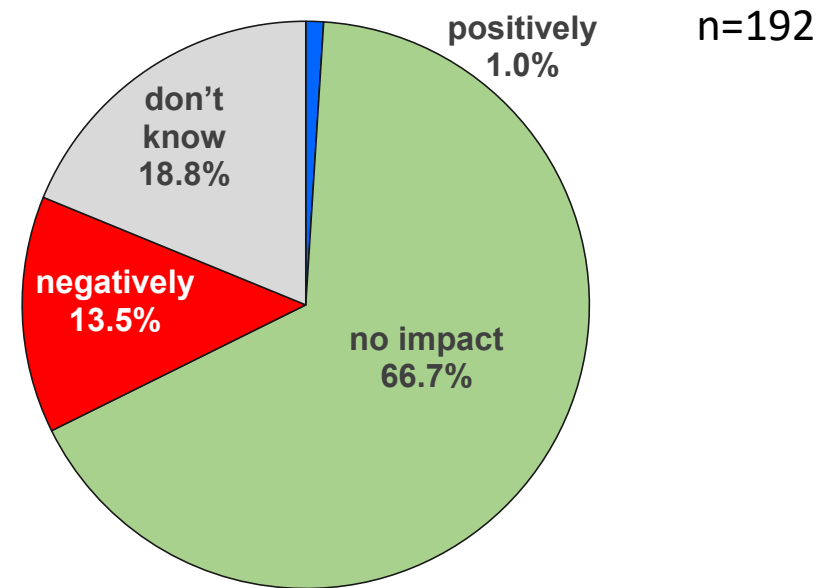
18

- 43.7% (previously 53.7%) of respondents answered that they were 'very concerned' 5.2% (previously 9.8%) or 'concerned' 38.5% (previously 43.9%) about the NSL, which is 10.0 points lower than the last survey.
- 13.5% (previously 17.8%) of respondents answered that it had a 'negative impact on business', which is 4.3 points lower than the last survey.

How concerned about National Security Law?



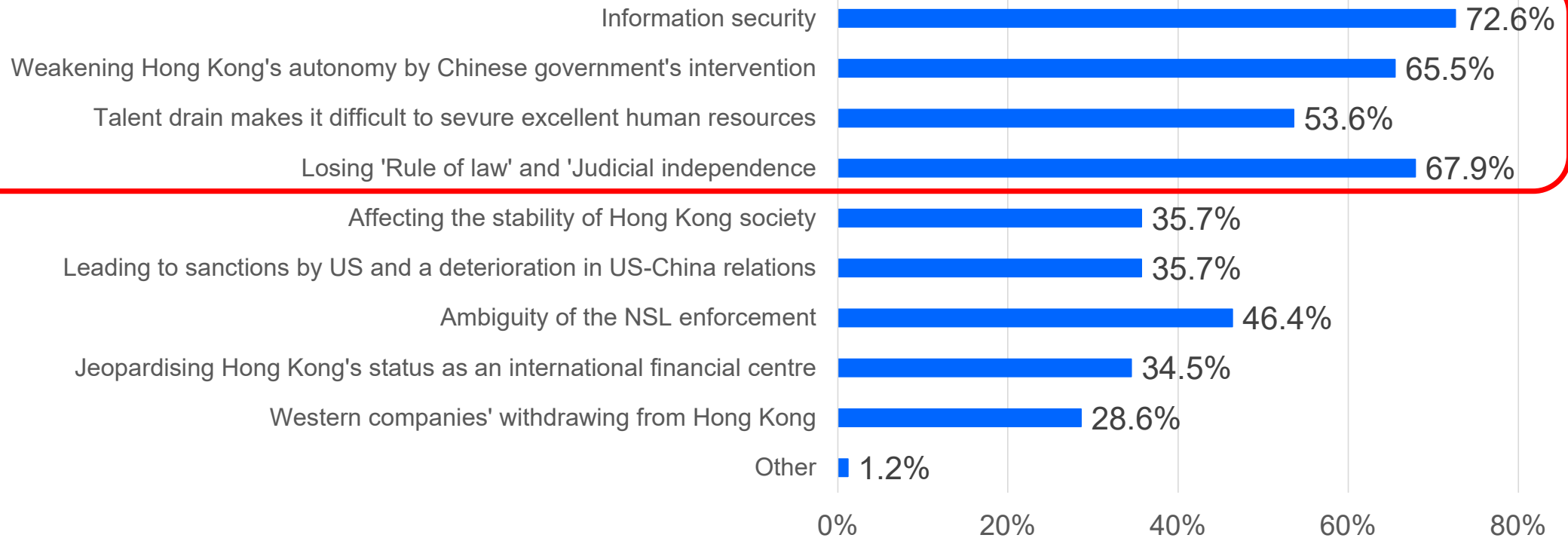
Impact on the business by National Security Law



