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BUSINESS CLIMATE SURVEY
HONG KONG 2021

TEAM SWEDEN IN HONG KONG



Business Sweden in Hong Kong

Consulate General of Sweden in Hong Kong

Swedish Chamber of Commerce in Hong Kong

(Report compiled by Anna Zhan, Consultant at Business Sweden and Simona Rosi, International Trade Scholar at the Swedish Chamber of Commerce in Hong Kong)

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FOREWORD

Swedish companies have a strong presence in Hong Kong. They vary in size and in number of years in the market. They cover a multitude of sectors, including the financial sector, creative industries and retail. Many of them have done very well for many years and greatly contributed to Hong Kong's successful economic development. As many as 58 per cent of the companies who received our survey have provided input to this report. We are grateful for their participation.

The purpose of this survey is to increase the understanding of opportunities and challenges that the Hong Kong market presents for Swedish companies. The previous Team Sweden Business Climate Survey for Hong Kong was published in September 2020. Since then, the Covid-19 pandemic has continued to impact Hong Kong and the rest of the world. After a period of recession and economic contraction, Hong Kong's economy is predicted to return to growth this year.

Hong Kong has also seen further significant political developments since the latest survey, including the continued implementation of the National Security Law introduced in the summer of 2020 and the adoption of changes to the election system in the spring of 2021.

This year's survey gives us several important indications of the current business climate, as perceived by companies. A majority of the responding companies remained profitable in 2020. Most have a more positive economic outlook today than a year ago, expecting increased turnover and unchanged or slightly increased investments during the coming year.

The main advantages mentioned by companies in this year's survey when it comes to doing business in Hong Kong are the taxation system, its legal and regulatory systems and its geographical location. Personal safety ranks highest among favourable business conditions. The "Swedish brand" contributes positively to most companies' work, denoting quality and sustainability.

However, concerns and challenges highlighted in the 2020 survey remain in place also today. With regard to government measures to combat Covid-19, more companies considered them adequate than inadequate. Naturally, the measures had an impact on most companies, especially those affected by travel restrictions and closed borders. In terms of planning for the future, travel possibilities stand out as a key factor. High costs of rent and property have been a concern for companies for many years and are again high on the list of challenges in this year's survey.

Concerns also remain regarding political developments in Hong Kong, including the implementation of the National Security Law, and their impact on the overall business climate in the city. The main areas of concern for companies in this context are Hong Kong's status as an international business center, freedom of speech and the independence of the judicial system. A majority of the companies see a negative impact on the overall business climate in Hong Kong as a result of these developments.

The survey indicates that many companies see significant challenges – but also potential – in the field of environmental sustainability in Hong Kong. Several respondents point to a need for more knowledge and awareness about developments, as well as further government action. As the Hong Kong government works towards the goal of carbon neutrality by 2050, interesting business opportunities are likely to present themselves to companies that specialise in sustainable solutions. Swedish companies stand ready to contribute experience and know-how, and to help accelerate the green transition.

Hong Kong, June 2021



Christian Bergensträhle
General Manager of the Swedish Chamber of Commerce in Hong Kong



Linda Bradley
Trade and Invest Commissioner at Business Sweden in Hong Kong



Per Augustsson
Consul General of Sweden in Hong Kong

EXECUTIVE SUMMARY



SAMPLE SELECTION

58% (54% previous year) of Swedish companies in Hong Kong responded to the survey

40% (53%) are in the professional services industry



ECONOMIC OUTLOOK

2.9 (2.6) out of 5 – a neutral but more positive business climate than a year ago

61% (62%) were profitable in 2020

57% (30%) expect revenue to be higher in 2021 than in 2020



MARKET INSIGHTS

Main advantages of Hong Kong are **taxation system, legal & regulatory system** and **geographical location**

Main challenges are **Covid-19 impacts and restrictions, high cost of rent** and **political developments**



KEY SUCCESS FACTORS

Top success factors are **cost efficiency, local partnerships, and staff development**

75% (71%) believe that the Swedish brand contributes to their business



SUSTAINABILITY

76% (80%) have integrated sustainability in their business model or company strategy

39% (42%) have gender-balanced leadership in Hong Kong

ABOUT THE SURVEY

Companies of various size, sectors and market presence in Hong Kong are represented in the Business Climate Survey – mirroring the diversity of Swedish firms

How are Swedish companies experiencing the business climate in Hong Kong and the Asia-Pacific region? Since 1997, Team Sweden in Hong Kong has carried out an annual business climate survey that monitors how Swedish companies¹ operating in Hong Kong perceive market conditions and economic prospects. Roughly estimated, there are around 200 Swedish companies in Hong Kong, including subsidiaries of Swedish companies and locally established companies with strong links to Sweden.

The report is divided into four main sections. The first section elaborates on the economic outlook of Swedish companies in Hong Kong, including the impact of political developments during the past 12 months and the measures related to Covid-19. The second section further investigates the Hong Kong market by assessing the respondents' perception of advantages and disadvantages of doing business here, in addition to Hong Kong's regional role. The third section covers Swedish companies' operations and perceived success factors. The fourth and final section explores sustainability-related aspects of business and how these factors impact companies' operations.

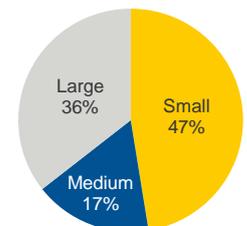
This Business Climate Survey was carried out in April 2021. It was sent to 107 (compared to 147 the previous year) member companies of the Swedish Chamber of Commerce in Hong Kong, with a total of 62 (79) respondents, a response rate of 58% (54%)².

36% (34%) of the respondents are large companies with more than 1,000 global employees and 17% (17%) are medium-sized companies with 250-1,000 global employees. The remaining 47% (50%) of the respondents are small companies with less than 249 global employees, of which 20% (22%) have less than 9 global employees, 14% (11%) have 10-49 global employees and 14% (17%) have 50-249 global employees.

The respondents represent a diverse range of business sectors. The three largest business categories among the respondents are: professional services 40% (53%), consumer companies 18% (26%) and industrial companies 15% (15%). These figures reflect Hong Kong's highly service-oriented economy.

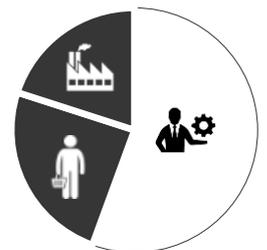
35% (37%) of the companies have more than 20 years of established presence in Hong Kong, with most of them being present before 1997. Half of the respondents (51%) have operated in Hong Kong 6-20 years and 13% (11%) are newcomers with up to 5 years of presence.

SIZE OF COMPANIES



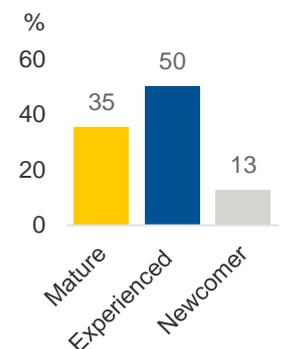
NOTE: Global employees.
Large >1000. Medium 250-1000.
Small 0-249.

MAIN INDUSTRIES



Professional services: 40%.
Consumer: 18%. Industrial: 15%.
Others: 26%.

YEARS OF PRESENCE



NOTE: Mature (>20). Experienced (6-20). Newcomer (0-5).

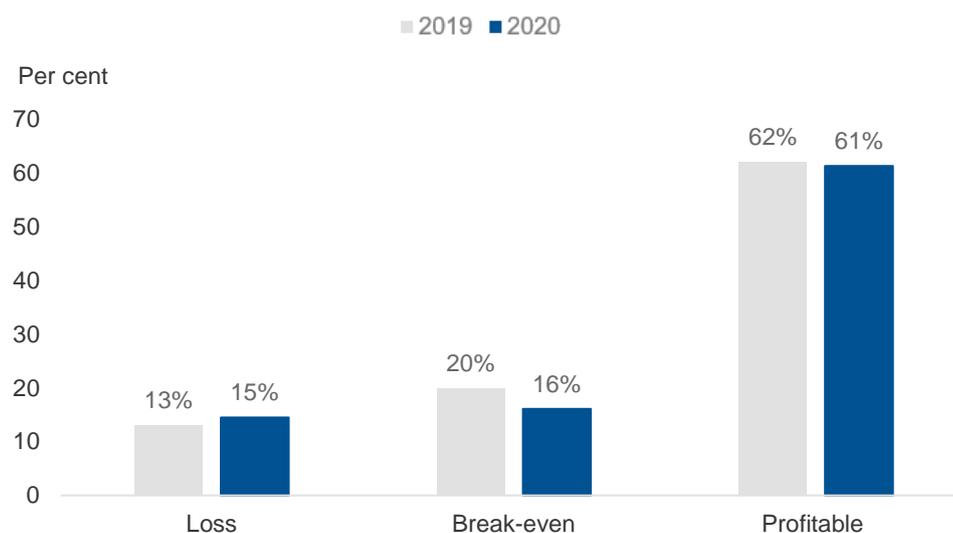
¹ The respondents of the survey include Swedish companies and other members of the Swedish Chamber of Commerce in Hong Kong. When referring to Swedish companies in the report, it includes all participating companies.

