

# Hong Kong's Value and Future as a Business Hub

Note: This presentation is translated from the original Japanese version for information purpose only: In case of any discrepancy, the Japanese version shall prevail.

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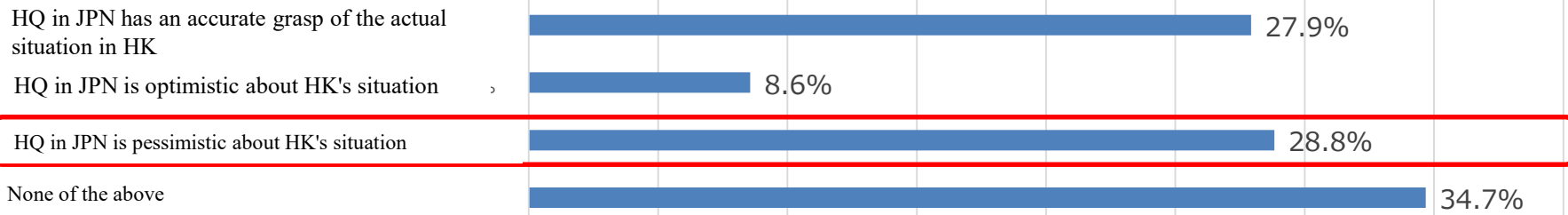


# The perception gap widens between HQs and their HK subsidiaries on HK business

- 28.8% (64 companies) of respondents answered that the HQs in Japan assessed Hong Kong pessimistically due to ‘overly pessimistic coverage of Hong Kong’ and ‘strong impressions of protests in Hong Kong in 2019’.
- There are concerns for future as some HQs instruct or request their HK subsidiaries to downsize business operation in Hong Kong.

## HQ's assessment of HK

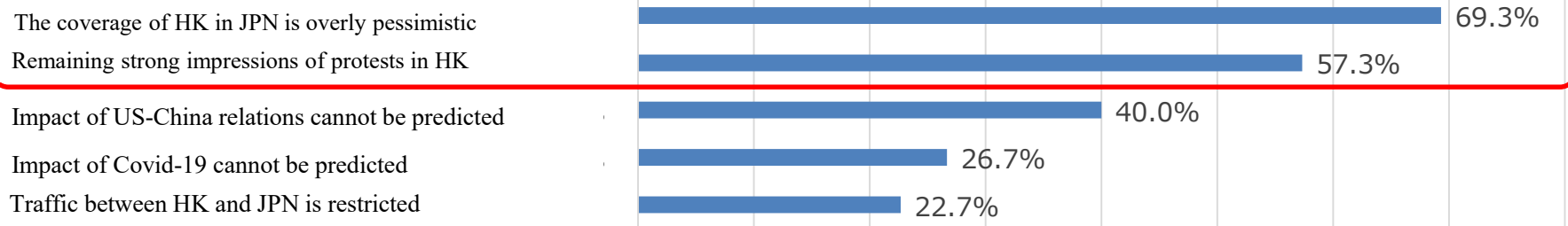
(n=222)



## Pessimistic factors

(n=75)

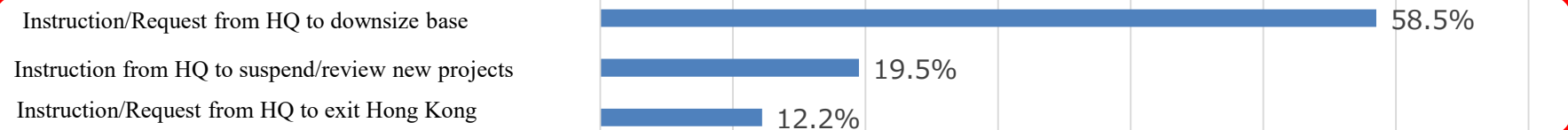
【multiple answers】



## Impact of pessimism

(n=41)

【multiple answers】



# HKSAR Gov Budget Leaflet in Japanese Vaccine Booking Site launched in various languages



## 感染症への対応

### 企業支援

- 企業向け全額政府保証低金利融資の申請期間を今年末まで延長。融資上限を600万ドル(単位は香港ドル。以下同じ)に引き上げ、返済期間と元金返済猶予期間を延長
- 2020~21課税年度の法人税を、1万ドルを上限に...
- 2021~22年度に期は1四半期あたりに残りの2四半期は、上限に非住宅固定
- 2021~22年度の非住宅ユーザーの水道代と下水道代75%減額を8カ月以内にわたり月額上限はそれぞれ1万2,500

### 雇用支援

- 条件を満たす政府所有物件、短期および一時免除書付き物件について、賃料や費用の75%減額を6カ月間継続(政府の要請で閉鎖された物件については100%減額)
- 「ラブ・アップグレード」特別計

香港特別行政區政府



香港特別行政區政府

繁體 简体 English

हिन्दी नेपाली اردو ไทย Bahasa Indonesia Tagalog සිංහල ភាសាខ្មែរ বাংলা ভাষা Tiếng Việt

