2022 Country Market Profile: Hong Kong

Focus Economics reports that Gross Domestic Product (GDP) growth is expected to be weak in 2022, as the pandemic will depress activity through at least June on lingering restrictions. That said, government stimulus spending should provide some support. The damage to competitiveness from persistent Covid-19 restrictions, which could lead more firms and expats to relocate abroad, is a large risk to longer-term performance. The Focus Economics panel projects the economy to grow 1.6% in 2022, and in 2023, the panel sees growth at 3.4%.

Hong Kong has a free market economy, highly dependent on international trade and finance - the value of goods and services trade, including the sizable share of reexport, is about four times GDP. Hong Kong has no tariffs on imported goods, and it levies excise duties on only four commodities, whether imported or produced locally: hard alcohol, tobacco, oil, and methyl alcohol. There are no quotas or dumping laws. Hong Kong continues to link its currency closely to the U.S. dollar, maintaining an arrangement established in 1983.

Hong Kong, China has signed free trade agreements with Chile, New Zealand, and Australia, ASEAN and EFTA and hopes to conclude an agreement with Taiwan. The city-state also hopes to join the Asian-China Free Trade Agreement. Hong Kong is one of the world's largest recipients of foreign direct investment (FDI). The total stock of inward direct investment is more than five times greater than Hong Kong's GDP. Mainland China alone accounts for nearly a third of this total. Hong Kong is also a key offshore capital-raising center for Chinese enterprises.

Population reached 7.2 million in 2022, (CIA World Factbook Est.) up from 6.7 million in 2000. Most population gains are the result of immigration. The number entering the country soared in the 1990s but fell over the course of the next decade. More than four-fifths of all immigrants come from mainland China. According to many demographers, Hong Kong, China has one of the world's lowest fertility rates. It fell to 1 child per female in 2000 before rising to 1.2 children per female in 2022. The city-state's fertility rate will stay at this rate of 1.2 births per female through 2030.

The median age in 2022 was 45.6 years and is steadily rising. If present trends continue, the number of people aged 65 and over will account for almost third of the city's population by 2030. The government faces increasing spending pressures as a result of population ageing.

USDA's Foreign Agricultural Service (FAS) Agricultural Trade Office (ATO) in Hong Kong reports that despite its small population Hong Kong is the seventh largest export market for U.S. consumer-oriented agricultural products. Hong Kong has always been an attractive market for innovative U.S. food and beverage products as well as a gateway to the region.

Similar to other markets in the world, Hong Kong has been adversely affected by COVID-19. Specifically, the ongoing quarantine requirements imposed on inbound travelers continue to hinder tourism and in-person business activities. This has reduced domestic food demand and imports. The Hong Kong government has launched multiple stimulus measures to help local residents and businesses cope with the COVID-19 adversity and there are signs of recovery. As the pandemic situation improves and borders are to reopen, Hong Kong's economy is expected to further progress in 2022.

FAS Hong Kong advises that the U.S. has Market Opportunities and Key Issues in the Hong Kong food market.

Market Opportunities:

- Hong Kong is one of the top markets in the world for food and beverages, processed, fresh, and frozen gourmet products
- Hong Kong is a major trading hub where buyers make purchasing decisions for a vast range of consumer-oriented products that are transshipped to China and other parts of Asia
- U.S. food products enjoy an excellent reputation among Hong Kong consumers, as they are renowned as high quality and safe
- Hong Kong is a quality and trend-driven market, so price is not always the most important factor for food and beverage purchases

Key Issues:

- Transportation time and costs, combined with U.S. products' availability and seasonality (e.g. fresh produce) can make them less competitive than products available from regional suppliers such as China, Australia, and New Zealand
- The importance of Hong Kong as a transshipment point and buying center for regional markets is not widely known to U.S. exporters
- Hong Kong labeling requirements and residue standards can impact trade
- Hong Kong has imposed entry restrictions under COVID-19 and that hindered tourism and in person business activities

