

# Focus on: Hong Kong

## International Business Report 2010 – Country focus series

### The recovery

Hong Kong's economy rebounded strongly in Q2 2009 as wealth effects from increasing asset prices and the fiscal stimuli of both city and mainland governments underpinned a consumer-led recovery. Exports initially remained the only drag on the economy, continuing to fall steeply on a quarterly basis but the pick-up in external demand means the Hong Kong economy is in a strong position to complete its V-shaped recovery.

The key indicators<sup>1</sup> are highlighted below:

- the Hong Kong economy posted 8.2 per cent year-on-year GDP growth in the first quarter of 2010, compared to 2.5 per cent year-on-year the previous quarter
- trade continues to recover; total exports grew by 27.7 per cent year-on-year in March 2010, with an increase of 18.5 per cent (year-on-year) for domestic exports
- meanwhile, imports of merchandise grew by 35.2 per cent year-on-year in March 2010, compared to 20.5 per cent the previous month
- inflation was up 2.8 per cent year-on-year in February 2010, and two per cent (year-on-year) in March.

### Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Hong Kong, the experiences and attitudes of its businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Hong Kong are considerably more optimistic as regards the outlook for the economy over the next 12 months this year, and two-thirds expected to see an upturn in the global economy by the end of 2010. Revenue and profitability expectations are even more optimistic than last year, but a shortage of orders/reduced demand remains a major constraint on potential expansion.



<sup>1</sup> Source: International Monetary Fund, The Economist and Experian.

## Looking ahead

Proximity to the booming mainland economy, supplemented by wide-spread regional economic recovery is expected to be the biggest protection to downside risks. The most dangerous threat of a second round of financial sector turbulence seems to be receding but is looking likely to being replaced by the risk of an inflationary outbreak, unknown both in its timing and severity.

Export demand from advanced western economies is not expected to recover to pre-recession levels but as demand bottoms out and stabilises, the lower drag on net exports is likely to still be felt. Strong growth in fixed investment, boosted by government spending on infrastructure projects, is forecast to contribute to growth, which is expected to exceed four per cent per annum in the short to medium-term.

Hong Kong's high value services sector, especially professional, financial and insurance services, look set to remain a bulwark against future downturns. Hong Kong is likely to strengthen its status as a regional financial centre as foreign direct investment (FDI) targeting mainland companies generate healthy income from fees and commissions paid in the city. As Chinese companies continue to emerge onto the world stage, initial public offering (IPO) related activities are also forecast to further boost growth in high-end services.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for businesses

Hong Kong compared to the Asia Pacific average	2008 HK	2009 HK	2010 HK	2010 Asia Pacific
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	81%	-49%	64%	+33%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	+58%	-35%	+41%	+33%
<b>Constraints on expansion</b>				
Shortage of orders/reduced demand	19%	47%	30%	44%
Availability of skilled workforce	30%	22%	27%	26%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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# International Business Report results

The Grant Thornton IBR 2010 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Hong Kong are considerably more optimistic about prospects for 2010; their optimism/pessimism balance<sup>2</sup> has turned positive again rising 113 percentage points, from -49 per cent in 2009 to +64 per cent in 2010.

Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

## Optimism/pessimism

- businesses in Hong Kong are considerably more optimistic about their economy this year (+64 per cent) compared with 2009 (-49 per cent)
- this is almost double the Asia Pacific<sup>3</sup> (APAC) average of +33 per cent
- optimism amongst businesses in the Asia Pacific region has risen by 31 percentage points this year, from just +2 per cent in 2009 to +33 per cent.