# 護己護人

# 齊打疫苗



2019冠狀病毒病  
疫苗接種計劃  
COVID-19 Vaccination Programme



政府已於4月5日起恢復為市民接種復必泰疫苗。如欲更改預約日期、時間或接種中心，請在網上

預約系統先行取消已預留的時段，然後重新預約。詳情請參閱新聞公報。



預約接種



預約狀況



有關疫苗



有關計劃



最新消息



常見問題



專家意見



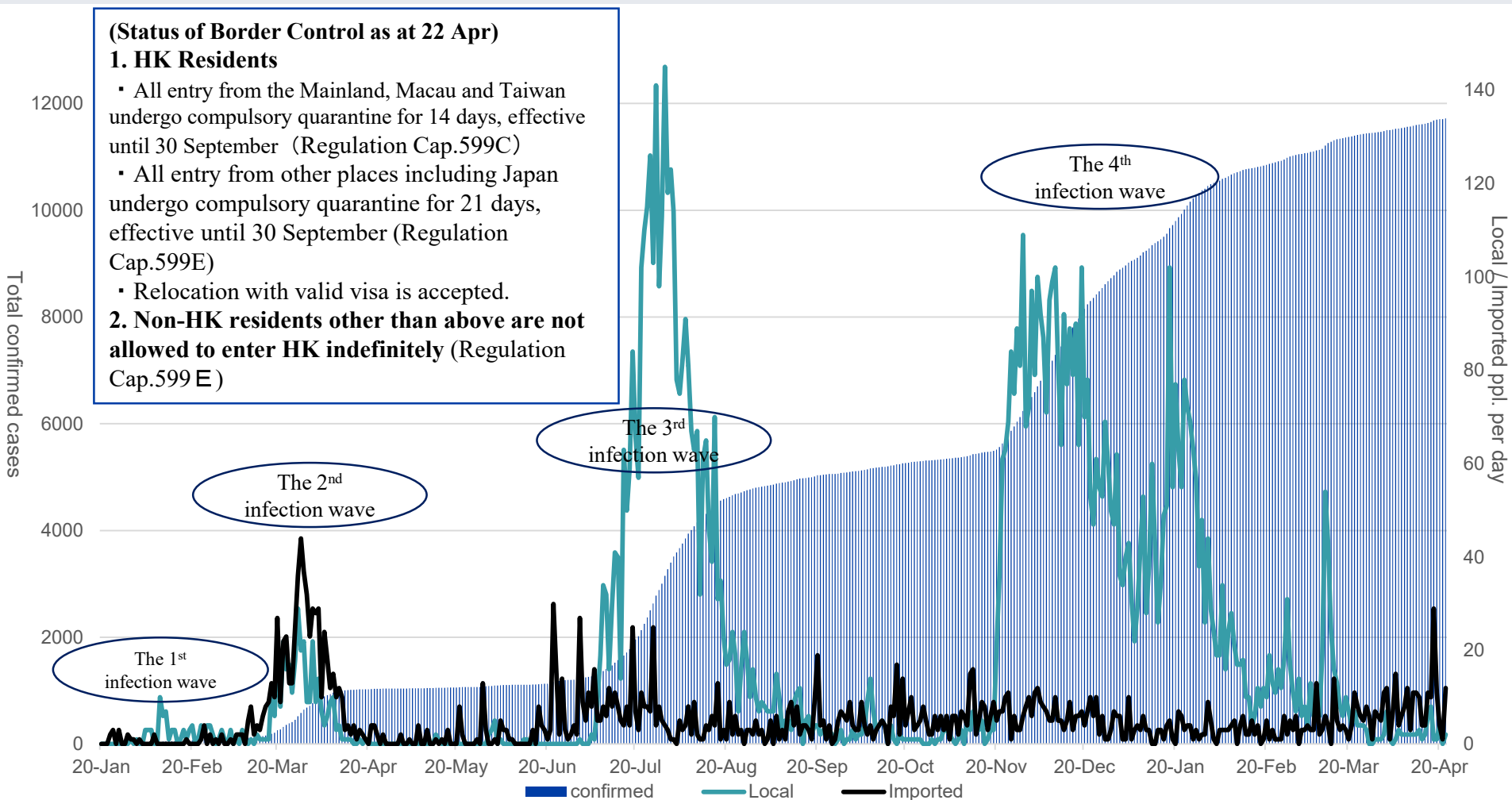
疫苗接種紀錄

# Presentation Contents

- 1 ) Status of Economic Recovery in HK**
- 2 ) Business Sentiment among Japanese Companies**
- 3 ) Value and Future as a Business Hub**

# 1 | Situation of COVID-19 Infection and HKSAR's Response

- The 4<sup>th</sup> wave of infection has finally subsided. Total confirmed cases: 11,719, Hospitalized: 149, Deaths: 209 (as at 22 April 2021)
- Infection control measures without city-wide lockdown. Ban on business travelers from Japan to HK and HK to Mainland China continues.



## 2 | Economical Impact of the Spread of COVID-19 Infection

- In October 2019, HKSAR Gov announced the region slid into recession. COVID-19 gave an additional blow to the situation.
- Confined domestic demand had limited effect on economic recovery.



### Economic Growth (Real GDP growth rate)

Q3 of FY2020 was -3.0%, rebounded from Q1's -9.1%. FY2020 recorded -6.1%. This year's forecast is 3.5–5.5% growth (HKSARG).



### Retail Sales

Feb 2020 had its biggest drop of -44%, -4.3% in FY2020  
Feb 2021 increased by 30% first year-on-year growth in 25 months



### Unemployment Rate

Oct-Dec 2019 -3.3% → Dec 2020-Feb 2021 -7.2%



### Inbound Tourists

2019 -14.2% (55.91mil / 43.78mil from the Mainland)  
2020 -93.6% (3.57mil / 2.71 mil from the Mainland)



### Real Estate Price

2019 vs 2020 Office Rent Index : -9.3%  
Retail Rent Index : -5.0%, Residential Property Price Index : -0.03%



### Trade

2019 Export : HK\$3,988.7B  
Import : HK\$4,415.4B → 2020 HK\$3,927.5B -1.6%  
HK\$4,269.8B -3.3%



### Hang Seng Index / Market Capital

28,543.52 (2 Jan 2020) → 27,231.13 (31 Dec 2020)  
HKD359.7B (end of Jan 2020) HKD475.2B (same as above)

### 3 | Pandemic brought change in Consumption Structure

- Food items (meat & fish, fruits & veg) and supermarket sector are going strong. Liquor sales was sluggish at specialty stores but grew at supermarkets.
- Apparel and footwear slumped due to pandemic, as did gems, watches & cosmetics due to decline of visitors from the Mainland.

