

# Hong Kong

## International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance<sup>1</sup> of +95 per cent with the Philippines joining India at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in Hong Kong are more optimistic about 2008 (+81 per cent) than they were about 2007 (+69 per cent).

Optimism amongst businesses in East Asia<sup>2</sup> is in line with the global average, although levels of optimism do vary throughout the East Asian economies. Overall optimism has fallen from 2007. This year +39 per cent of all East Asian businesses are positive about their economy compared to a balance of +54 per cent in 2007. However, East Asia continues to present a very mixed picture with optimism/pessimism balances ranging from +95 per cent in the Philippines to -49 per cent in Japan.

### The Hong Kong economy

The economy remains strong, recording growth in real terms of 6.3 per cent in 2007. Consumers have taken over from exporters as the main drivers of growth. But all components of output have been expanding at a healthy pace. Household spending in real terms has been particularly strong, expanding by over ten per cent year-on-year in the second half of 2007. There are few signs that spending is slowing, with retail sales volumes expanding by 17.6 per cent year-on-year in January.

Until recently strong growth was being celebrated for bringing an end to deflation. But inflation has picked up strongly in recent months, hitting ten-year highs. Food prices are playing a major role, but so is Hong Kong's hot property market. Currency weakness vis-à-vis the renminbi is also helping to import inflation from China. The unemployment rate has fallen below four per cent in late 2007 and running 3.4 per cent in the first quarter of 2008. Employers have needed to add to payrolls as both domestic and external markets have boomed.



The Grant Thornton IBR contact for Hong Kong is:

**Grant Thornton**  
Gary James  
T +852 2218 3137



<sup>1</sup> the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

<sup>2</sup> for the purposes of IBR, the term 'East Asia' refers to those East Asian economies covered by our survey – mainland China, Hong Kong, Japan, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

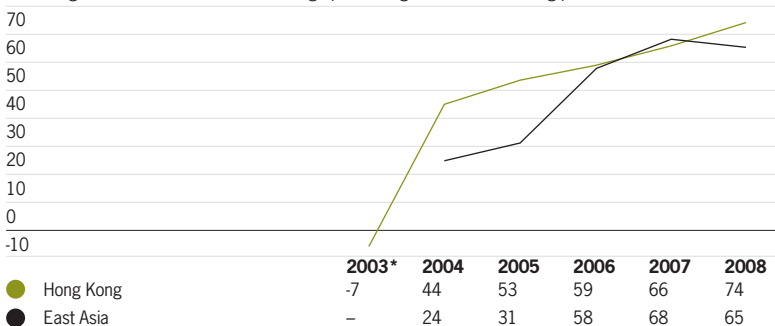
### Business expectations/revenue

- PHBs in Hong Kong are more optimistic about revenue prospects (+74 per cent) compared to 2007 (+66 per cent).
- Their levels of optimism regarding revenue performance are above both the East Asian regional average (+65 per cent) and the global average (+63 per cent).
- The level of optimism regarding profitability (+67 per cent) is higher than the East Asian (+33 per cent) and global (+41 per cent) averages.

### Employment

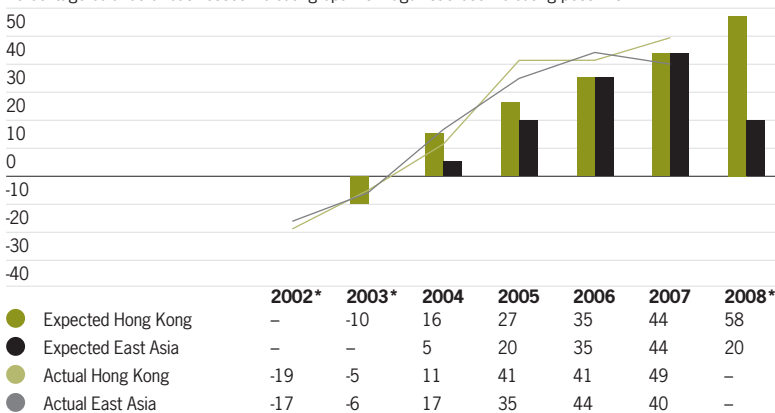
- Expected employment growth in Hong Kong has risen from +44 per cent in 2007 to +58 per cent in 2008.
- Businesses in East Asia as a whole are now much less optimistic (+20 per cent) with regard to employment growth than PHBs in Hong Kong.
- Actual reported employment growth in Hong Kong (+49 per cent) was higher than expected in 2007.