² Considering the sample size and current response rate, the survey has an error margin of 10%, implying that some results might be too vague to draw significant conclusions from, especially when comparing between years.

ECONOMIC OUTLOOK

Swedish companies in Hong Kong remained profitable in 2020

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN HONG KONG IN 2020?



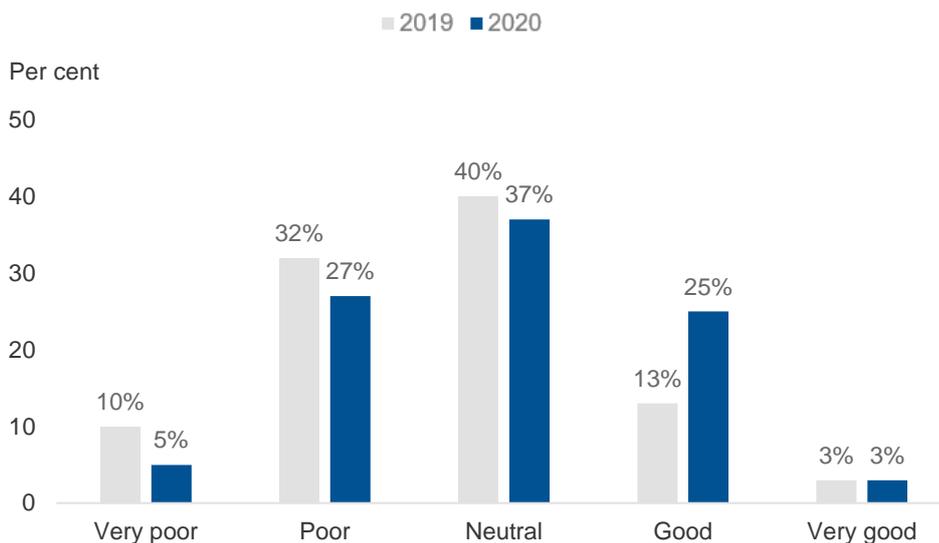
NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish companies in Hong Kong 2021

A majority of the respondents, 77% (compared to 82% in the previous year's survey), reported that financial performance in 2020 had been *profitable* or reached *break-even*, while 15% reported a *loss* in 2020.

These results indicate continued strong performance given the global economic downturn following the Covid-19 pandemic and recent political developments in the city.

Companies perceived a more positive business climate than a year ago

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN HONG KONG 2020?



NOTE: This question had 59 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Swedish companies perceived a more positive business climate when surveyed in April 2021, compared to in May 2020.

However, compared with a longer time frame, sentiment around the business climate is not fully back to its 2018 level (pre-social unrest and pandemic). In December 2018, 10% of companies considered the business climate to be *unfavourable* or *very unfavourable*, 40% perceived a *neutral* business climate, and 51% perceived a *favourable* or *very favourable* business climate.

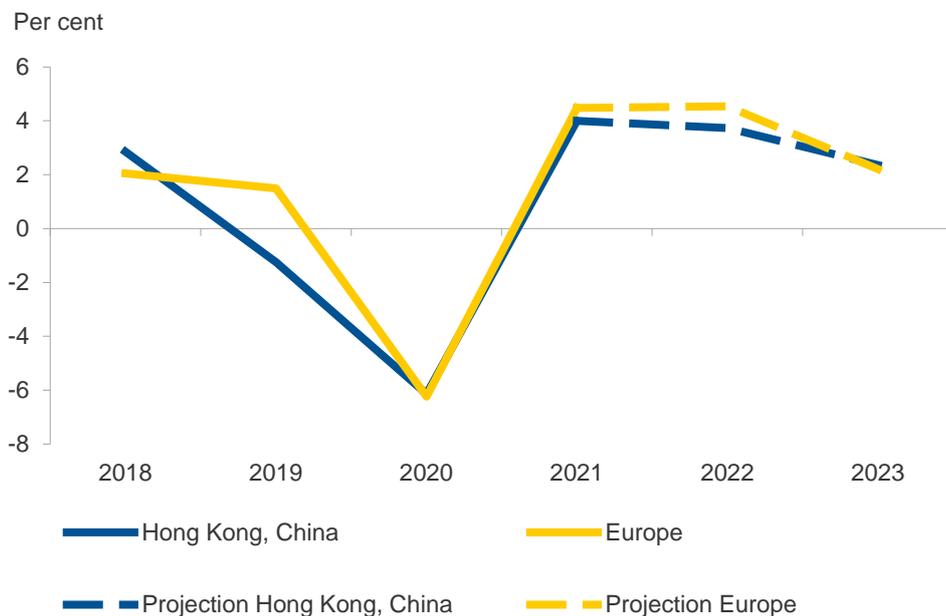


“We see challenges in Hong Kong but in my opinion, they are comparatively fewer than in other mature markets, especially Europe and the US, at least for pandemic-related aspects. The political situation beyond the pandemic remains a key question.”

Company representative
Swedish company

Hong Kong's GDP is expected to return to growth in 2021

GDP GROWTH IN HONG KONG



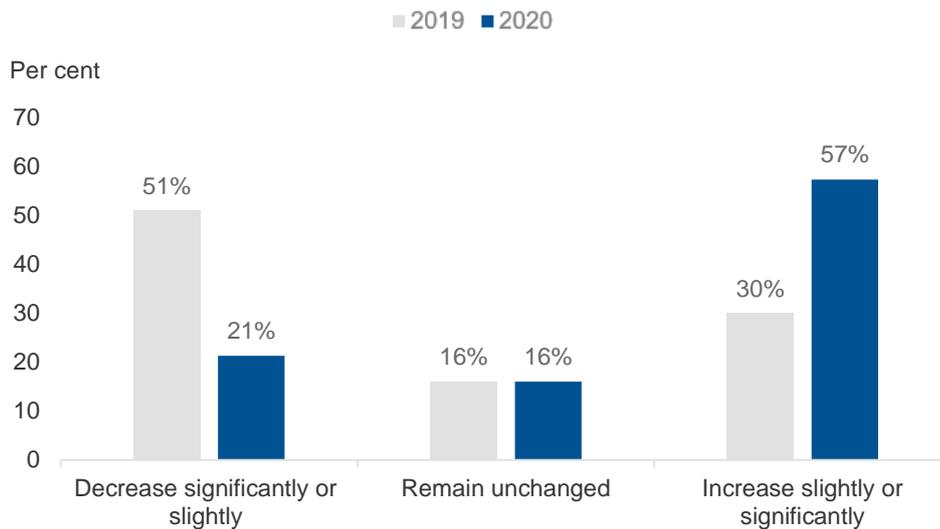
NOTE: Real GDP, local currency unit
SOURCE: Oxford Economics updated 2021-03-31

In 2020, Hong Kong's GDP contracted by 6.1% as the full economic impact of the pandemic rippled across global markets. The economic contraction follows the recession that started in 2019 after the anti-extradition bill when social unrest broke out, disrupting an average GDP growth of 2.9% per year from 2016-2018. However, as Hong Kong is a well-developed service economy where the financial sector represents a significant share, the drop in retail, hospitality and tourism had a less dramatic effect on GDP overall.

Considering the uneven economic recovery and the uncertainty of the pandemic, the government forecasts economic growth between 3.5%-5.5% in 2021.

Looking ahead, companies have a positive outlook on business recovery – expecting increased turnover and investments

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN HONG KONG REGARDING TURNOVER?

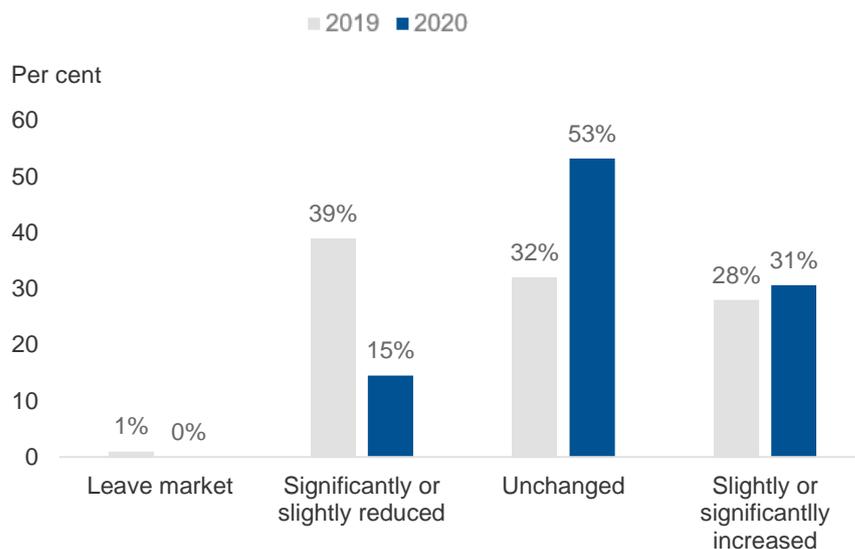


NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Looking 12 months ahead, more than half, 57% (30%), of respondents expected their industry's turnover to *increase slightly or significantly*, whereas one-fifth, 21% (51%), expected that turnover would *decrease slightly or significantly*, compared to the past 12 months.

