

BUSINESS CLIMATE SURVEY HONG KONG 2020

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, Strategy Consultant at Business Sweden and Gustav Ridell, 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 and are active in a multitude of sectors, including financial services, retail, and creative industries. The latest Business Climate Survey was published in December 2018. Since then Hong Kong has experienced significant challenges, including political protests and the outbreak of Covid-19. The enactment of the National Security Law has also created a high degree of uncertainty. Despite these challenges Hong Kong remains an important business hub and market for the Swedish business community.

The purpose of this report is to increase the understanding of the opportunities and challenges that the Hong Kong market holds for Swedish companies. In addition, we are hopeful that it will serve as a useful reference in the bilateral trade dialogue between Sweden and Hong Kong. It is important to note that the survey was conducted before the introduction of the National Security Law for Hong Kong. However, a second smaller survey was carried out during August to reflect this new situation and ensure the relevance of the survey.

2019 saw the rise of mass demonstrations against the (now withdrawn) extradition bill, leading to months of pro-democratic protests and social unrest. The tourism, retail and hospitality sectors – major pillars of the economy – were deeply affected and the Hong Kong economy slumped into a recession for the first time since the global financial crisis.

In January 2020, the outbreak of the Covid-19 epidemic in Hong Kong led to closing of borders and social distancing, resulting in continued difficulties for the local economy. After having had the virus outbreak under control in Hong Kong for several months, the city suffered a new outbreak in July and the economy continues to be highly affected by the pandemic and the global economic slowdown. For a city that thrives on serving international commerce, it is challenging to deal with an extended period of travel restrictions and diminishing trade flows. The Hong Kong government has introduced several financial support packages (amounting to approximately 10% of GDP so far) including the Employer's Support Scheme, that have offered a lifeline to many firms.

Swedish companies based in Hong Kong have been quick to respond to the new challenges, implementing new ways of doing business. However, the future outlook is uncertain. Swedish companies currently view the business climate in Hong Kong as negative, due to a high degree of uncertainty. However, a majority still remain resilient and profitable. The coronavirus outbreak is perceived as a short-term risk, while the political and social unrest are recognized as more long-term risks, with potential to affect Hong Kong's status as an international business hub. A majority of the respondents believe that the National Security Law will have a negative impact on the business climate in Hong Kong. Although few respondents indicated a direct impact of the growing economic tensions between USA and China, there is a concern that free flow of capital and information might be affected.

While most Hong Kong-based Swedish companies carry out business operations in both Hong Kong and China, Hong Kong is also extensively used as a hub covering the wider region, where the surveyed companies highlight mainland China and Vietnam as the most important markets in the coming years. It's positive to note that the Swedish brand remains strong and reflects quality, trust and sustainability. We also observe that Swedish companies link sustainability to profitability, and that 42% of the respondents have 50% or more women in leading positions.

Lastly, we would like to extend our most sincere gratitude to the participating companies and respondents who provided their input to this report.

Hong Kong, September 2nd 2020



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EXECUTIVE SUMMARY

Economic situation in Hong Kong

- ▶ Economy largely impacted by the social unrest and coronavirus
- ▶ National Security Law is likely to have a negative impact on the business climate, but the majority of respondents will wait before decreasing investments

A strong Swedish brand

- ▶ The Swedish brand is associated with quality, trust and sustainability

Main advantages of Hong Kong

- ▶ Geographical location with proximity to China and other East Asian countries, legal system and free economy
- ▶ Beneficial and simple taxation system as well as efficient infrastructure

Disadvantages

- ▶ High rental cost, political climate and economic outlook

Swedish companies in Hong Kong

- ▶ Mostly service-based operations
- ▶ Marketing and sales
- ▶ Sourcing, trading and logistics
- ▶ Provision of services

In APAC region

- ▶ Hong Kong is a common choice for regional headquarters covering the APAC region

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 the Swedish companies experiencing the business climate in Hong Kong and the APAC region? Team Sweden in Hong Kong has carried out an annual business climate survey since 1997 that tracks how Swedish companies¹ operating in Hong Kong perceive the market conditions and economic prospects.

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 the coronavirus pandemic, social unrest and the National Security Law. The second section further investigates the Hong Kong market by assessing the respondents' perception of the business climate and the advantages and disadvantages of doing business in Hong Kong. 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.

The business climate survey of Hong Kong was carried out during May 2020. It was sent to 147 member companies of the Swedish Chamber of Commerce in Hong Kong, with a total of 79 respondents, a response rate of 54%². A complimentary survey regarding the implications of the new National Security Law (see page 10-12) was sent out in early August 2020, with a total of 62 responses.

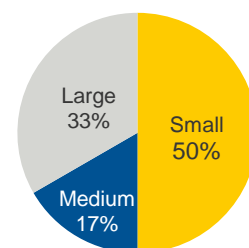
Roughly estimated there are around 200 Swedish companies in Hong Kong, including subsidiaries of Swedish companies and locally established companies with strong links to Sweden.

33% of the responding companies are large companies (with more than 1000 global employees) and 17% are medium-sized companies (with 250-1000 global employees). The rest of the respondents (50%) are small companies (with less than 249 global employees), with 22% having less than 9 global employees, 11% having 10-49 global employees and 17% having 50-249 global employees.

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

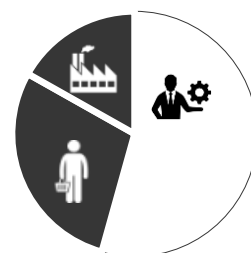
37% of the companies have more than 20 years of established presence in Hong Kong, with most of them being present before 1997, when Hong Kong was handed over to China from British rule. Roughly half of the respondents (51%) have been present in Hong Kong between 5-19 years and 11% are newcomers with up to 4 years of presence.

SIZE OF COMPANIES



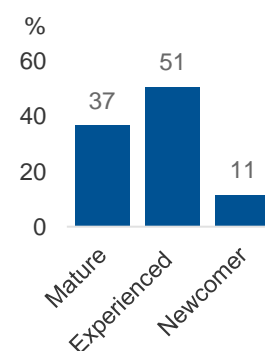
NOTE: Global employees. Large >1000. Medium 250-1000. Small 0-249.

MAIN INDUSTRIES



Professional services: 53%. Consumer: 26%. Industrial: 15%. Others: 6%.

YEARS OF PRESENCE



NOTE: Mature (>2000). Experienced (2001-2015). Newcomer (2016-).

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.

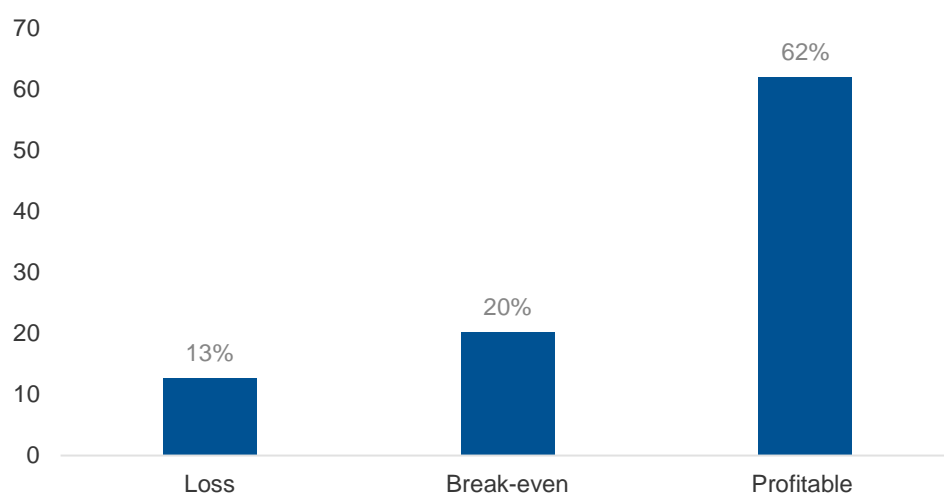
² Due to the small sample size and current response rate, the survey has an error margin of 9%, implying that some results might be too vague to draw significant conclusions from, especially when comparing between years.