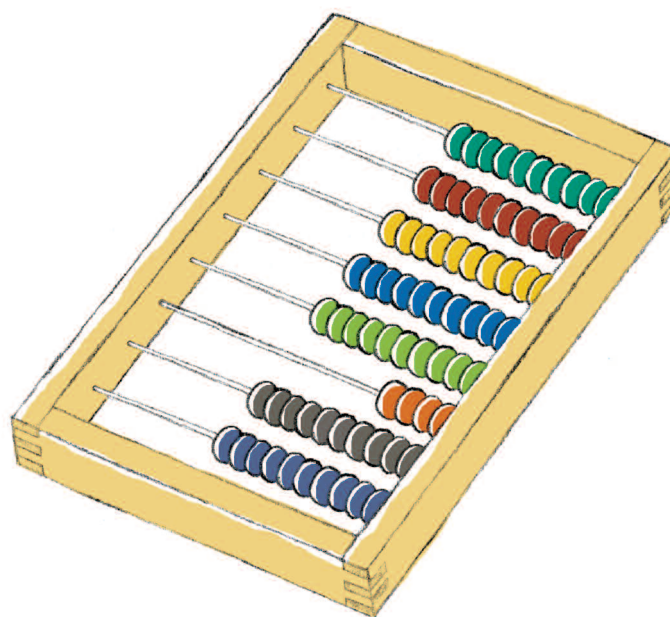
**Figure 2: Outlook for the economy over the next 12 months: 2003-2010**

Percentage balance of businesses indicating optimism against those indicating pessimism



	2003	2004	2005	2006	2007	2008	2009	2010
● Hong Kong	-30	51	60	61	69	81	-49	64
● Asia Pacific	-	-	-	53	63	51	2	33

Source: Grant Thornton IBR 2010



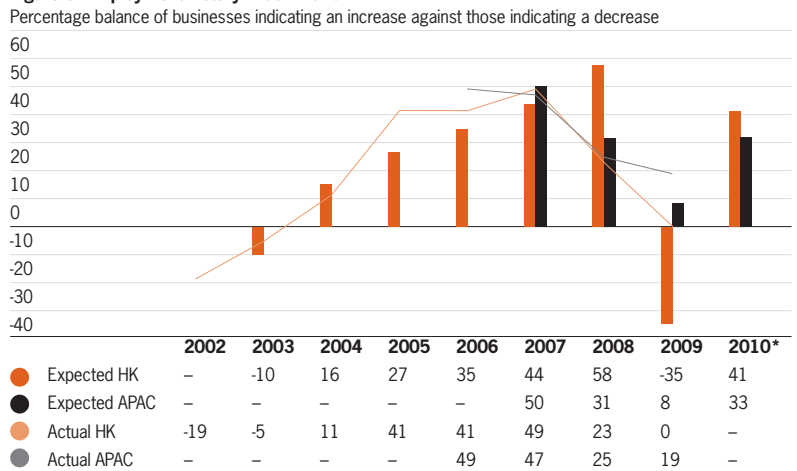
<sup>2</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

<sup>3</sup> for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

### Employment

- a balance of +41 per cent of businesses in Hong Kong expect employment to grow in 2010, compared to -35 per cent in 2009
- the Asia Pacific average has risen by 25 percentage points, from +8 per cent in 2009 to +33 per cent
- there was no change in employment reported by businesses in Hong Kong for 2009 (zero per cent), this was better than expected 12 months previously (-35 per cent).

**Figure 3: Employment history: 2002-2010**

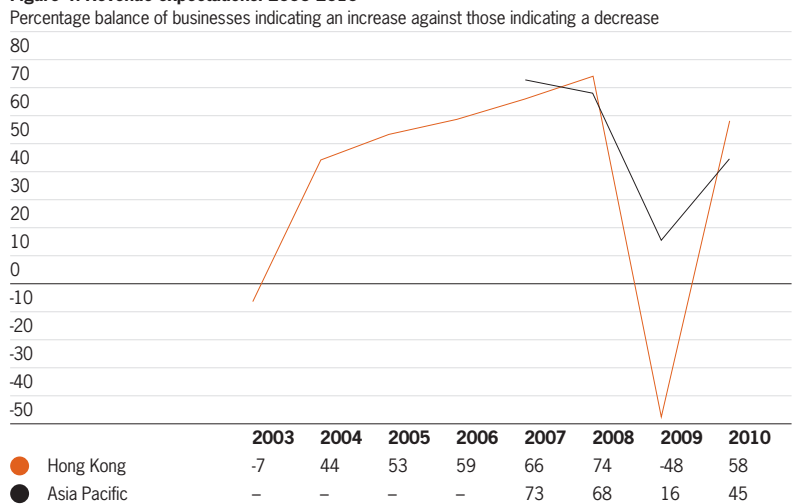


\*actual 2010 data will be documented in IBR 2011  
Source: Grant Thornton IBR 2010

