

Analysis of Hong Kong's Tourism Market in 2022 From the Perspective of Supply and Demand

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ABSTRACT

Tourism is one of the four pillars of Hong Kong's economy and one of the most popular tourist destinations in the world. However, while Hong Kong's tourism industry is booming, it has been affected by local social events and the epidemic, which has dealt a heavy blow to the tourism industry. In addition, the tourism related retail and catering industries have also suffered immeasurable losses. Although it is difficult to predict the total recovery time of Hong Kong's tourism industry due to the repeated impact of policy control and the epidemic, the results of this study will help Hong Kong's tourism industry to think deeply about its development prospects, further improve the quality of tourism, and contribute to the future tourism competition.

Keywords: *the Epidemic, Hong Kong Tourism Market, Economic, Development*

1. INTRODUCTION

Backed by Chinese Mainland, Hong Kong maintains close ties with the rest of the world through convenient land, sea, and air transportation. It is one of the most important landing places for large international companies wishing to enter China. In addition, due to its colonial history, warm climate and rich and diverse cuisine, Hong Kong has been one of the preferred tourist destinations for Asian tourists in the past few years. In 2018, the total number of tourists in Hong Kong reached an all-time high, an increase of 11.4% to 65.15 million. Total Tourism Expenditure Associated with Inbound Tourism (TEAIT) also recorded an increase by 10.3% to HK\$328.19 billion. [1] The overall hotel room occupancy rate in Hong Kong rose by 2% points to 91% in 2018 from 89% in 2017. The average hotel room rate of all hotels grew by 6.8% to HK\$1,376. [2]

However, in 2019, Hong Kong's thriving tourism industry was hit by political turmoil and the subsequent outbreak of COVID-19. The anti-Extradition Law Amendment Bill Movement triggered protests in Hong Kong. The trend of visitor arrivals to Hong Kong declined from 55.91 million in 2019 to 9.1million in 2021. By 2022, the downward trend will continue. Tourism is one of the main economic pillars of Hong Kong. In 2018, tourism accounted for about 4.5% of GDP and employed 257,000 people, accounting for about

6.6% of Hong Kong's total employment. The persistent market depression has led to several economic and social problems. This article will sort out and analyze the reasons for the changes in the tourism market from the perspective of supply and demand, and put forward some suggestions.

2. SUPPLY AND DEMAND ANALYSIS

Since June 2019, social problems and the persistent epidemic have led to the collapse of Hong Kong's tourism market and a series of negative effects. Furthermore, affected by the global economic recession, Hong Kong's economic development has also declined. Meanwhile, the regulations on inbound tourists and the local social distance policies significantly reduced the business of the Hong Kong service industry. Unemployment continued to rise, especially among those working in the service sector. Until the fifth wave of the COVID19 in 2022, the city that had just started recovery in 2021 was blocked down again. These complex reasons have affected the Hong Kong tourism market. Everything seems uncertain. Fortunately, Hong Kong has sufficient resources to support its recovery; and now is a good time for Hong Kong to think about the future development of tourism.

2.1. Demand

Since mid-2019, several countries have issued travel warnings to Hong Kong on unresolved social problems, including the United States. The total number of visitors to Hong Kong began to decline every year; compared with 2018, the total number of visitors to Hong Kong in 2019 was 55.91 million, a decrease of 14.2%. When the social problems are solved, the first coronavirus case occurred in Hong Kong in January 2020; The government started to regulate visitor traffic. They gradually closed the cross-border channels related to Chinese Mainland and classified overseas countries based on their epidemic situations. In March 2020, the government announced a red Outbound Travel Alert for all overseas countries, imposing a 14-day mandatory quarantine on all personnel arriving from overseas, and close the border to all non-residents entering from abroad. Meanwhile, on 28th Jan 2020, the China government stopped approving tourist visas for Chinese Mainland residents to visit Hong Kong until now. However, since 2009, over 60% of the visitors to the Hong Kong tourism market are from Chinese Mainland; In 2019, they contributed 70.3% of the total tourism consumption expenditure associated with inbound tourism [1].