Impact of the National Security Law (2)

- Regarding a reason for concern about the NSL, most respondents were **concerned about “Information Security” 72.6% (previously 61.7%), followed by “Losing ‘Rule of law’ and ‘Judicial independence” 67.9% (57.4%).**

*Multiple answers allowed. n=84



Impact of the National Security Law (3)

Opinions from respondents regarding the impact of the NSL:

*Free description
n=26

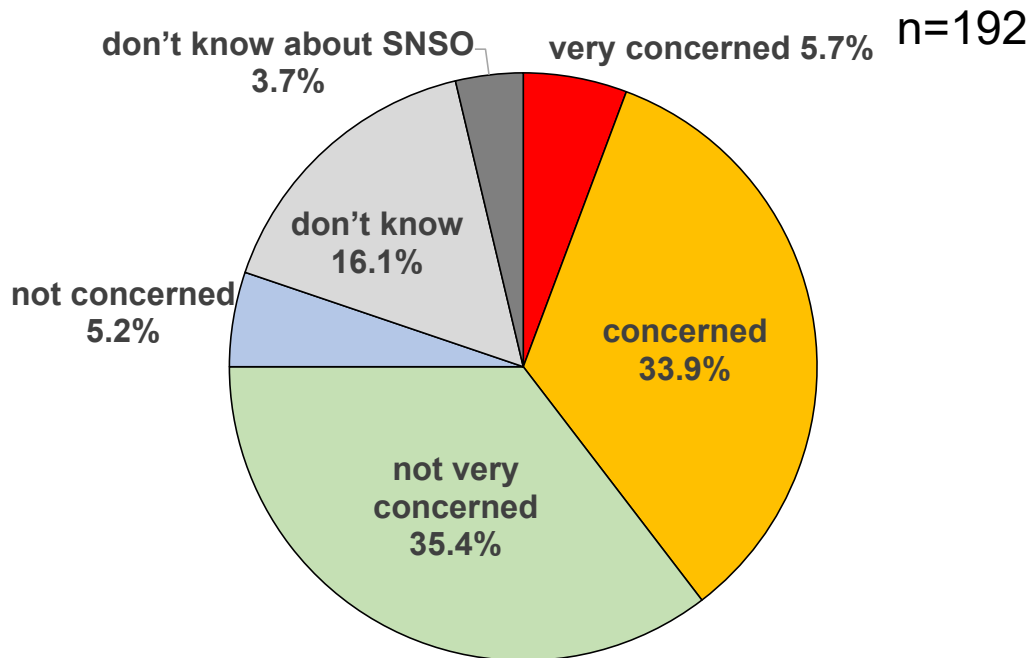
【Negative impact】

- Talent drain due to emigration, difficulty in securing young talent.
- Cautious and restrained investment in Hong Kong and China and downsizing of business.
- Decreasing in the number of travellers from outside the region (business travellers and tourists).
- Transferring business functions from Hong Kong to Singapore.
- Increasing tendency to equate Hong Kong with mainland China.