The results show that companies' expectations on sales are much more positive for 2021 compared to when they were last surveyed in May 2020, in line with a recovering Hong Kong economy that is forecasted to return to growth in 2021.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN HONG KONG, COMPARED TO THE PAST 12 MONTHS?



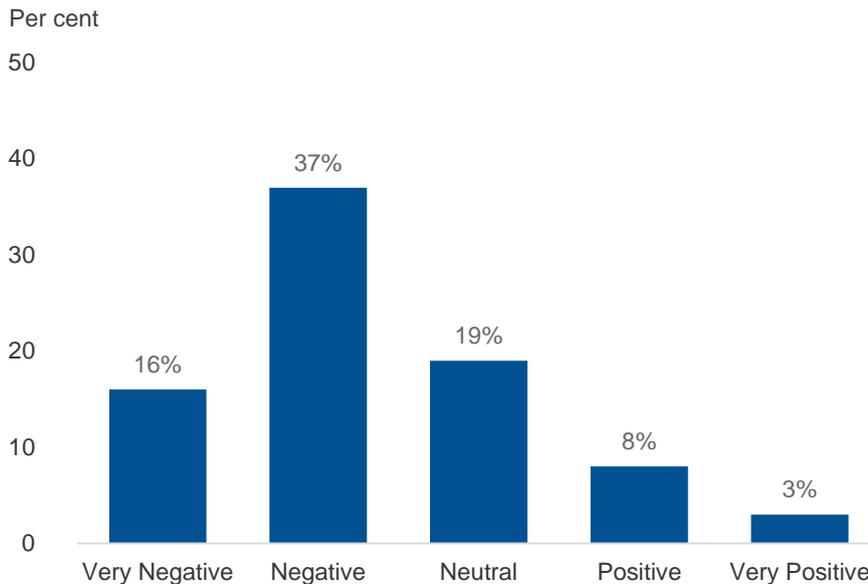
NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Looking 12 months ahead, a majority of respondents, 84% (60%), planned to have *unchanged, slightly or significantly increased* investments plans, while 15% (39%) planned to *slightly or significantly reduce* investments compared to the past 12 months. Moreover, none of the respondents, 0% (1%), planned to *leave the market*.

A larger share of companies will maintain investments at an unchanged level in the coming year, while a smaller share of companies expect to decrease investments in Hong Kong. This indicates a positive outlook compared to the results in May 2020, when companies had to quickly adapt their business and scale down planned investments due to the coronavirus outbreak. It is noteworthy that none of the respondents have plans to leave the market.

Recent political developments are perceived to have a negative impact on the business climate

WHAT HAS BEEN THE IMPACT OF POLITICAL DEVELOPMENTS DURING THE PAST 12 MONTHS, INCLUDING THE IMPLEMENTATION OF THE NATIONAL SECURITY LAW, ON THE OVERALL BUSINESS CLIMATE IN HONG KONG?



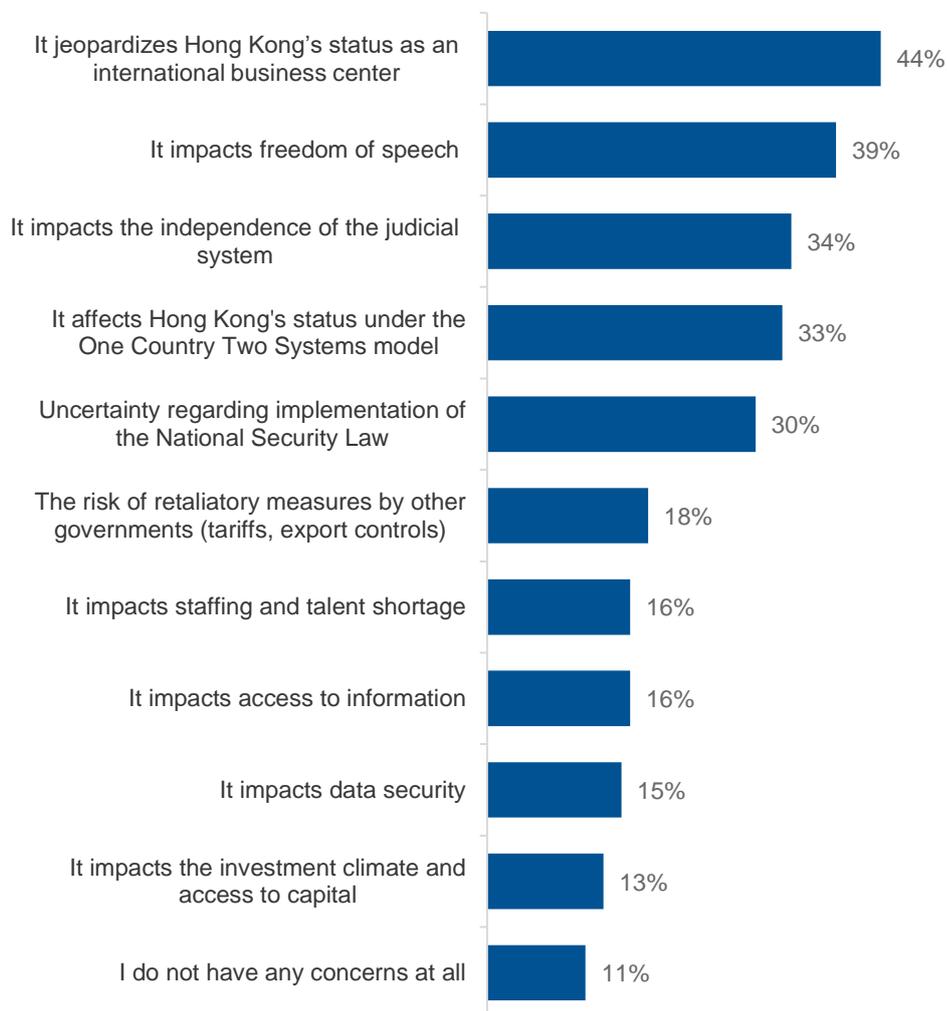
NOTE: This question had 62 responses. "Don't know/Not applicable" and "Don't want to answer" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Over half of the respondents, 53%, perceived a *negative* or *very negative* impact of the past 12 months' political developments (including the National Security Law) on the business climate, while one in five respondents, 19%, perceived a *neutral* impact. These results are largely in line with what respondents expected of the impact of the National Security Law when surveyed in August 2020³.

On the other hand, one in ten respondents, 11%, perceived a *positive* or *very positive* impact. Also, 10% of respondents declined to answer and 7% responded *don't know/not applicable*.

³ Business Climate Survey for Swedish Companies in Hong Kong 2020 – Add on survey: National Security Law

WITH REGARD TO THESE DEVELOPMENTS⁴, WHAT ARE THE MAIN AREAS OF CONCERN FOR THE OVERALL BUSINESS CLIMATE IN HONG KONG DURING THE PAST 12 MONTHS?



NOTE: This question had 61 responses. "Don't know/Not applicable" and "Don't want to answer" responses are included but not shown in the graph.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

The top concerns related to political developments in Hong Kong remain largely unchanged among companies compared to the last survey in August 2020⁵, apart from *impacts on staffing and talent shortage* which are no longer among the top 6 areas of concern. In this year's survey, *impacts on freedom of speech* was added as an area of potential concern.

On the other hand, 11% (compared to 13% in the last survey) of the respondents stated that they had *no concerns at all*.

⁴ Refers to "political developments during the past 12 months, including the implementation of the National Security Law" in the previous question

⁵ Business Climate Survey for Swedish Companies in Hong Kong 2020 – Add on survey: National Security Law

HOW DO YOU EXPECT THAT THESE POLITICAL DEVELOPMENTS⁶ WILL IMPACT YOUR COMPANY'S FUTURE PLANS IN HONG KONG?

“We might consider moving regional head office to other locations in Asia, reducing number of staff in Hong Kong”

Company representative

Swedish company

“Very hard to say at this stage, it really depends on how things develop. We currently don't have huge concerns in the short to medium term, but we are watching the situation closely.”