Monthly Data in 2020	1 <sup>st</sup> wave		2 <sup>nd</sup> Wave				3 <sup>rd</sup> Wave				4 <sup>th</sup> Wave		(HK\$ million)		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2019	2020	19/20
Overall Retail	37,735	22,723	22,977	24,103	26,788	26,531	26,466	25,551	26,076	27,430	28,699	31,383	431,174	326,462	-24.3%
○ Food / Liquor Specialty Store (excl supermarket)	4,393	3,437	2,696	2,994	2,875	2,780	2,671	2,961	3,395	3,031	2,888	3,264	42,834	37,385	-12.7%
○ Supermarket	5,277	4,778	5,106	4,771	4,745	4,659	5,526	5,159	4,691	4,604	4,367	4,811	53,322	58,496	9.7%
○ Department Store (excl supermarket section)	3,545	1,782	2,400	3,115	3,623	3,349	2,803	2,632	2,982	3,215	3,258	3,235	46,353	35,939	-22.5%
Meat & Fish	1,254	1,756	1,087	1,145	1,005	973	893	1,006	1,005	915	999	1,200	11,729	13,240	12.9%
Fruit & Vegetable	229	204	230	292	300	312	280	349	336	352	252	281	2,920	3,416	17.0%
Bread, Sweets	1,084	775	708	739	692	709	735	733	1,269	776	704	809	11,420	9,733	-14.8%
Liquors, Cigarette	558	148	82	80	93	97	69	80	94	86	113	145	5,177	1,644	-68.2%
Apparel	3,613	1,454	1,544	1,639	2,658	2,233	2,169	1,690	1,964	2,219	2,369	2,958	45,155	26,510	-41.3%
Footwear	930	246	255	304	452	459	304	340	411	426	417	494	8,353	5,038	-39.7%
Furniture	599	395	544	661	632	652	624	689	646	530	656	717	7,318	7,344	0.4%
Consumer Durables (household appliances etc.)	3,307	2,400	2,138	2,563	2,609	2,338	2,525	2,798	2,342	3,160	4,610	4,427	40,441	35,218	-12.9%
Jems, Watches, Luxury Gifts	4,932	1,549	1,648	1,360	2,009	2,510	2,518	2,473	2,736	2,864	2,774	3,093	66,196	30,467	-54.0%
Medicine, Cosmetics	3,724	1,776	1,531	1,588	1,543	1,553	1,691	1,618	1,467	1,572	1,641	1,810	43,005	21,512	-50.0%

(Source) Census & Statistics Dept. of HKSARG 'December 2020' & 'December 2019', "Report on Monthly Survey of Retail Sales"

# 4 | HK remains Japan's Largest Export Market for Agricultural, Forestry and Fishery & Food products

- Export in 2020 was up 1.2% from the previous year to JPY206.1B, which is ranked top for the 16th year straight. The composition of items have changed significantly, however.
- It was a uphill battle for Japanese food in the COVID-19 pandemic, but performed relatively “well”.

**Agricultural, forestry and fisheries products Export to HK in 2020 (preliminary basis)**

Rank	Item	JPY	Change
1	Sea cucumber (dried)	15.5B	-17.0%
2	Alcohol beverage	10.0B	59.5%
3	Cigarette	7.9B	-19.3%
4	Scallop (dried)	5.8B	-0.5%
5	Beef	5.4B	6.5%
6	Soft drinks	5.1B	-8.6%
7	Sweets (excl rice snack)	5.0B	-14.4%
8	Pearl (natural / cultured)	4.6B	-83.7%
9	Egg / Egg yolk	4.5B	104.9%
10	Sauces and mixed seasonings	3.5B	26.7%
Total		206.1B	



Pearl export plunged, '19 JPY28.5B → '20 JPY4.6B  
Export of all dried seafood for Cantonese cuisine dropped.



Egg export doubled '19 JPY2.2B → '20 JPY4.5B  
Vegetables, pork, sake and instant foods are also going strong.



‘Don Don Donki’ (1<sup>st</sup> store opened in July '19) → expanded to 7 stores  
‘Sushiro’ (1<sup>st</sup> store in Aug '19) → 7 stores  
Demand for ‘Oisix’, fresh vegetable home delivery surged.



The number of Japanese restaurants (1,400) is the largest among the restaurants serving international cuisine. → Adopting takeout menu & customer cap.



Challenge is rent & logistics. → Rent continues to drop but logistic environment is deteriorating.

(Source) Data is tentatively created based on MAFF publication & trade statistics.

1. Classification of item is based on the statistics of actual exports of Japanese agricultural, forestry and fishery products and foods (by country/region).

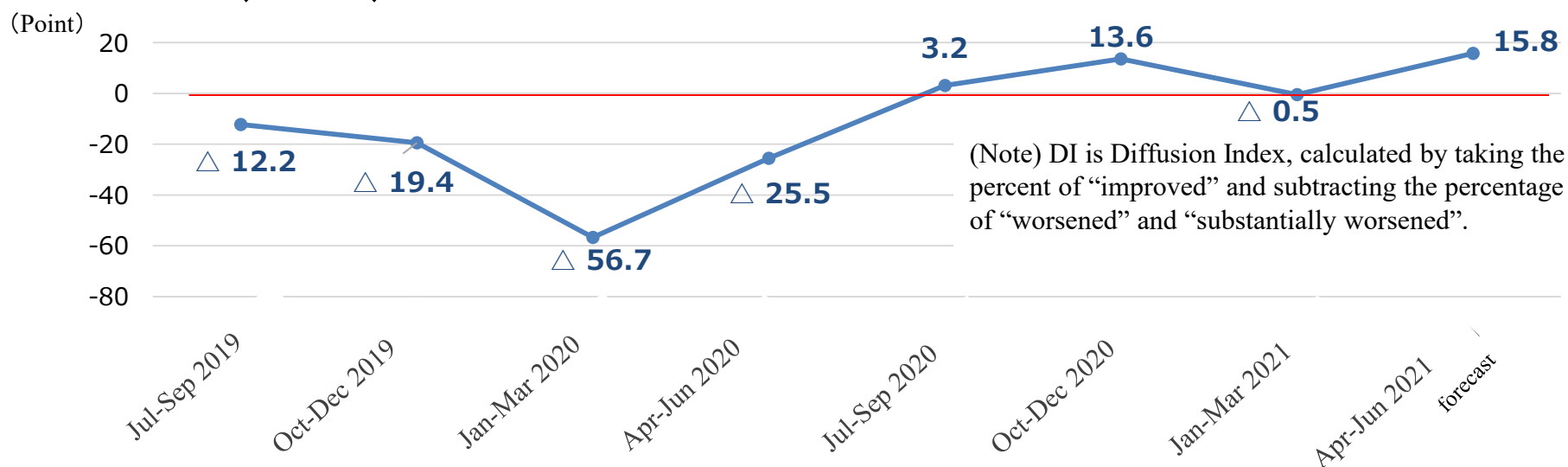
2. Alcohol beverage: Sake JPY6.18B, liqueur JPY2.04B, Whisky JPY670M, Beer JPY460M, Wine JPY110M, Shochu JPY90M etc.