Due to the recurrence of epidemic and traffic control, the total number of visitors to Hong Kong decreased by 93.6% compared with 2019, and directly dropped to 3.56 million. The growth rate of visitor arrivals in 2021 continues to drop by 97.4% to more than 90,000 (as shown in Figure 1). The loosened inbound policy has been delayed due to the occurrence and global spread of new virus variants. Coupled with the impact of the trade friction between China and the U.S. and other factors, Hong Kong's economy continued to decline. In 2020, Hong Kong's gross domestic product (GDP) decline by 6.1% year on year, 4.9 percentage points lower than that in 2019 (as shown in Figure 2) [3] With the seasonally adjusted unemployment rate rising from 3.9% in November 2021 to January 2022 to 4.5% from December 2021 to February 2022, the worsening local epidemic has put further pressure on the labor market. From 2019 to 2020, the recession and rising unemployment rate reduced household consumption expenditure by 9.61%. In terms of retail industry, the expenditure of tourists in total retail sales remained at about 30% to 40% for most of the decade from 2010 to 2019. In 2010, the value and volume of retail sales fell by 24.3% and 25.5%, respectively, both of which were the most significant annual declines on record. [4] Influenced by the income elasticity of demand, consumers may consume less due to a decrease in income. Therefore, under the current circumstances, Hong Kong does not have great domestic consumption demand to support its tourism and service market to return to the pre-epidemic level. Its tourism performance is highly dependent on overseas and

Chinese Mainland markets. However, the uncertainty of the epidemic and strict immigration policies limit visitors to these markets. In other words, the demand side is highly restricted.

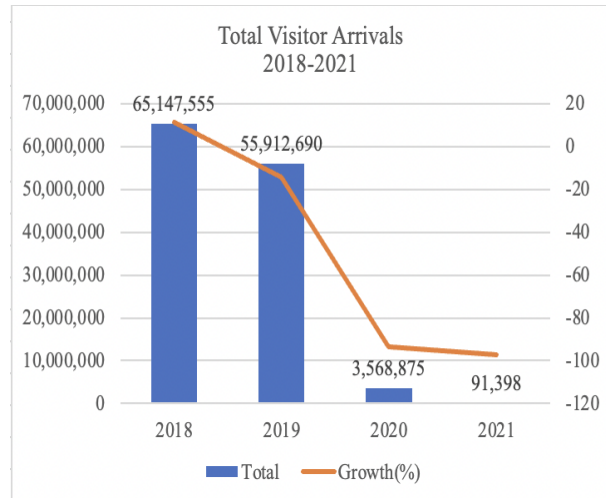


Figure 1. Total Visitors Arrivals from 2018 to 2021

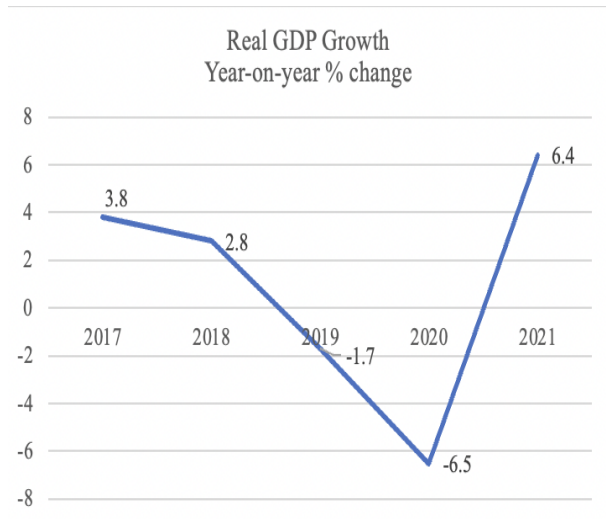


Figure 2. Real GDP Growth Year-on-year percentage change

2.2. Supply

Hong Kong is rich in tourism resources, including cultural and historical attractions, as well as ecological and natural landscapes. In recent years, the Hong Kong government is committed to creating diversified tourism experiences in Hong Kong, cultivating and expanding tourism products with local and international characteristics. The government also strives to develop MICE tourism by taking advantage of its geographical location and financial center position. It also has many amusement parks, including two major theme parks, Ocean Park and Hong Kong Disneyland, to enhance the attractiveness of Hong Kong as a premier tourist destination.