ECONOMIC OUTLOOK

The business outlook is perceived as uncertain due to social unrest, the National Security Law and the coronavirus outbreak; but companies remain profitable

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN HONG KONG IN 2019? ³

Per cent



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

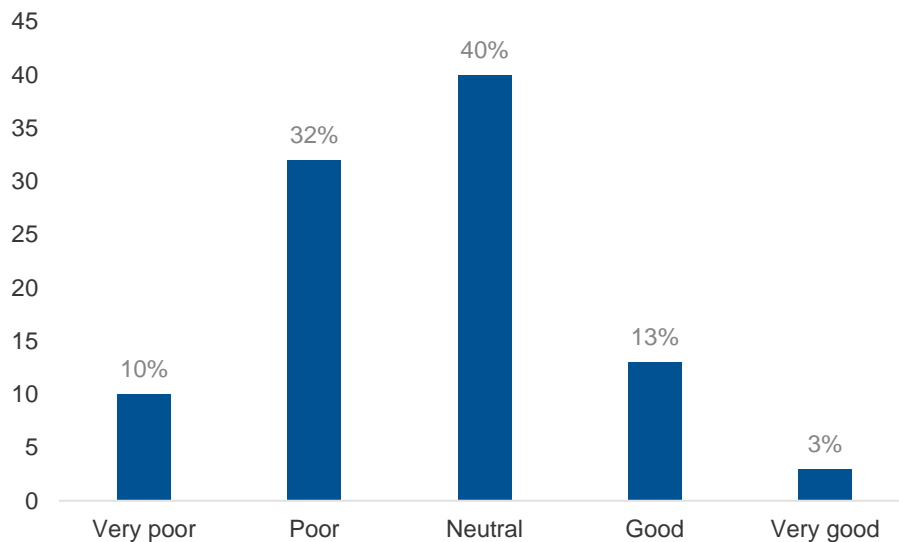
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

A majority of respondents (82%) reported that their financial performance and business operations in 2019 had been profitable or reached the break-even point.

³ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN HONG KONG 2020? ⁴

Per cent



NOTE: The number of respondents for this question was 77. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

Swedish companies' perception of the business climate in Hong Kong varies. 42% of the respondents perceived the business climate in May 2020 as poor or very poor. 40% were neutral and 16% shared a positive view. The report will further investigate the underlying factors behind these numbers.

In comparison with the results of the business climate survey conducted in December 2018, 41% of the respondents in 2018 perceived the business climate as good and 10% considered the business climate as poor or very poor. This suggests a negative development of the business climate in Hong Kong. 40% of the respondents in 2018 considered the business climate to be neutral.



The political and public polarization will continue to affect the business climate in Hong Kong.

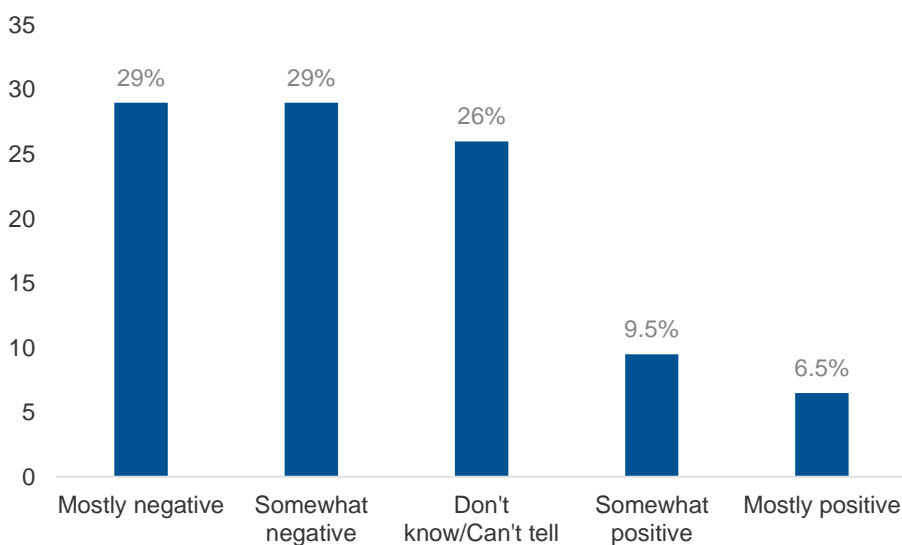
Company Representative
Swedish Company

⁴ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

A majority believes the National Security Law will impact the business climate negatively, but most companies will wait and see before adopting any measures

WHAT DO YOU THINK WILL BE THE IMPACT OF THE NATIONAL SECURITY LAW ENACTED ON JUNE 30, 2020 ON THE OVERALL BUSINESS CLIMATE IN HONG KONG?

Per cent



NOTE: The number of respondents for this question was 62.

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

The majority of the respondents (58%) anticipate that the new National Security Law will have a negative effect on the business climate of Hong Kong. At the same time, 16% of the respondents believe that the newly imposed law will have positive effects, creating a more stable business environment.

FOR YOUR COMPANY, TO WHAT EXTENT DO YOU PERCEIVE THAT THE NATIONAL SECURITY LAW WILL IMPACT YOUR BUSINESS IN HONG KONG?

- ▶ **The vast majority of companies believe that the National Security Law will affect their business to a great extent in the long run**
- ▶ **Few respondents expect any short-term effects within the first year**

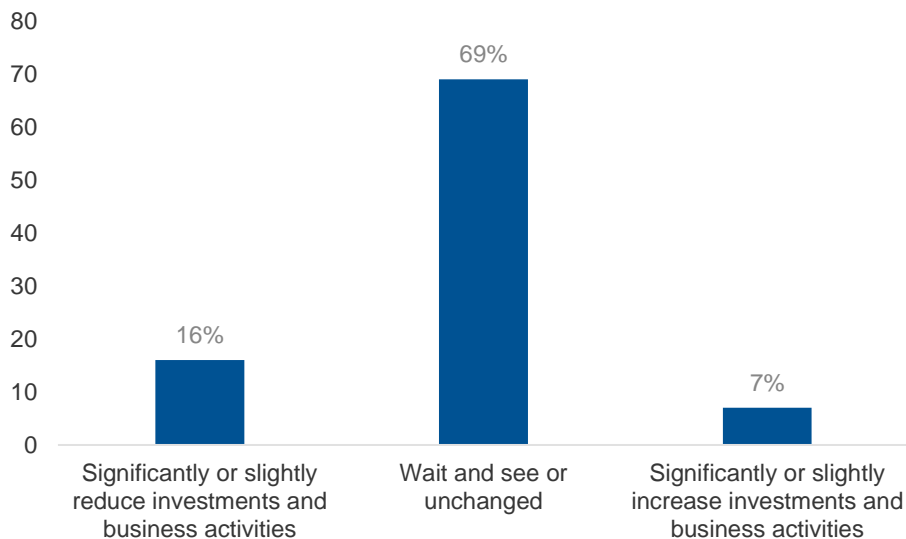
WHAT ARE THE MAJOR CONCERN AREAS OF THE NATIONAL SECURITY LAW WITH REGARDS TO THE BUSINESS ENVIRONMENT IN HONG KONG?