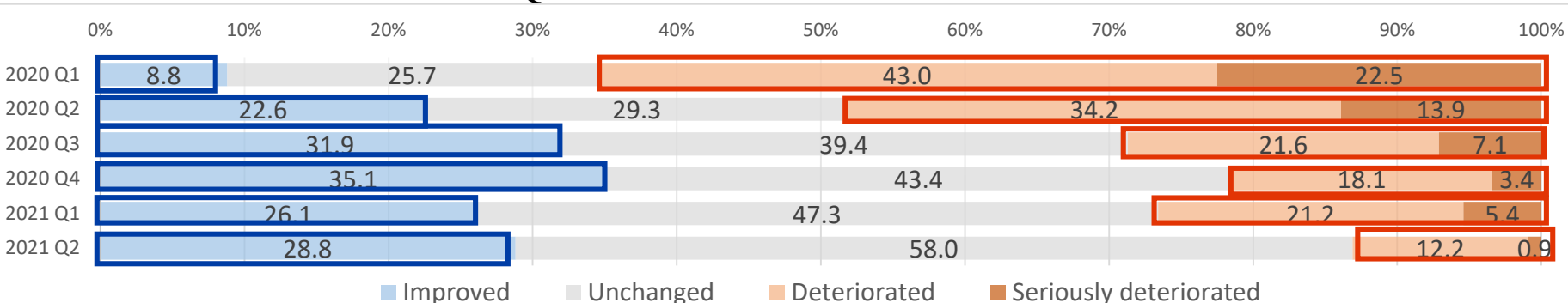
# 5 | Business Sentiment among Japanese Companies

- It shows recovery trend after the low of Q1 2020. China business was a driving force from Q3 and domestic demand in HK also picked up in Q4.
- Growth is expected to continue, but business sentiment is subject to the status of infection and quarantine measures with entry restrictions.

## DI trend (Overall)



## Performance Trend in Each Quarter



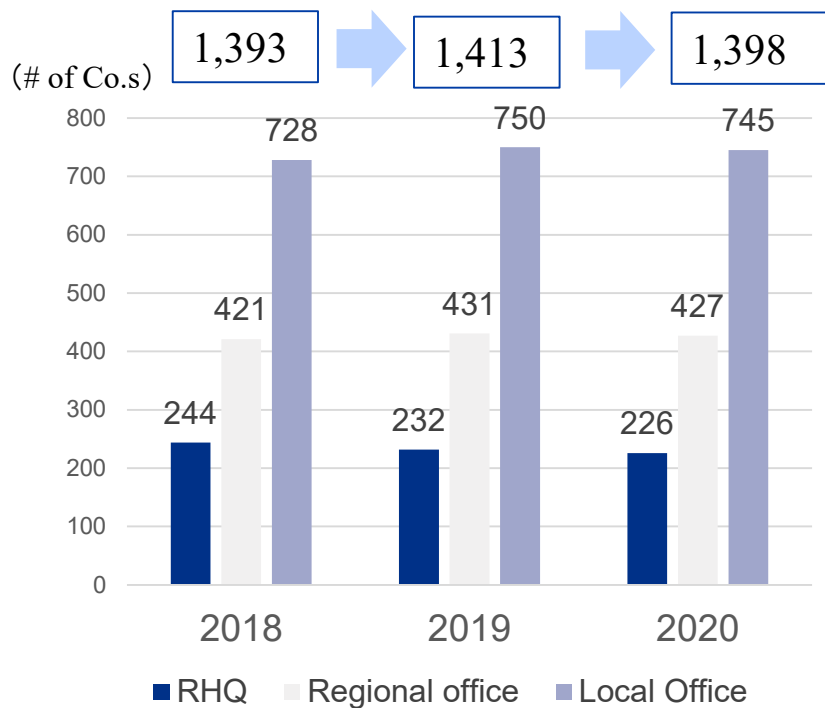
(Source) “The 3<sup>rd</sup> to 7<sup>th</sup> survey of the business environment in Hong Kong”

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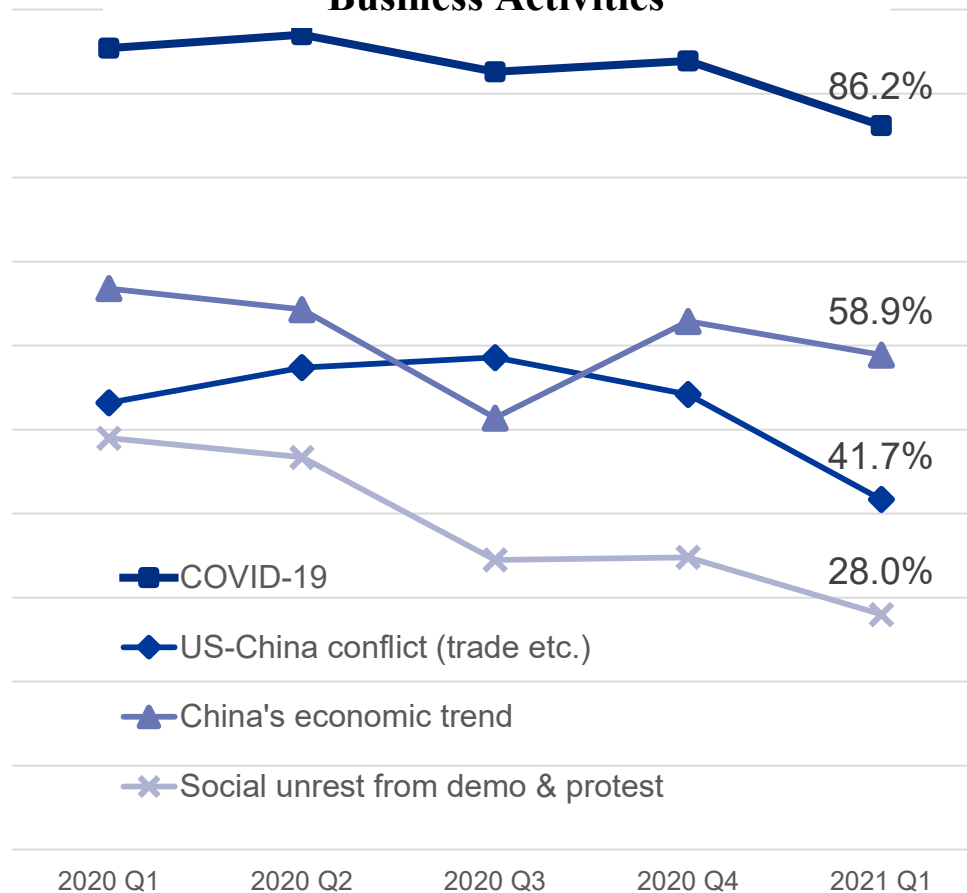
## 6 | Impact of Circumstantial Change on Business Activities