### Revenue expectations

- expectations for revenue prospects have risen by 106 percentage points to +58 per cent this year, from -48 per cent in 2009
- this is more optimistic than the Asia Pacific average of 45 per cent
- the Asia Pacific average has also risen, although not as steeply, by 29 percentage points from +16 per cent last year to +45 per cent this year.

**Figure 4: Revenue expectations: 2003-2010**



Source: Grant Thornton IBR 2010

### Profitability expectations

- the balance of businesses expecting to increase profits in Hong Kong has also risen this year, by 90 percentage points to +38 per cent in 2010 (-52 per cent in 2009)
- this is also higher than the Asia Pacific average (26 per cent)
- the Asia Pacific average has risen by 32 percentage points to +26 per cent.

**Figure 5: Profitability expectations: 2003-2010**

Percentage balance of businesses indicating an increase against those indicating a decrease



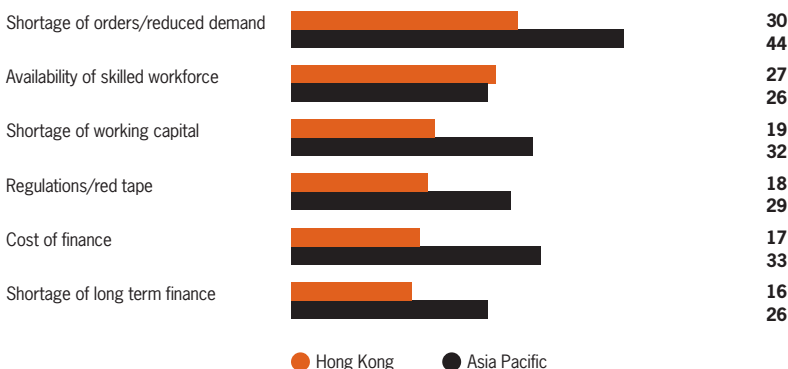
Source: Grant Thornton IBR 2010

### Constraints

- a shortage of orders/reduced demand is cited as the most pressing constraint on expansion by businesses in Hong Kong (30 per cent) and globally (44 per cent) this year
- with the exception of the availability of a skilled workforce, all of the constraints are of considerably lesser concern for businesses in Hong Kong compared to the Asia Pacific average.

**Figure 6: Constraints on expansion**

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



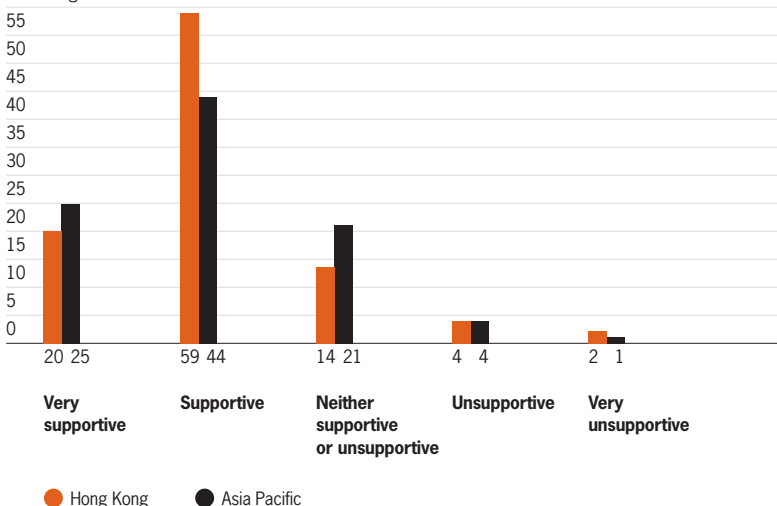
Source: Grant Thornton IBR 2010

### Support of lender

- four-fifths of businesses in Hong Kong are happy with the level of support provided by lenders; 79 per cent class lenders as supportive or very supportive towards their business
- this compares with 69 per cent of businesses in the Asia Pacific region as a whole
- six per cent of businesses in Hong Kong believe that lenders are unsupportive or very unsupportive of their business, compared to five per cent across the Asia Pacific region.