- ▶ **55% Answered It jeopardizes Hong Kong's status as an international trade center**
- ▶ **44% Answered It challenges Hong Kong's status under the "One country, two systems" principle**
- ▶ **42% Answered Ambiguity in the scope and enforcement of the law**
- ▶ **42% Answered Independence of the juridical system**
- ▶ **40% Answered Talent drain and difficulties in staffing**
- ▶ **35% Answered Retaliatory measurements by other governments**

Apart from the major concerns stated above, the respondents also showed concerns over worsen data security, further escalation of political unrest and social tension, less access to trustworthy information and a negative impact on the investment climate and access to capital - as consequences of the newly imposed law. However, 13% of the respondents stated that they had no concerns.

AS A CONSEQUENCE OF THE NATIONAL SECURITY LAW, WHICH OF THE FOLLOWING MEASURES HAVE BEEN ADOPTED, OR ARE LIKELY TO BE ADOPTED BY YOUR COMPANY IN THE COMING 12 MONTHS?

Per cent



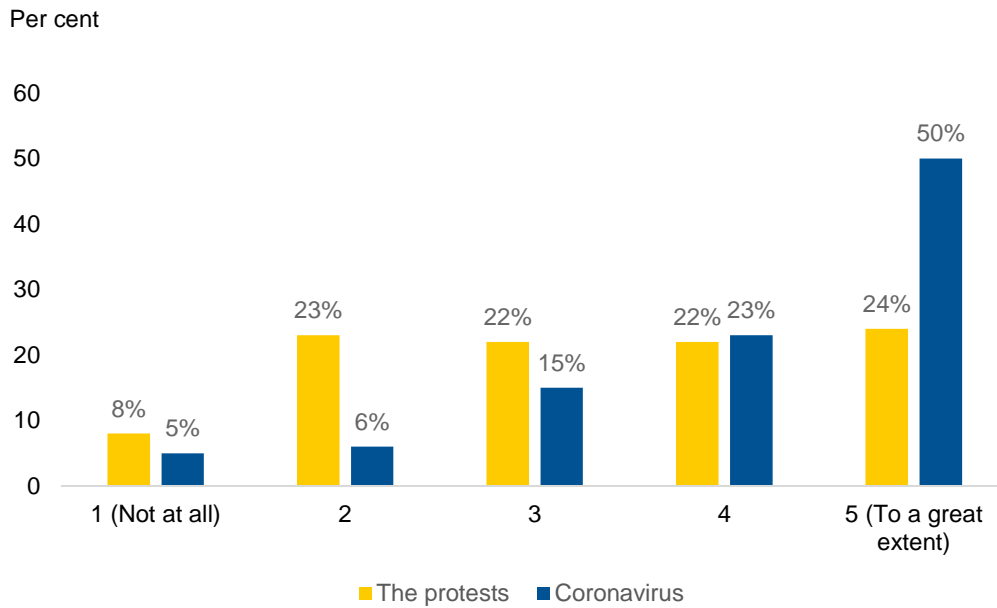
NOTE: The number of respondents for this question was 62. "Don't know/Not applicable" and "others" responses are included but not shown in the figure.

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

The Swedish business community has expressed concerns over the new situation. However, a majority do not plan to change their Hong Kong operations as an immediate response to the newly imposed law. Instead, they are adopting a wait and see approach. 16% have slightly reduced their investments and business activities or plan to do so in the coming 12 months, whereas 7% have reduced their investments and business activities significantly, or plan to do so.

Coronavirus is considered a greater threat to business than the previous social unrest; but the negative impact of the pandemic is not limited to Hong Kong

TO WHAT EXTENT HAVE THE CORONAVIRUS AND PROTESTS IMPACTED YOUR COMPANY'S ACTIVITIES?⁵



NOTE: The number of respondents for this question was 77. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020



Twice as many indicated great impact from coronavirus compared to the social unrest

⁵ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

The coronavirus pandemic has had a large impact on Swedish companies in Hong Kong. A large majority (94%) of the respondents stated in May 2020 that they had been affected by the pandemic to some extent, 50% stated that they had been affected to a great extent. Only 5% declared that they had not been impacted at all.

As a consequence of the coronavirus, companies' business travels have been restricted, limiting the ability to network and attend business events and meetings (both domestic and international). More importantly, it has created large losses of income and forced companies to use a big proportion of their capital to survive. However, the majority of the respondents remarked that the negative impact of the coronavirus is nothing unique for Hong Kong. Many companies perceive the pandemic as a short term threat which will ease over time.



**91% indicated
that they were
affected by the
social unrest**

A large majority of the respondents (91%) expressed that they had been affected by the social unrest in Hong Kong. 8% stated that they had not been affected at all. The political unrest impacted the companies by for example limiting the number of incoming foreign visitors and business trips, and made it harder to plan and host larger business events. The tourism and hospitality sector has also been hit hard both with a decrease in tourists from Mainland China, which make up a vast majority of the incoming visitors, and other countries.

Most of the respondents have business operations in Mainland China and the Chinese market is still viewed as an interesting region for the coming years.

HOW DO YOU PERCEIVE THAT THE CORONAVIRUS WILL IMPACT YOUR COMPANY'S FUTURE PLANS IN HONG KONG?⁶



"For Hong Kong as such, it's not a huge impact, but for our overall global business it has and will impact"

Company representative

Swedish company

⁶ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

The majority of respondents stated that the coronavirus has decreased the global demand and thereby indirectly harmed their business activities, forcing the companies to adopt new strategies. How quickly Hong Kong's economy and the global demand recover depend on developments in Europe, the USA and the rest of the world and when these markets return to a more normal level. Hong Kong has not been hit as hard by the pandemic as many other countries.

China's recovery has additionally been fairly quick. The situation is considered relatively beneficial for the Swedish companies in Hong Kong, as many of them conduct business operations in China. The spillover effects from the Mainland's recovery are seen as positive for Hong Kong's economy.

“ **[...Political stability will be key for taking long-term business decisions on investments, staffing etc.]**

Company representative

Swedish company

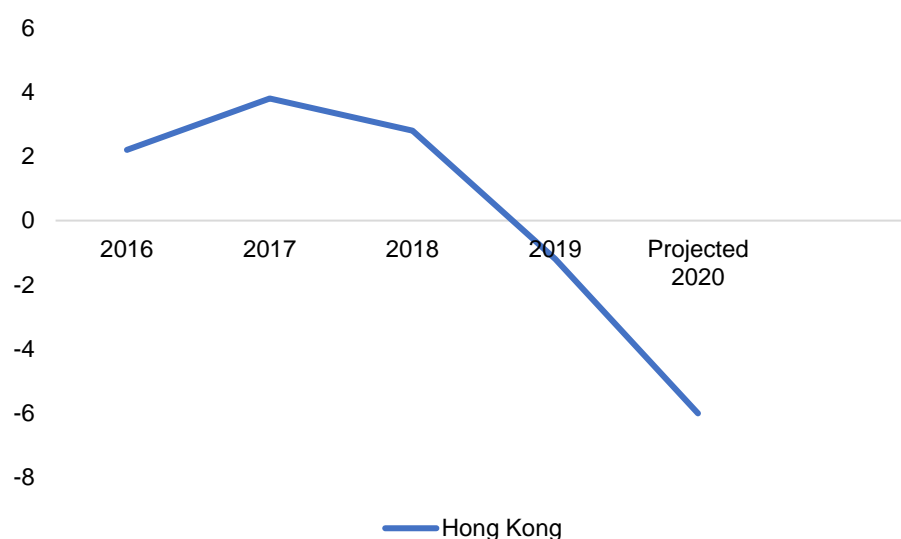
The majority of the respondents stated, in May 2020 before the National Security Law was imposed, that the protests were likely to affect their company's future business plans in Hong Kong if they continued. Several respondents emphasized that the situation had created an unstable and less attractive business environment.

