

HONG KONG COUNTRY PROFILE

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Synopsis

Hong Kong is the world's thirty-fifth largest economy and its economy has been strengthening in recent years. Hong Kong is Alberta's thirteenth most important agri-food market, purchasing over C\$63 million from our province in 2006. Hong Kong is Alberta's third most important export market for beef (C\$29.5 million in 2006) and fifth for crude canola oil (C\$14 million in 2006).¹ Hong Kong's natural resources are limited, and food and raw materials must be imported. Its 7 million consumers will remain dependent on imports to satisfy a great proportion of their caloric needs. Most agricultural produce is directly imported from the neighbouring mainland China. Hong Kong's affluent consumers are price sensitive but will pay more for quality products produced within tight specifications. The Hong Kong market will continue to provide opportunities for Alberta's agri-food industry.

Market Overview

The Hong Kong economy is the world's thirty-fifth largest after and its nominal GDP is US\$259 billion (2006 est.). On a per capita basis the country's GDP is a little higher than that of Canada (\$37,300 for Hong Kong vs. \$35,200 for Canada in 2006).²

Hong Kong has a free market economy highly dependent on international trade. The territory has become more closely linked to mainland China over the last few years. Even before Hong Kong reverted to Chinese administration on 1 July 1997, it had extensive trade and investment ties with China. Recently, the Hong Kong GDP has been on the rise, posting growth of 7.5% in 2005, 6.9% in 2006 and is forecast to expand 6.1% in 2007.³ Exports to the US are strong and Hong Kong has benefited from the rise of China, which has recently overtaken the US to become Hong Kong's number one trading partner. Broad-based economic expansion is expected to continue, with robust domestic demand likely to lead the way. Concurrently, the outlook on the domestic fronts remains relatively positive, as ample liquidity will continue to restrain interest rates and boost business and consumer sentiment, along with a tightening labor market. Although the

¹ Alberta Government, *Agri-food trade On-line*.

² CIA, *World Factbook*.

³ The Economist Newspaper Limited, *Country Profile*, 2007.

strength in the Chinese renminbi and higher imported food prices from the mainland have sparked concerns of inflation, however inflationary pressure should remain benign in 2007. Economic forecasts project CPI inflation to come in at an average of 2.0% in 2007, before accelerating to 2.9% in 2008.

Like the Chinese renminbi, the Hong Kong dollar is pegged to the US dollar. Many economists expect the Hong Kong dollar is likely to remain close to the upper limit of its trading band in the short-to-medium term, while its peg is expected to remain in place. This is a concern for Canadian exporters because Canadian exports are already relatively expensive for Hong Kong consumers.⁴

The Government of the Hong Kong Special Administrative Region of the People's Republic of China (PRC), led by the Chief Executive is responsible for the administration of Hong Kong. The affairs of the Government are decided by secretaries, who are appointed by the Chief Executive and endorsed by the Central People's Government (CPG) in Beijing. As a special administrative region of the PRC, Hong Kong has a high degree of autonomy, in light of the "One Country, Two Systems" policy. The Hong Kong Government, financially independent from the CPG, oversees the affairs of Hong Kong.

The PRC is governed under the one-party system by the Chinese Communist Party. Hu Jintao was elected President by the National People's Congress in March 2003. Responding to rising social tensions and China's wealth gap, he advocates a drive to build a "harmonious society" and has promised greater spending on health and education in rural areas.⁵ His leadership will likely have limited effect on trade patterns between China, Canada and Alberta.

Hong Kong Population: 6,980,412 (July 2007 est.)
0-14 years: 13% (male 476,089/female 434,326)
15-64 years: 74% (male 2,515,518/female 2,652,660)
65 years and over: 12.9% (male 419,479/female 482,340) (2007 est.)

At 81.7 years, Hong Kong has the sixth highest life expectancy in the world. The median age is almost 41 years. Due to low birth rates, the population is aging rapidly and while Hong Kong's current old-age dependency ratio of about 16 percent is low compared to comparator economies in the region, it is projected to double by 2030 and exceed those of other Asian countries (including Japan) by 2060.⁶ Unless drastic measures are taken, Hong Kong could see a sharp decline of its population in the first half of this century.

Approximately 1.5 million residents are estimated to have middle class spending power. Over 3.5 million residents make up the Hong Kong labor force. Over 91% of these workers are in the service sector. Approximately 42% of women are now employed

⁴ Global Insight Inc., *Hong Kong Country Monitor*.

⁵ BBC News, *Country Profile: China*.

