

JAPAN & HONG KONG

QUIETLY GETTING ON WITH BUSINESS

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Whilst trade and diplomatic relations between Japan and mainland China dominates international discussions, Japan and Hong Kong quietly get on with business.

At a glance, the trade figures between Hong Kong and Japan may not be as impressive as those between Japan and the mainland. However the long-standing relationship between the two means Hong Kong has often been the second home for Japanese companies as they expand in Asia.

Japan was Hong Kong's third largest trading partner, third largest market for re-exports, and third largest source of imports in 2013. Most leading trading companies and manufacturers including Itochu, Marubeni, Mitsubishi Electric and Bandai have sales, distribution or purchasing offices in Hong Kong.



Of the 7,585 overseas companies already operating in Hong Kong, 1,388 are from Japan – more than any other country. Of these Japanese companies, 40% have been in Hong Kong for more than 30 years. Japanese companies also number the most for local offices, and second most for regional offices and regional headquarters, after the United States.

Though low-cost labour manufacturing may be shifting away from the mainland, higher productivity, a stable political situation and established supplier and contractor networks means manufacturers cannot simply ignore the mainland. Both Hitachi Maxell Global and Nissan’s Infiniti brand have shifted their global headquarters to Hong Kong in recent years, citing Hong Kong’s proximity to the mainland as a key reason for the move.

Japanese businesswoman Yukari Tokiwa has spent over 40 years in Hong Kong. Tokiwa has established many successful companies in sectors ranging from restaurants, health, hygiene services, pest control, plant leasing, and dental services, amongst others.

“Strategically here is so close to the mainland, you can get the latest information ... [and] the company in Hong Kong is protected by the rule of law,” she says. “... China doesn’t have a real rule of law [yet], and each province has different regulations [and] complicated tax.”

Tokiwa adds that regulations written in Chinese may not be adequately translated into foreign languages, such as English or Japanese, meaning that interpretation of Chinese laws and regulations can vary. This can be problematic for foreign companies operating directly on the mainland.

As long as Hong Kong maintains its strong and transparent rule of law, trust in its financial and legal systems will allow it to continue as a stepping stone to the mainland.



Right

Cherry Blossoms



Left to Right

Yukari Tokiwa, Japanese businesswoman

Masakazu Yagyu, Secretary-General of The
Hong Kong Japanese Chamber of Commerce &
Industry (JCCI)

PEOPLE

However Hong Kong's foundation as a bridge to the mainland runs deeper than its financial and legal infrastructure.

"Business is, in fact, based on the people," Tokiwa says, "and Hong Kong people have much better international experience. The people are flexible ... and very free-minded. My staff give me very direct advice. That is a great asset for Hong Kong."

For companies focused purely on Hong Kong, Masakazu Yagyu, the Secretary-General of The Hong Kong Japanese Chamber of Commerce & Industry (JCCI), adds that the market size and reduced hierarchy means "I can do things, for example, [promote] this chamber [and] promote ideas or people who deserve it. There's not a huge market; it's a city. So I can see my results soon[er] ... If we have a smart idea, people can get money, and I can contribute to Japanese or Hong Kong society."

At the same time, mainland Chinese make up an increasingly larger part of Hong Kong's population, giving businesses based in Hong Kong direct insight into the thinking and business culture of mainland Chinese.

The market also provides insight into consumer tastes, providing a testing ground for businesses in food and beverage and retail – one that is not found anywhere else.

Hong Kong's taste for Japanese culture and food specifically offer opportunities in retail and restaurants. Tokiwa also sees potential in the hospitality sector. Flights to Japan from Hong Kong have soared on the back of a weaker yen giving Hongkongers and mainlanders the chance to gain an appreciation of Japanese service and hospitality. Up to 20% of Hong Kong tourists to Japan return more than 10 times.

However brand awareness is key. As Yagyu observes, "Even in the restaurant business, they must have big brands." Ramen chain Ichiran's first international expansion in 2013 was to Hong Kong. Dishes cost between 51-100 HKD (approximately 6.5-13 USD). "Hong Kong people know Ichiran is tasty," Yagyu says. "If everything is good, they can pay, they can afford."

BUSINESS CHALLENGES

Rent and labour costs pose challenges to companies in Hong Kong. “All industries must be able to pay high rent and wages,” says Yagyu. “[The] labour force is limited [as] there’s nearly full employment. The unemployment rate is only 3.3%.” According to Yagyu, rent can also soar by 50% with no negotiations, something unheard of in Tokyo.

Hong Kong’s relatively small market size and limited land means companies of all sizes vie for consumer dollars, workers, and affordable rent. This sort of competition hampers the growth of small and medium enterprises, making Hong Kong more of a playground for larger corporations.

One solution business communities may hope to see is the development of a special economic zone on the mainland that is under Hong Kong rule. “We can develop Hong Kong-style business ... [bringing] more employment, [more opportunity for growth] for both Hong Kong and China, [and] of course for international business sectors,” Yagyu says.



There are no limitations for men and women, so I can dream about a great future ... [Anyone who has] enough energy [and] ambition to develop a business has a fantastic opportunity here.



BUSINESS ASIDE

Whilst Hong Kong serves as a hub for foreign trade and investment, this investment often extends beyond commerce, with many developing a personal stake in the future of the city. Hong Kong has become a home to many Japanese, with about 23,000 to 25,000 expatriates residing within its shores.

