

Study on Hong Kong's Economic Development and the Changes in its Industrial Structure in the Context of the COVID-19 Pandemic

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Abstract

The COVID-19 pandemic sweeping the world has threatened the economic development of Hong Kong's international metropolis. Against the background of the epidemic, only by accelerating economic transformation and successfully controlling the spread of the epidemic situation can Hong Kong continue to maintain its status as a financial center. By analyzing the changes of Hong Kong's economic indicators (including GDP and price level) and industrial structure before and after the epidemic, and using SWOT analysis method, this paper briefly describes the changes of Hong Kong's industrial structure under the background of the epidemic, as well as the advantages, disadvantages, opportunities and challenges of economic and industrial development, so as to draw a series of suggestions on how to realize the development of Hong Kong's industrial economy.

Keywords

COVID-19; Hong Kong; Economic Change; Macroeconomic.

1. Introduction

Since the first confirmed case of novel coronavirus in December 2019, the COVID-19 virus has swept the world, with the cumulative number of confirmed cases in the world reaching 217 million by the end of August 2021. The rampant New Coronavirus has had a huge impact on the entire world economy, and the United Nations Department of Economic and Social Affairs has predicted that the global economy will shrink by nearly 3.2% in 2020, causing a loss of nearly US\$8.5 trillion [1].

Hong Kong, as the third largest financial centre in the world, an important international centre for finance, trade, shipping and international innovation and technology, as well as one of the freest economies and most competitive cities in the world [2,3], it is important to understand the impact of the COVID-19 Pandemic on Hong Kong's economic industry. Therefore, this paper aims to explore the economic development of Hong Kong and the changes in its industrial structure in the context of the COVID-19 Pandemic, analyses the impact of Hong Kong's relevant policies on its economic recovery, and provide a theoretical basis for the economic recovery of other regions.

2. Changes in Macroeconomic Levels in Hong Kong

In Damiano Sandri's study [4] on the impact of the COVID-19 Pandemic on economic markets, it was stated that macro-prudential regulation made domestic economic activities less sensitive to both positive and negative global financial shocks and could better cope with the economic shocks brought about by the epidemic. Therefore, it is particularly important to understand the changes in the Hong Kong economy at the macro level. This paper will explore the changes in the Hong Kong macro economy in the context of the COVID-19 Pandemic through three indicators: GDP, CPI and unemployment rate. (Figures in this article are taken from the official website of the Hong Kong Census and Statistics Department)

2.1. Changes in Hong Kong's Regional GDP in the Context of the Epidemic

For the whole of 2020 combined, Hong Kong's GDP contracted in real terms by 6.1%, the largest annual decline on record, and by 1.7% in 2019. In terms of quarterly movements, Hong Kong's GDP falls the most in the early stages of the outbreak, i.e., in the first quarter of 2020, by 5%, before the downward trend begins to take control in the second quarter (down 0.4%). From the third quarter onwards, the GDP level began to gradually recover, and in the first quarter of 2021, Hong Kong's GDP growth reached its greatest level, with a 5.5% increase. (Chart 1)

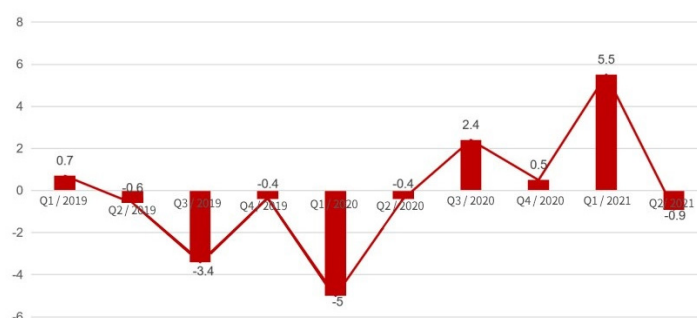


Fig 1. Quarterly change percentage of GDP in Hong Kong

2.2. Changes in the Consumer Price Index (CPI) for the Hong Kong Region Against the Backdrop of the Epidemic

The Consumer Price Index (CPI), an important indicator of regional inflation, has eased in 2020 as price pressures on most goods and services have eased due to the challenging global and local economic conditions. As shown in Chart 2, CPI growth in Hong Kong began to slow from April 2020 onwards, with the largest decline of -2.3% by July 2020 when CPI growth was negative. CPI began to rise from January 2020 onwards.