U.S. exports of consumer-oriented products to Hong Kong reached US$1.6 billion in 2021, a decline of 16% from that of 2020. That is over 94% of the agricultural total. Hong Kong is the 11th largest export market from the U.S. for processed foods totaling US$741.1 million in 2021, the same as in 2020. Top U.S. exports of processed food products exported to Hong Kong in 2021 included:

- Food Preparations & Ingredients
- Snack Foods
- Alcoholic Beverages
- Prepared/Preserved Meats
- Prepared/Preserved Seafood
- Processed Vegetables & Pulses

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Hong Kong will reach US$5 billion in 2022. That represents a very slight decline in growth of .3% or US$2.5 million since 2018. By the year 2026 the retail sales in the packaged food market in Hong Kong is expected to reach US$6 billion, a growth rate of 20.9% and US$1 billion from 2022. High growth products in the forecast include:

- Baby Food
- Confectionery
- Ice Cream & Frozen Desserts
- Ready Meals
- Soup
- Baked Goods
- Sweet Biscuits, Snack Bars & Fruit Snacks
- Cheese

FAS Hong Kong reports that in 2020, Hong Kong's retail food sector sales maintained at US$12.7 billion. The Hong Kong food retail market is made up of supermarkets, convenience stores, and traditional markets. Supermarkets account for over 62% of retail food sales. There are 790 supermarkets, 1,300 convenience stores, and nearly 100 traditional markets in Hong Kong, making food shopping very convenient.

"Supermarket/Department Stores" include sales of supermarkets, convenience stores, and food and beverage sections at department stores. They are the modern grocery outlets that provide consumers with convenient and high-quality options. In addition to groceries, these stores offer a more comprehensive shopping experience with increased items of fresh food, bread and pastry, organic options, and hot takeout meals. "Other outlets" refers to the traditional markets, also called wet markets, mom-and-pop stores, bakeries, fresh fruits stalls, etc.

Two major grocery chains, Wellcome and ParknShop, dominate the supermarket category with nearly 70% market share combined. Both chains recently expanded their premium and upscale outlets as consumers continue to seek high-quality, imported gourmet products. Expansion of health food, confectioners, and chain stores such as "759", "Kai Bo18", "Best Mart 360" and "PrizeMart" are increasing competition for supermarkets and convenience stores. Although the number of supermarket outlets is expected to remain stable, the market share for supermarket sales is expected to continue growing in the future at the expense of traditional street markets. The supermarket's share in terms of total retail sales rose from 44% of total sales in 1995 to 62% in 2020.

Euromonitor reports that Dairy Farm Group rebranded as DFI Retail Group in mid-2021, with a new logo with a navy-blue background, which was its latest strategic focus to create further synergies between the portfolio companies of the group across its stores in Hong Kong, China and Southeast Asia, with businesses spanning food, health and beauty, home furnishings, restaurants, and other retailing. The customer reward program yuu was another strategic move, which merged all loyalty programmes across Wellcome, Mannings, KFC and the other portfolio brands of DFI Retail Group, and allows consumers to collect and redeem reward points seamlessly.

Moreover, Meadows, a private label line from DFI Retail Group, launched since 2019, rapidly expanded its assortment in 2021. The private label line already covers 1,700 products spanning across 65 categories, including fresh food, packaged food, homewares and others. This successful private label initiative earned the range the Home Brand of the Year (Hong Kong) trophy in the FMCG Asia Awards 2021. The vast supermarket network of DFI Retail Group, including brands such as Market Place by Jasons, ThreeSixty, Wellcome and Oliver's the Delicatessen, allow Hong Kong consumers to gain access to the affordable assortment of Meadows products. Since other supermarket chains do not offer Meadows products on their shelves, the success of Meadows created a strong competitive edge for supermarkets under the DFI Retail Group to compete against their rivals.

