NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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Market insights and Economic Outlook for Hong Kong

Market Report

NOVEMBER 2022

Summary

- Despite a modest population of just 7.5m, Hong Kong is an attractive export market for many New Zealand companies primarily because of its wealthy consumers and ease of doing business. Businesses may also benefit from Hong Kong's status as a 'gateway to China'. This could mean for example being ready to respond to demand once China's borders reopen and Hong Kong enjoys a surge of mainland tourists.

- That said Hong Kong has undergone significant political changes over the last couple of years. Continuing COVID restrictions with the mainland, high property prices, and the implementation of the National Security Law, will also make for a more challenging economic and business picture in 2022.

Report

Wealthy consumers

In recent years, Hong Kong has jostled with Indonesia and Singapore for the title of New Zealand's 8th largest export destination by value – ranking 8th in 2019 and 2020 while dropping to 10th in 2021 with goods exports of NZ$1.2b. It is home to some of the world's wealthiest consumers with per capita GDP over US$60,000 and over half a million people with net assets over NZD$1.8 million. The Economist estimates that by 2025, the Hong Kong consumer will consume 4 times as much meat and double the milk of the average Asian consumer. Concerns about the safety of food from elsewhere in Asia means there is a strong market for quality high value food items from New Zealand.

Ease of doing business

Hong Kong is known for its open market, transparent regulations and its predictable commercial legal framework. Constraints on local land supply and a globally competitive services sector mean that Hong Kong relies on imports for both manufactured goods and food (with 95% of food originating from outside the City). The local market for consumer-orientated agricultural goods stands at around NZ$40b with mainland China meeting around 25% of demand. Hong Kong consumers generally have a high trust for foreign products and New Zealand goods and services are amongst the most trusted.

As a Special Administrative Region of China, Hong Kong's legal system is distinct from that of the Mainland and, like New Zealand, is based on UK common law. This reduces the likelihood of commercial disputes and provides an avenue for rectifying issues when they occur.

Hong Kong as a gateway to China

For many New Zealand businesses, a foothold in mainland China may be the ultimate prize. However some SMEs may initially lack the risk appetite and the scale to meet expectations of business partners on the mainland. For that reason, once borders with the Mainland re-open, Hong Kong can serve as a helpful place to test new products on Mainland consumers. Success in Hong Kong can also give confidence to would-be mainland partners. For pre-packaged food, labeling can be in either English, Chinese or both.

The anticipated return of mainland tourists

Traditionally, mainlanders visiting Hong Kong have been a significant market for New Zealand health and beauty products. They account for around 80% of Hong Kong's visitors annually. In 2018, Hong Kong welcomed a total of 65m visitors staying for an average length of 3 nights. In 2019, this number dropped to 55.9m, potentially affected by civil unrest at the time. With the onset of COVID and the closure of borders, visitors plummeted to only 3.6m in 2020 and less than 100,000 in 2021.

At the time of writing, China is still maintaining strict border controls while the rest of the world, including Hong Kong, have been removing border restrictions and are increasingly living with the virus. Once China fully reopens its borders, there will be significant benefits for the Hong Kong economy and for some exporters to the Hong Kong market.

Hong Kong's Economic Outlook, October 2022

At the time of writing, prospects are increasing for recession in 2022 (and even 2023) however we expect consumption of high-end products to stay robust as demand from wealthier Hong Kongers persists. Longer term, Hong Kong's relative stability and competitiveness, including its critical role for China as a source of foreign capital, suggests it will be able to weather the storm, and bounce back before returning to trend growth of between 2 to 2.5%.

The Hong Kong economy is linked closely to events in the US and China. The Hong Kong dollar is pegged to the greenback and it relies significantly on the mainland as a market for goods and services as well as a source of capital, tourists and students. Hong Kong property is the most unaffordable globally relative to wages. But with the Hong Kong Monetary Authority raising interest rates to match the US Fed, borrowers are feeling the stress and policy-makers will be hoping that the expected slowdown in property prices is orderly. In the first 3 quarters of 2022, property prices dropped 7% and seem destined to drop a further 3-8% by the end of the year. This could impact on domestic demand.

Exacerbating concerns from the Hong Kong tourism and property front is the net outflow of migration; a miserable year to date for Hong Kong-listed equities; more property woes on the mainland affecting lending from mainland banks; as well as the drop in Chinese tech stocks to which many Hong Kong investors, including major property developers, are exposed. Hong Kong is thought to have lost 200,000 people since 2020. Strict COVID management policies and the ongoing crackdown on political dissent including through the National Security Law are seen as key reasons for this. Political activism within the City is now less evident as those caught face heavy penalties, including jail-time, for activities deemed as separatist.

According to Hong Kong's Finance Secretary, Paul Chan, the pandemic situation and higher interest rates globally are impacting the government's fiscal situation. As of mid-September 2022, he predicted an annual fiscal deficit of more than NZ$20b, the city's second highest ever.

Despite the headwinds, Mr Chan can point to high employment and low inflation as more positive indicators. The seasonally adjusted unemployment rate stood at 4.1% after Q2 2022 and inflation for 2022 is forecast to hover at 2%.

The government will be hoping that improving pandemic conditions will support a rebound in domestic demand which fell 5.8% due to COVID in Q1 and increased only marginally to 0.1% in Q2. At the same time, year-on-year goods exports declined 4.5% and 8.6% in Q1 and Q2 and services exports saw only a mild year-on-year increase of 2.9% and 2.3% in Q1 and Q2.

In August 2022, the Hong Kong government forecast growth of between -0.5% and +5.0% though those figures are sounding increasingly optimistic.

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