**Figure 7: Level of support provided by lenders**

Percentage of businesses

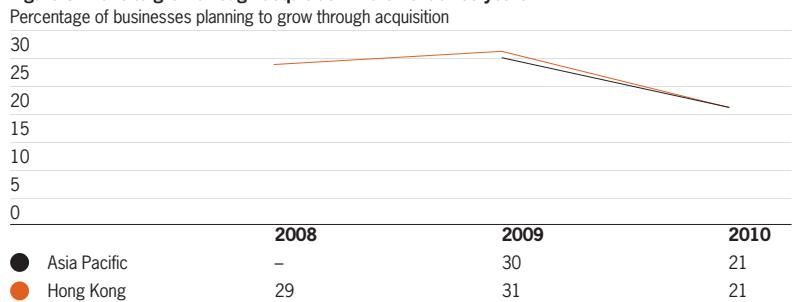


Source: Grant Thornton IBR 2010

### Mergers & acquisitions

- the proportion of businesses in Hong Kong planning to grow through acquisition this year has fallen from 31 per cent in 2009 to 21 per cent; this follows a rise of two per cent observed the previous year
- the Asia Pacific average has dropped this year, from 30 per cent in 2009 to 21 per cent.

**Figure 8: Plans to grow through acquisition in the next three years**



Source: Grant Thornton IBR 2010

### Currency

- the majority of businesses in Hong Kong (67 per cent) use the Hong Kong Dollar as major currency in business; 31 per cent use the US Dollar and three per cent the Chinese Renminbi
- over half (56 per cent) are confident in the currency that they use
- 15 per cent are very confident
- and a total of 17 per cent are either unconfident or very unconfident.

**Figure 9: Confidence in currency**

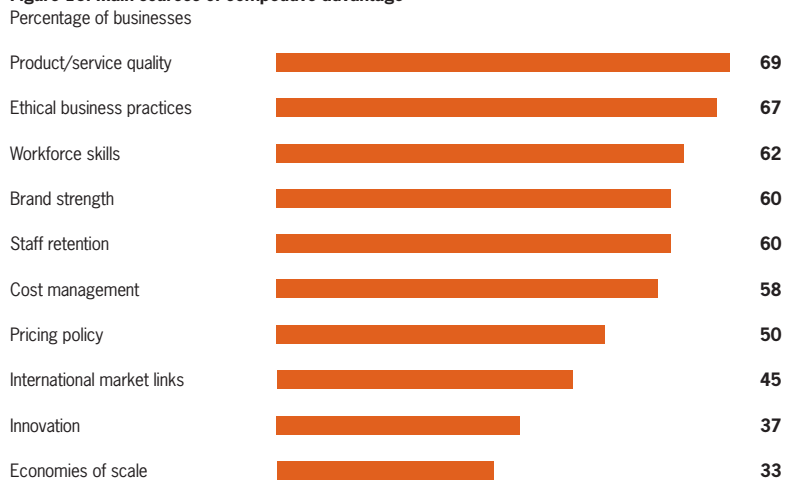


Source: Grant Thornton IBR 2010

### Competitive advantage

- most businesses in Hong Kong believe that their product/service quality and ethical business practices are their main source of competitive advantage (69 and 67 per cent respectively)
- over half also cite workforce skills (62 per cent), brand strength (60 per cent), staff retention (60 per cent) and cost management (58 per cent)
- economies of scale is the least cited main source of competitive advantage (33 per cent).

**Figure 10: Main sources of competitive advantage**



Source: Grant Thornton IBR 2010