In 2021, a rebranding strategy also applied at brand level in supermarkets. CR Vanguard Supermarket, a supermarket chain owned by China Resources Enterprise, which also owns the U select supermarket brand in Hong Kong, decided to rebrand all remaining CR Vanguard Supermarket stores as U select.

Before the rebranding happened, the positioning of CR Vanguard Supermarket in Hong Kong was to provide consumers with affordable grocery and non-grocery products, focusing on products produced in Greater China, as well as the Southeast Asia region. In comparison, the China Resources supermarket brand U select has a wider product selection, imported from the U.K. as well as other parts of the European market. This is because U select was formed as a joint-venture between China Resources Enterprise and Tesco, the British supermarket operator; hence U select is able to offer goods from the UK and other European markets at an affordable price.

Since the outbreak of the COVID-19 pandemic, the higher willingness of Hong Kong consumers to purchase goods from overseas during the travel lockdown benefited the performance of U select. As a result, to better cope with the change in consumer preference, China Resources Holdings made the decision to rebrand, and now all supermarkets under the group in Hong Kong are branded as U select to focus on Hong Kong consumers' growing demand for overseas products. In addition, the Wan Fen Fans customer rewards program, which is similar to yuu, was also launched during the COVID-19 pandemic, retaining and further building customer loyalty through the application of a loyalty program that applies to both U select and VanGo.

When talking about other grocery and non-grocery retailers in Hong Kong, the latest threat is those new players that entered Hong Kong and grew rapidly over the review period. Amongst these new competitors, Don Don Donki, the Japanese variety stores brand which has offered a wide Japanese product assortment in Hong Kong since 2019, is now the biggest threat to local supermarket chains.

Unlike the majority of supermarket outlets in Hong Kong, the average outlet size of Don Don Donki outlets is relatively larger, providing a comprehensive shopping journey for Hong Kong consumers to purchase all kinds of grocery and non-grocery products through one single visit to a physical outlet. In addition, during the travel lockdown because of the COVID-19 pandemic, the retail environment within Don Don Donki outlets offered a Japanese shopping experience to local consumers, which they had missed for almost two years since 2020. The combination of in-store experience as well as the complete Japanese assortment offered has made Don Don Donki a key threat to local supermarket chains. In the latest expansion plan announced by Don Don Donki in February 2021, the variety stores brand will open 18 more outlets from 2022 to 2025.

Furthermore, another Japanese retailer, Matsumoto Kiyoshi, a well-known chained operator in chemists/pharmacies, has confirmed its plan to expand to Hong Kong in 2022. This expected new entry could cause a further threat to supermarkets in Hong Kong. Therefore, over the forecast period local supermarket chains will need to react and rethink how to counter the threats brought by these Japanese retailers before their competitive positions become vulnerable.

According to Euromonitor, convenience stores in Hong Kong experienced a positive impact from the COVID-19 pandemic in 2021. Consumers relied on outlets near both their living areas and offices to purchase grocery products in order to reduce the time exposed to outdoor or crowded areas that have a higher chance of infection. This positive impact was more significant in the first quarter of 2021, as several lockdowns happened across Hong Kong that kept consumers alert to social distancing measures and reduced the overall foot traffic in the city.

Spotting the opportunities during the pandemic, key leading players including Circle K and 7-Eleven both expanded in terms of number of outlets in 2021, to further drive sales from the consistently higher demand for both personal hygiene products and groceries. As a milestone, 7-Eleven in Hong Kong opened its 1,000th store on Des Voeux Road in Central, marking the 40th year since it set foot in the territory.

Best Product Prospects:

FAS Hong Kong reports that products with the highest sales potential in this sector include tea, dog and cat food, fresh vegetables, fresh fruit, eggs and products, processed vegetables, soup and other food preparations, condiments and sauces and beef and products.

