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Agricultural Situation

Hong Kong's Horticultural Imports During An Economic Setback 1999

Prepared by:

Howard R. Wetzel

U.S. Consulate General, Hong Kong

Drafted by:

Caroline Yuen

Report Highlights:

During October 1998 - February 1999, Hong Kong's import of major horticultural products from the U.S. declined to US\$229 million, representing a drop of 32 percent when compared with the same period last year. This report examines the reasons behind the decrease of U.S. horticultural exports to Hong Kong.

Includes PSD changes: No
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The U.S. is a key supplier of horticultural products to Hong Kong. Hong Kong's major horticultural imports from the U.S. include vegetables, fruits, ginseng, nuts, beer, coffee, fruit juices, etc. During October 1998 - February 1999, Hong Kong's import of all these major horticultural products from the U.S. declined to US\$229 million, representing a drop of 32 percent when compared with the same period last year. This report examines the reasons behind the decrease of U.S. horticultural exports to Hong Kong.

Slackened Domestic Demand

In 1998, the Asian financial turmoil exerted tremendous recessionary pressure on the Hong Kong economy. Falling asset prices and the high unemployment rate led to weak domestic demand. For example, total retail sales declined by 17 percent in both value and volume. This contrasts with increases of 5 percent in value and 1 percent in volume in 1997.

With such an economic background, Hong Kong's demand for agricultural and food products weakened. During October 1998 till February 1999, Hong Kong's agricultural and food imports from all sources amounted to US\$ 4.4 billion, dropping 17 percent when compared to US\$5.3 billion for October 1997 - February 1998.

A weakened economy and slackened domestic demand certainly played a role in Hong Kong's reduced imports of horticultural imports. However, its role was not as significant when compared to the drastic drop in re-exports. Hong Kong's retained imports of major horticultural products merely dropped 3 percent whereas re-exports dropped 30 percent. China is Hong Kong's largest re-export market. It was mainly China's reduced demand for Hong Kong's re-exports that caused the decline of Hong Kong's HTP imports.

Reduced Hong Kong's Re-exports to China

There are a number of factors that have contributed to China's reduced demand for Hong Kong's re-exports. First, China has entered into an economic and import consolidation phase. The restructuring of state-run enterprises has resulted in huge unemployment in China. Second, China has introduced reforms to its financial system resulting in tight capital. Third, there has been downward pressure on the RMB exchange rate. Although the official exchange rate of the RMB remains unchanged, the black market rate has weakened by approximately 10 percent during 1998. In early 1998, the black market exchange rate was \$1.07 RMB to HK\$1.00. During September through November 1998, the rate was as low as \$1.20 RMB to HK\$1.00. As most Hong Kong traders have to convert RMB proceeds to HK dollars through the black market, the unofficial currency devaluation squeezed profit margins for Hong Kong traders and increased import prices in China. Last but not least, China staged anti-smuggling campaigns in late 1998, which interrupted Hong Kong's re-export trade to China for awhile and increased the "transportation cost" of handling these exports.

Hong Kong's Major Horticultural Imports, in USD thousand

	Oct 97 - Feb 98	Oct 98 - Feb 99	% change
Imports	785,306	674,574	-14%
Re-exports	323,187	224,746	-30%
Retained Imports	462,119	449,828	-3%

Individual HTP Imports

Hong Kong's major HTP imports from all suppliers dropped 14 percent while imports from the U.S. decreased 32 per cent. In other words, other suppliers were doing better than the U.S. It should be noted that the Hong Kong dollar is pegged to the U.S. dollar. The strong U.S. currency in 1998 made U.S. products less price competitive relative to products from other countries. In this regard, U.S. products in general were disadvantaged. Nonetheless, it is worthwhile to examine individual HTP items.

Fresh vegetables : Hong Kong's imports from all countries declined except from China. For October 1998-February 1999, Hong Kong's vegetables imports from China amounted to US\$68.6 million, rising 10 percent from 62.5 million for the previous year period. Given China's geographical proximity to Hong Kong, imports from China are delivered to Hong Kong market in a shorter time and at lower cost. In fact, many Hong Kong farmers have moved their farming to China since operating costs are very high in Hong Kong. With the improved quality of Chinese products, it is foreseeable that China will exert more dominance over Hong Kong's fresh vegetable market in the future.