Several respondents expressed concerns over Hong Kong's future role as a leading business hub in Asia. They mentioned the possibility of moving to Singapore if the situation deteriorated further. Many respondents stressed the underlying causes behind the social unrest as worrisome, including the lack of freedom of speech. They also feared the risk of not being able to rely on the free flow of information in the future. However, several respondents highlighted Hong Kong's unique geographical location and natural links to China and the northern parts of Asia, which according to them continue to make Hong Kong an irreplaceable business hub.

Companies' future investment plans and expected turnover vary, in combination with declining GDP growth; no wide-spread plans to leave Hong Kong

GDP GROWTH IN HONG KONG

Per cent



NOTE: Constant prices.
SOURCE: Oxford Economics 2020-05-15

Hong Kong's GDP grew by 2.9% per year on average from 2016 to 2018. By the start of 2019, Hong Kong's GDP growth decreased largely due to the social unrest. Several industries were negatively affected, especially the tourism and retail sectors. However, as Hong Kong has 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 the GDP overall.

Hong Kong's GDP contracted by 8.9% in the first quarter of 2020,⁷ impacted by the coronavirus outbreak and to a lesser extent the ongoing social unrest. The decline stayed on a similar level also in the second quarter of 2020 with 9%, compared to a year earlier.⁸ It is however noteworthy that other major markets globally declined sharper in the second quarter of 2020 due to COVID-19 shutdowns, with GDP in the EU and Singapore down 12% respectively 13% (Q2 2020, year-on-year change). USA's GDP declined by 9% in Q2 2020 whereas China's GDP increased by 3%.⁹

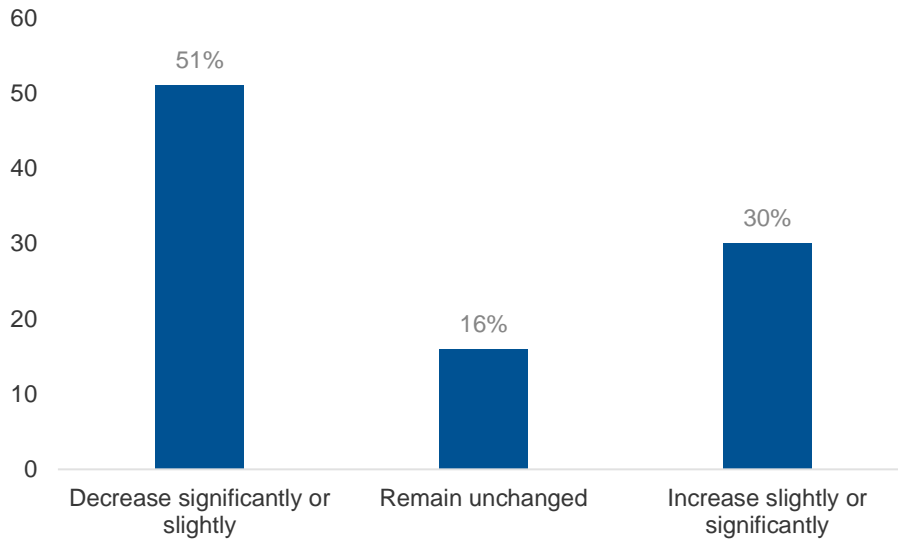
⁷ According to Hong Kong Government first quarter economic report 2020

⁸ According to Hong Kong Government second quarter economic report 2020

⁹ According to OECD, National Bureau of Statistics China, Ministry of Trade and Industry Singapore

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? ¹⁰

Per cent

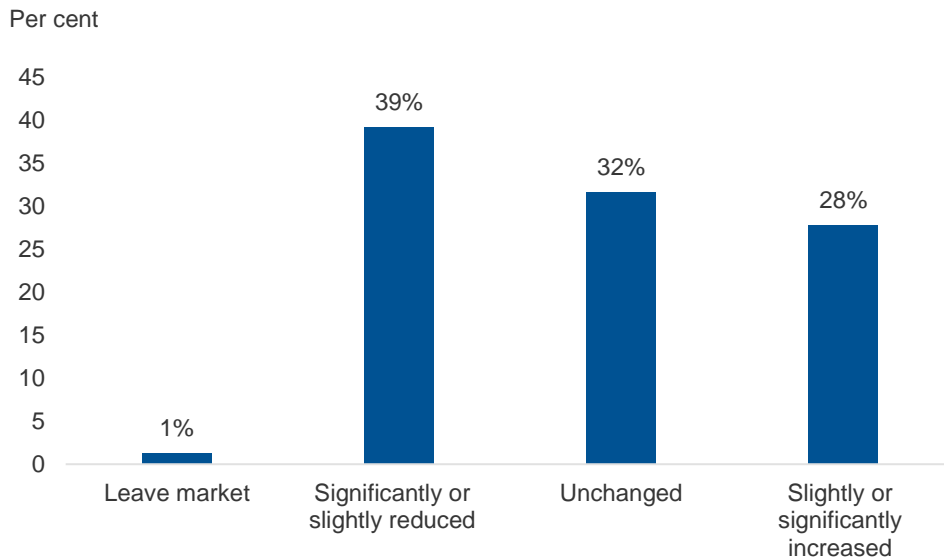


NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

51% of the respondents predicted, in May 2020, that their industry's turnover would decrease in the coming 12 months. 16% of respondents expected the turnover to remain unchanged or to increase compared to the past 12 months.

¹⁰ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN HONG KONG, COMPARED TO THE PAST 12 MONTHS? ¹¹



NOTE: The number of respondents for this question was 79.
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

39% of the respondents stated, in May 2020 before the enactment of the National Security Law, that they plan to reduce their investments in the coming 12 months, whereas 60% of the companies' investment plans were either unchanged or projected to be increased. There were no wide-spread plans for companies to leave Hong Kong.

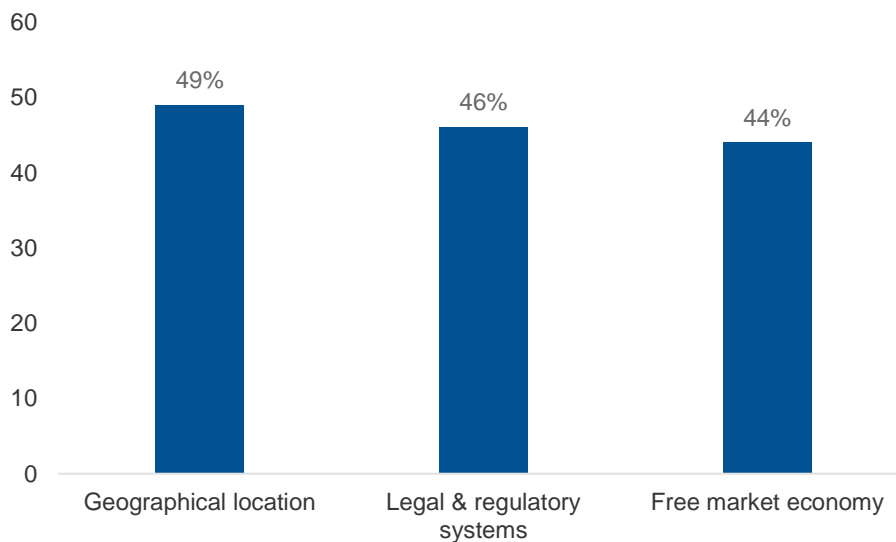
¹¹ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

THE MARKET

Main advantages of Hong Kong: Geographical location, the legal system and free economy

