

Country Market Profile: Hong Kong

Market Overview

Euromonitor International, a market research provider, reports that in 2022, the economy of Hong Kong experienced a notable decline due to the prolonged implementation of COVID-19 containment measures, weakened domestic demand and a challenging external economic environment. Consequently, the city's economy contracted in real terms throughout the year. However, 2023 brought optimism for Hong Kong as the reopening of China was anticipated to stimulate demand and ignite the recovery of the city's economy. The economy was forecasted to accelerate year on year and quarter on quarter, aided by a likely stabilization in goods trade, the government's recent cuts to taxes on property and the stock market, and an ongoing recovery in tourism.

- Following a real contraction of -3.4% in 2022, Hong Kong's economy was expected to expand at an average annual real gross domestic product (GDP) rate of 3.5% in 2023 and 2.9% in 2024.
- Inflation in Hong Kong is forecast to increase to 2.3% in 2023 from 1.9% in 2022.
- While Hong Kong's merchandise exports declined by 6.8% and imports fell by 5.1% during 2022, the country remained a net importer of goods.
- Gross fixed capital formation (GFCF) decreased over 2022, accounting for 16.6% of GDP.
- The public debt-to-GDP ratio in Hong Kong rose to 3.4% in 2022, standing below the regional average of 95.9%

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 Trade Pact. 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 2023, (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 next decade. More than 80% immigrants come from mainland China. According to many demographers, Hong Kong, China, has one of the world's lowest fertility rates. It fell to 1.0 child per female in 2000 before

rising to 1.2 children per female in 2023. The city-state's fertility rate will stay at this rate through 2030. The median age in 2023 was 46.8 years and is steadily rising. In 2023 around 21% or 1.5 million were over 65 years. If present trends continue, the number of people aged 65 and over will account for almost a third of the city's population by 2030. The government faces increasing spending pressures due to population aging.

USDA's Foreign Agricultural Service (FAS) Agricultural Trade Office (ATO) in Hong Kong, hereinafter referred to as FAS Post Hong Kong, reports that despite its small population Hong Kong is the 19th largest market for U.S. agricultural exports, eighth largest export market for U.S. consumer-oriented agricultural products, and 12th largest U.S. export market for processed foods. Hong Kong has always been an attractive market for innovative U.S. food and beverage products as well as a gateway to the region.

Market Opportunities and Key Issues for U.S. Processed Food Exporters in Hong Kong

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.
- The wide range of U.S. product offerings can cater to diverse tastes and preferences among different segments of the Hong Kong market, an important factor for food and beverage purchases.
- 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 seasonality determining product availability (e.g., fresh produce) associated with importing U.S. food and beverage products to Hong Kong, can make them less competitive than products available from regional suppliers such as China, Australia, Japan, 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.
- Shipping logistics conditions have improved significantly but remain a concern.

U.S. exports of processed foods totaled US\$567.6 million in 2023, a decrease of 7% from 2022. That equates to a loss of over US\$43 million from 2022 which goes against the U.S. trade deficit in food and agricultural products. Top U.S. exports of processed food products exported to Hong Kong in 2023 included:

- Food Preparations & Ingredients – up3%
- Prepared/Preserved Meats – up%
- Prepared/Preserved Seafood – up34%
- Processed Vegetables & Pulses – even
- Alcoholic Beverages – down 31%
- Dog & Cat Food – down 5%
- Snack Foods – down 46%

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Hong Kong reached US\$5.4 billion in 2023. That represents growth of 3.9% or US\$204 million since 2019. By the year 2028, the retail sales in the packaged food market in Hong Kong is expected to reach nearly US\$7 billion, a growth rate of 20.4% and US\$1.1 billion from 2024. High growth products in the forecast include:

- Baby Food
- Sweet Biscuits, Snack Bars and Fruit Snacks
- Savory Snacks
- Pet Food
- Ice Cream
- Confectionery

FAS Post Hong Kong reports that in 2022, Hong Kong’s retail food sales remained stable at US\$12.6 billion. The Hong Kong food retail market is made up of supermarkets, convenience stores, and traditional markets.

“Supermarket/Department Stores” include sales of supermarkets, convenience stores, and food and beverage sections at department stores. These 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 offerings 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 fruit stalls, etc. These outlets are usually smaller in scale, and U.S. Food exporters need to work with local importers/agents to place products in this sector of the market. Some Hong Kong consumers prefer these stores due to proximity, established relationships, and perception that meat, fish, and produce in traditional shops are fresher.