Company representative

Swedish company

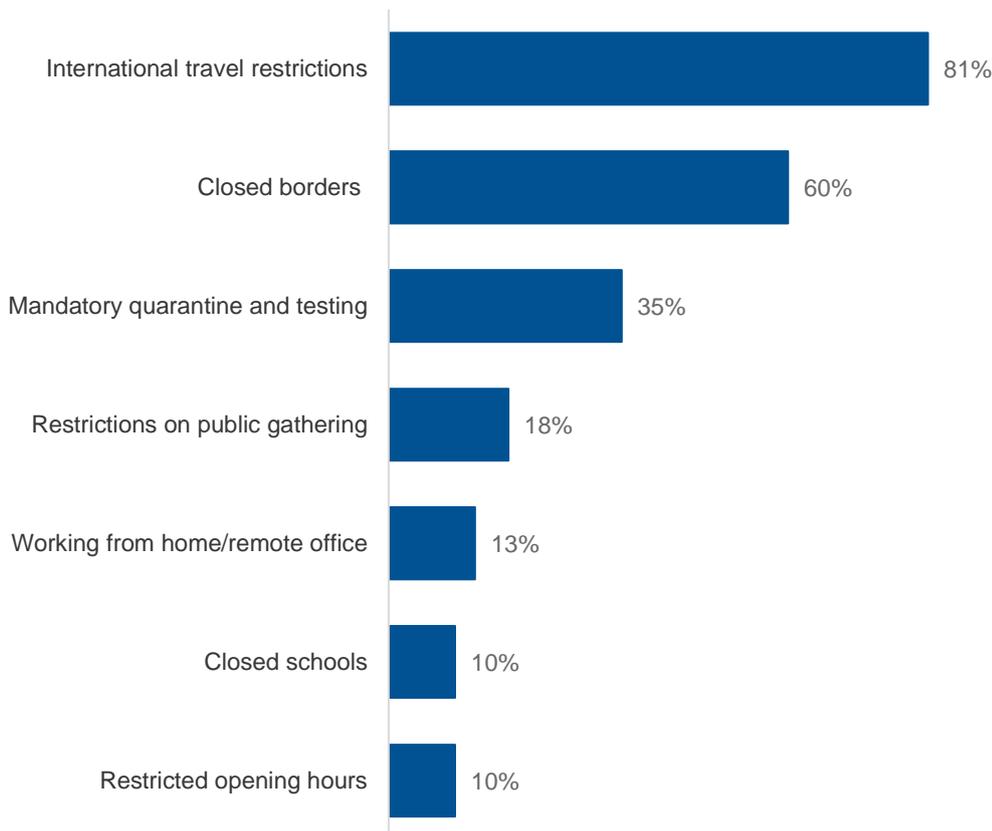
Looking ahead, the potential impact of the political developments on Swedish companies' future plans in Hong Kong varies. In addition to the highlighted quotes, respondents mentioned various risks such as *shrinking customer base*, *talent shortage* and *general distress and uncertainty*.

The overall sentiment is a continued “wait-and-see” approach combined with contingency plans in response to the uncertainty.

⁶ Refers to “political developments during the past 12 months, including the implementation of the National Security Law” in the previous question

Travel restrictions due to Covid-19 have impacted companies relatively more than local restrictions on gathering and movement

WHICH COVID-19-RELATED MEASURES IN HONG KONG HAVE AFFECTED YOUR BUSINESS THE MOST?



NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

In terms of Covid-19 measures, companies have been relatively more affected by travel-related difficulties (such as *international travel restrictions*, *closed borders*⁷ as well as *mandatory quarantine and testing*⁸), than by local restrictions on *public gathering*, *working from home/remote office*, *closed schools* and *restricted opening hours*⁹, which may have been easier to adapt to with flexibility.

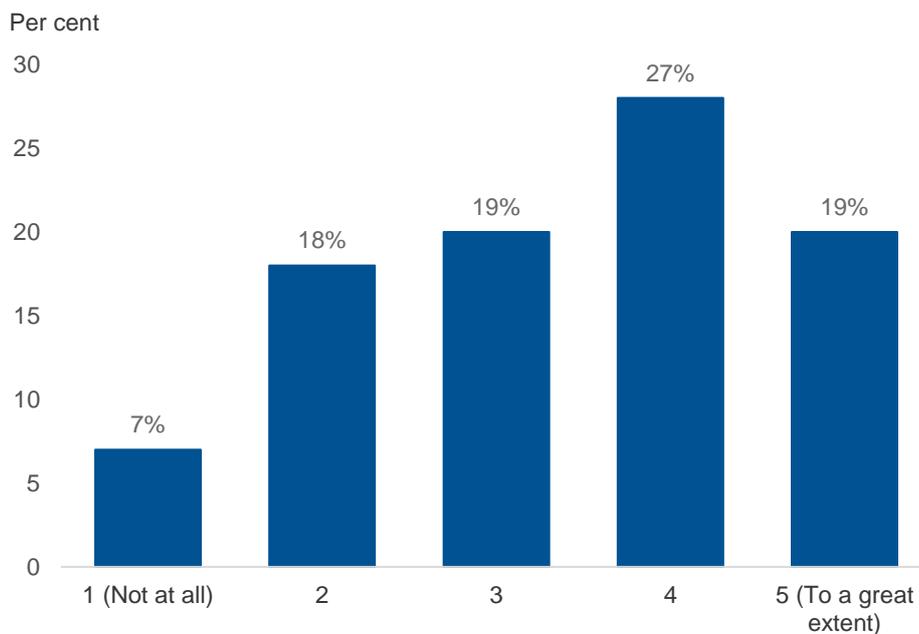
⁷ Entry restriction on non-Hong Kong residents

⁸ For inbound travellers as well as imposed compulsory testing orders

⁹ For certain businesses, mainly in hospitality and leisure

More companies consider government measures in response to Covid-19 to have been adequate than inadequate

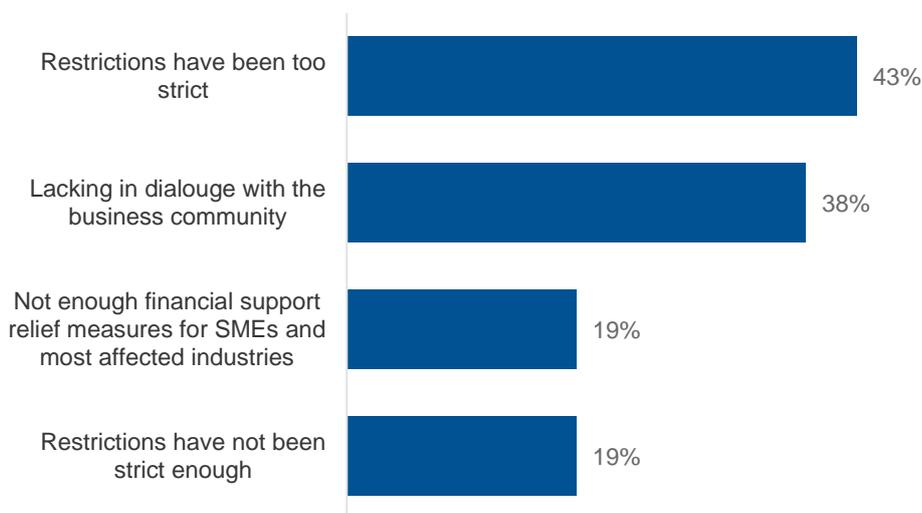
DO YOU CONSIDER THE MEASURES TAKEN BY THE HONG KONG GOVERNMENT IN RESPONSE TO COVID-19 TO HAVE BEEN ADEQUATE?



NOTE: This question had 62 responses. "Don't know/Not applicable" and "Don't want to answer" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Almost half, 46%, of respondents considered that government measures in response to Covid-19 have been *adequate to some extent* or *a great extent*. On the other hand, one quarter, 25%, of respondents consider government measures to be *inadequate to some extent* or *to a great extent*, whereas one-fifth, 19%, were *neutral*. Also, 6% responded *don't want to answer* or *don't know/not applicable*.

IF YOU DO NOT CONSIDER THE GOVERNMENT'S RESPONSE TO HAVE BEEN ADEQUATE, WHAT DO YOU THINK HAS BEEN MISSING?



NOTE: This question had 47 responses. "Don't know/Not applicable" and "Don't want to answer" responses are included but not shown in the graph.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Among the respondents who did not consider the government's response to have been adequate, the insufficient areas were mainly that *restrictions were too strict* and that the government was *lacking in dialouge with the business community*.

Apart from these areas, equally many respondents, one-fifth, responded either *not enough financial support*, *restrictions not strict enough* or *don't know/not applicable*.