WHICH ARE THE MOST SIGNIFICANT ADVANTAGES OF BEING IN HONG KONG WITH REGARDS TO YOUR BUSINESS ACTIVITIES?¹²

Per cent



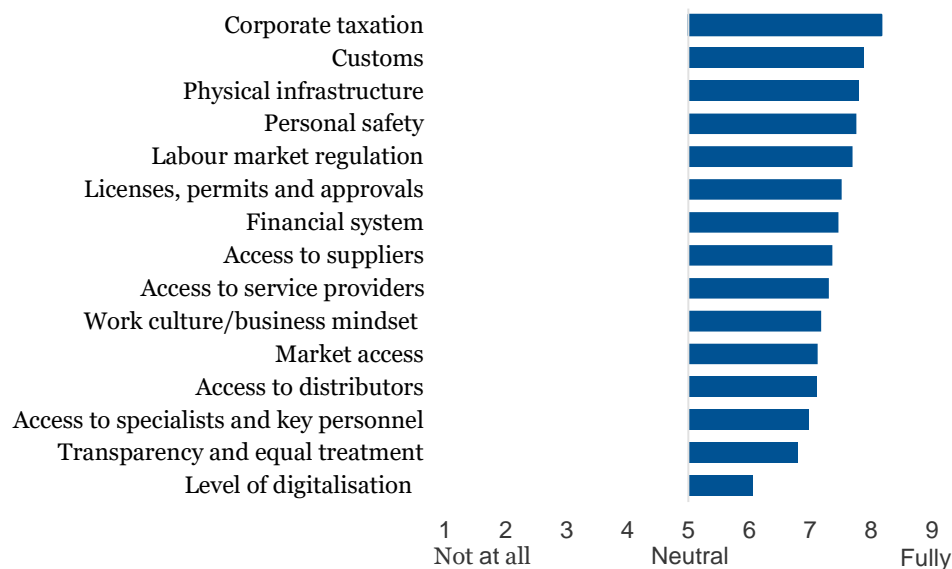
NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

Hong Kong's geographical location, the city's legal and regulatory framework and the free economy are the main benefits for companies located in Hong Kong according to the respondents. Hong Kong's proximity to Mainland China and East Asia gives the city additional competitive advantages. These results are in line with surveys from previous years. Please note that the question was asked before the enactment of the National Security Law.

¹² The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN HONG KONG?¹³



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.
 SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020.

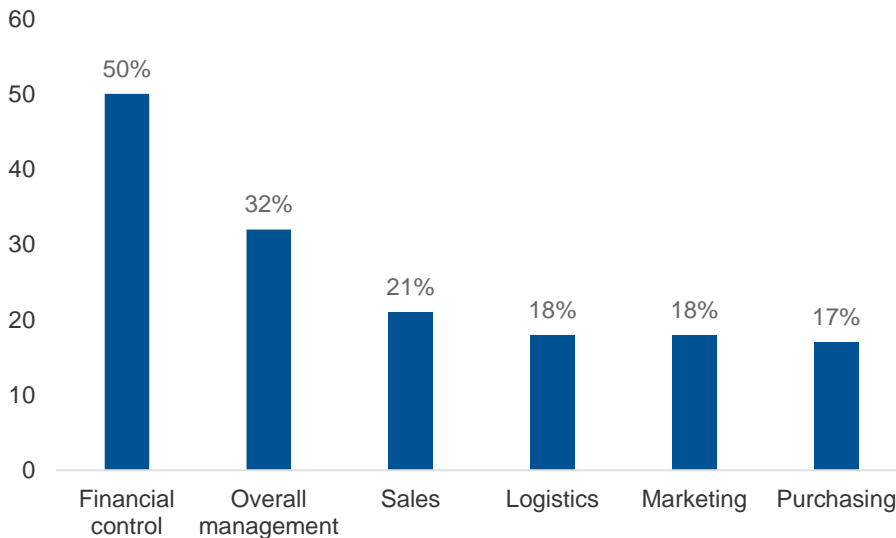
Hong Kong's low corporate tax rates have been a key driver attracting companies to the city. The great efficiency of the city's customs and physical infrastructure has further improved the business climate according to the respondents. The level of personal safety is regarded as high in the city, which additionally makes it easier to attract workforce and talent. However, there is still room for vast improvements within Hong Kong's level of digitalization.

¹³ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

Hong Kong – a popular choice for regional headquarters to carry out business in the APAC region

WHAT IS THE PURPOSE OF THE REGIONAL HEADQUARTER?¹⁴

Per cent



NOTE: The number of respondents for this question was 50. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020.

63% of the respondents stated that their Hong Kong office serves as a regional headquarter to their operations in Asia and the APAC region. The headquarter mainly operates as a support function responsible for the overall management, sales, financial control, marketing, logistics and purchasing.

¹⁴ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

China remains the most important market, and the Greater Bay Area integration has the potential to further boost opportunities

REGIONAL DISTRIBUTION OF YOUR COMPANIES' BUSINESS OPERATIONS?¹⁵



Hong Kong and China account for the largest share of Hong Kong-based Swedish companies' operations in APAC

Most Hong Kong-based Swedish companies carry out business operations in Hong Kong and China, with these two markets also accounting for the largest share of the operations in APAC. North East Asia¹⁶ (NEA) and South East Asia¹⁷ (SEA) are also considered attractive regions among the respondents.

Most respondents (94%) have business operations locally in Hong Kong. For 10% of the companies active in Hong Kong, the city accounts for 100% of their operations. For a third of the companies, Hong Kong accounts for 50% or more of their business. However, for another third, Hong Kong only accounts for 10% or less of their operations.

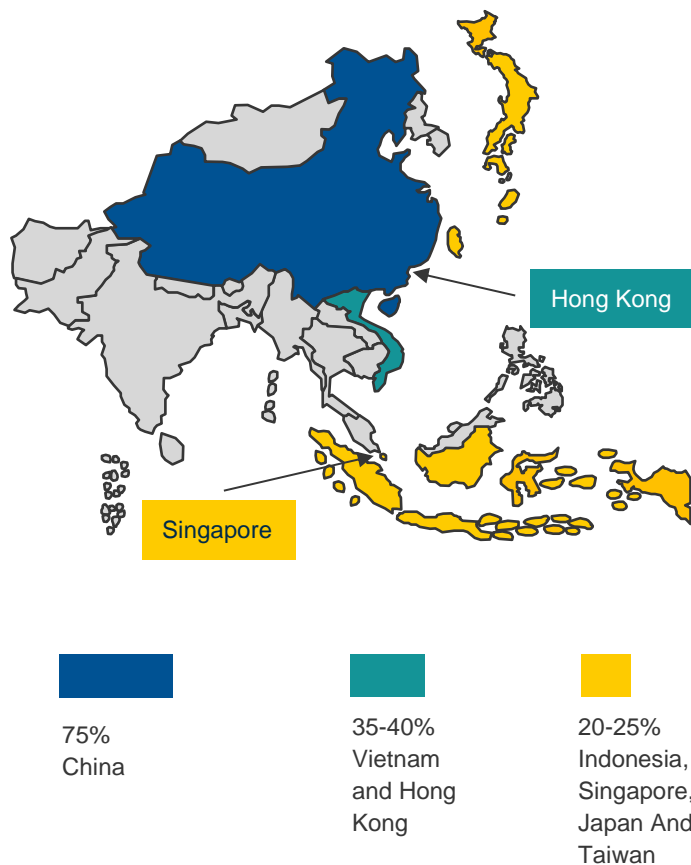
The majority of the respondents (89%) are active in Mainland China, of which a third of the companies conduct 50% or more of their business there. A fifth of the companies active in China conduct 10% or less of their business in the country. No respondent conducts 100% of their business in China.

¹⁵ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

¹⁶ Japan, South Korea, North Korea, Taiwan and Mongolia

¹⁷ South East Asia commonly referred to as the 10 countries in ASEAN: Brunei, Cambodia, Laos, Malaysia, Myanmar, The Philippines, Singapore, Thailand, Vietnam and Indonesia

WHICH MARKETS IN ASIA DO YOU CONSIDER MOST INTERESTING FOR THE NEXT 3 YEARS FOR YOUR COMPANY? ¹⁸



NOTE: The number of respondents for this question was 78. "Don't know/Not applicable" responses are included but not shown in the figure.
 SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

75% consider China the most interesting market in the coming three years, 39% Vietnam and 37% Hong Kong. China's tier-1 cities Beijing, Shanghai and Shenzhen and the Greater Bay Area at large are considered the most interesting regions in China. The business climate survey of 2018 indicated similar numbers.