There are more than 700 supermarkets, 1,300 convenience stores, and close to 100 traditional markets in Hong Kong, making food shopping very convenient. Traditionally, Hong Kong consumers shop daily because they prefer fresh food and limited storage space in their homes. Much of the shopping is still done in traditional markets including street markets and locally owned shops. Overall, street market sales trend toward fresh foods while supermarkets dominate in processed, chilled and frozen, high value added, and canned food products. In recent years, the competition between street markets and supermarkets has intensified.

Two major retail groups, A.S. Watson Group and DFI Retail Group, dominate the supermarket category with nearly 90% of the market share combined. The expansion of health food, confectioners, and chain stores such as “759,” “Kai Bo21,” “Best Mart 360,” “PrizeMart,” and Donki are increasing competition for supermarkets and convenience stores.

Best Product Prospects:

FAS Post 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 products.

Foodservice Sector Highlights:

FAS Post Hong Kong reports that Hong Kong reopened its borders to the world in late 2022 and with mainland China in early 2023. The slow return of inbound tourism has positively improved the situation of the local hospitality and foodservice sectors. In 2022, Hong Kong’s restaurant receipts dropped 6.4% to US\$11.1 billion compared to 2021 but still above the US\$10.2 billion in 2020.

While inbound tourism has yet to recover to pre-pandemic levels, these sectors continue to adapt to labor shortages, changes in consumer behavior, and high food prices. The Government has launched the "Happy Hong Kong" campaign and organized different activities or promotions across the city to encourage domestic consumption, as well as the “Hello Hong Kong” campaign to attract more tourism to the city. Hong Kong’s economy is expected to continue recovering and grow between 3% to 5% for all of 2023.

There are over 300 hotels providing more than 89,000 rooms for visitors to Hong Kong. Hong Kong boasts over 14,000 restaurants, which range from local “dives” to high-end fine dining outlets. The Michelin Guide 2023 stars 94 restaurants in Hong Kong and Macau; including seven three-starred establishments in Hong Kong, outnumbering the five three-starred restaurants in both New York City and London. In 2022, Hong Kong restaurant food and beverage purchases decreased 4.5% to US\$3.7 billion compared to 2021. Generated sales were estimated at US\$11.1 billion, equivalent to a decrease of 6.5% from last year. Ongoing disruptions to normal foodservice operations in response to the city’s most severe wave of the pandemic in 2022, led to weaker sales performance.

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, but some newer, leading U.S. fast food chains such as Five Guys and Shake Shack have a strong presence here. 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 Pret a Manger and Oliver’s Super Sandwich are often in areas easily accessed by office workers who appreciate healthy and light options, such as salad and sandwiches.

Best Product Prospects:

FAS Post Hong Kong reports that top high value 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 Post Hong Kong reports that land is limited and extremely expensive in Hong Kong. Therefore, the local food processing sector is small. In 2022, global imports of bulk products grew 0.3% to US\$372 million and represented 1.5% of all agricultural imports. Imports of intermediate agricultural commodities dropped 1.4% to US\$2.3 billion, representing 9.7% of overall agricultural imports.

In 2022, Hong Kong's exports of processed food and beverages increased 7% to US\$873 million year-on-year. Locally produced key products 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), dairy products (fresh milk, yogurt, and ice cream), edible oils and seasonings. The processed food and beverages industry in Hong Kong largely centers on re-export activities. In 2022, Hong Kong re-exports of processed food and beverage decreased 2% to US\$4 billion compared to 2021, mainland China is the major destination for re-exports.

Based on the trade agreement between Hong Kong and China (called the Closer Economic Partnership Arrangement, or CEPA), all foods and beverages made in Hong Kong, subject to the CEPA's rules of origin, can enjoy duty-free access to the mainland China. Processed food and beverages products not made in Hong Kong remain subject to rates according to China's tariff schedule. Processed food and beverages items must comply with Hong Kong rules of origin to be imported into China tariff free.

The rule of origin of individual products is determined by the manufacturing or processing operation. Milk and cream products are considered as "made in Hong Kong" when the manufacturing processes of mixing, freezing sterilization, and cooling are conducted in Hong Kong. The origin criteria for edible tree nuts are that the baking, seasoning, and/coating must take place in Hong Kong. In the case of ginseng, the principal manufacturing processes of cutting and grinding must be conducted in Hong Kong.

Best Product Prospects:

FAS Post 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.