**Figure 1: Revenue expectations for Hong Kong and the East Asian average 2003-2008**  
Percentage balance of businesses indicating optimism against those indicating pessimism

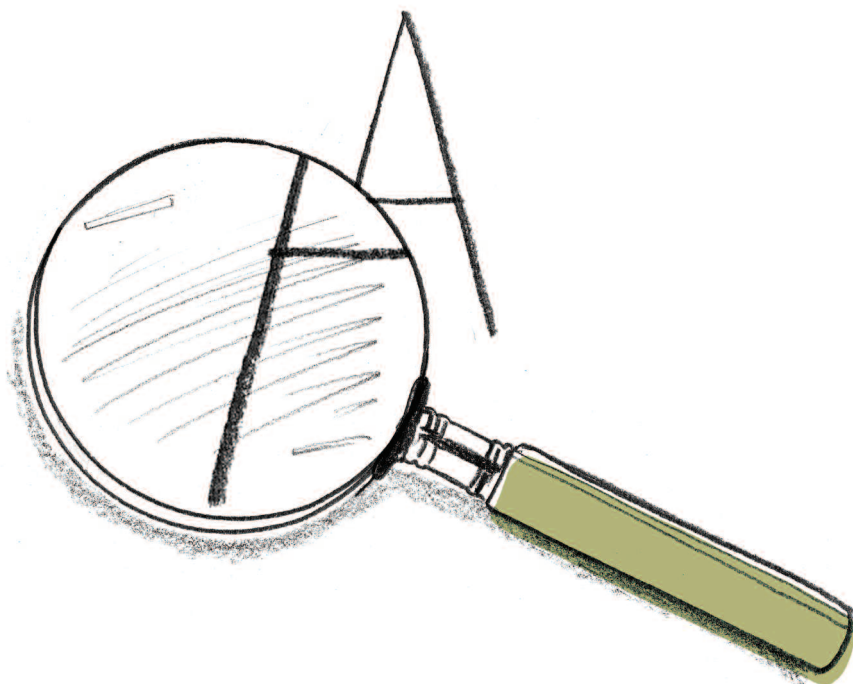


\* data not available  
Source: Grant Thornton IBR 2008

**Figure 2: Employment history of Hong Kong and the East Asian average 2002-2008**  
Percentage balance of businesses indicating optimism against those indicating pessimism



\* data not available  
\*\*2008 data will be documented in IBR 2009  
Source: Grant Thornton IBR 2008



### Constraints

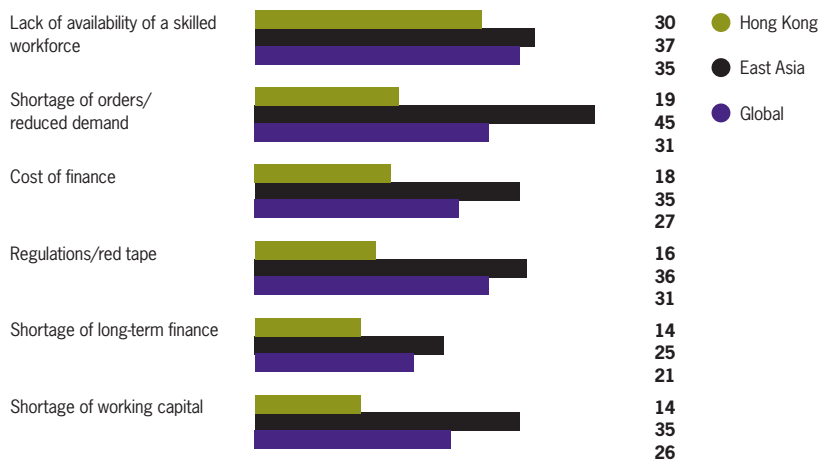
- The availability of a skilled workforce is the constraint restricting expansion cited most frequently by businesses in Hong Kong (30 per cent).
- All constraints are more of an issue for businesses in East Asia as a whole and for businesses globally than for PHBs in Hong Kong.
- Just 19 per cent of PHBs in Hong Kong cite shortage of orders/demand as a constraint, compared to 45 per cent of all East Asian businesses.

### Emerging markets

- The most important factor to PHBs in Hong Kong, when determining whether to invest internationally, is market size and growth potential (55 per cent), as is true of businesses globally.
- Similarly to businesses globally, 40 per cent of PHBs in Hong Kong export. This is down from 56 per cent in 2007.
- 42 per cent of Hong Kong businesses import, which is above the East Asia average (32 per cent) main competition being local. The majority of businesses in East Asia see view their main sources of competition coming from national sources.
- Around half of PHBs in Hong Kong see their main competition being local, as opposed to just over a third of all businesses.