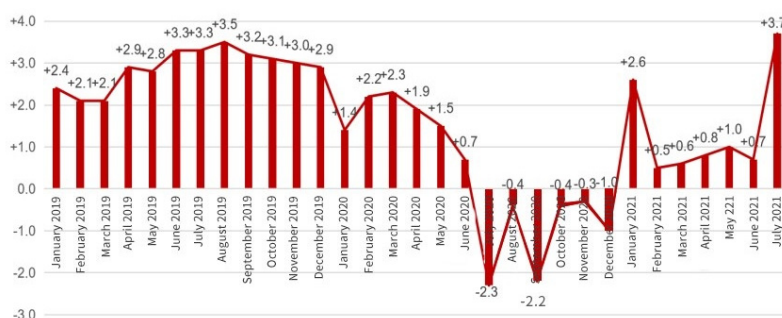


Fig 2. Monthly change percentage of CPI in Hong Kong

2.3. Analysis of the Changes in the Unemployment Rate in the Hong Kong Region in the Context of the Epidemic

On account of the novel coronavirus led to the largest ever contraction of the Hong Kong economy in FY20, it caused market panic and company layoffs, resulting in a significant increase in the unemployment rate in the Hong Kong region. A quarterly comparison shows that the unemployment rate in Hong Kong rises rapidly from the fourth quarter of 2019 until it starts to stabilize in the third quarter of 2020. the average unemployment rate in the four quarters of 2020 is about twice the average rate in the four quarters of 2019 and peaks at 6.8% in the first quarter of 2021. (As shown in Figure 3)

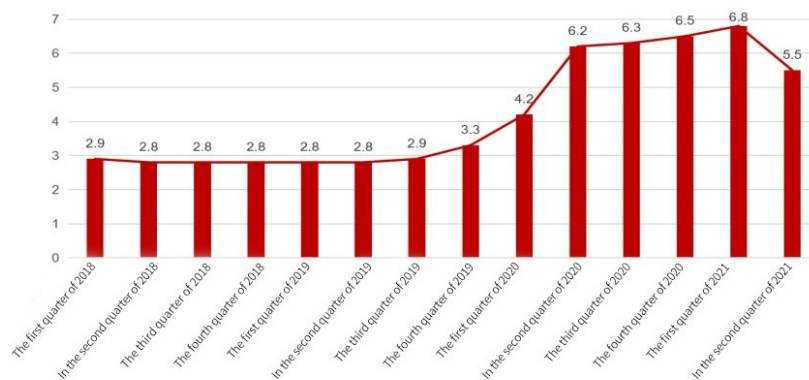


Fig 3. Regional unemployment rate in Hong Kong

3. Changes in the Industrial Structure of Hong Kong

3.1. Changes in the Number of People Employed in Different Industries in Hong Kong

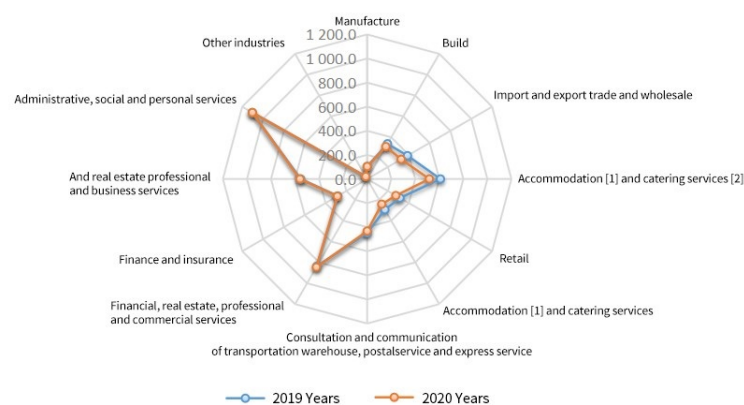


Fig 4. Changes of employment in different industries in Hong Kong in 2019-2020 (Source: Official website of the Hong Kong Statistics Department)