⁶ Lamin Leigh, IMF, *Hong Kong Special Administrative Region: Macroeconomic Impact of an Aging Population in a Highly Open Economy*, March 2006.

outside the home. Hong Kong's unemployment rate has been decreasing in recent years and now stands at 4.8%.⁷ Obesity is less common than in the West but rates are increasing. Approximately 5% of the population is obese which translates to 350 thousand people. The adoption of western eating habits is considered the main cause of the rising rate. Increasing rates of diabetes and obesity are supporting the development of the health food industry. Hong Kong residents are also very concerned with their overall appearance and well-being. Many consumers try to improve their health or image by turning to health foods for general wellness, disease prevention and nutritional benefits. Demand for such products is greatly due to the 2003 SARS outbreak; a considerable portion of consumer expenditure is now allocated toward the purchase of health supplements. Organic foods are also in greater demand since food crises plagued the state, and genetically modified foods have come under criticism from consumers. Vitamin and mineral supplements, ginseng and dietary foods should present opportunities for Canadian exporters in the future.⁸

Based on Hong Kong government's latest Household Expenditure Survey 1999/2000, the average monthly household expenditure amounted to \$2,802. 27% was spent on food and beverages. Hong Kong has a culture of eating out. On average, each household spends 62% of their food budget eating out. The higher the income group, the higher the percentage of food expenditure on restaurants. That would translate to an annual average of approximately \$470 on food-service purchases. Wage growth for females from 1990-2005 far outstripped that of males, and the disparity in wages is shrinking quickly. Indeed, between 2000-2005, men saw negative growth in average annual disposable income, while women posted a 7% gain. However, even with greater growth rates, average annual figures for females were still only 80% of what males could expect. Teenagers (10-19 years) spend a significant portion of their money on social and leisure activities, including dining out. For the majority of families however, disposable income in current terms will continue to rise. Changes in the government's policy on taxes will affect growth as tax concessions push household disposable incomes up, but other potential tax proposals like a goods and services tax (which is looking increasingly unlikely) may cause disposable income to fall.⁹

Hong Kong and Canada are both members of the WTO and overall access to the Hong Kong market has been good. Nonetheless, Hong Kong has put in place some protectionist barriers affecting some of Alberta's major agri-food exports.

Agriculture and Food Trade Overview

Alberta's agri-food exports to Hong Kong were valued at over \$63 million in 2006 and accounted for over 18% of Canada's total exports to that country. Hong Kong is Alberta's thirteenth largest export market for agri-food products. In 2006, the province's top agri-food exports to Hong Kong were beef (\$29 million), crude canola oil (\$14

⁷ Euromonitor International.

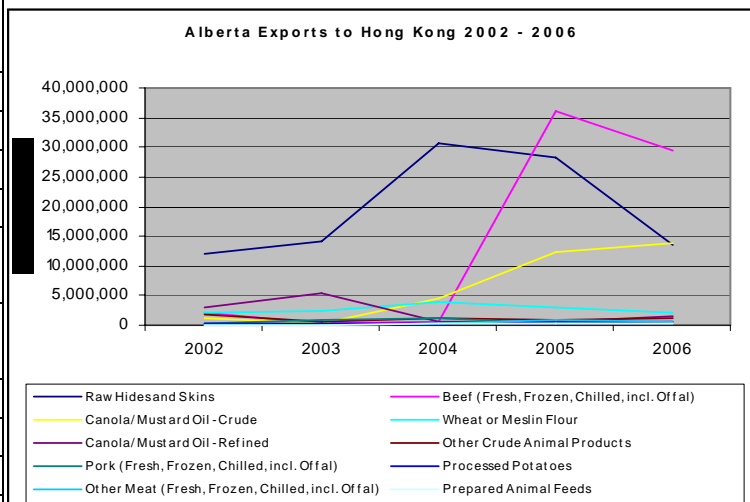
⁸ Agri-Food Trade Service, *Past, Present & Future Report Hong Kong SAR, China*, January 2007.

⁹ Euromonitor International, *Consumer Lifestyles – Hong Kong, China*, June 2007.

million), raw hides and skins (\$14 million), wheat or meslin flour (\$2.2 million), refined canola oil (\$1.6 million) and other crude animal products (\$1.2 million).¹⁰

Alberta's Top agri-food exports to Hong Kong In 2001 and 2006 in millions of CDN\$

Alberta's Top Exports to Hong Kong in 2006	Value in Millions
1-Beef	29
2-Canola/Mustard Oil – Crude	14
3-Raw Hides and Skins	14
4-Wheat or Meslin Flour	2.2
5-Canola/Mustard Oil - Refined	1.6
6-Other Crude Animal Products	1.2
7-Other Meat	0.5
8-Processed Potatoes	0.5
9-Pork	0.5
10-Prepared Animal Feeds	0.3



