

# The Impact of the COVID-19 Pandemic on Hong Kong's Service Sector

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**Abstract:** The COVID-19 pandemic has severely affected the global economy, and Hong Kong, a global economic center, is no exception. In the face of strict border restrictions around the world and the yet unspecified deadline for customs clearance with the Mainland China, the service sector, which is an important part of Hong Kong's economic structure, has been hit hard by the pandemic. This paper gives a brief discussion of the impact of the COVID-19 pandemic on Hong Kong's service sector by analyzing its air transport services and insurance services. On the one hand, air transport services have experienced plummeting passenger throughput, but cargo throughput has remained at a certain level. On the other hand, there has been no significant change in premium income and the number of persons engaged in insurance services compared with those before the pandemic. However, this is the result of relying on the income of long-term business, and growth in the amount of new business has been slow. These two aspects reveal that the main impact of the COVID-19 pandemic on Hong Kong's service sector is the reduction in the number of customers, which is undoubtedly a huge shock on the service sector that is highly dependent on offline communication with customers. Although the Government of the Hong Kong Special Administrative Region has taken certain proactive policies, the pandemic has brought severe challenges, and there is an urgent need for the service sector to transform and develop online markets. Understanding the impact of the pandemic on Hong Kong's service sector is more conducive to formulating relevant policies to promote the development of the service sector.

**Keywords:** COVID-19 pandemic, Hong Kong, Service sector.

## 1. Introduction

Since entering the 21<sup>st</sup> century, major public health emergencies have appeared more frequently, such as SARS in 2003, the HN79 virus in 2013, and the Ebola virus in 2014.[1] On the eve of the Spring Festival in 2020, people who were preparing to celebrate the Festival did not expect that the new pandemic in Wuhan would be far more contagious than expected and that it would force the suspension of gatherings, and the delay in resumption of work and starting of school. On January 30, 2020, WHO listed COVID-19 as a "Public Health Emergency of International Concern (PHEIC)" and issued recommendations for temporary control. In today's highly globalized world, the pandemic knows no borders, and no region in the world can be spared from its impact. [2]

The Hong Kong Special Administrative Region is an important part of China's future planning due to its unique economic status as an international financial center. Recent years have seen rapid development of Guangdong and increasingly frequent exchanges in the Greater Bay Area, but the COVID-19 pandemic also spread rapidly to Hong Kong. As the Hong Kong Special Administrative Region has a unique political system and high population density, the COVID-19 pandemic has greatly affected the local industries. Carrying out studies on the impact of the COVID-19 pandemic on Hong Kong's service sector can provide effective reference for such major public health emergencies in the future to help better formulate relevant policies.

## 2. The Impact of the Covid-19 Pandemic on Hong Kong's Service Sector

Before mentioning the impact of the COVID-19 pandemic on Hong Kong's service sector, let's first take a look at the confirmed COVID-19 cases in Hong Kong as of September 15, 2022. As of September 15, 2022, there had been a total of 402,948 confirmed cases in Hong Kong, and the virus has recently resurged. [3]Compared with the Mainland, Hong Kong is still more affected by the pandemic. As an important part of Hong Kong's economy, the service sector has also been hit hard by the pandemic.

In the more than two decades of the 21<sup>st</sup> century, the service sector has always played a pivotal role in Hong Kong's economic system. During the ten years from 2011 to 2020, the service sector's contribution to Hong Kong's gross regional product was between 92.2% and 93.4%. The service sector is also the main source of jobs in Hong Kong. In mid-2021, 3.7 million people were employed in Hong Kong, of which the service sector accounted for 3.2 million. In addition, the service sector also plays an important role in foreign trade, and export of services has grown rapidly in recent years, reaching a record high of \$886.9 billion in 2018. However, the COVID-19 pandemic broke this trend, as a result of which the total export of services in 2021 was \$596.7 billion, down 16% from 2011. Transport services were the main force of export of services, accounting for 41.8% of the total, followed by financial services (30.8%) and other services (23.6%). In 2011, the corresponding figures were 35.2%, 15.7% and 17.0% respectively.

The author conjectures that some industries that rely on offline communication and the flow of people will experience

a larger impact during the pandemic, such as air transport services and insurance services, because many countries and regions have implemented strict border control policies during the pandemic. They are also important industries in Hong Kong, providing a large number of jobs and are the key to driving economic development. Therefore, this paper focuses on analyzing these two industries.