For the whole year of 2020, the number of employed persons in Hong Kong dropped significantly, from 3,849.9 thousand to 3,661.6 thousand. The impact of the new crown epidemic on different industries in Hong Kong is variable. A comparison of employment in different sectors in Hong Kong in 2019 and 2020 shows (see Figure 4) that employment declines in all sectors, except for finance and insurance, real estate, professional and business services, where there is a slight increase in employment. Employment in Hong Kong's public administration, social and personal services, finance, insurance, real estate, and professional

and business services sectors are the main employment destinations in Hong Kong, while employment in manufacturing and other sectors are relatively small and do not change significantly over 20 years; while employment in Hong Kong's retail, import/export trade and wholesale, and accommodation and food services sectors are more affected by the epidemic, with significant declines of 39.8, 60.9 and 144.2 thousand respectively.

3.2. Changes in the Index of Earnings of Different Industries in Hong Kong

Hong Kong is a highly urbanized economy and the contribution of Tier 1 production industries (including fisheries and livestock, mining and quarrying) to the added value of GDP isn't significant. The secondary production sector covers manufacturing, construction and water, electricity and gas supply. In 2019, the value-added contributions of manufacturing and water, electricity and gas supply to Hong Kong's economy were each only 1% of GDP, while the construction sector's share was 4%.

The services sector is the backbone of Hong Kong's economy and its gross domestic product has reached 93% of GDP by 2019. Comparing the change in Hong Kong's service sector earnings index between 2019 and 2020, we can get a more intuitive picture of how the earnings of different sectors in Hong Kong will change in the context of the epidemic. Compared to 2019, the earnings indices of all sectors in 2020 have decreased, except for the service sectors of water transport, warehousing and storage, courier, finance, financial markets and asset management, asset management, insurance and real estate, where earnings have increased. The decline is particularly pronounced for tourism, cinema, accommodation, food and beverage and air transport, with declines of 86.7%, 44.0%, 59.1%, 29.4% and 36.2% respectively, while the service sector revenue indices for courier and warehousing and storage increase significantly, by 28.4% and 11.5% respectively. (See Figure 5)

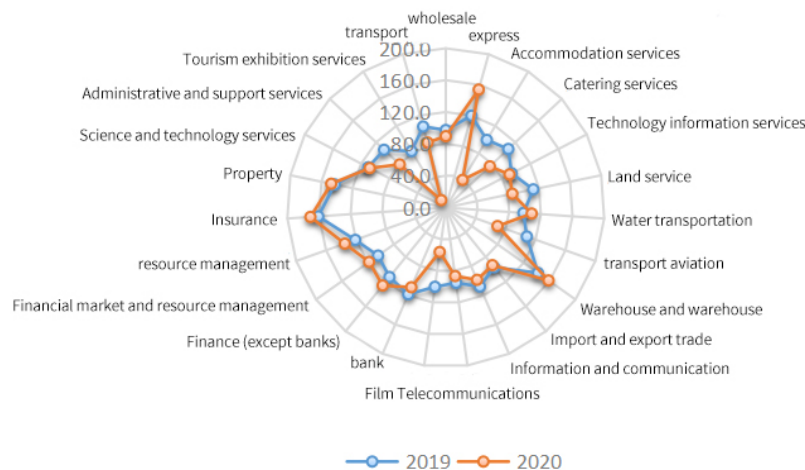


Fig 5. Radar chart of the change of Hong Kong's service industry revenue in 2019 and 2020

4. Discussion and Analysis

As a world financial and trade centre, Hong Kong has a unique geographical advantage and a strong economic and industrial base; however, at the same time, Hong Kong's pillar industries - finance, trade and logistics, professional services and tourism - all involve the international movement of people and capital, and therefore the outbreak of the epidemic will hit the development of these pillar industries hard. Comparing Hong Kong's macroeconomic and sectoral earnings and employment since the outbreak, we find that Hong Kong's GDP has decreased significantly since early 2020 due to the outbreak, while the unemployment rate has increased significantly. The Hong Kong economy hit rock bottom in the first quarter of 2020[5]. Employment and earnings indices in different sectors contracted significantly, especially in the

tourism and related lifestyle services sectors (film, air transport, retail, accommodation, food and beverage, etc.). However, there is always an opportunity in the midst of risk, as employment and earnings indices in the courier, warehousing and storage, and finance-related services sectors rose to varying degrees amidst the overall economic downturn in Hong Kong. Overall, therefore, Hong Kong's economic development in the context of the epidemic was characterized by both strengths and weaknesses, opportunities and challenges [6].