In addition to rich tourism products, Hong Kong is also accelerating its infrastructure development. With the opening of the Guangzhou-Shenzhen-Hong Kong Express Train and the completion of the Hong Kong-Zhuhai-Macao Bridge, Hong Kong is officially connected to the transportation network of the Mainland and genuinely integrated with other cities in the Guangdong-Hong Kong-Macao Greater Bay Area. This initiative will benefit mainland visitors to Hong Kong and attract more overseas visitors to use Hong Kong as a starting point to visit Chinese Mainland. However, due to the control of the epidemic, several times' delays in opening the cross-borders in Chinese Mainland have hindered the recovery of traffic. Therefore, the current tourism market relies heavily on residents. The landscapes that attract tourists might not be suitable for residents' preferences.

Along with convenient transportation links with mainland China, Hong Kong's tourism industry is facing progressively greater competitive pressure. Neighboring cities, such as Macau, Shenzhen, and Hainan, gradually show their advantages and diverting visitors. Competition in tourism market is intensifying.

According to the Hotel Supply Situation Report, from 2016 to 2018, the number of hotels increased by about 5.3% to 4.1%, but from 2018 to 2019, the number of hotels decreased from 4.1% to 2.6%. In 2021, the increasing percentage will remain small. The depression of the tourism market hit individual tourist hotels the most. The number of guesthouses decreased from 0.9% to -3.8% and kept dropping to -3.4% in 2021. Although the percentage growth is slowing down, the total number of hotels and guesthouse rooms has increased from 2016 to 2021.

From 2022 to 2026, it is expected that 11 hotels will be added to the Hong Kong market, which will provide 2559 rooms in total. The hotel investment market is increasing slightly. If all of the projected hotels are constructed and opened, the accommodation market in Hong Kong will continue to be highly competitive. The percentage of hotel growth is shown in Table 1. [5]

Table 1. 2016 to 2026 Hong Kong Hotel and Guesthouses Numbers and Percentage Changes

Year	No. Hotels	No. of Rooms	No. of Guesthouses	No. of Rooms	No. of Hotels/ Guesthouses	No. of Rooms
2016	263	74,868	1,464	12,438	1,727	87,306
	5.3%	5.4%	0.3%	-1.3%	1.1%	4.5%
2017	277	78,935	1,469	12,271	1,746	91,206
	5.1%	3.2%	2.6%	2.1%	3.0%	3.1%
2018	291	81,465	1,507	12,526	1,798	93,991
	4.1%	3.2%	0.9%	1.4%	1.4%	3.0%
2019	303	84,089	1,520	12,702	1,823	96,791
	2.6%	3.1%	-3.8%	-3.4%	-2.7%	2.3%
2020	311	86,700	1,462	12,274	1,773	98,974
	2.6%	2.2%	-3.4%	-3.0%	-2.3%	1.6%
2021	319	88,614	1,413	11,900	1,732	100,514
	0.9%	0.4%				
Estimated Figures/ Increase %						
2022	322	88,946				
	2.2%	1.5%				
2023	329	90,265				
	0.6%	0.7%				
2024	331	90,881				
	0.3%	0.2%				
2025	332	91,051				
	0.3%	0.5%				
2026	333	91,505				

3. FUTURE PROJECTION

Although the epidemic situation is still unclear, in 2021, due to the excellent control of the epidemic in Hong Kong and the lack of new local cases for a long time, the Hong Kong government relaxed the entry restrictions, and the total number of total visitors in Hong Kong have seen positive growth, with a growth rate of 51.7% in the fourth quarter (as shown in Figure 3). Taking Hong Kong's SARS outbreak in 2003 as a reference, with the support of the government's Individual Visit Scheme policy, Hong Kong's hotel performance rebounded rapidly six months after the SARS virus disappeared. It proves that Hong Kong's tourism market is resilient. In 2020, the Hong Kong government announced measures to support the tourism industry, including quarantine exemptions, the Holiday at Home Campaign, Travel bubbles, Traveler's health code, etc. Along with these support measures, the HKTBA April 2020 initiated a HK\$400 million scheme to reinvigorate Hong Kong's tourism industry. [6]