## 2.1. The Impact of the Covid-19 Pandemic on Air Transport Services

As an international financial center and a tourist destination, Hong Kong also serves its functions as a transportation hub. Located in Chek Lap Kok, Lantau Island, New Territories, Hong Kong International Airport is one of the world's busiest airports, with over 100 airlines operating here. It ranks fifth in the world in terms of passenger throughput, and first consecutively for eighteen years in terms of cargo throughput. However, in recent years, air transport services have been greatly affected by the COVID-19 pandemic. In 2020, air transport services generated a value of \$37.3 billion in Hong Kong, accounting for about 1.5% of its gross regional product, whereas the corresponding data in 2018 were \$75.1 billion and 2.8%.

Due to the pandemic, all regions around the world have successively implemented policies to restrict the flow of people, such as sealing off the country or the city for a short period. These measures have also dealt a huge blow to Hong Kong's air transport services, resulting in noticeable drops in the number of persons engaged and contribution to the gross regional product.

Data show that from 2011 to 2019, the number of establishments of air transport services grew steadily year by year, but the growth has stopped since 2020, and the number began to fluctuate. In terms of the employment figure, the number of persons engaged increased year by year from 2011 to 2019, reaching 62,408 person-times in 2019. However, in 2020 and 2021, due to the pandemic, airlines had to reduce the staff in order to ensure their profits. And the number dropped to 48,939 person-times in 2021. The number of facilities and persons engaged reflect the size of an industry. Through analyzing data of the number of establishments and persons engaged, it can be concluded that during the COVID-19 pandemic, air transport services experienced certain fluctuations, which are still within the range of control judging from the numbers.

**Table 1.** General situation of airport services

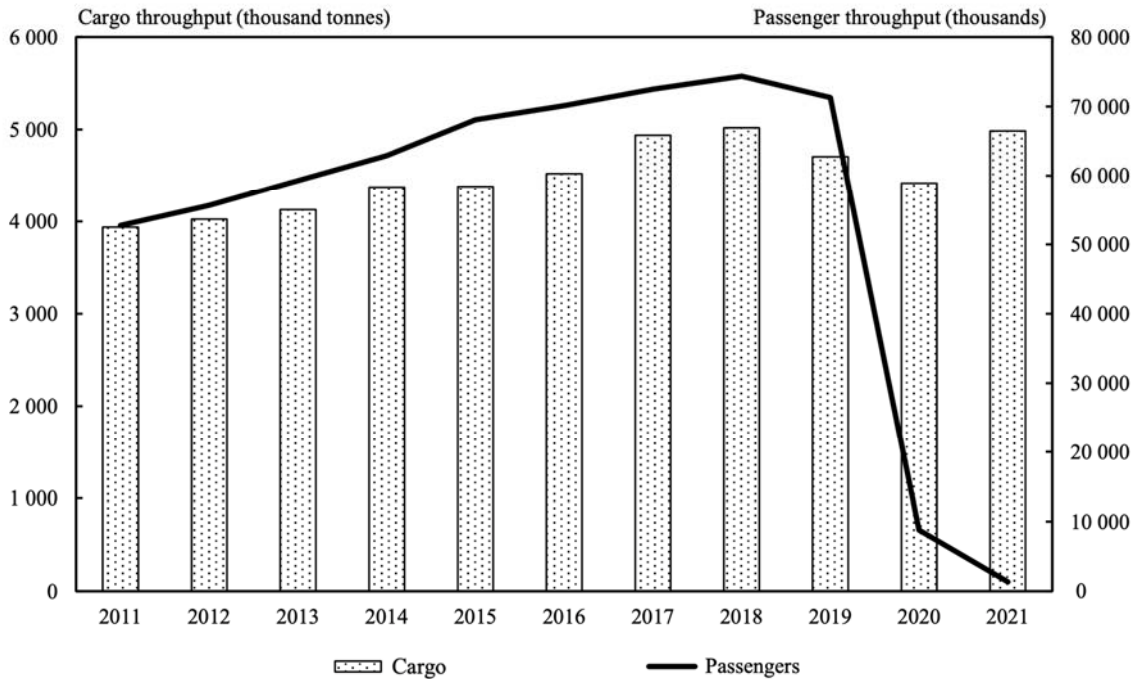
Air transport services				
Year	Number of establishments	Number of persons engaged	Value added (\$ million)	Business receipts index (2015=100)
2,011	1,395	49,704	48,734	97.4
2,017	1,523	61,537	73,847	102.4
2,018	1,570	62,742	75,091	113.9
2,019	1,588	62,408	68,840	108.4
2,020	1,564	57,231	37,282	69.2
2,021	1,554	48,939	N.A.	99.1