SWOT analysis, proposed by the American management professor Wyrick, is a method of analyzing one's own internal strengths and weaknesses, as well as external opportunities and threats, in order to effectively combine one's development strategy with internal resources and the external environment, and thus the analysis method is used to select the best strategy [7]. The article further analyses the strengths and weaknesses, opportunities and challenges of Hong Kong's economic and industrial development in the context of the COVID-19 Pandemic through the SWOT analysis.

In the face of the impact of the new crown epidemic on the economy, Hong Kong's advantage(s) have shown: (1) Hong Kong's own economic advantages can withstand the economic crisis brought about by the epidemic to a certain extent. Hong Kong's financial sector had already emerged and developed during the British colonial rule in the 19th-20th centuries. Since Hong Kong's reunification with the motherland in 1997, Hong Kong has even won the opportunity to develop internationally and is a world leader in the financial and trade sectors. Thus, the innate advantages of Hong Kong's economy and industry have provided a valuable foundation for Hong Kong to withstand risks during the epidemic. (2) Capital and financial markets have global liquidity. As financial and capital markets have global liquidity, the mobility of capital is even more pronounced in Hong Kong as an international financial and economic centre, and governments around the world can effectively reduce the occurrence of financial crises in Hong Kong through regulation of global capital markets. (3) Backed by the mainland market, mainland China, as Hong Kong's largest trading partner, is also a strong pillar of the Hong Kong economy. During the epidemic, Mainland China has achieved rapid economic recovery through effective control of the epidemic, which can drive the recovery of Hong Kong's economy.

Hong Kong's disadvantages (W) under the epidemic are manifested in: (1) its leading industries - finance, trade and logistics, professional services and tourism - all involve the movement of people and capital across regions. With the downturn in the world economy caused by the epidemic, worldwide capital flows were blocked, international flows of products and capital between them were severely impeded, and the scale of inter-population flows was significantly reduced. This led to a continued downturn in the transport, trade and tourism sectors in Hong Kong during the epidemic [8]. (2) As an internationalized city, Hong Kong is closely connected to international markets and the movement of people from within and outside the country has caused constant recurrence of the epidemic, posing a significant impediment to the economic recovery of the Hong Kong region.

The opportunities for Hong Kong's economic and industrial development (O) lie in two areas: (1) During the epidemic, measures such as regional closures and tighter regulation reduced population mobility, and people became more inclined to shop online, which created a great demand for industries such as express and warehousing. (2) China has taken effective measures to contain the epidemic in time to enter the economic recovery phase ahead of other countries under the impact of the epidemic, which will create more opportunities for the country's development. Hong Kong, as China's offshore port and an important international economic and trade centre, will also have more opportunities.

Risks often coexist with opportunities. Therefore, while noting the opportunities, policy makers cannot ignore the challenges posed by the associated barriers and risks [8]. The challenge (T) for Hong Kong's economic and industrial development lies in the unstable epidemic situation worldwide. The global epidemic is still recurring and the local epidemic in Hong Kong is still

not fully under control. The impact of external factors such as the epidemic will not be promising in the short term. The impact of the epidemic has led to a severe drop in consumers expected future income, which has had a dampening effect on current consumption [9] and made the recovery of tourism and its related services such as accommodation, catering and air transport fraught with obstacles. Against this backdrop, it is therefore urgent for Hong Kong to find a way out of the industrial development dilemma and regain its position as a financial centre that is appropriate to the current epidemic situation.

5. Conclusion

Taking into account the current situation, strengths and weaknesses, as well as opportunities and challenges of Hong Kong's economic and industrial development in the context of the current epidemic, countermeasures for Hong Kong's economic and industrial development are recommended as follows.

- (1) Seize the opportunity of the logistics industry and vigorously develop it.
- (2) Doing our best to control the situation of the spread of the epidemic at the earliest.
- (3) Switching industries previously engaged in offline to online as far as conditions permit.
- (4) Continue to maintain Hong Kong's status as a world financial centre.
- (5) Establish a sound emergency protection system.

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