Prepared/preserved vegetables : In the area of prepared/preserved vegetables, U.S. suppliers (-22 percent) were doing much better than average (-28 percent). Despite a decrease in absolute value, the U.S. market share rose from 39 percent to 43 percent. When the demand in the domestic market and China rebounds, Hong Kong's imports from the U.S. will rise accordingly. The major U.S. prepared/preserved vegetables exports to Hong Kong include French fries and canned sweet corn products.

In USD thousand

	Oct 97- Feb 98		Oct 98 - Feb 99	
	from U.S.	From all suppliers	from U.S.	From all suppliers
French fries	4,857	4,890	3,419	3,446
Canned sweet corn	3,988	9,571	2,884	4,935

Fresh fruits: The remarkable decline of imports from the U.S. was largely ascribed to the short supplies of oranges and grapes in the U.S. Two fresh fruit market developments related to mainland China re-exports should also be mentioned. First, despite the shortage of oranges this year due to California's freeze, re-exports of oranges to China are up slightly. Hong Kong re-export figures do not identify the country of origin, but it would appear the shortage of U.S. oranges has allowed other suppliers to benefit from mainland China's growing import demand.

Pistachios : During October 1997 - February 1998, the U.S. was the leading supplier of pistachios for the Hong Kong market, occupying a market share of 73 percent in terms of value. Its market share dropped sharply to 38 percent for October 1998 - February 1999. Meanwhile, imports from Iran surged, taking up the leading supplier position. Price is the key reason for this drastic change of market shares.

	Oct 97- Feb 98			Oct 98 - Feb 99		
	USD'000	MT	USD/MT	USD'000	MT	USD/MT
USA	16,471	5,445	3,025	10,986	4,291	2,560

Iran	2,134	619	3,447	15,534	6,768	2,295
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Beer : The beer market in Hong Kong has long been concentrated among a few major suppliers. Different suppliers have been trying hard to expand their own market share at the expense of others. In 1998, the beer market was hit by the soft economy. The total import value of beer from October 1998-February 1999 amounted to US\$43 billion, dropping 34 percent from US\$66 billion for the corresponding period last year. U.S. and Netherlands, the two major beer suppliers for the Hong Kong market, also experienced a decline of 59 and 56 percent in market share respectively, when compared with the two periods. In contrast, imports from Belgium, France and Germany increased despite their relatively high unit prices. This phenomenon illustrated that during the current recession brand and taste, rather than price, have a bigger influence over Hong Kongers' consumption choice of different beers.

	Oct 98 - Feb 99 in USD'000	Oct 98 - Feb 99 Litre	% change over Oct 97 - Feb 98 in terms of value	Unit Price USD/litre
USA	6,505	10,568,443	-59%	0.62
Netherlands	13,000	10,334,467	-56%	1.26
Belgium	1,099	949,082	49%	1.16
France	654	552,545	361%	1.18
Germany	731	735,414	2.4%	0.99
China	2,282	3,649,326	15%	0.63
Korea	2,979	3,665,645	-34%	0.81

Ginseng : Between October 1997 - February 1998 and October 1998 - February 1999, Hong Kong's import of ginseng increased 22 percent in terms of volume and decreased 4 percent in terms of value. Imports from the U.S. rose 12 percent by volume, yet market share dropped from 27 percent to 25 percent. Conversely, higher imports from Canada and China lifted their market shares to 43 percent and 29 percent, respectively. The quality of Canadian ginseng is considered to be comparable to the USA's and the price is more attractive. Hong Kongers tend to replace expensive items during an economic downturn.

	Oct 97 - Feb 98			Oct 98 - Feb 99		
	USD '000	Kg	USD/Kg	USD '000	Kg	USD/Kg
USA	39,999	681,994	58.65	32,517	766,852	42.40
Korea	16,540	66,562	248.49	14,596	78,997	185
China	8,688	710,784	12.22	9,975	879,690	11.34
Canada	29,269	1,030,062	28.41	32,644	1,317,401	24.78

All Imports	96,890	2,516,081	38.50	92,557	3,066,675	30.18
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Market Share in terms of Volume

	Oct. 97 - Feb 98	Oct. 98 - Feb 99
USA	27%	25%
Korea	2.7%	2.6%
Canada	41%	43%
China	28%	29%

Conclusion

The latest retail sales figures indicate that the recent declines are moderating. This is probably due to a recent pick-up in inbound tourism. Also, local consumer sentiment seems to have improved in recent weeks as property markets have firmed and the Hong Kong stock market has enjoyed a recovery. These factors will help boost local demand for HTP imports from the United States. U.S. supply shortages will be less of a factor as we move toward the new harvest seasons for table grapes and Valencia oranges, which appear to have good prospects. However, we do not expect re-exports to China to rise significantly in the near future, given the current restructuring of China's economy and other factors already noted. We expect that Hong Kong's horticultural imports from the United States will decline about 10 percent through the remainder of FY1999, which would result in a full fiscal year decline of about 20 percent.