Source of Data: Census and Statistics Department, the Government of the Hong Kong Special Administrative Region

The total transport volume of air transport services is divided into two parts: passenger throughput and cargo throughput. The first is the analysis of passenger throughput data. People from around the world are attracted to Hong Kong by its rich tourism resources and vast high-end consumer market: Since 2011, passenger throughput has grown steadily every year, reaching a peak of nearly 72 million person-times in 2018. But this scene of prosperity has changed with the outbreak of the COVID-19 pandemic: The passenger throughput remained close to 70 million person-times in 2019, but it slumped visibly in the next two years, dropping to a measly 1.3 million in 2021, down 84.7% compared to that in 2020. The author conjectures that there are two main reasons: First, the outbreak of the pandemic has resulted in the loss of a good number of tourists. People around the world abandoned their original plans on account of national policy or safety concerns. Second, recent years have witnessed increasingly frequent exchanges between Hong Kong and the Mainland, and many Mainland workers need to go to Hong Kong to work. In order to control the pandemic, the Mainland has formulated strict border control

policies and quarantine requirements. The customs clearance ports between Hong Kong and the Mainland have been severely restricted, and only a small number of people can pass through the customs every day, leading to a further drop in the passenger flow volume.

Although there has been a significant drop in the passenger flow volume, fortunately, cargo throughput has remained strong during the pandemic. Data show that cargo throughput by air remained high from 2011 to 2019, with only an infinitesimal slide even during the pandemic. This slide is mainly due to the decrease in the volume of transit and import cargo as a result of reduced cargo space in the fuselages of passenger aircrafts. According to data of Airports Council International, Hong Kong International Airport was the world's busiest cargo airport for the tenth consecutive year in 2019. Though there are challenges with regard to the operating environment, the air transport industry, as an important part of air transport services, has a solid foundation as usual and bright future prospects.



**Figure 1.** Cargo and passenger throughput by air

Source of Data: Census and Statistics Department, the Government of the Hong Kong Special Administrative Region

## 2.2. The Impact of the Covid-19 Pandemic On the Insurance Industry

Hong Kong is a world-renowned insurance center and its insurance market is favored by many well-known companies, and many large-scale insurance companies have moved into Hong Kong. As of the end of 2021, there were a total of 164 authorized insurance companies, 818 licensed insurance brokerage companies and 115,700 licensed insurance agents in Hong Kong. While providing a great number of jobs, it is also a traditional pillar industry in Hong Kong. In the new era, the insurance industry has not gone downhill over time. On the contrary, Hong Kong's insurance market has broad prospects. First, with the increase of the aging population and wealth in society, there is an increasing demand for insurance from the elderly and the growing middle class. Meanwhile, the boosted frequency of cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area has also broadened channels for the insurance industry.

The outbreak of the COVID-19 pandemic is bound to affect this industry that is highly dependent on communicating with customers for business expansion. In my opinion, against the background of the global COVID-19 pandemic, the insurance industry is mainly faced with the following problems: First, the sales channels of insurance products are mainly offline, and there are fewer online sales. But the pandemic has cut off the direct contact between sales managers and customers, affecting the ways for insurance companies to expand their business. Second, the local economy is in a downward trend due to the impact of the pandemic. Small and medium-sized enterprises have suffered most obviously at the hands of the pandemic, and many people are facing unemployment,