Other interesting markets according to the respondents include Indonesia (chosen by 25%), Singapore (24%), Japan (21%) and Taiwan (21%).

¹⁸ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

HOW DO YOU PERCEIVE THAT THE GREATER BAY AREA GOVERNMENT INITIATIVE WILL AFFECT YOUR COMPANY'S BUSINESS PROSPECTS IN THIS REGION GOING FORWARD? ¹⁹

“ **"Opens up opportunities to expand into China."**

Company representative

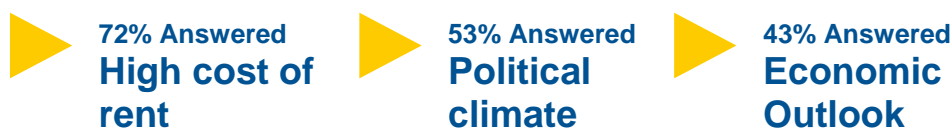
Swedish Company

The Greater Bay Area integration initiative aims 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.

The initiative holds great potential according to many of the respondents. The idea is to further develop the commercial, financial and manufacturing hubs of the region and attract more financial and human resources. However, several respondents ask for a more beneficial regulatory system, creating efficient processes without government interference. For example, streamlining recruitment processes and a more open internet.

Main challenges: High rental costs, political climate and the overall economic outlook; few see a direct impact of US-China trade conflict

APART FROM THE PROTESTS AND THE CORONAVIRUS, WHICH OTHER FACTORS DO YOU CONSIDER MOST CHALLENGING FOR YOUR BUSINESS IN HONG KONG?²⁰



¹⁹ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

²⁰ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

The high cost of rent is perceived as the greatest challenge apart from the social unrest and coronavirus. Business climate surveys from previous years have similarly found that the high cost of living is considered the main challenge for operating in Hong Kong. Other challenges of doing business in Hong Kong include the political climate and the city's economic outlook. Concerns over the political climate are likely to remain in the foreseeable future. Please note that the answers were given before the enactment of the National Security Law.

HOW DO YOU PERCEIVE THAT THE US-CHINA TRADE CONFLICT WILL AFFECT YOUR COMPANY'S BUSINESS GOING FORWARD?²¹



"US companies will source in other countries in Asia rather than China"

Company representative

Logistics company

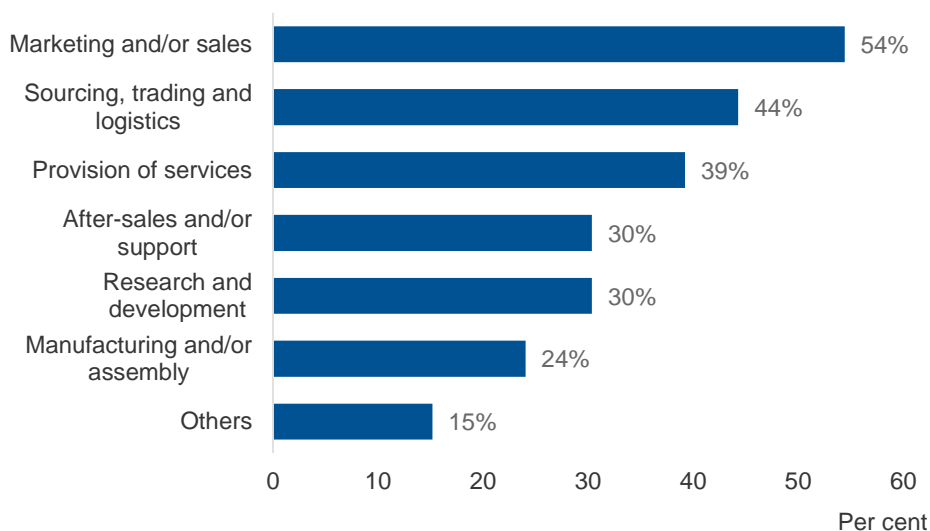
The respondents differed in opinion regarding the future impact of the US-China trade conflict on Hong Kong's economy. The overall perception is that it will have no, little, or potentially only a slight negative impact on the business going forward. The majority of companies did not expect any large direct negative impact, even if concerns do exist. This includes worry over a global movement of talent, a shift in sourcing countries away from China, as well as a natural direct impact for companies currently selling directly to the US from Chinese production. Please note that this question was asked in May 2020. USA-China tensions have further escalated since then.

²¹ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

HOW SWEDISH COMPANIES SUCCEED IN HONG KONG

Most firms run service-based operations, with local networks and cost efficiency being keys to stay competitive

OPERATIONS OF SWEDISH FIRMS IN THE MARKET²²



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

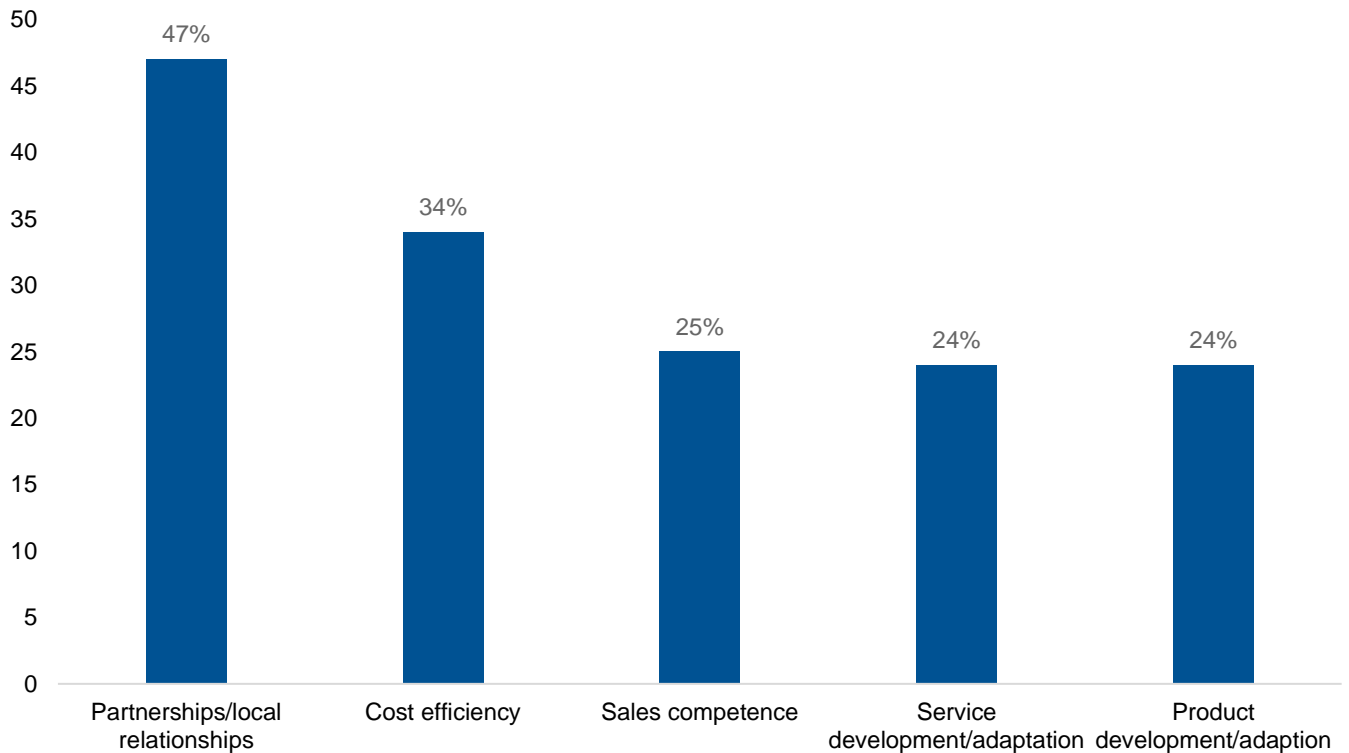
SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

Swedish companies in Hong Kong are mostly serviced-based companies and carry out operations within marketing and sales, trading and sourcing as well as provision of services.