HOW DO YOU PERCEIVE THAT COVID-19 WILL IMPACT YOUR COMPANY'S FUTURE PLANS IN HONG KONG?



“If 21 days of quarantine will remain in place in Hong Kong, and other neighbouring countries will have e.g. 0, 7 or 14 days, we will consider moving to another more flexible hub in Southeast Asia...”

Company representative
Swedish company

Looking ahead, travel-related difficulties remain the most commonly mentioned Covid-19 impact on Swedish companies' future plans in Hong Kong. As an example, the highlighted quote mentions the comparative disadvantage of having a longer quarantine period than neighbouring countries.

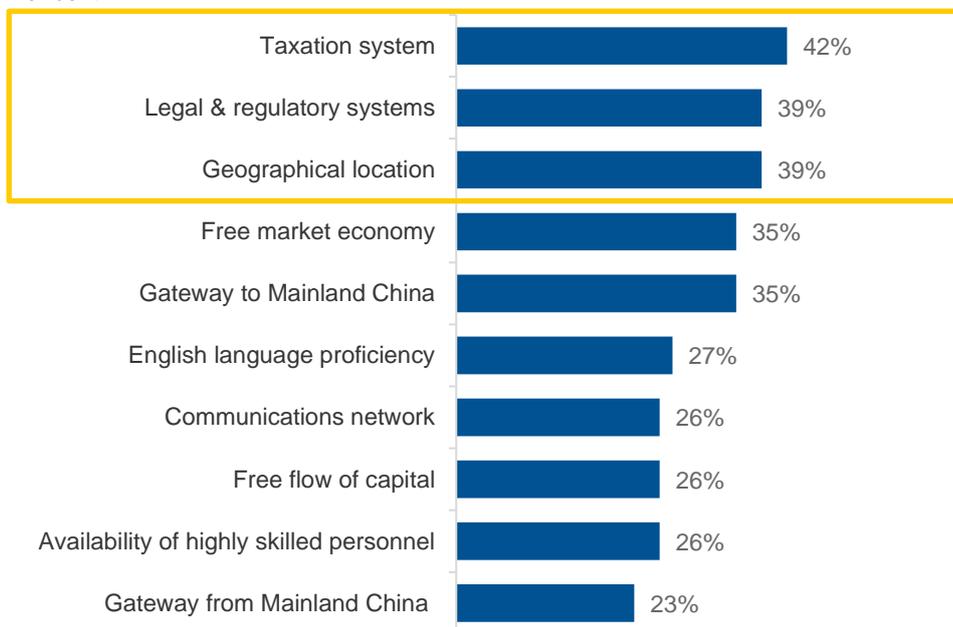
Apart from these travel-related impacts, other respondents indicated *no impact* or *not much impact* of Covid-19 on their future plans in Hong Kong.

THE MARKET

The main advantages of Hong Kong are taxation system, legal & regulatory system and geographical location

WHICH ARE THE MOST SIGNIFICANT ADVANTAGES OF BEING IN HONG KONG WITH REGARDS TO YOUR BUSINESS ACTIVITIES?

Per cent



Top 3 advantages

NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Despite many long-term and short-term changes underway in the city (as covered in previous sections), the top 5 advantages of Hong Kong as a business location remain unchanged; *geographical location, taxation system, a free-market economy, legal and regulatory system and gateway to Mainland China*. These results are in line with surveys from previous years.

In addition to the top 10 advantages shown in the graph, additional choices were (in falling order); *Access to key customers and/or business partners, business potential overall, stable government and political system, public security and safety, free port status, freedom of press and unrestricted flow of information and cost of doing business*.

The bottom 5 choices are also largely unchanged from previous years (in falling order); *physical infrastructure, IPR protection, civil service efficiency, access to start-up capital and funding and availability of international schools*. These factors may not be key reasons for Swedish companies to set up operations in Hong Kong, but can still be regarded as comparative advantages compared to other cities and business hubs.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN HONG KONG?



NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
 SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Business conditions in Hong Kong are overall considered to be favorable, as shown by all conditions scoring between 6 and 8 out of maximum 9 in the index.

The relative ranking of business conditions shows that *personal safety*, *labour market regulation*, *work culture/business mindset* and *access to service providers* were considered increasingly favourable compared to their ranking in last year's survey.

On the other hand, *customs* and *licenses, permits and approvals*, don't meet business needs as well as before, as shown in their relatively lower rank than the year prior.

Still, what remains unchanged is the *level of digitalisation* at the bottom, as there is still vast room for improvement in this area.

Fewer companies use Hong Kong as regional headquarters compared to previous year

WHAT IS THE PURPOSE OF THE REGIONAL HEADQUARTERS?



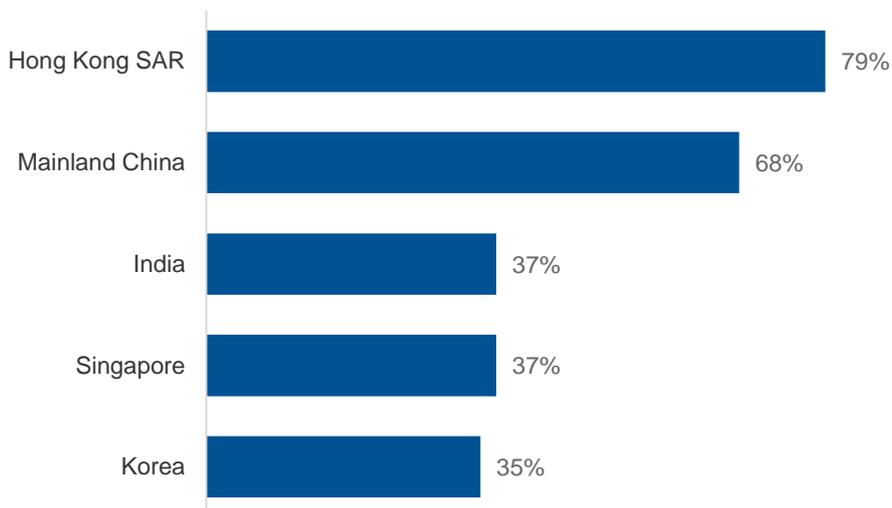
53% use Hong Kong as regional HQ for Asia-Pacific

NOTE: This question had 33 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

53% of respondents (compared to 63% in the last two surveys) use Hong Kong as a regional headquarters or regional support function for their operations in Asia-Pacific, most commonly for the purpose of *overall management* and *sales*. Compared to the previous year, *financial control* has been replaced by *purchasing and sourcing* in the top 3. These changes could be explained by a few Swedish companies that closed down their Hong Kong offices in the past 12 months.

Mainland China remains the most important market – Hong Kong's competitiveness is seen to have declined

WHERE IN ASIA-PACIFIC DOES YOUR COMPANY CURRENTLY HAVE BUSINESS OPERATIONS?



► **Hong Kong SAR and Mainland China account for the largest share of Swedish companies' operations in Asia-Pacific**

NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

The results show that most Hong Kong-based companies conduct business in *Hong Kong SAR*, 79% (94%), and *Mainland China* 68% (89%), followed by *India*, *Singapore* and *Korea*.

The share of respondents who don't have business operations in Hong Kong SAR and/or Mainland China has increased in comparison to last year's survey. These respondents are small companies with less than 49 employees locally, in fact more than half of them have less than 9 employees locally. In addition, Covid-19 travel restrictions could also have restricted companies engaged in cross-border business who used to travel frequently between Hong Kong SAR and Mainland China.

WHICH MARKETS IN ASIA DO YOU CONSIDER MOST INTERESTING FOR YOUR COMPANY IN THE NEXT THREE YEARS?