- The number of Japanese companies was 1,398 in 2020, down by 15 (YoY), but the trend is unchanged.
- “Novel Coronavirus” affected almost all business activities throughout the year. The “China factor” was also continuously claimed by about a half of the respondents to have impacted their business activities.

**No of Japanese Companies  
by Corporate Functions**



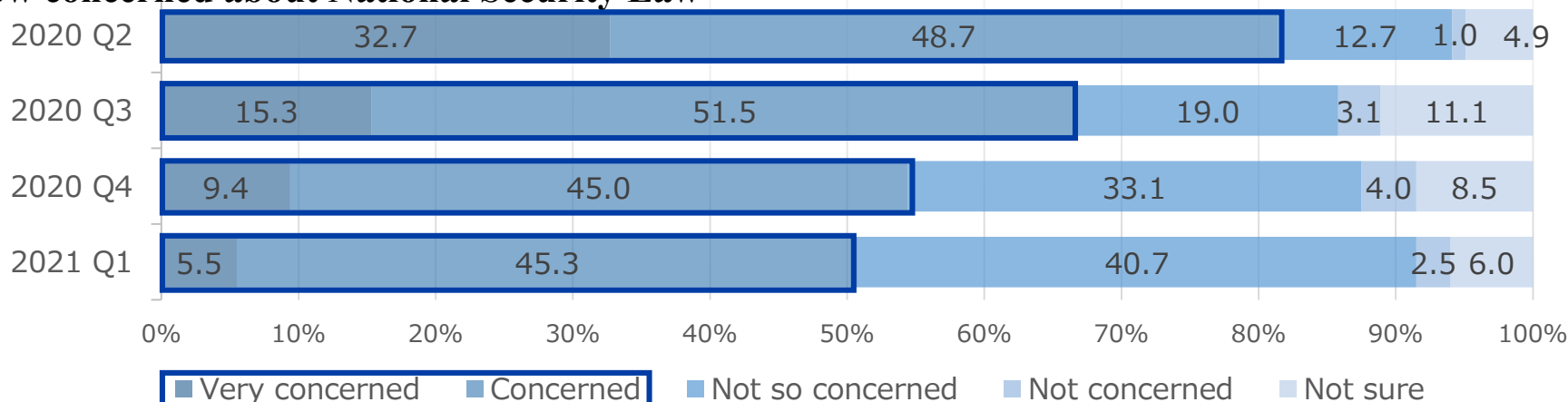
**Impact of Circumstantial Change on  
Business Activities**



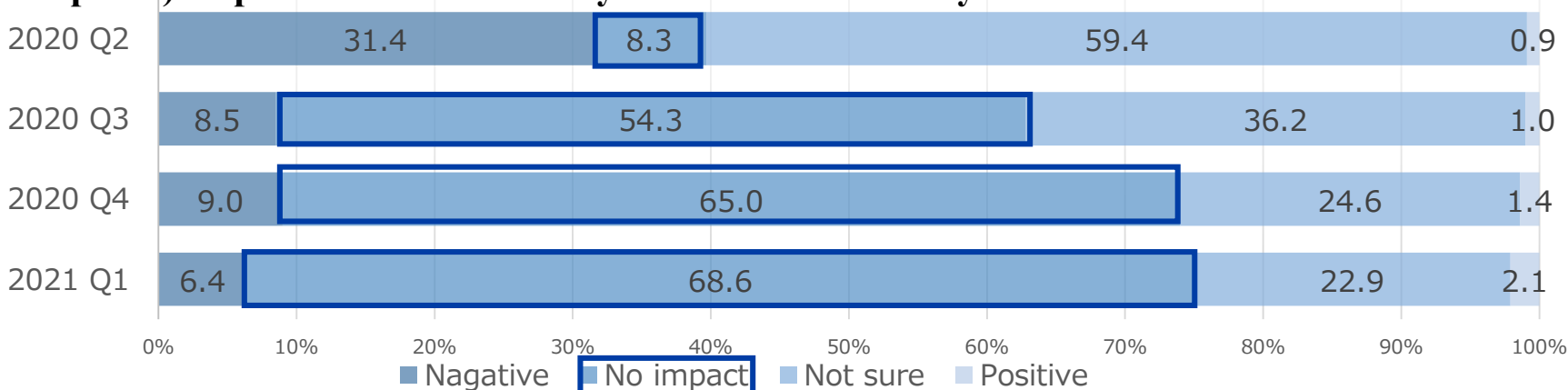
# 7 | Japanese Companies' Concerns about the National Security Law and its Impact

- Concerns over the NSL has decreased gradually (July 81.4%→April 50.8 % ). In April, 68.6% answered “No impact”.
- 15 companies indicated indirect impacts (April). Very few responded to have been positively impacted.