**Figure 3: Largest constraints on growth for Hong Kong businesses compared to the East Asian and the global average**

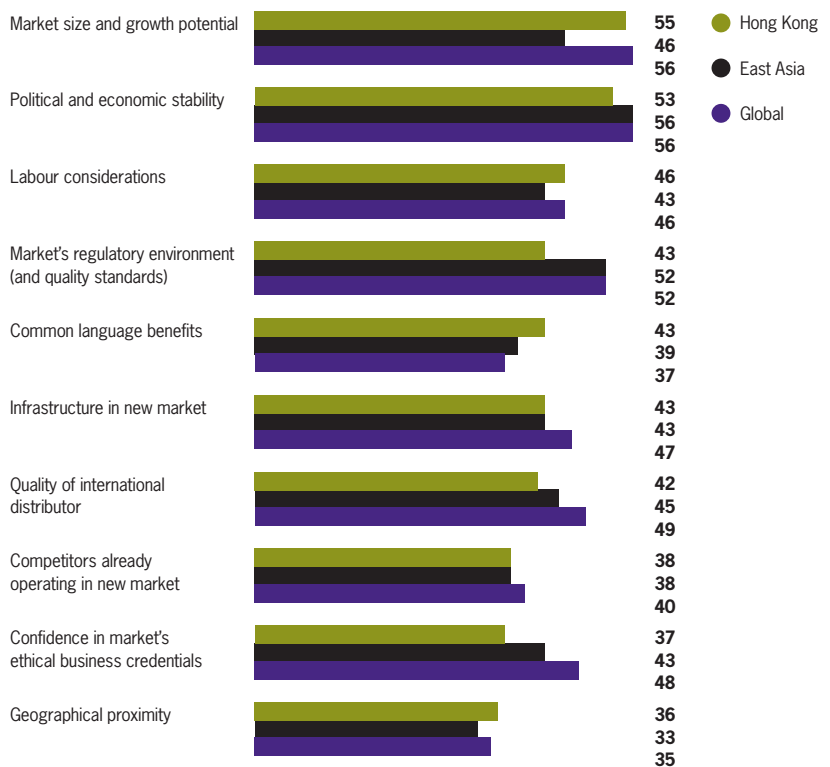
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2008

**Figure 4: Importance of factors determining foreign investment**

Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

## Competitiveness

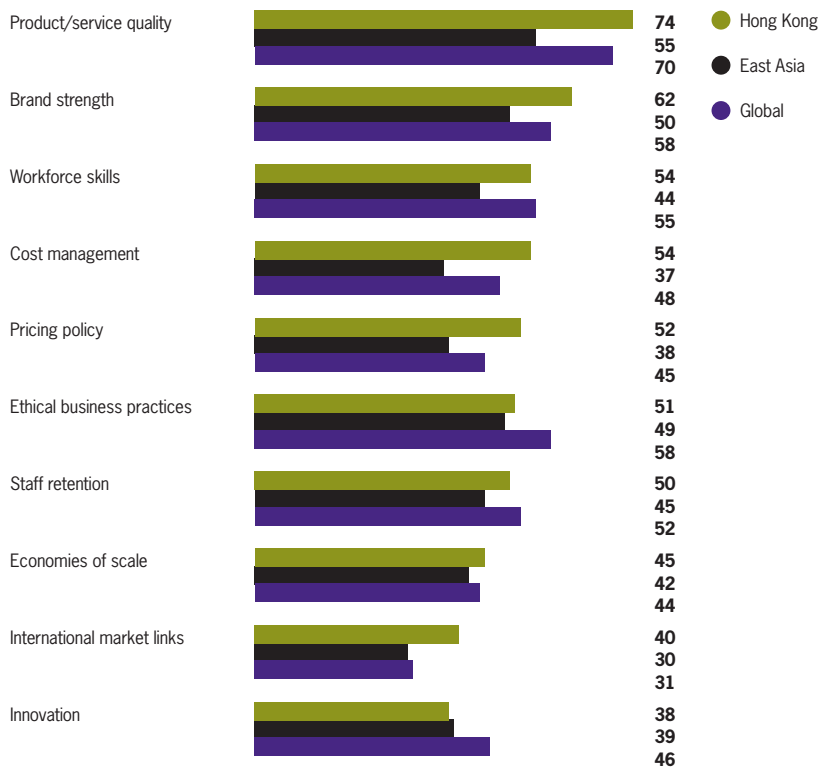
- PHBs in Hong Kong see their greatest source of competitive advantage as product service quality (74 per cent), as is true of global businesses.
- 62 per cent of Hong Kong businesses see brand strength as a source of competitive advantage, compared to 50 per cent of all East Asian businesses.
- Innovation is cited by 46 per cent of businesses globally, compared to 38 per cent of PHBs in Hong Kong.

## Corporate social responsibility (CSR)

- Cost management is viewed as the biggest driver towards more ethical practices by Hong Kong businesses (67 per cent). This is higher than the East Asian (59 per cent) and the global (63 per cent) averages.
- Three-quarters of Hong Kong businesses actively promoted diversity/equality at work in the past year, compared to around half of all East Asian businesses.
- 37 per cent of Hong Kong businesses have incorporated their policies in to a written CSR document. This is well below the East Asian average of 61 per cent.