Before joining JCCI, Yagyu's main career was in international reinsurance, working for Itochu Corporation. Having visited many countries, Hong Kong remains one of his favourite places to work and live. He shares his fondness towards Hong Kong and its people.

"It's a mixture of cultures including Asian cultures, Japanese, European, Australian and American," Yagyu says. "This is really rare. Everyone, including you [and me] may feel comfortable. I like people here, they are reasonably straightforward [but] not too much."

Some, like Tokiwa, have stayed for decades, settling down, doing business and raising children.

"I look at my girls," Tokiwa says. "They are half-Japanese, half-raised in Hong Kong [and have] a good respect for the place [where] they [grew up]."

To this day, Tokiwa remains grateful for the opportunities granted by Hong Kong. Hong Kong's egalitarianism has shaped much of who she has become.

"For a Japanese woman, [Hong Kong offers] a really fantastic opportunity because [it] is very equal. There are no limitations for men and women, so I can dream about a great future ... [Anyone who has] enough energy [and] ambition to develop a business has a fantastic opportunity here."

Tokiwa continues, "If I go [anywhere], if I'm serious, I can survive. That's the confidence I have ...that's the confidence that Hong Kong gave me."

Despite all its trappings, there is still much to rejoice about in Hong Kong.

Business aside, the opportunity, excitement and energy that brought Tokiwa and so many other Japanese to Hong Kong's shores is still alive and kicking.

Though the waves of change are imminent, Hong Kong will thrive and adapt, as it always has. •

HONG KONG AS A FINANCIAL GATEWAY TO THE MAINLAND

One of Hong Kong's key strengths is how it mediates finance and investment between the world's largest economy and the rest of the world, serving as the bridge for both foreign and mainland companies alike.

In 2013, Hong Kong accounted for two-thirds of foreign direct investment into the mainland – not an insignificant amount. In 2014, 355 companies were set up in Hong Kong – an all-time high representing a year-on-year increase of 5.4%. According to Invest Hong Kong, most were from the mainland, followed by the United States, the United Kingdom, and then Japan.

Fang Zhou, director of the One Country Two Systems Research Institute, a non-government public policy think tank, believes Hong Kong can consolidate this unique position through the National People's Congress (NPC)'s upcoming 13th Five-Year Plan.

As the mainland improves and opens up its financial sector, internationalising the renminbi (RMB), Hong Kong can further strengthen its global financial influence. It is already a major offshore RMB centre and must find more ways to “channel this capital back into the mainland market”, Fang notes in the Hong Kong Economic Journal.

Hong Kong is already the largest 'dim sum' bond market and the experimental ground for Beijing's financial reforms, including pilot programmes such as 'Shanghai Hong Kong Stock Exchange Connect', which allows foreign investors to buy China-listed shares through brokers on the Hong Kong Stock Exchange. More pilot exchanges are planned for the Hong Kong and Shenzhen stock exchanges.

Zhou also points to how Hong Kong acts as a test-bed for China's services trade, especially as Beijing pushes towards higher value industrial output, liberalising and modernising its services sector.

Just as it has been assisting foreign firms to enter the mainland, Hong Kong can capitalise on its 'gateway expertise' to assist Chinese firms as they invest or expand overseas – a trend Hong Kong is benefitting from already. In 2014, the number of mainland companies with local offices in Hong Kong was 678, just behind Japanese companies, which ranked number one with 683. The number of mainland companies with their regional headquarters based in Hong Kong has also been increasing steadily, growing to 119 in 2014.



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SINGAPORE OR HONG KONG?

This is a common question for businesses seeking expansion in Asia.

On one hand, Singapore and Hong Kong are like twins. Both are important trading ports with a history of British rule. Both are densely populated with a large Chinese speaking population. Both have limited land, and both have emerged as financial and business hubs in Asia.

Businesses will be attracted to their transparent and robust legal systems, financial infrastructure, strong anti-corruption culture and low corporate tax rates. Both are consistent top performers in global 'ease of business' rankings. In 2015, Singapore ranked first in the World Bank's 'Doing Business' report whilst Hong Kong ranked third.

There is certainly fierce competition between the two cities to become the preferred business hub in Asia.

However, a more interesting question is whether Singapore and Hong Kong's differences enable each to develop complementary niches for businesses looking to grow in Asia.

In a working paper titled "Why Complementarity Matters for Stability—Hong Kong SAR and Singapore as Asian Financial Centers", the International Monetary Fund (IMF) posited that

"financial system stability is enhanced if Hong Kong SAR and Singapore both exist as financial centers and act in a complementary fashion to one another across geographic clientele and asset markets."

Can the concept extend to Singapore and Hong Kong as business hubs? There are major differences between the two stemming from their geographical locations—which impact on the markets each can serve best – and from their culture of governance.

Singapore is an important cultural and financial stepping stone to Southeast Asia, allowing businesses to tap into growth economies such as India and Indonesia. As a political entity, the city-state retains autonomy over its future.

Hong Kong has long served as the cultural and financial bridge to the mainland. Part of its future as a business hub depends on how this role evolves in the face of increasing influence from Beijing. Regardless, the strength conferred by its ties to the mainland is hard to best.

Perhaps the question for businesses then is not Singapore or Hong Kong, but rather Southeast Asia or the mainland?

HONG KONG

SINGAPORE

QUALITY OF LIVING ¹

70

28

EASE OF DOING BUSINESS ²

3

1

HIGHEST COST OF LIVING ³

9

1

POPULATION IN MILLIONS ⁴

7.26

5.47

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