## How concerned about National Security Law



## (Anticipated) Impact on the business by the National Security Law



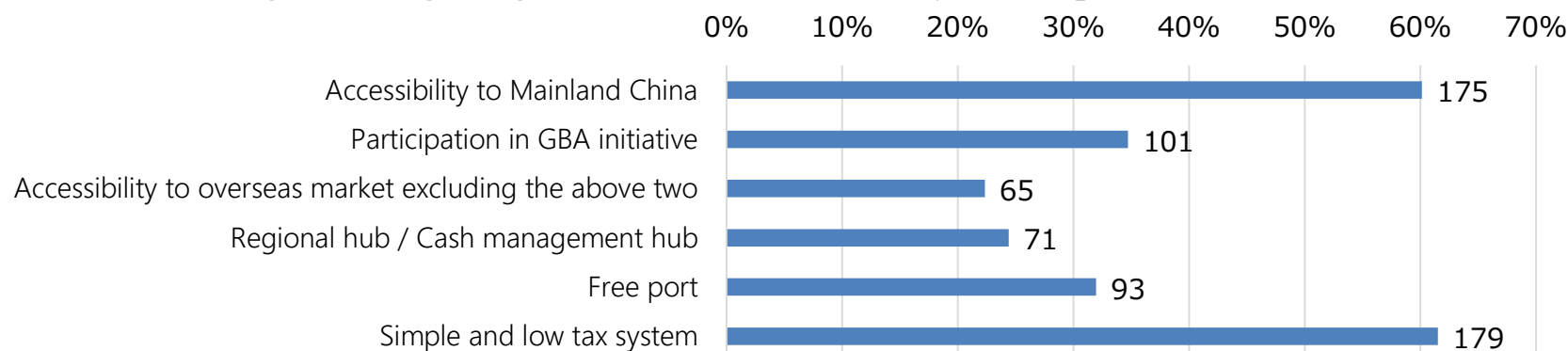
## 8

# Evaluation of Hong Kong's business environment unchanged

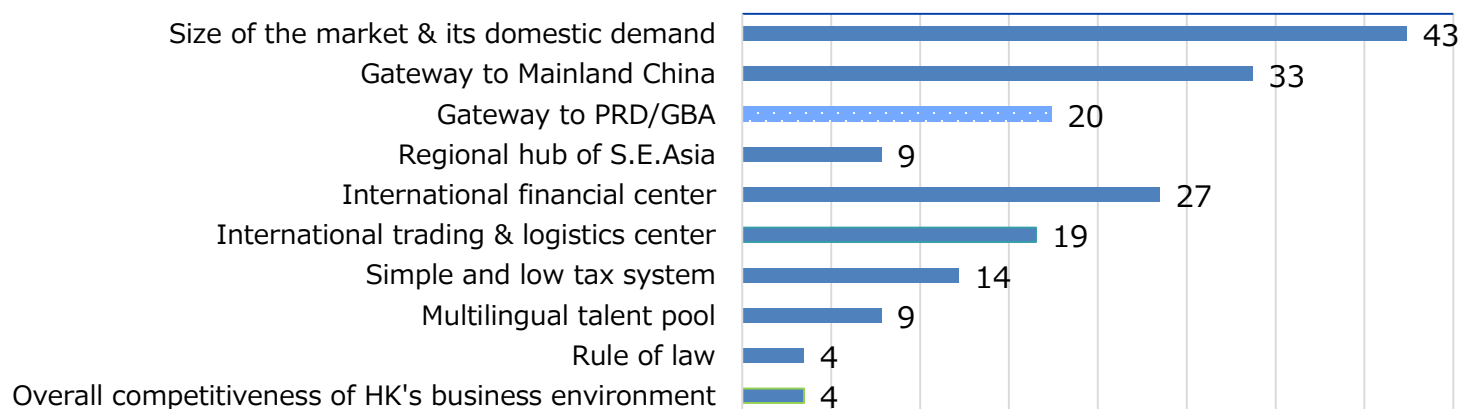
- The trend that rates Hong Kong business environment highly has not changed between July 2020 and January 2021, according to the survey results.
- Japanese companies are interested in Hong Kong market's domestic demand, its position as a gateway to Mainland China and S.E. Asia and its part in the GBA initiative. Hong Kong's role as international financial and logistics center remains highly valued, while its tax system, from the business environment viewpoint, is also highly evaluated.

## Perceived advantages of Hong Kong office

n=291 as of July 【multiple answers】



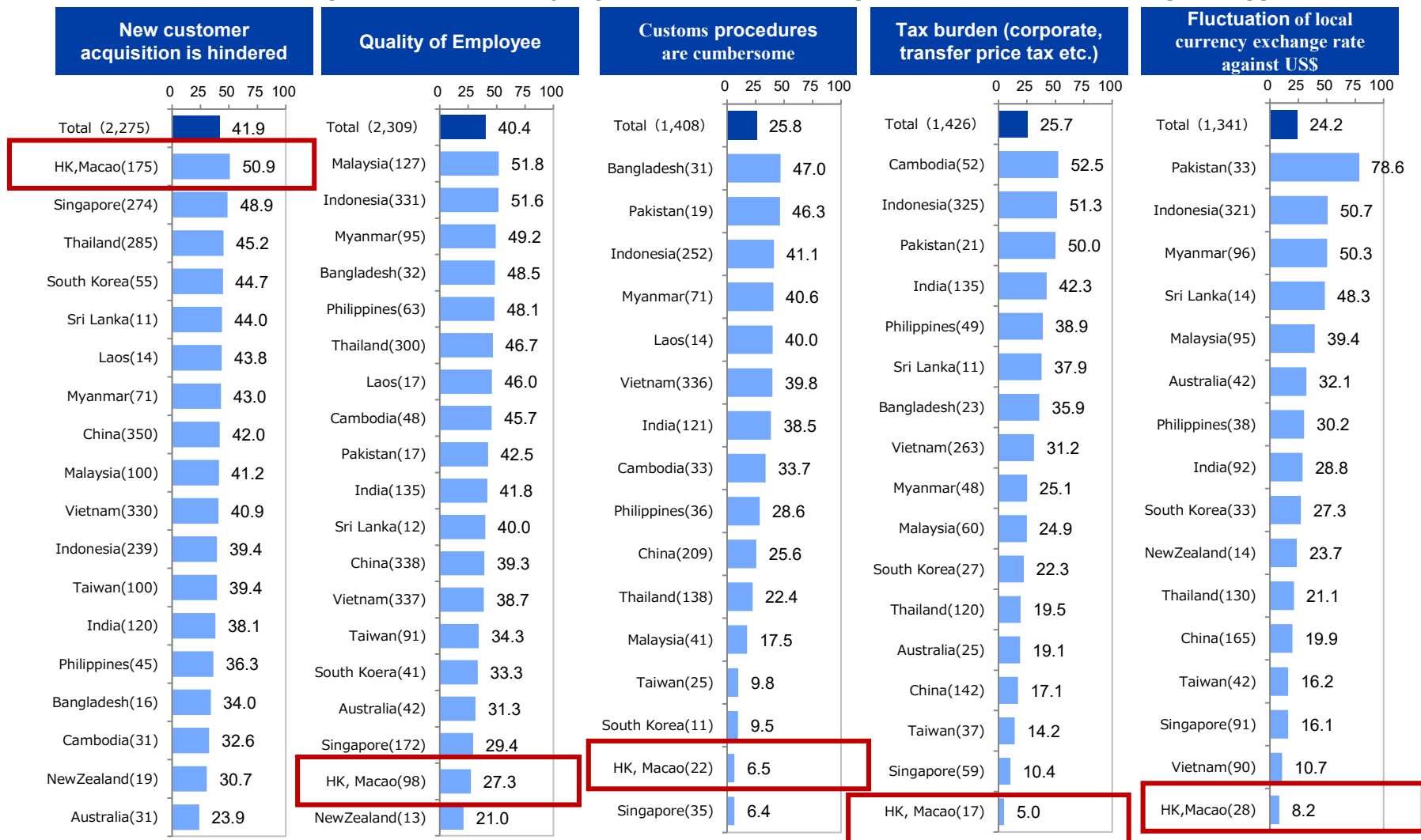
## Reasons to keep/expand Hong Kong office – answered in open-ended format n=115 as of Jan 【multiple answers】