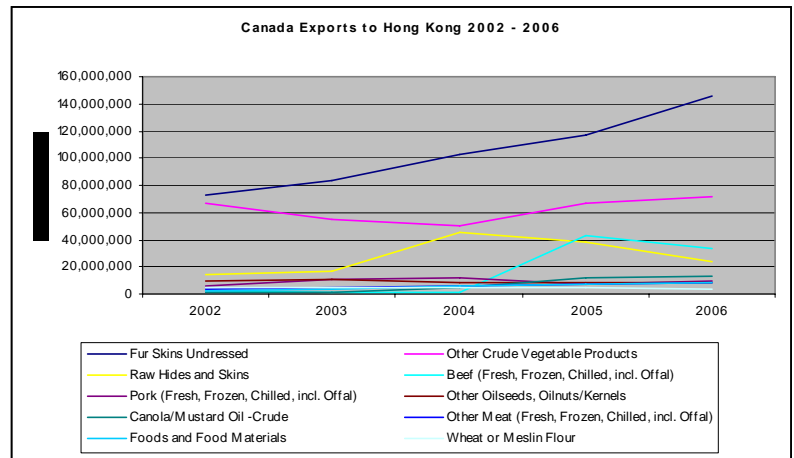
A few changes have taken place over the last five years, the most noteworthy being the rebound of Alberta's beef exports after BSE and the drop in raw hides and skins. Hong Kong is now the province's third most important export market for beef and at \$14 million in 2006, the fifth most important export market for crude canola oil.

Canada's agri-food exports to Hong Kong totaled \$344 million in 2006 making it the country's seventh largest export market. Alberta accounted for almost one fifth of Canadian agri-food exports to Hong Kong. Canada's exports share some similarities with Alberta's. Undressed fur skins exports are the country's largest (\$146 million) followed by other crude vegetable products (\$72 million), beef (\$33 million), raw hides and skins (\$24 million), crude canola oil (\$14 million), pork (\$10 million) and other oilseeds, oilnuts/kernels (\$9 million).

¹⁰ Agri-Food Trade On-line.

**Canada's Top agri-food exports to Hong Kong
In 2006 in millions of CDN\$**

Canada's Top Exports to Hong Kong in 2006	Value in Millions
1-Fur Skins Undressed	146
2-Other Crude Vegetable Products	72
3-Beef	33
4-Raw Hides and Skins	24
5-Canola/Mustard Oil - Crude	14
6-Pork	10
7-Other Oilseeds, Oilnuts/Kernels	9.0
8-Other Meat	8.2
9-Foods and Food Materials	7.8
10-Wheat or Meslin Flour	3.6



Competitors gain an advantage through better harvesting weather (which can vary from year to year) freight efficiencies due to location or volume and by the ability to offer products during their competitor's off-season (Australia vs. Canada and the US).¹¹

As a member of the Asia-Pacific Economic Cooperation (APEC), Hong Kong relies heavily on its many Asia-Pacific neighbours as import sources, making the territory a more challenging market for Canadian products and companies to penetrate. Hong Kong's principal agri-food import sources, China (26.7%), United States (13.2%), Brazil (5.7%), Denmark (5%) and Thailand (4.8%), represent Canada's top competition in the Hong Kong export market. Furthermore, Hong Kong's Closer Economic Partnership Arrangement (CEPA) with China also influences the number of exports that enter the state, as Hong Kong acts as a major transshipment point for exports destined for China. In fact, almost 50% of all food products imported into Hong Kong are in turn shipped to Guangdong, China, a key entry-point for Chinese imports.¹²

Market Sector Structure and Trends

There are a number of trends and changes in Hong Kong's consumer market that are currently impacting exporters' approaches to entering the marketplace. Hong Kong's residents are becoming increasingly busier, often working more than 48-hour, 5-day work weeks and are therefore fuelling growth in the foodservice, packaged, processed, and convenience food sectors. With a number of food safety and health scares in Asia over the past several years, consumers have become more health conscious and aware of the

¹¹ Meat & Livestock Australia.

¹² Agri-Food Trade Service, *Past, Present & Future Report Hong Kong SAR, China*, January 2007.

benefits associated with healthy eating and lifestyles. As a result, demand for safe, high-quality fresh foods has grown considerably. Hong Kong's residents are extremely sensitive to food safety issues and generally prefer fresh food products over pre-packaged and processed foods. However, ready-made meals, frozen foods, and convenience products remain very popular, with frozen products often considered more hygienic than fresh foods. Therefore, major opportunities for Canadian agri-food exporters may include offering high-quality, organic, natural and healthy convenience foods.