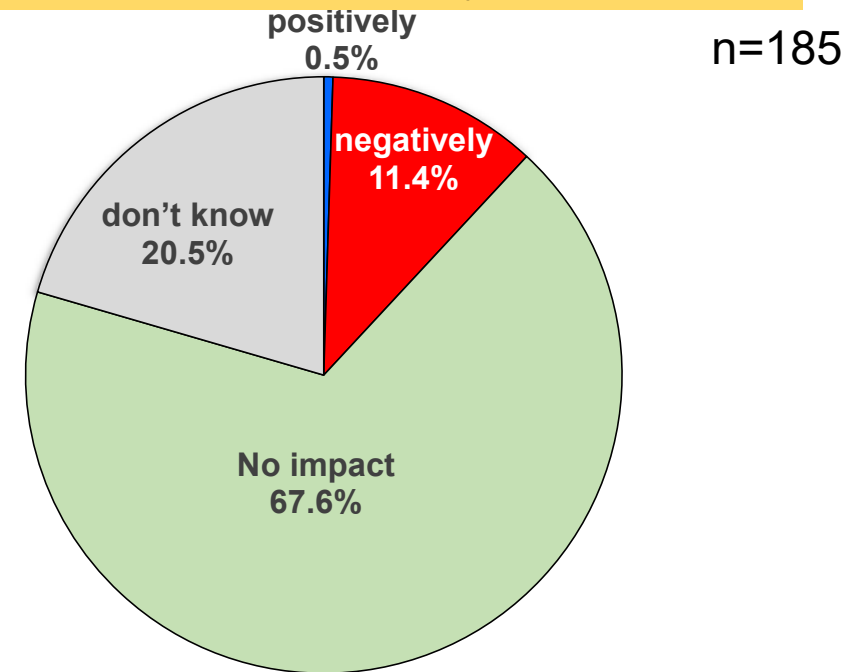
Impact of the Safeguarding National Security Ordinance (1) 【New】

- 39.6% of respondents answered that they were “very concerned” (5.7%) or “concerned” (33.9%) about the SNSO.
- 11.4% of respondents answered that it had a “negative impact on business”.

How concerned about the SNSO?