# Management Challenges in Asian Countries/Regions

## Notable issues in HK among common challenges across the region

(Responses given in each country/region are shown in %. Higher % indicates the challenge is bigger)



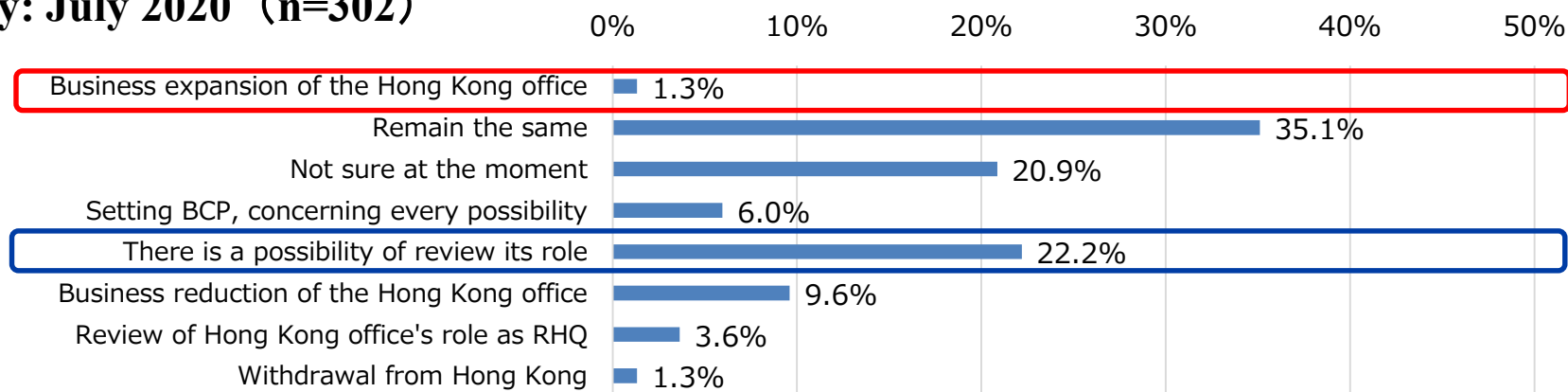
(Note) The chart shows countries & regions with 10 or more valid responses.

## 9

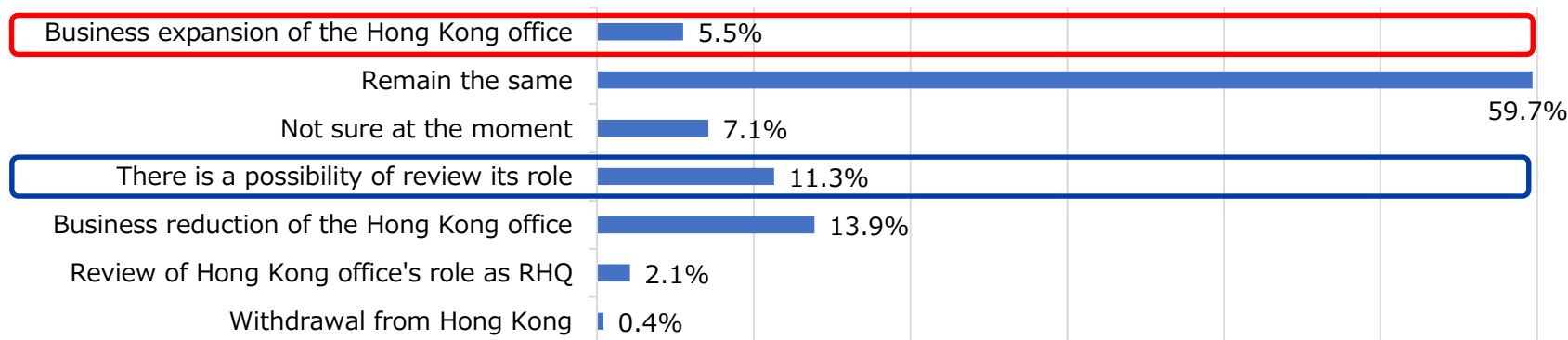
# Future plan for the Hong Kong base of Japanese companies

- Comparing the surveys conducted in July 2020 and April 2021, “Not sure at this point” decreased by 13.8 points while “Remain the same” increased by 24.6 points. Around 30 companies “downsized the business operation” and “reconsidered the role of its HK base.” after having a “review”. Only few choose “withdrawal from the local market”.
- The biggest operational concern for the Japanese companies is “Border restrictions between Hong Kong and Mainland China”(79.7% , 188 companies, April) which may lead to call the existing role of Hong Kong office into question.