²² The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN HONG KONG?²³

Per cent



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

Engaging in local partnerships and relations was considered the most 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 part when supporting Swedish companies, by assisting in navigating the Hong Kong market, and connecting companies to local stakeholders.

Cost efficiency was considered the second most important factor in maintaining competitiveness in Hong Kong. The city's expensive housing and office space market are some of the key explanatory factors behind the high cost of operations.

Other important factors to maintain competitiveness in Hong Kong include sales competence, service development/adaption and product development/adaption.

²³ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

Succeeding as a start-up

WHY DID YOU DECIDE TO SET UP YOUR START-UP COMPANY IN HONG KONG?²⁴

“ **We believe Hong Kong acts as a great HQ when having plans to expand into the greater APAC region. Local business acumen and processing here are fast-paced and trustworthy.**

Company Representative

Swedish Startup company

Swedish start-ups establish in Hong Kong for several different reasons. Hong Kong's proximity to China as well as being in the middle of the APAC region are key factors. An office in Hong Kong can serve as a future regional headquarter. Low initial costs when establishing, low level of bureaucracy and trustworthy local partners are also considered important factors for the Swedish start-ups in the city.

GENERAL ADVICE FOR START-UPS ²⁵

“ **To keep costs low initially and to use local networking opportunities to build up your business**

Company Representative

Swedish Startup company

Several Swedish start-ups in Hong Kong advise newcomers to create local relationships early and establish contacts with local company secretaries that handle administrative tasks, to overcome bureaucracy related issues.

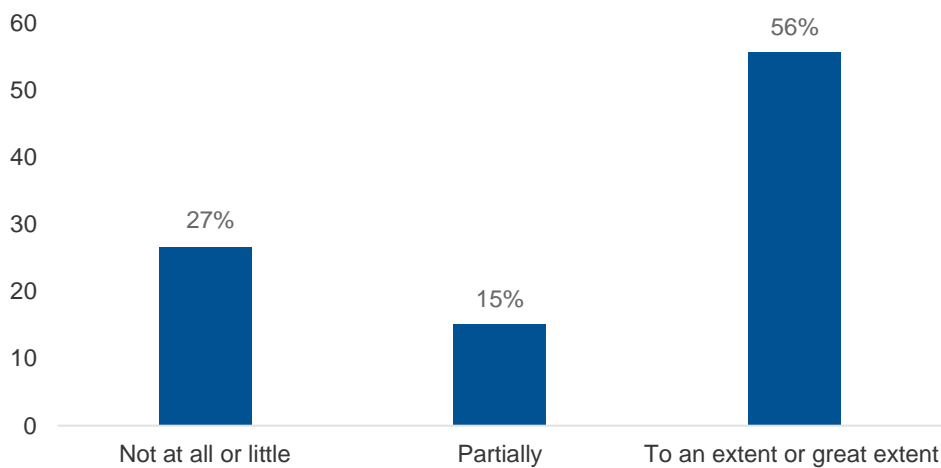
²⁴ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

²⁵ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

Strong Swedish brand reflects quality, trust and sustainability

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN HONG KONG? ²⁶

Per cent



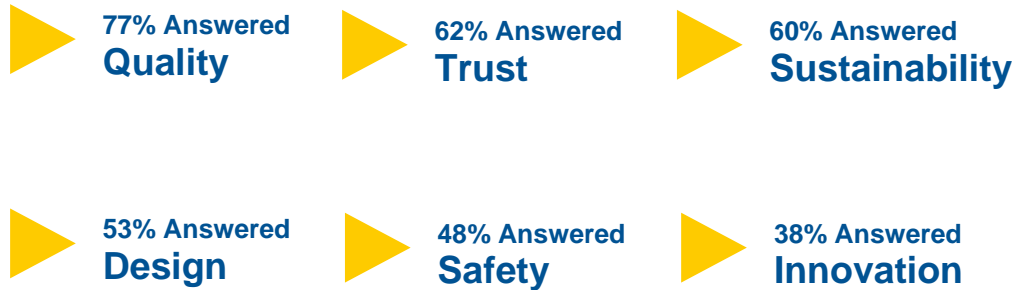
NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

71% of the respondents stated that the Swedish brand to some extent contributes positively to their business in Hong Kong.

²⁶ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

WHICH CHARACTERISTICS DESCRIBE HOW THE SWEDISH BRAND IS PERCEIVED IN HONG KONG?²⁷



The main characteristics associated with the Swedish brand in Hong Kong are quality, trust and sustainability. Design, safety and innovation are also factors that describe how the Swedish brand is perceived in Hong Kong. These characteristics have long been associated with the Swedish brand.

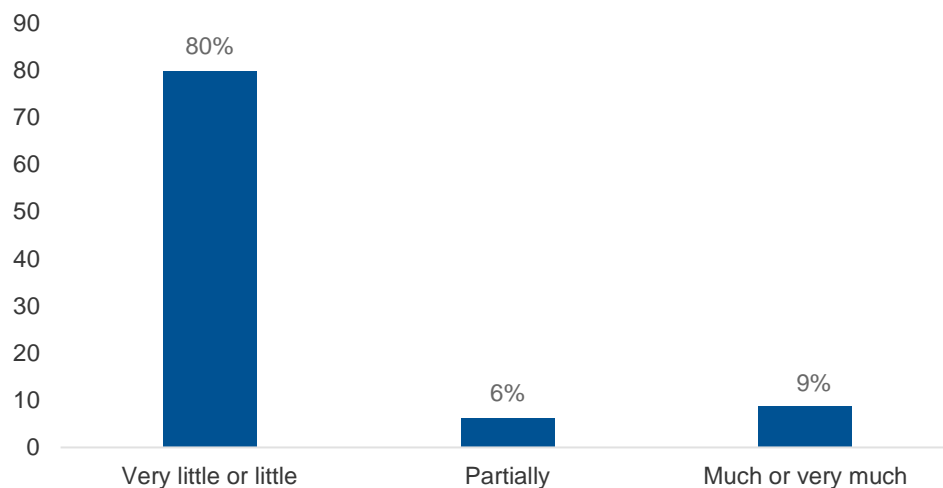
²⁷ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

ACTING SUSTAINABLY

Low risk of corruption, human rights and labour rights abuses

TO WHAT EXTENT DO YOU PERCEIVE THAT CORRUPTION IN HONG KONG AFFECTS YOUR BUSINESS? ²⁸

Per cent



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

A vast majority of the respondents (80%) stated that corruption has a small or very small impact on their business in Hong Kong. These numbers are in line with the global corruption indices. In 2019, Hong Kong was ranked number 16 on the Transparency International's Corruption Perceptions Index, the leading global indicator of public sector corruption. The index measures corruption levels of 180 countries and territories. Hong Kong's Corruption Perceptions Index scored 76 out of 100 and has remained largely unchanged since 2012.

Hong Kong has received the second-highest ranking in Asia, higher than both Japan and Taiwan.

The Hong Kong government's low level of intervention combined with free flow of information and transparency has facilitated a low level of corruption on the Hong Kong market.