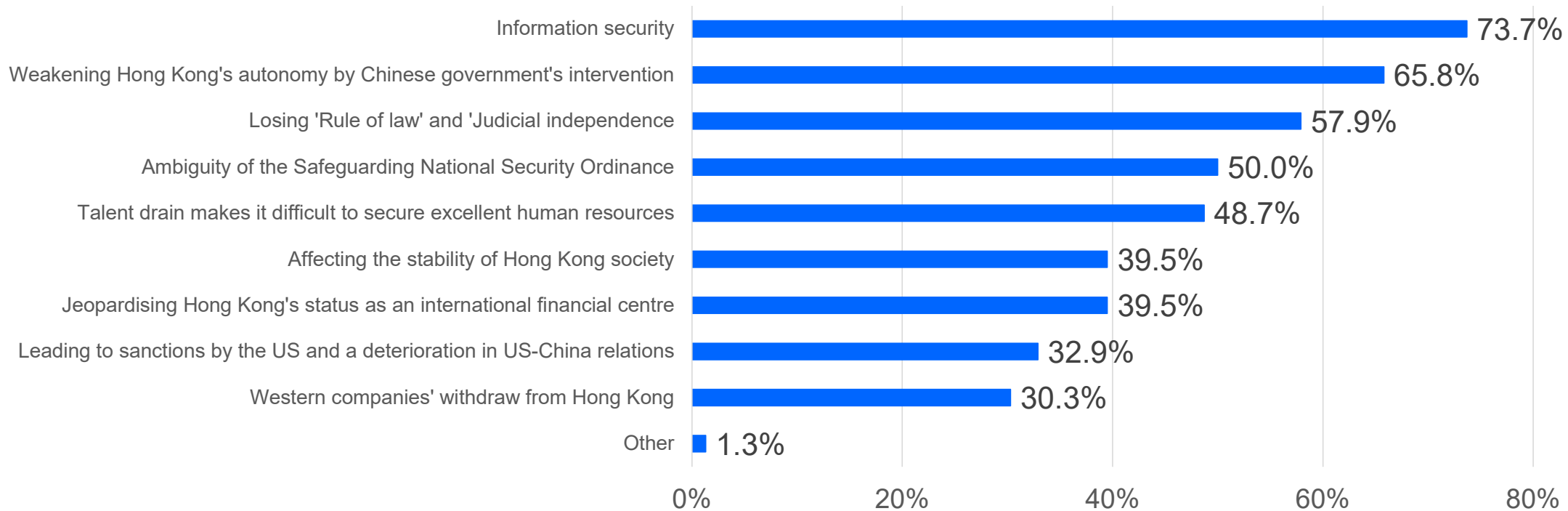
Impact on the business by the SNSO



Impact of the Safeguarding National Security Ordinance (2)

- Regarding a reason for concern about the SNSO, most respondents were concerned about “Information Security” (73.7%).
- The percentage of respondents who answered “Weakening Hong Kong’s autonomy by Chinese Government’s intervention” was 65.8.

*Multiple answers allowed. n=76



Impact of the Safeguarding National Security Ordinance (3)

Opinions from respondents regarding the impact of the SNSO:

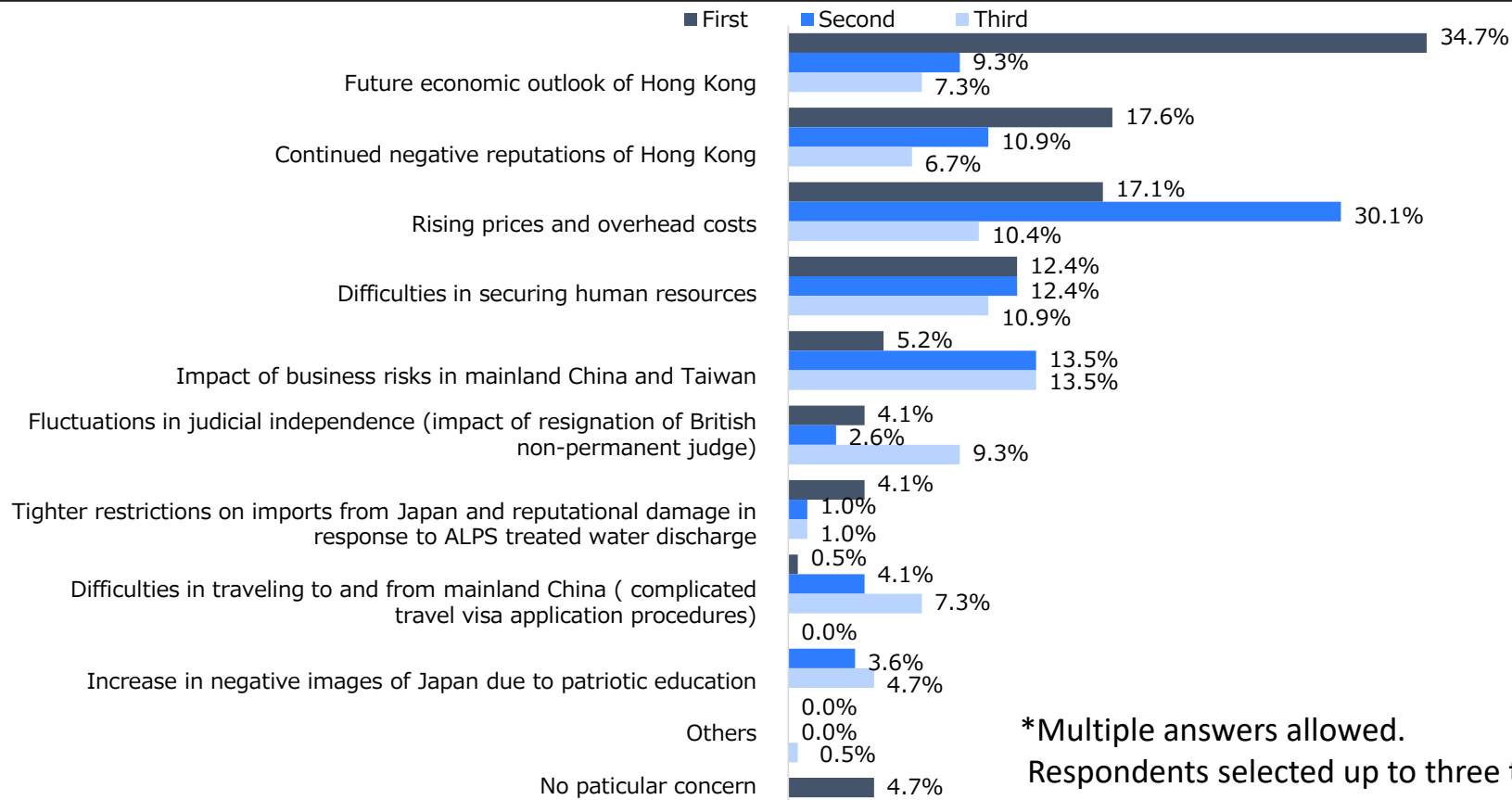
*Free description
n=21

【Negative impact】

- Cautious and restrained investment in Hong Kong and China and downsizing of business.
- Talent drain due to emigration, difficulty in securing young talent.
- Decreasing in the number of travellers from outside the region, (business travellers and tourists), especially if there is a lack of inflow of Japanese talent.
- Negative impression of Hong Kong.
- Transferring business functions from Hong Kong to Singapore.

Concerns about doing business in Hong Kong

- Respondents were concerned about the “Future economic outlook in Hong Kong” (34.7%), followed by “Continued negative reputations of Hong Kong” (17.6%) and “Rising prices and overhead costs” (17.1%).
- Regarding the percentage of answers, most respondents were concerned about “Rising prices and overhead costs” (57.6%), followed by “Future economic outlook in Hong Kong” (51.3%) and “Difficulties in securing human resources” (35.7%).



*Multiple answers allowed.

Respondents selected up to three top choices.

n=184

Problems in business operations

- Regarding problems in business operations, “Difficulty in travelling to and from mainland China” was the most common response, as in the last survey.

Main opinions from respondents:

*Free description n=39

- Deterioration of profitability due to the weak yen and high costs.
- Difficulty in recruiting human resources (rising labour costs, ageing of existing human resources).
- Negative image of Hong Kong and mainland China.
- Hong Kong's economic downturn (includes impact of consumption in mainland China).
- China's economic downturn.
- Difficulty in travelling to and from mainland China, due to not having resumed the visa waiver measure.

Expectations for the HKSAR Government

- 20% of the respondents expressed a desire **for more guidance on financial support for businesses, holding briefing on subsidies.**
- Other expectations are “Appeal of Hong Kong’s economic and operational advantages”, “Adherence to “One Country, Two Systems” and “Visa waiver and simplification of travel for mainland China”.

Main opinions from respondents:

*Free description n=41

- Guidance on financial support (subsidies, grants, etc.) for businesses, holding briefings, etc.
- Implementation of policies that highlight Hong Kong's economic and operational advantages and improve its image.
- Adherence to “One Country, Two Systems” principle. Continuing cooperation and dialogue with Western countries.
- Visa waiver of travel for mainland China.
- Implementation of consumption stimulus measures in Hong Kong (distribution of electronic consumption vouchers within Hong Kong as a measure to tackle consumption in mainland China).
- Removal of restrictions related to the ALPS treated water discharge.