- Top 3 markets**
ranked by order (last year's rank)
1. (1) Mainland China
 2. (2) Hong Kong SAR
 3. (3) Vietnam

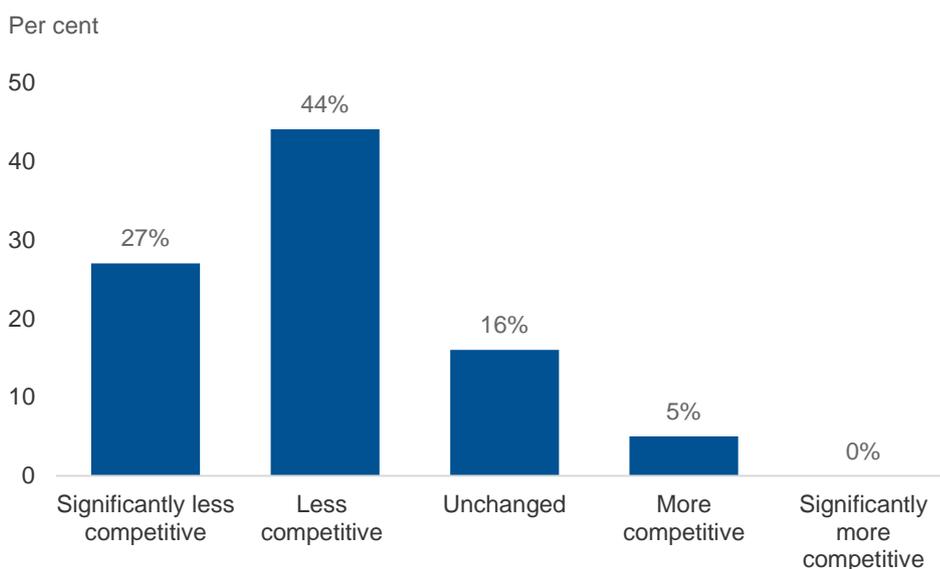
- Other interesting markets**
ranked by order (last year's rank only up to no.7)
4. (5) Singapore
 5. (x) Thailand
 6. (6) Japan
 7. (4) Indonesia
 8. (x) India
 9. (x) Korea
 10. (x) Malaysia
 11. (x) Australia
 11. (7) Taiwan
 12. (x) Philippines
 13. (x) Macau

NOTE: This question had 61 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

A majority, 64% (75%), of respondents considered *Mainland China* as the most interesting market for the next three years, followed by *Hong Kong SAR*, 36% (39%), and *Vietnam*, 31% (37%). The top 3 markets have been unchanged in the Business Climate Surveys since 2018.

Among other markets of interest, *Thailand* was relatively more interesting compared to the previous year, whereas *Taiwan* was considered less so.

HOW DO YOU THINK HONG KONG'S OVERALL COMPETITIVENESS HAS CHANGED IN THE PAST 12 MONTHS COMPARED TO OTHER CITIES IN THE REGION AND GLOBALLY?



NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

A majority of respondents, 71%, considered Hong Kong to be *less competitive* or *significantly less competitive* compared to other cities in the region and globally in the past 12 months. Meanwhile, 16% of respondents considered it *unchanged* and 5% *more competitive*. It remains to be seen whether these results are short-term or long-lasting.

Two years after the Greater Bay Area initiative was launched, its potential impact on business prospects remains to be seen

HOW DO YOU PERCEIVE THAT THE GREATER BAY AREA GOVERNMENT INITIATIVE WILL AFFECT YOUR COMPANY'S BUSINESS PROSPECTS IN THIS REGION GOING FORWARD?

“It will make our operations easier in terms of the flow of goods, funds, and people between our Mainland and Hong Kong operation.”

Company representative

Swedish company

“Great but also seems to have slowed down considerably. Too early to tell.”

Company representative

Swedish company

The Greater Bay Area integration initiative was launched in 2018 with the aim to integrate the two special administrative regions of Hong Kong and Macau with the nine main cities across the Pearl River Delta in the Guangdong province.

Looking ahead, the potential impact of the Greater Bay Area on business prospects in the region remains to be seen. In addition to the highlighted quotes, respondents mentioned its *business potential*, *easier access to Mainland operations and customers*, *no impact* and *not relevant*.

The overall sentiment of the Greater Bay Area seems to be “too early to tell”.

The US-China trade conflict does not have a widespread impact other than uncertainty and indirect impact on overall economic activity

HOW DO YOU PERCEIVE THAT THE US-CHINA TRADE CONFLICT WILL AFFECT YOUR COMPANY'S BUSINESS GOING FORWARD?



“...To the extent that the trade conflict has reduced overall economic activity growth...”

Company representative

Swedish company



“To the extent it continues and spreads to impact Europe-China relationship”

Company representative

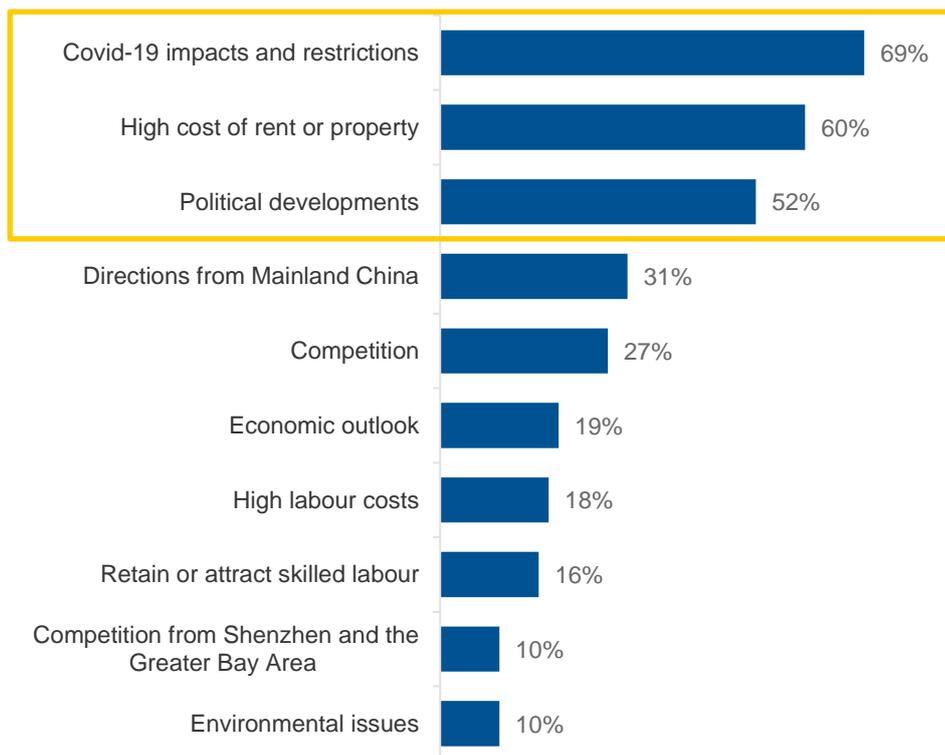
Swedish company

The US-China trade conflict and subsequent geopolitical tensions have continued to claim the spotlight in the global economic landscape.

The overall sentiment is that it will have *no impact* or *potentially negative impact* on Swedish companies' business going forward, largely in line with the results of last year's survey. In addition to the highlighted quotes, respondents mentioned concerns such as *impacts on value chains, restricted items* and *a risk factor going forward*.

Main challenges of Hong Kong are Covid-19 impacts and restrictions, high cost of rent and political development

WHAT ARE THE TOP 5 FACTORS THAT YOU CONSIDER MOST CHALLENGING FOR YOUR BUSINESS IN HONG KONG?



Top 3 challenges

NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Among the top 3 challenges, *Covid-19 impacts and restrictions* and *political developments* are relatively recent concerns, while *high cost of rent* has been a key challenge for Swedish companies in Hong Kong for many years as seen in previous Business Climate Surveys.

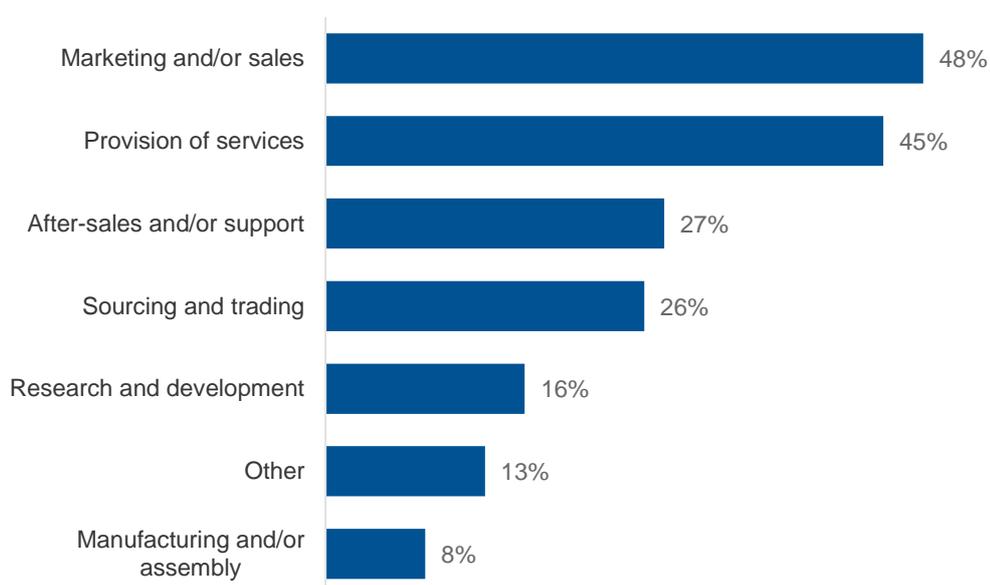
Compared to the previous year, *economic outlook* is no longer among the top 3 challenges, which is a sign of market recovery, while *directions from Mainland China* has moved up from top 5 to top 4.