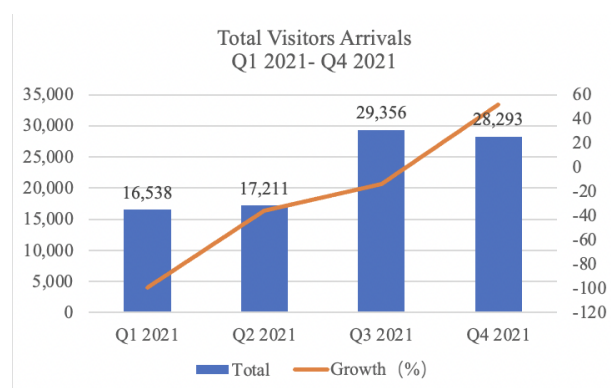


Figure 3. Total Visitors Arrivals from Quarter 1 to Quarter 4 in 2021

Currently, the fifth wave of the epidemic in Hong Kong is gradually under control. The government will relax most social distancing measures in three phases. If the 2019 coronavirus epidemic does not rebound in Hong Kong to help the tourism market recover, these three

stages will take about three months. With the development of the epidemic, the number of people fully vaccinated in Hong Kong continued to rise to 79.4% of the total population. Also, the immigration policy is gradually loosening. Coupled with Hong Kong's tourism industry supported by abundant tourism resources, its tourism industry has prepared advantages for its future development.

4. SUGGESTIONS

First of all, the essential measure for Hong Kong is to increase the vaccination rate in order to do a good job in preventing and controlling local epidemics by improving the vaccination rate and making special drugs for the epidemic, striving to promote the reopening of the border crossing with the mainland and support the Individual Visit Scheme visa to Hong Kong again, so as to attract mainland tourists and stimulate the growth of tourism market demand.

Secondly, in the post-epidemic period, Hong Kong's tourism service industry should pay more attention to understanding the needs and preferences of tourists. After the epidemic, tourists will have a higher requirement for hygiene situations. And for hotels, since business guests have become more accustomed to working virtually, hotel segmentation will also change. Hotel managers should be aware of the changes in preferences and adjust their strategies in time, such as improving safety and hygiene standards and formulating contingency plans, Shift sales and marketing target to leisure guests rather than business segmentation. [7] In the case of repeated outbreaks, the service industry should strengthen the application of technology to reduce the possibility of large-scale outbreak, for example, hotels should provide contactless check-in and check-out, reasonably arrange the number of people and gathering space, and also, take advantage of social media to expand its influence and attract more tourists.

Thirdly, Hong Kong's tourism industry should actively take advantage of the humanities projects in the Guangdong- Hongkong- Macau Great Bay Area Cultural and Tourism Development Plan. Nurture and develop tourism products and projects with local and international characteristics, including cultural, heritage, green and creative tourism, and consolidate and enhance Hong Kong's position as a convention and exhibition tourism destination, regional cruise hub, and events capital of Asia.

Fourthly, Hong Kong tourism industry should actively promote smart tourism to enhance the travel experience of visitors and provide them with convenient travel services through intelligent technology.

Finally, based on Hong Kong's Tourism Development Blueprint issued in 2017, the tourism service industry should encourage the cultivation of high-

quality tourism service practitioners, improve the overall service quality of the sector, accumulate the reputation of Hong Kong's tourism industry and establish a good market image.

5. CONCLUSION

Although Hong Kong's tourism industry still has some crisis in 2022, the overall trend is gradually improving. The recurrence of the epidemic and the government's control policy against the epidemic outbreak continue to affect supply and demand. On the one hand, the control policy has led to the suspension of economic activities in the hotel, restaurant, and tourism sectors, resulting in the tourism industry unable to supply the market despite having many resources. On the other hand, the strict immigration policy has also significantly reduced Hong Kong's tourism market demand. Especially for Hong Kong, the primary consumer is mainland Chinese. However, with the increasing vaccination rate and the government's control of the fifth epidemic outbreak, Hong Kong society gradually opened up following the government's three phases policy. And From 1 May, non-Hong Kong residents and Hong Kong residents will be allowed to enter Hong Kong from overseas. It shows a great sign for the Hong Kong Tourism industry that the market has a chance to recover.

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