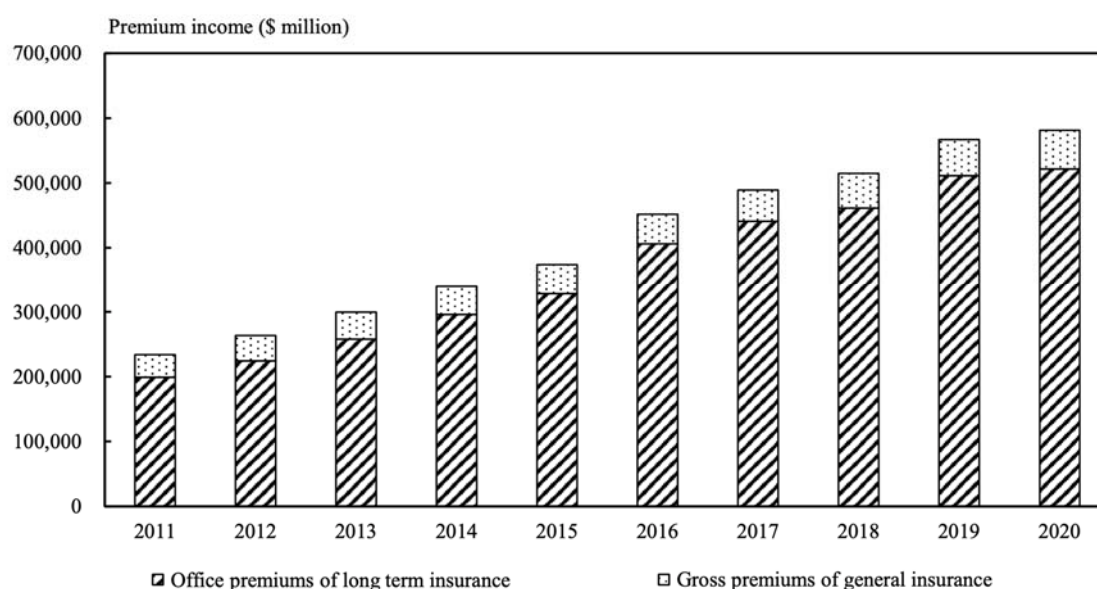
reducing their spending power and demand for insurance. The loss of these potential targets of insurance business will undoubtedly have no small impact on the insurance industry. Third, during the pandemic, many people have faced home quarantine or travel restrictions, and their vehicles have been left idle at home, reducing their demand for motor insurance, which has greatly affected motor insurance. Fourth, the pandemic is not conducive to the supervision and management of selling operations, and being unable to conduct transactions in a designated environment increases the difficulty of transaction supervision[4]. Meanwhile, some enterprises did not submit supervision reports on time after the completion of transactions.

Next, we'll analyze the changes of Hong Kong's insurance services during the pandemic through data. In terms of number of establishments, from 2011 to 2021, the number of establishments has increased steadily every year, and the number of persons engaged has shown the same trend, demonstrating that the employment scale of insurance services has not been affected that much during the pandemic, and that the industry is relatively stable. In terms of premium income, in the ten years from 2011 to 2021, office premiums of long-term insurance accounted for the majority of income, and gross premiums of general insurance accounted for a small portion, which have also maintained steady growth during the pandemic. According to statistics, the value added of the insurance industry in Hong Kong in 2020 reached \$112.9 billion, accounting for 4.4% of Hong Kong's gross regional product in that year. Data show that Hong Kong's insurance services have not been greatly affected during the pandemic, which is somewhat inconsistent with the author's prediction.

**Table 2.** General situation of insurance service industry

Insurance services(\$ million)					
Year	Number of establishments (not including self-employed insurance agents with no business registration)	Number of persons engaged (not including self-employed insurance agents with no business registration)	Number of persons engaged (including self-employed insurance agents with no business registration)	Value added	Business receipts index (2015=100)
2,011	9,077	31 387	46,100	56,051	58.0
2,017	12,307	38,724	65,400	93,412	136.2
2,018	12,838	39,888	67 800	96,574	148.0
2,019	13,099	40,443	72,400	108,166	161.0
2,020	13,146	40,763	72 700*	112,924	170.9
2,021	13,237	41,529	76,000	N.A.	175.1

Source of Data: Census and Statistics Department, the Government of the Hong Kong Special Administrative Region

**Figure 2.** Premium income of insurance

Source of Data: Census and Statistics Department, the Government of the Hong Kong Special Administrative Region