In addition to the top 10 challenges shown in the graph, the bottom choices are (in falling order); *complex government regulations*, *lack of consumer knowledge*, *investment climate*, *access to start-up capital and funding*, *corruption* and *access to distribution channels*. These factors may not be key challenges for Swedish companies in Hong Kong, but can still be regarded as comparative disadvantages compared to other cities and business hubs.

HOW SWEDISH COMPANIES SUCCEED IN HONG KONG

Most companies have service-related operations and cost efficiency is key to staying competitive

WHAT OPERATIONS DO YOU CARRY OUT IN HONG KONG?

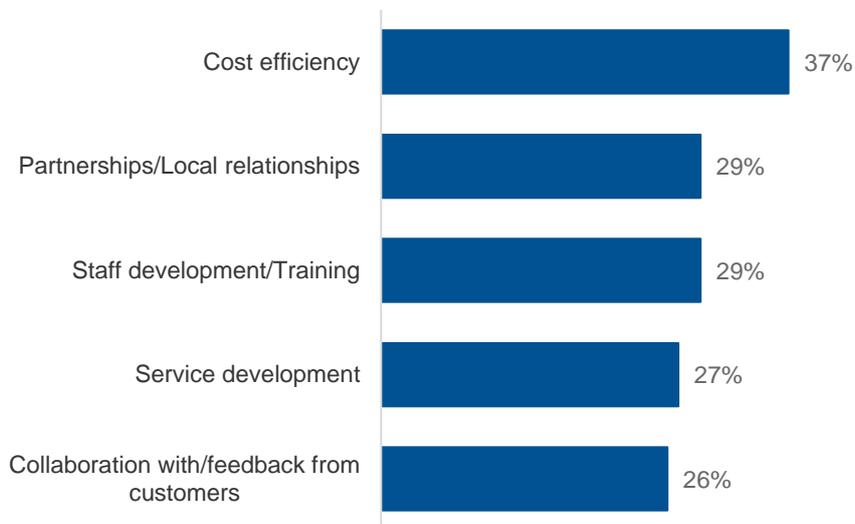


NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Swedish companies in Hong Kong represent a diverse range of business sectors (see *About the Survey* on page 6): about 40% of survey respondents represent professional services, 18% consumer and 15% industrial – which reflects Hong Kong's highly service-oriented economy.

Regardless of business sector, companies mainly carry out service-related operations in Hong Kong, namely *marketing and/or sales*, *provision of services* and *after-sales and/or support*. *Sourcing and trading* operations is less common than a year ago, when it was the second most common business category in Hong Kong.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT TO MAINTAIN COMPETITIVENESS IN HONG KONG?



NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

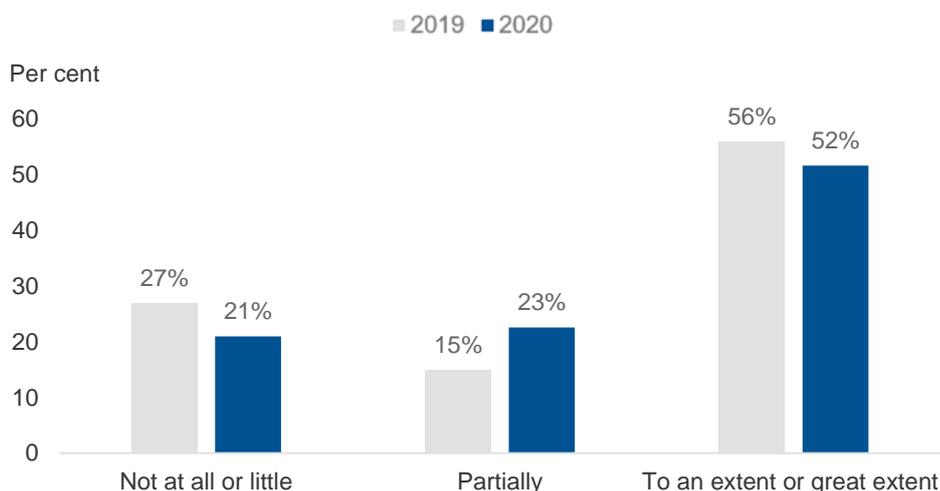
Cost efficiency was considered the most important factor to maintain competitiveness in Hong Kong. In addition to the city's high cost of rent, short-term revenue loss as a result of the pandemic has forced companies to adjust operating costs in order to maintain profitability or break-even.

Partnerships / local relationships were also considered an important factor to maintain competitiveness in Hong Kong. Business Sweden, the Consulate General of Sweden and the Swedish Chamber of Commerce all play an important role in helping companies to navigate the market and build relationships with important stakeholders.

Compared to the previous year's survey, *staff development / training* has overtaken *sales competence* as important for competitiveness. Other factors not shown in the graph above are (in falling order): *product development / adaptation*, *digitalisation and e-commerce*, *sales competence*, *brand awareness* and *public affairs / relations with government*.

A strong Swedish brand – associated quality, sustainability and design

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN HONG KONG?



▶ **75% see the Swedish brand as contributing positively to their business**

NOTE: This question had 62 responses. “Don’t know/Not applicable” responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

75% (71%) of the respondents perceived that the “Swedish brand” contributes to their business in Hong Kong

WHICH CHARACTERISTICS DESCRIBE HOW THE SWEDISH BRAND IS PERCEIVED IN HONG KONG?



1. Quality

77%



2. Sustainability

60%



3. Design

53%



4. Innovation

50%



5. Trust

42%



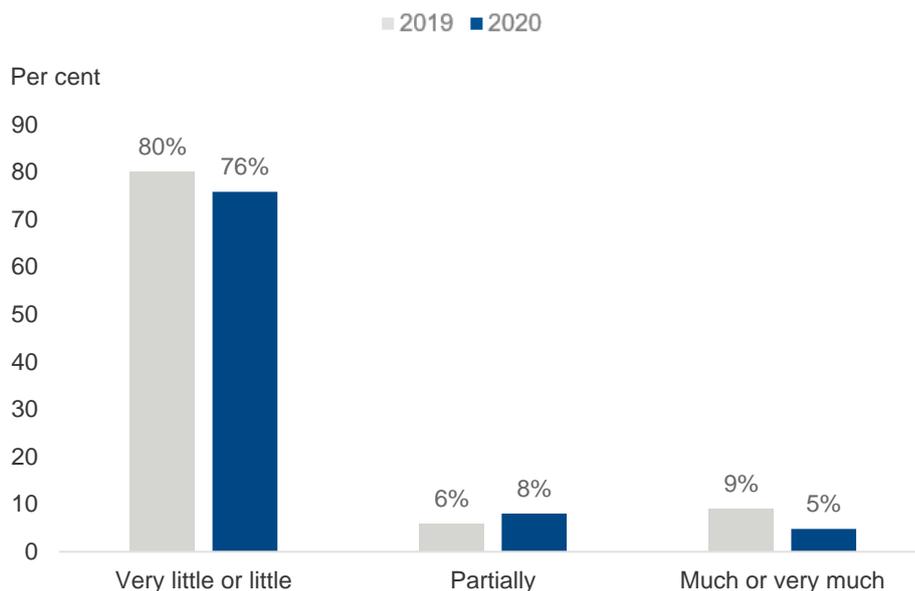
6. Safety

31%

ACTING SUSTAINABLY

Continued perceived low risk of corruption, human rights violations and labour rights abuses

TO WHAT EXTENT DO YOU PERCEIVE THAT CORRUPTION IN HONG KONG AFFECTS YOUR BUSINESS?



NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

A majority of the respondents, 76% (80%), perceived *little* or *very little* impact of corruption on their business in Hong Kong. This is largely unchanged from previous year's survey.

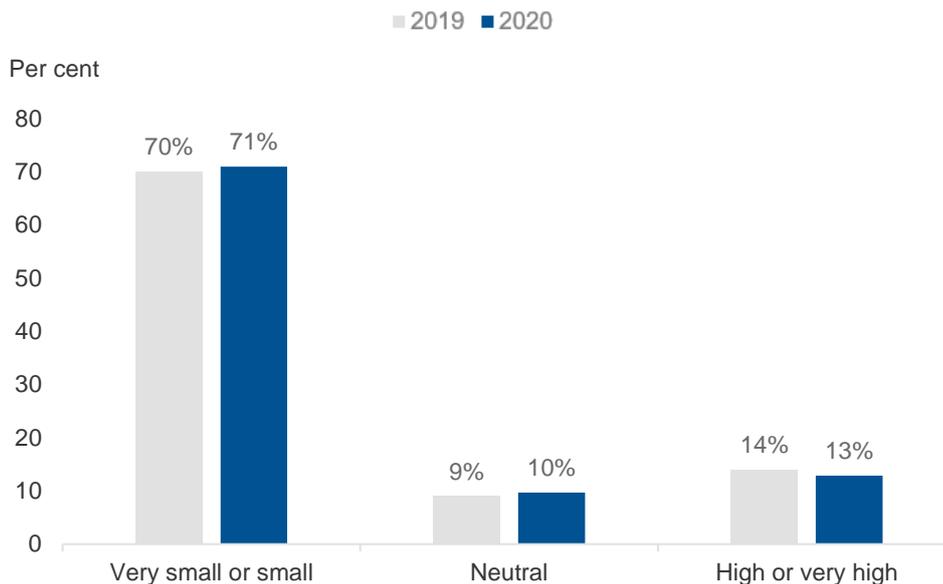
These numbers are also in line with global corruption indices. In the Transparency International's Corruption Perceptions Index 2020, the leading global indicator of public sector corruption, Hong Kong ranked number 11 out of 180 countries and territories, up from 16 in the year before. Hong Kong has the second-highest ranking in Asia and has maintained an index of around 77 out of 100 since 2012.