Hong Kong's Major HTP Imports, in USD thousand

	Oct97-Feb98 USA	Oct98-Feb99 USA	% change	Oct97-Feb98 Total	Oct98-Feb99 Total	% change
fresh vegetables	29,923	24,496	-18%	123,594	118,036	-4%
lettuce	5,655	4,335	-23%	8,040	6,005	-25%
broccoli	2,297	1,493	-35%	3,208	2,318	-28%
cabbage	166	24	-86%	1,881	2,489	32%
potatoes	5,444	6,599	21%	5,650	6,782	20%
onion	2,060	1,448	-30%	2,536	2,461	-3%
celery	5,790	3,043	-47%	6,073	3,143	-48%
prepared/preserved vegetables	19,941	15,633	-22%	50,811	36,395	-28%
fresh fruits	173,211	117,001	-32%	328,046	281,910	-14%
oranges	61,101	30,037	-51%	71,926	59,585	-17%
apples	17,754	16,988	-4%	24,863	24,330	-2%
grapes	73,093	48,501	-34%	81,513	66,758	-18%
pears	1,865	1,641	-12%	19,029	13,622	-28%
preserved fruits	3,180	1,771	-44%	7,777	6,852	-12%
dried fruits	655	811	24%	4,788	3,214	-33%
dried nuts	29,697	19,322	-35%	63,204	64,667	2%
pistachios	16,471	10,986	-33%	22,452	28,765	28%
almond	7,830	5,346	-32%	9,582	7,012	-27%
preserved nuts	18,846	7,674	-59%	26,619	15,714	-41%
coffee	1,258	614	-51%	7,137	4,499	-37%
fruit juices	4,021	2,242	-44%	10,351	7,371	-29%
beer	15,900	6,505	-59%	66,089	43,359	-34%
ginseng	39,999	32,517	-19%	96,890	92,557	-4%
Total	336,631	228,586	-32%	785,306	674,574	-14%

Hong Kong's Major HTP Re-exports, in USD thousand

	Oct97-Feb98 China	Oct98-Feb99 China	% change	Oct97-Feb98 Total	Oct98-Feb99 Total	% change
fresh vegetables	10,899	10,186	-7%	47,096	60,780	29%
lettuce	30	6	-80%	62	29	-53%
broccoli	16	0	-100%	26	81	212%
cabbage	1	0	-100%	76	1,496	1868%
potatoes	3,555	4,058	14%	3,603	4,162	16%
onion	0	0	0%	164	510	211%
celery	3233	1,132	-65%	3,252	1,132	-65%
prepared/preserved vegetables	15,806	6,510	-59%	21,121	10,790	-49%
fresh fruits	103,825	39,256	-62%	122,133	53,723	-56%
oranges	9,400	9,874	5%	11,642	11,738	1%
apples	10,102	5,320	-47%	11,313	7,400	-35%
grapes	26,926	11,902	-56%	29,622	14,559	-51%
pears	809	277	-66%	2,679	1,147	-57%
preserved fruits	3,173	2,466	-22%	3,475	2965	-15%
dried fruits	1,948	488	-75%	4,233	2,219	-48%
dried nuts	38,702	31,426	-19%	53,938	47,537	-12%
pistachios	21,277	20,085	-6%	23,495	22,412	-5%
almond	6,755	4,742	-30%	7,626	4,972	-35%
preserved nuts	4,116	2,357	-43%	7,321	4,705	-36%
coffee	3,335	346	-90%	3,922	937	-76%
fruit juices	2,733	1,110	-59%	2,823	1,505	-47%
beer	28,003	13,692	-51%	30,390	15,611	-49%
ginseng	14,063	14,217	1%	26,735	23,974	-10%
Total	226,603	122,054	46%	323,187	224,746	-30%

Source : Hong Kong Census & Statistics Department