Then, for what reason that Hong Kong's insurance services, instead of declining, have grown during the pandemic, and performed entirely differently compared with the insurance industries in other regions? The author hopes to find out the reason by studying the measures taken by the Government of the Hong Kong Special Administrative Region with regard to the insurance industry during the pandemic. The first is how to expand business channels. According to statistics from the Census and Statistics Department, The Government of the Hong Kong Special Administrative Region, the Hong Kong Export Credit Insurance Corporation (ECIC) has provided a variety of insurance services for goods and exporters in Hong Kong. In 2021, ECIC undertook an amount of insurance of \$130.7 billion, up 8.7% compared to 2020, while the net income from underwriting profit dropped by 0.6% during the period. It can be seen that during the pandemic, the Government of the Hong Kong Special Administrative Region took on more amount of insurance to make up for part of the losses caused by the loss of customers. The second is

regulation and supervision. The Insurance Authority (IA) took over the regulation and supervision of the insurance industry on June 26, 2017. A regulatory authority independent of the government has been established to ensure the standardization of the process of the insurance industry, protect the interests of policyholders, and promote the development of the insurance industry.

Insurance services are an important industry in the Hong Kong Special Administrative Region. Hence, the Government of the Hong Kong Special Administrative Region has invested a lot of financial resources and continuously implemented its relevant policies to ensure the stable development of the industry. This is part of the reason why insurance services have remained stable during the pandemic in terms of data. However, insurance services are also faced with many problems when data is put aside: First, although many policies have been formulated by the Government of the Hong Kong Special Administrative Region to support insurance services, these measures are more beneficial to state-owned or large insurance companies, and small and medium-sized individual insurance companies are faced with a still not promising situation. Secondly, according to the laws

of Hong Kong, all insurance policies have to be signed in Hong Kong after the policyholders have entered Hong Kong for them to be regarded as valid policies and protected by the laws of Hong Kong. The Mainland is the main market for Hong Kong's insurance services, but as normal customs clearance has been impossible during the pandemic, the salesmen have been unable to communicate with people in the Mainland for the signing of insurance policies. Therefore, in fact, most insurance personnel have been on vacation and are not truly employed. Third, the income from insurance policies comes more from long-term business in the past, and there has been a significant drop in the income from new policies during the pandemic. According to statistics from Hong Kong's Insurance Authority, the total office premiums of valid long-term business in 2020 was 521.5 billion, of which the valid office premiums reached 458.6 billion, accounting for 87.9% of the market share, while the office premiums of new business were only 119.6 billion, dropping sharply by 20.9% . It follows that the growth of office premium income of Hong Kong's insurance industry relies mainly on the long-term business in the past, and there has been a significant decrease in the amount of new office premiums during the pandemic.

Therefore, it can be concluded that although the data of the number of establishments, the number of persons engaged and the premium income reflect that insurance services in Hong Kong have been developing steadily during the pandemic, the reasons behind it are the massive support from the government, the large number of disguised unemployed persons, and premium income relying on long-term business in the past. Insurance services in Hong Kong are still facing severe challenges. The first is that the customs clearance plan between Hong Kong and the Mainland has failed repeatedly during the pandemic, the loss of customers and difficulties in expanding business online. The second is that the pandemic has created a severe economic environment, leading to a decrease in people's real income across the board and their demand for insurance, which have resulted in a sharp drop in the amount of new personal long-term insurance business, and the insurance industry has to depend on long-term business in the past for its income. The third is that a large number of people engaged in the insurance industry are unemployed and need government support. In the short term,

government support and income from long-term insurance business can maintain the stability of relevant data, but in the long run, the stagnation of new business has sounded the alarm for the future development of the insurance industry, and there is an urgent need to promote online and digital insurance services and expand customer channels.

### 3. Conclusion and Relevant Suggestions

A brief analysis of the changes in the number of persons engaged, income and transaction volumes of Hong Kong's air transport services and insurance services during the COVID-19 pandemic leads to the conclusion that due to the pandemic, many countries adopted strict border control policies, which has had many adverse effects on services that rely on offline communication, which can be seen from the sharp drop in passenger throughput in the air transport industry and new premium income of the insurance industry. The service sector provides an immense job market. As it is the core industry of Hong Kong, the Government of the Hong Kong Special Administrative Region has also issued many policies to support it, such as issuing consumer coupons to encourage mass consumption. However, the service sector also needs to reform its own business models and expand sales channels as digitization is an irresistible trend.

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