# COVID-19 AND PROTESTS NEED NOT CRIPPLE TOURISM-HEAVY HONG KONG

BY JASON HUNG

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On April 3, 2019, the Hong Kong government introduced amendments to Hong Kong's extradition bills that would enable criminal suspects to be sent to mainland China for trial. This decision sparked Hong Kong's anti-extradition bill protests—the number of individuals going out to demonstrate peaked on June 16 at an estimated 2 million individuals. To date, more than 1,000 protesters have been arrested.

The continuing demonstrations, which have evolved into a call for democratic reforms and police accountability, have been a heavy blow to local tourism. The number of mainland Chinese visitors from late September until the end of 2019 dropped by some 60% year-on-year. Forward bookings for travel to Hong Kong from the mainland between September 24 to December 30 plummeted by 58.2% compared to the same period in 2018. Even during the week following China's National Day last October, dubbed "Golden Week," bookings for travel fell by 39.7% relative to 2018.

According to Jameson Wong, APAC business development director of ForwardKeys, "Mainland China is Hong Kong's most important source market and the tourism industry offers 300,000 jobs in Hong Kong, [so] these numbers reveal that the demonstrations are delivering a devasting blow to the economy of Hong Kong."

**Impact of the outbreak**

In January 2020, Hong Kong welcomed an average of 100,000 visitors daily, a 53% decline from the 200,000 daily arrivals recorded in the first half of 2019. The outbreak of Covid-19 has compounded the loss of mainland Chinese visitors, as the Hong Kong government has restricted the flow of individuals between Hong Kong and the mainland. From late January onwards, the number of visitors in Hong Kong plunged to 65,000 per day, and the number further dropped in February to below 3,000 visitors per day. Of these, 75% were non-mainland visitors.

Hong Kong has more than 350 confirmed Covid-19 cases as March 20. Hong Kong's Financial Secretary Paul Chan Mo-po argues the economic impact of the coronavirus outbreak could be more severe than that of 2003's SARS ordeal. As he highlights, the city's growing reliance on tourism and retail would put the occupational security of employees in these sectors at risk.

The contribution of travel and tourism to the city's GDP was 17.4% in 2018, the year prior to the massive outbreak of socio-political unrest. For context, travel and tourism's contribution to Hong Kong's GDP was some 9.0% in 1998. The data demonstrate that Hong Kong has been growing overly dependent on tourism. In specific, Hong Kong's economic growth has primarily relied on the influx of mainland tourists. Just before the crises occurred, 78% of arrivals were mainland visitors, as compared with 41% from 2002, the year before the outbreak of SARS.

**Status quo**

Due to the combination of socio-political and health crises, according to data from the Census and Statistics Department, the retail sales dropped 21.4 percent YoY to US$37.8 billion in January 2020, as compared to the retail performance in January 2019. The reduction in retail sales in this January marked the 12th consecutive month of decrease in the value of retail sales in Hong Kong.

In addition, several countries have issued travel bans or restrictions against Hong Kong nationals. The Philippines, for example, announced that arrivals from Hong Kong would be banned. Alternatively, the United Kingdom, Israel, Thailand, and other countries announced a 14-day self-quarantine order for all visitors coming from Hong Kong. International travel bans and restrictions on individuals coming from Hong Kong hint the city may become less appealing for visitors due to the widespread Covid-19, where local tourism and retail industries may be further hit in the coming months.

**Recommended policies**

In response to both socio-political and health crises, the Hong Kong government should increase the amount of one-time cash handouts distributed to local businesses within the retail industry as economic stimuli. These should even include local small and medium-sized businesses, such as Lung Mun Cafe and Fu Kee Noodles, that offer advantages to customers who support the anti-extradition bill demonstrations. These businesses have been hit the hardest in this critical period. The delivery of one-off economic stimuli, as an olive branch, is particularly conducive to the sustainability of small and medium sized retail businesses and minimization of anti-governmental sentiments among local entrepreneurs. In doing so, retail companies' decisions to liquidate might decrease despite the financial hardship and uncertainty citywide. Fewer employees might therefore be laid off and the government's subsidies to unemployed Hong Kong citizens could be minimized.

Moreover, the Hong Kong government should incentivize alternative business opportunities within the retail industry. Hong Kong's revenue in the e-commerce market is projected to amount to $5.511 billion in 2020. Revenue is expected to show an annual growth rate of 6.8% from 2020 to 2024. The government should therefore lower the profit tax rates charged toward newly registered e-commerce businesses in this fiscal year. As a result, more retail companies are motivated to establish their online businesses, minimising the decline in sales revenues due to the plunge of the numbers among mainland and non-mainland visitors. In the long-term, the transition from in-store to online sales can benefit Hong Kong's economic sustainability as the retail industry would be less dependent on the tourism performance.