Corruption Perceptions Index

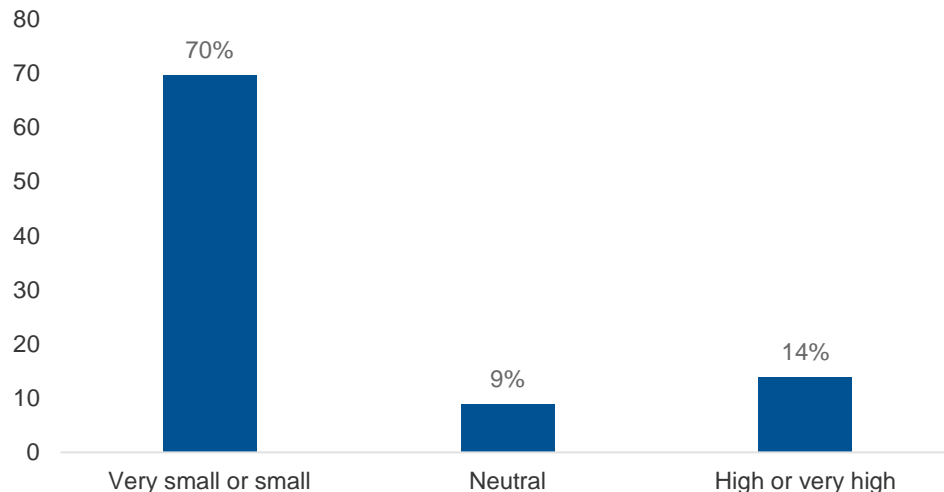
	Rank	Index
Sweden	4	85
Singapore	4	85
Hong Kong	16	76
Japan	20	73
Taiwan	28	65

SOURCE: Transparency International 2019

²⁸ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN HONG KONG?²⁹

Per cent



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020

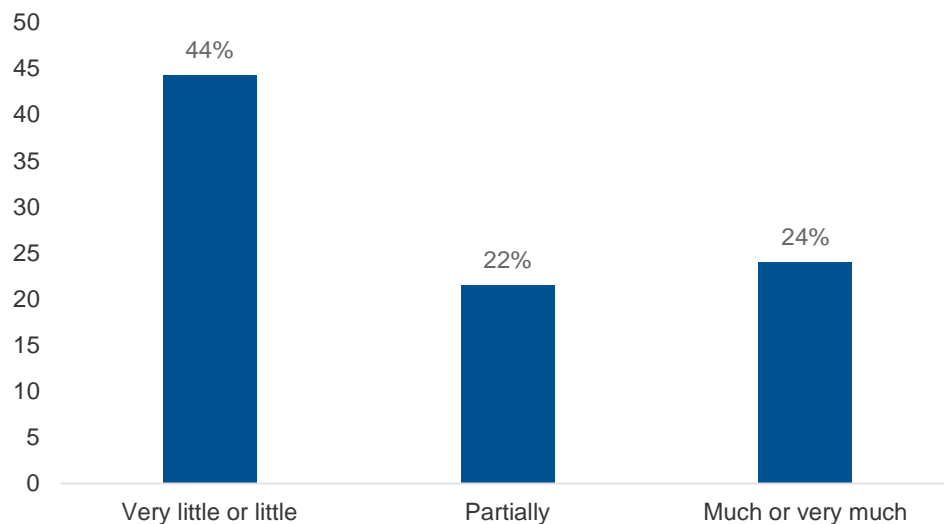
The respondents expressed that there is a low risk of encountering human rights violations and labor rights abuses when doing business in Hong Kong. These issues are often common within industries employing low-skilled labour, for example, the basic manufacturing industry. Hong Kong's low skilled labour sector is relatively small and few Swedish companies carry out manufacturing activities locally.

There are, however, Hong Kong-based Swedish companies that carry out manufacturing operations in other Asian countries. The risk for these companies to encounter human rights and labour rights abuses in their supply chains outside of Hong Kong remains.

²⁹ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

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?³⁰

Per cent



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020.

The companies' perception of how their customers consider environmental issues when purchasing goods or services varies. 45% of the respondents estimated that their customers show little or very little attention to environmental issues when purchasing goods or services, 22% of the respondents experienced that their customers partially consider the environment when consuming goods or services and 24% of the respondents estimated that their customers pay much or very much attention to the environment.

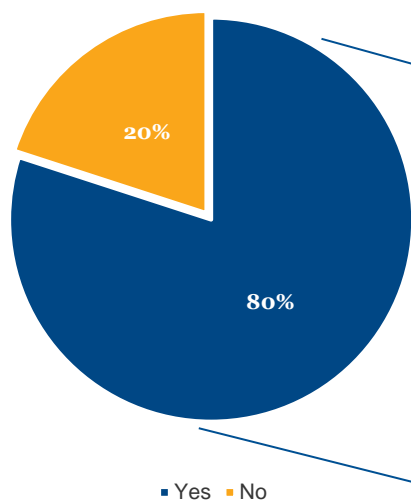
The Swedish Chamber of Commerce's Sustainability Committee wrote a policy paper³¹ in March 2020 that highlighted the 2020-21 Hong Kong budget's gap between the proposed measures related to sustainability and the actions that are required to tackle the long-term environmental challenges that the city is facing. The lack of concrete environmental efforts by the government is likely to affect consumers' willingness to consider the environment when purchasing goods or services.

³⁰ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

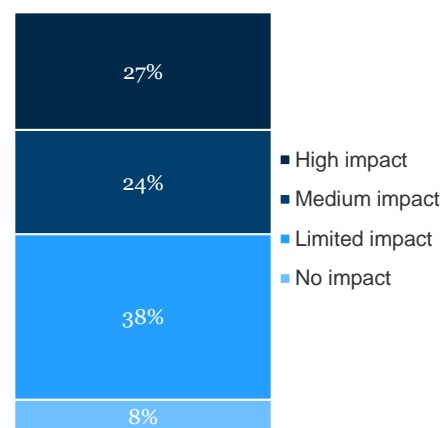
³¹ <http://www.swedcham.com.hk/swedcham-hk-sustainability-committees-response-to-the-hong-kong-budget-2020-21/>

Swedish companies are actively working with sustainability, having a positive effect on profitability

IS SUSTAINABILITY WORK PART OF YOUR COMPANY'S BUSINESS MODEL OR STRATEGY? ³²



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



NOTE: The number of respondents for this question was 79. "Don't know/Not applicable" responses are included but not shown in the figure.

SOURCE: Business Climate Survey for Swedish Companies in Hong Kong 2020.

Swedish companies are often seen as pioneers within the field of sustainability, being at the forefront of incorporating sustainability technologies into their business practices. Most of the respondents (80%) stated that sustainability work and efforts are integrated into their company's business model or strategy. 89% of these declared that their sustainability efforts impact their profitability. In the business climate survey of 2018, 67% of the respondents answered that sustainability efforts were integrated into their business model.

For 50% of the companies, sustainability has a medium-to-high impact by directly contributing to add-on sales or creating a shift in the companies' business strategies towards selling more sustainable products and services. Similar figures were presented in the business climate survey from 2018. These figures indicate that working with sustainability is a hygiene factor for Swedish companies and that it affects their financial performance and long-term profitability.

³² The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

Continued large female representation in leading positions

APPROXIMATELY, WHAT IS THE PERCENTAGE OF WOMEN IN LEADING POSITIONS IN YOUR COMPANY IN HONG KONG? ³³



**42% answered
that women
represent 50%
or more of
their leading
positions**

Swedish companies in Hong Kong continue to show a large representation of women in leading positions (board, management and directors). 42% of the respondents stated that women represent 50% or more of their boards. This result is in line with the business climate survey of 2018.

³³ The question was included in the original survey and answered by the respondents in May 2020, before the enactment of the National Security Law