## Survey: July 2020 (n=302)



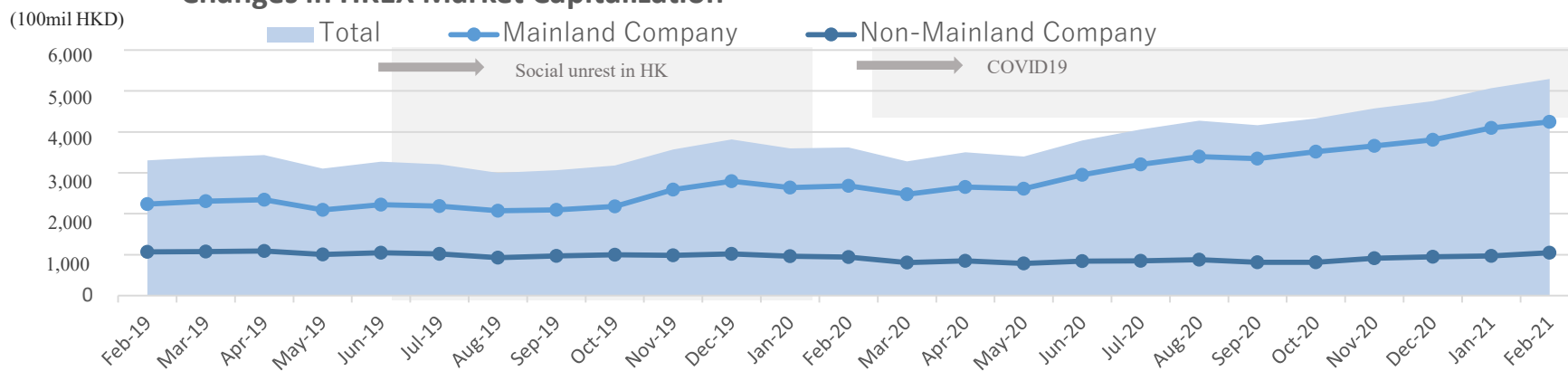
## Survey: April 2021 (n=238)



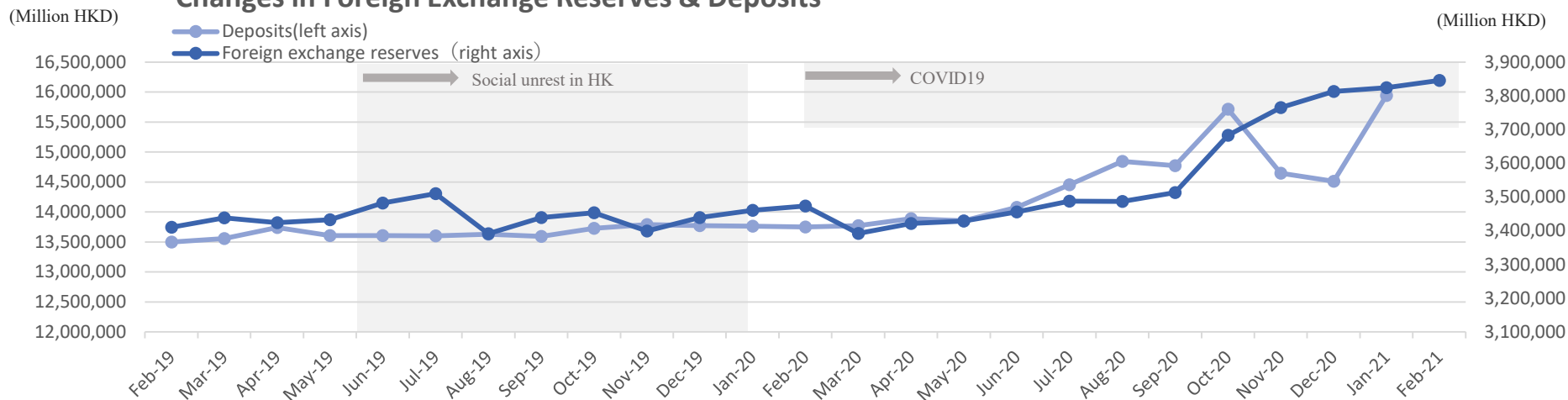
# 10 | International Financial Market that connects China with the World and continues to evolve

- New listings market in HK were buoyed and is showing signs of capital inflow due to the relaxation of listing requirements and an increasing number of Mainland companies who “returned” to HKEX on the back of US-China conflict.. Mainland companies accounted for 80% of HKEX's market capitalization.
- Neither foreign exchange reserves nor deposits suggest capital outflow from HK.

## Changes in HKEX Market Capitalization



## Changes in Foreign Exchange Reserves & Deposits



# 11 | New Opportunities in the Greater Bay Area (GBA)

- HK's promising areas are offshore banking, aviation and innovation.
- Japanese startup to launch its R&D base in Hong Kong, with a view to expand into the GBA.

## **“Seven support measures for HK” in relation to GBA by the Central Government (25 November 2020, Policy Address by Chief Executive Mrs. Carrie Lam)**

- |  |
|--|
| 1. Facilitate HK companies to tap into the Mainland market under the “One Country, Two Systems” and GBA.   |
| 2. Enhance HK's status as an international financial centre (Stock Connect for biotechnology companies listed in HK and stocks listed on the Mainland Sci-Tech Innovation Board) |
| 3. Enhance HK's status as an international aviation hub (Construction of the 3rd runway, investment in the Zhuhai Airport development)   |
| 4. Development of an international science technology centre (Hong Kong-Shenzhen Innovation and Technology Park)   |
| 5. Modernization of the land boundary control points and cross-border logistics between HK and Shenzhen (Implementation of “co-location arrangements”)                           |
| 6. Job placement support for young HK residents to work in the GBA (Greater Bay Area Youth Employment Scheme)  |
| 7. Measures to combat COVID-19 pandemic (Supply vaccine made in the Mainland, implementation of “Health Code” once the border reopens.)  |

## **Tohoku University Startup “CogSmart” – Business expansion to Hong Kong**



Established in Sendai City (current HQ is in Tokyo) in October 2019, with the aim to commercialize “dementia prevention using brain MRI” research by Professor Yasuyuki TAKI, Institute of Development, Ageing and Cancer, Tohoku University.

The company expects to be the first Japanese startup to be approved for HK Science Park's large-scale financial aid program “Incubio” with a plan to set up R&D base in HK.

The company also aims to expand into GBA through research work in HK, in collaboration with Japan side and through the development of innovative equipment for dementia prevention.