Food Service Sector Highlights:

FAS Hong Kong reports that COVID-19 has adversely affected the Hong Kong food service sector as international travel was restricted, and theme parks, cruise terminals, and schools closed following the Hong Kong government’s restrictions on gatherings and dining. While the food service sector was seriously hit, social distancing and stay-home measures aimed at curbing the spread of COVID-19 boosted the food delivery market, with luxury hotels, high-end restaurants, and top-notch cake shop joining these platforms. The main delivery platforms, Deliveroo, Foodpanda, Uber Eats, and other smaller operators, have seen a significant increase in orders and new food outlets signing up since the outbreak of the pandemic.

Restaurant groups ranging from fast food chains to luxury hotels have introduced or strengthened their own delivery services to compensate the loss of their dine-in businesses. According to Statistica, revenue in the online food delivery segment is projected to reach US$839 million in 2021. While food deliveries cannot totally replace dining-in at restaurants especially for events like weddings, banquets, and parties, they provide a lifeline to the hard-hit catering industry to complement their businesses.

Hong Kong boasts over 15,000 eateries, which range from local favorites to high-end fine dining outlets. In 2020, the number of restaurants dropped 5% compared to 2019. The Michelin guide 2021 "stars" 66 Hong Kong restaurants, including seven three-starred establishments, and outnumbering the five restaurants in New York City and in London that won the same three stars recognition.

Fast food outlets suit Hong Kong's quick-paced lifestyle where dining out twice per day at convenient locations is not uncommon. Competition among fast food chains is intense as brands strive to retain customers and raise brand awareness. McDonald's and KFC are the leading Western style fast food chains, and Café De Coral and Fairwood are the leading local fast food chains, by brand share of foodservice value. Western style outlets including Oliver's Super Sandwich are often located at areas easily accessed by office workers who appreciate healthy and light options such as salad and sandwiches.

There are over 310 hotels providing over 87,000 rooms for visitors to Hong Kong. While tourism dropped significantly over the last two years, hotels in Hong Kong have been reportedly able to stay at about 70% capacity with some offering quarantine-packages for incoming travelers or staycations to local customers unable to travel abroad.

Best Product Prospects:

FAS Hong Kong reports that top consumer oriented imports into Hong Kong from the U.S. include fish products, beef and beef products, fresh fruit, dairy products, pork and pork products, wine and beer, poultry meats and tree nuts.

Food Processing Sector Highlights:

FAS Hong Kong reports that as land in Hong Kong is limited and extremely expensive, the local food processing sector is small. In 2020, Hong Kong global imports of intermediate products represented 8.2% of overall agricultural imports and valued at US$2.1 billion. Imports of bulk agricultural products comprised 1.6% and valued at US$403 million.

Major local productions include instant noodles, pasta, biscuits, pastries, cakes, and drinks. Other related activities include the canning, preserving, and processing of seafood (fish, shrimps, prawns, and crustaceans), and the manufacture of dairy products (fresh milk, yoghurt, and ice-cream), edible oils, and seasonings.

Based on the trade agreement between Hong Kong and China (called the Closer Economic Partnership Arrangement, or “CEPA” in short), all foods and beverages made in Hong Kong, subject to the CEPA's rules of origin, can enjoy duty-free access to the Chinese mainland. Processed food and beverages products not made in Hong Kong remain subject to rates according to China’s tariff schedule. The CEPA zero tariff product list includes aquamarine products, food and beverages, (certain dairy products such as yoghurt and cheese, certain prepared meats, certain sugar confectioneries and cocoa preparations; certain preserved meats and seafood, bread, biscuits, and cakes; preserved vegetables and fruits, fruit juices; sauces, water, etc.) leather, and fur products.

Best Product Prospects:

FAS Hong Kong reports that the best prospects for U.S. exporters of processed food ingredients for this sector include shelled nuts, fats and oils, protein concentrates, flavoring, oilseed flour meal, baking inputs, potato products, processed eggs and beverage ingredients.