As is the case in many countries, traditional eating habits are modified as cultural and social changes surface. With Hong Kong having seen an influx of Western-style fast food chains and products (bolstered by Western lifestyles shown through media) consumers have trended toward purchasing more meals from such outlets and moving away from eating traditional Chinese dishes. Healthier packaged and ready-to-eat foods, such as breakfast cereals, biscuits, yogurt, and soup have become increasingly popular.

Consumer expenditure totaled \$102.2 billion in 2005, and is expected to rise approximately 29% to reach \$131.5 billion by 2015. Overall spending on less nutritious food and beverages seems to be decreasing as consumers become more health conscious, with healthier food options making up the bulk of such goods being purchased. A decrease in the consumption of chocolate, pastries, canned or preserved meat and vegetables, and butter in recent years exemplifies this trend.

Specific agri-food products that hold strong opportunities in the Hong Kong marketplace include instant and canned soup and noodles, plain noodles and dried pasta; frozen desserts, ready-meals, bakery products and processed fish and seafood products; and flavoured alcoholic beverages and cider. Breakfast cereals; ready-to-drink coffee; spreadable fats and oils; yogurt, cheese and milk; sauces, dressings and condiments; chips, nuts and biscuits are also expected to show considerable growth.¹³

Exporter Business Tips

Since differences in language, customs and business practices make entering the Hong Kong market a very difficult task, Canadian exporters are encouraged to develop market entry strategies that include working with local importers and distributors to develop a presence, gain valuable market advice, and best position products to meet local tastes, laws and pricing.

The majority of Hong Kong's requirements governing imports are coordinated with WTO regulations, while others are specific to the region. Hong Kong is virtually a duty-free port and does not apply tariffs or quotas to general commodities. However, taxes on liquor, tobacco, methyl alcohol and hydrocarbon oil products do apply. It is recommended that Canadian exporters contact the Hong Kong Customs and Excise Department when checking import duties on such individual products.

¹³ Agri-Food Trade Service, *Past, Present & Future Report Hong Kong SAR, China*, January 2007.

Although, Hong Kong remains the freest economy in the world, it does hold several import regulations which Canadian exporters should be aware of before entering the market:

- Canadian exporters must ensure that their Hong Kong counterparts declare their imports to the Hong Kong Customs and Excise Department within 14 days of receiving goods.
- Hong Kong collects a trade declaration tax of HK\$2.00 (i.e. \$0.29) for shipments valued under HK\$4,000 (i.e. \$582) and an extra HK\$0.50 (i.e. \$0.07) for each additional value of \$1000 (i.e. \$145) on all imports except transshipments.
- Import licences, health certificates and other documents may be required for agri-food exports. Canadian exporters should consult their importer on the necessary paperwork prior to shipment.
- Due to health and safety reasons, game, meat, poultry, milk, frozen confectionary, fish and seafood products, and live plants and animals require import permits and/or health certificates.¹⁴

An English summary of the regulations involved in exporting food to Hong Kong can be found on this website.

<http://www.fas.usda.gov/gainfiles/200608/146208535.pdf>

Market Opportunities

Hong Kong's natural resources are limited, and food and raw materials must be imported. Alberta is well positioned to cover the gap by supplying high quality agri-food products to Hong Kong.

In 2005, consumer expenditure was \$102.2 billion, and by 2015, is expected to grow to \$131.5 billion, an increase of about 29%. As consumers are becoming more and more health conscious, overall spending on food and beverages with less nutrition appears to be decreasing, being replaced with healthier food options. In recent years, there has been a decrease in the consumption of chocolate, pastries, canned or preserved meat and vegetables, and butter, which exemplifies this trend. There will be continued opportunities for Alberta processors in these sectors.

Opportunities for beef exports look good in the short term but competition from new entries such as Chile and Mexico may arise.

¹⁴ Agri-Food Trade Service, *Past, Present & Future Report Hong Kong SAR, China*, January 2007.

Alberta Advantages and Challenges

Alberta and Canada have some great advantages in their pursuit of market share in Hong Kong, one of which is Canada's pristine image with both consumers and the Hong Kong food processing industry. This advantage is not limited to image and Canadian standards for safety and quality are generally perceived as high. Another advantage is Alberta's strategic location in western Canada, which gives it a logistical advantage in servicing the Hong Kong market.

Contacts for Albertans

The Agriculture and Food Branch of International Intergovernmental and Aboriginal Relations, has a trade officer dedicated to the Hong Kong market.

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