**Figure 5: Main sources of competitive advantage for Hong Kong businesses compared to the East Asian and the global average**

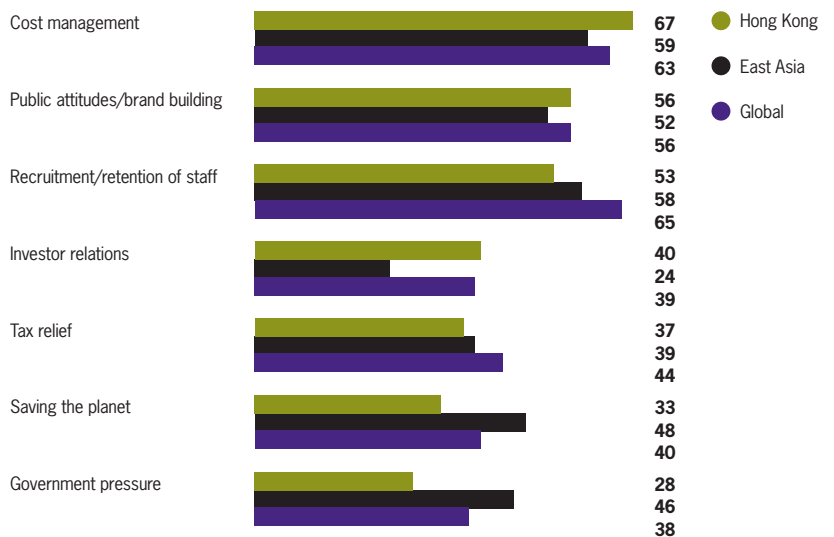
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

**Figure 6: Importance of drivers to more ethical practices for Hong Kong businesses compared to the East Asian and the global average**

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important

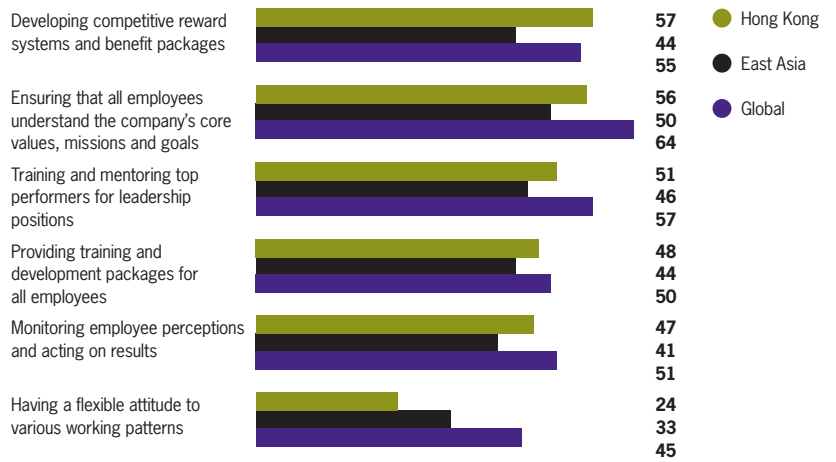


Source: Grant Thornton IBR 2008

## Recruitment and retention

- Similarly to businesses in East Asia and globally, the balance of businesses in Hong Kong more focused on retention that they were one year ago is +54 per cent.
- 57 per cent of PHBs in Hong Kong develop competitive reward systems and benefit packages to aid recruitment/retention.
- Increased operating costs are viewed as the major problem staff retention issues have caused for PHBs in Hong Kong (43 per cent).
- Similarly to businesses in East Asia as a whole, it is costing 68 per cent of PHBs in Hong Kong significantly more to pay their staff than it was 12 months ago.

**Figure 7: Usage of recruitment and retention tools for Hong Kong businesses compared to the East Asian and the global average**  
 Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

# Outlook for the Hong Kong economy

Medium-term trends in the economy suggest a gradual deceleration. The stimulus from faster integration with the mainland has been strong and as mainland China itself slows gradually, and some of the one-off integration effects fade, Hong Kong will settle into a slower, though still healthy, rate of growth.

Hong Kong's fortunes are closely linked to global trade flows, which are already slowing in response to developments in the United States. Even mainland China, which will remain strong in 2008, may show signs of cooling in the next two years, pushing growth in Hong Kong below the five per cent mark in 2009. While this is weaker than in 2004-07, it remains in line with recent trend growth. One reason for expecting a soft landing is that the interest rate cycle peaked at a fairly low level. United States rates have been slashed and strong inflows into Hong Kong dollar assets are also helping.

However, risks to the outlook are increasing. The United States looks to be entering a recession, which is likely to have a strong impact on exports in 2008. This will be followed by a slowdown in mainland China as the authorities there finally get to grips with overheating. Either could see global trade flows slow sharply and return growth in Hong Kong to where it was in the early part of the decade.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com).

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

**Participating economies**

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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