Corruption Perceptions Index

	Rank	Index
Sweden	3	85
Singapore	3	85
Hong Kong	11	77
Japan	19	74
Taiwan	28	65

SOURCE: Transparency International 2020

HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN HONG KONG?



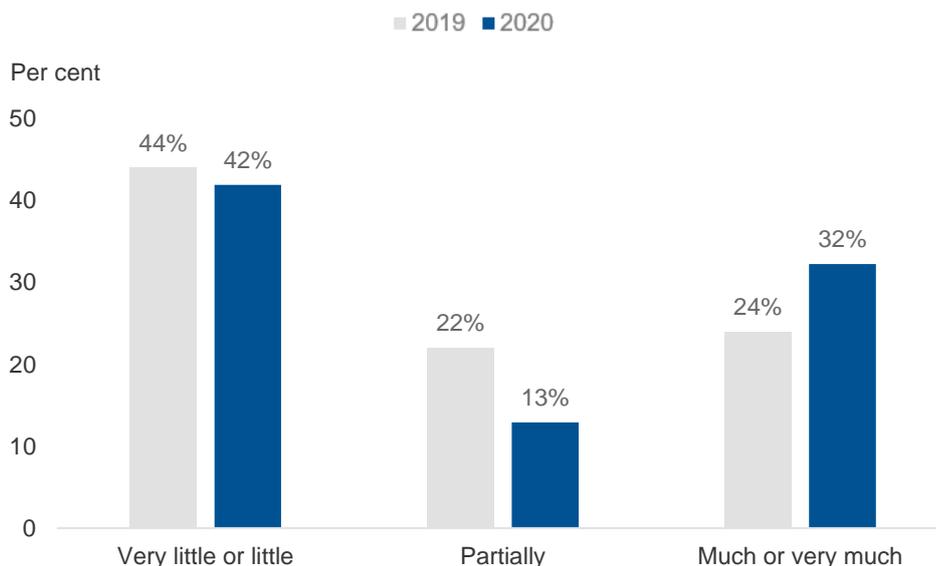
NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

A majority of the respondents, 71% (70%), perceived a *small* or *very small* risk of encountering human rights violations and/or labour rights abuse in Hong Kong. This is largely unchanged from previous year's survey

These issues are commonly encountered within industries employing low-skilled labour, for example in basic manufacturing. Given that only 8% of respondents carry out manufacturing activities locally (see page 26), the risks are perceived as low in Hong Kong. However, as Swedish companies based in Hong Kong may carry out manufacturing operations in other Asian countries, the risk of encounter human rights and labour rights abuses in their supply chains outside of Hong Kong remains.

Environmental considerations have increased among customers

IN YOUR VIEW, TO WHAT EXTENT DO CUSTOMERS IN YOUR INDUSTRY IN HONG KONG CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

An increasing share of respondents perceived that customers consider environmental aspects when purchasing products or services. 32% (24%) answered that their customers show *much* or *very much* environmental consideration in purchasing decisions, while 13% (22%) of the respondents perceived customers to be *partially* considerate and 42% (44%) estimated that customers pay *little* or *very little* attention to environmental aspects.

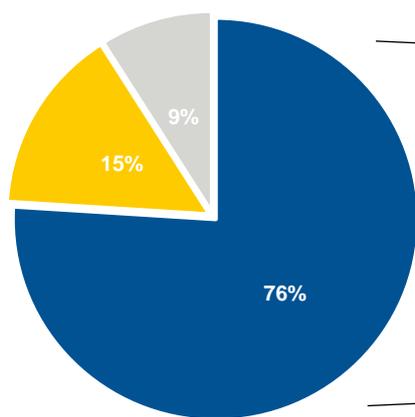
The Sustainability Committee of the Swedish Chamber of Commerce in Hong Kong has been very active in driving the sustainability agenda and environmental policy in the past year. Among others, a policy paper on 'green recovery' called for a green dimension to drive sustainable growth in Hong Kong, highlighting policy recommendations to tackle both job creation and long-term low-carbon transition in October 2020.¹⁰

Several respondents pointed to a need for more knowledge and awareness about environmental sustainability, as well as further government action. As the Hong Kong government works towards the goal of carbon neutrality by 2050, interesting business opportunities will most likely present themselves to companies with experience and know-how in green solutions.

¹⁰ <http://www.swedcham.com.hk/swedcham-hks-sustainability-committee-a-green-recovery-calling-for-a-green-dimension-to-drive-sustainable-growth-in-hong-kong/>

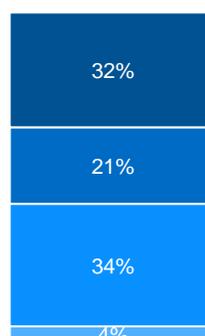
Swedish companies are actively working with sustainability, which contributes to their profitability

IS SUSTAINABILITY WORK PART OF YOUR COMPANY'S BUSINESS MODEL OR STRATEGY?



■ Yes ■ No ■ Don't know/Not applicable

IF YES, DOES SUSTAINABILITY CONTRIBUTE TO YOUR COMPANY'S PROFITABILITY?



■ High impact
 ■ Medium impact
 ■ Limited impact
 ■ No impact

NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
 SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Swedish companies are often seen as pioneers within the field of sustainability, being at the forefront of incorporating sustainable technologies into their business practices.

A majority of the respondents, 76% (compared to 80% in 2020 and 67% in 2018), stated that *sustainability work and efforts are part of business model or strategy* in the companies they represent. Among these respondents, 86% (89%), indicated that the sustainability work *impacts profitability* – in fact 53% (50%) indicated that it has a *medium-to-high* impact on profitability.

Similar results were presented in the Business Climate Survey from 2018, which shows that working with sustainability is a hygiene factor for Swedish companies now and that it affects their financial performance and long-term profitability.

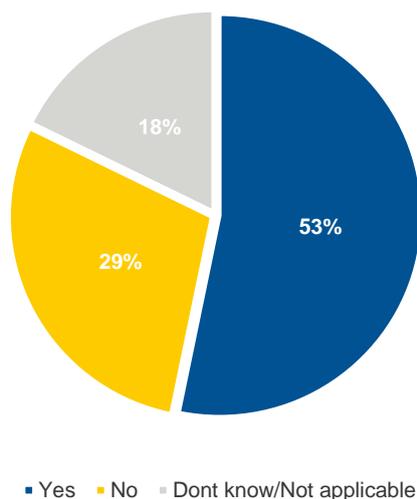


“We are 100% climate neutral, aiming for 100% fossil free transport for our products [but] not sure if the market is ready to choose products that do their utmost to minimise climate impacts.”

Company representative
 Swedish company

Many companies have proactive diversity and inclusion initiatives and two out of five have gender-balanced leadership in Hong Kong

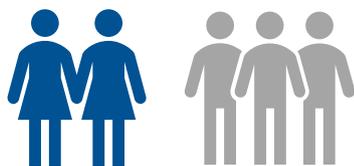
DOES YOUR COMPANY HAVE A PROACTIVE DIVERSITY & INCLUSION POLICY?



NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

53% of respondents indicated that their companies *have a proactive diversity and inclusion policy*, whereas 29% *don't have* and 18% answered *don't know/not applicable*.

APPROXIMATELY, WHAT IS THE PERCENTAGE OF WOMEN IN LEADING POSITIONS IN YOUR COMPANY IN HONG KONG?



2 out of 5 companies have gender-balanced leadership
(board, management or director level)

NOTE: This question had 62 responses. "Don't know/Not applicable" responses are included but not shown in the graph.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2021

Swedish companies in Hong Kong continue to show a large representation of women in leading positions. 39% (42%) of the respondents stated that women represent 50% or more of their board, management and directors. Almost all of these respondents represent small-sized companies with less than 49 local employees. This result is in line with the Business Climate Surveys in 2018 and 2020.



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