

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Hong Kong Economic Stimulus Funds to Fill Restaurants and Trade Shows

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**Report Highlights:**

The Hong Kong government has established a USD3.8 billion anti-epidemic fund to combat the novel coronavirus (COVID-19) epidemic. The fund covers two major areas: enhancement of the government's ability to combat the virus and the provision of monetary assistance to individuals and enterprises suffering from COVID-19 containment measures. The timely anti-epidemic relief fund will provide subsidies to various sectors, including the conference and exhibition sector and the catering sector. U.S. companies who exhibit at major trade shows in Hong Kong will enjoy reduced participation fees in the coming year through the anti-epidemic fund's subsidy to the exhibition and conference sector. The relief fund may also help strong restaurants and hotels survive the prevailing

economic storm and prepare them to catch the boom in domestic demand expected as soon as fears of the epidemic subside.

## **Background**

In 2019, due to historic social unrest, Hong Kong's economy contracted 1.2 percent and officially entered a recession in the second half of the year. In February 2020, the Hong Kong government (HKG) announced unprecedented economic support measures as efforts to contain the spread of COVID-19 suppress tourism and retail in the city's already struggling economy. The fierce economic challenges facing Hong Kong will cause the government to run a record deficit in 2020 of 4.8 percent; only the second deficit in fifteen years. According to multiple press accounts, due to the social unrest in 2019, the HKG had already planned to offer lending assistance, tax cuts, and rental supports to various sectors via the 2020-2021 budget announced February 26, 2020. However, the current threat of COVID-19 resulted in even larger and more encompassing stimulus measures than originally planned.

Since January 2020, the HKG has urged the general public and the private sector to comply with its recommendations that aim to limit the spread of COVID-19. The People's Republic of China notified the World Health Organization of the coronavirus, now known as COVID-19, in December 2019. Hong Kong confirmed its first case of COVID-19 on January 23, 2020, prompting the local government to raise the health threat level to "emergency". The HKG has since strengthened its anti-epidemic measures. It banned residents of the mainland's Hubei province, where COVID-19 originated, on January 27, 2020. By February 8th, Hong Kong closed most border crossing points with mainland China and Macau, reducing the flow of people into the city by 97 percent in less than a week, while leaving the flow of cargos unaffected.

Since then, all people entering Hong Kong from mainland China are subject to a compulsory 14-day quarantine. Hong Kong schools have been closed since the Chinese New Year holiday in late January and will remain closed until at least April 20th. The HKG instructed its employees to work from home starting January 29<sup>th</sup>, and encouraged the private sector to do the same, guidance which was largely heeded until mid-February. HKG employees will finally return to work on March 3, 2020.

As of February 28, 2020, Hong Kong has confirmed 93 cases of COVID-19. Two individuals have died and twelve have recovered and been discharged.

## **Catering Industry**

The HKG has encouraged people to stay home and avoid group gatherings in public areas such as restaurants and cinemas in order to contain the spread of the virus. Two cases of group cross-contamination resulting from large dinner gatherings have scared potential diners even more. One case was associated with a family hotpot dinner and the other a large retirement banquet. Consequently, a Hong Kong restaurant chain has suspended business at 16 of its hotpot restaurants, accounting for 40 percent of its eateries, even though no COVID-19 infections occurred in any its branches.

The catering and restaurant industry has been weathering a hard financial blow since anti-government protests started in major commercial areas in June 2019. Protests continued regularly until the January 2020 COVID-19 outbreak prompted even protestors to stay at home. Compared to the current COVID-19 situation, business was better during the social unrest because foodservice operations were quite normal for lunch and weekdays in commercial zones and in residential areas. However, the current epidemic has kept diners at home and out of restaurants across the city regardless of time, date, or location.

The president of the Hong Kong Federation of Restaurants and Related Trades noted that overall the restaurant business has deteriorated by 30 percent, while business for individual eateries could plummet by 90 percent in some areas. He estimated that about 1,000 restaurants of varying sizes might close under a worst-case scenario, bringing the unemployment rate to seven percent for the catering industry. By January 2020, unemployment in the foodservice industry hit 6.1 percent, the highest in eight years, without accounting for underemployment. Hong Kong's latest total unemployment rate rose to three-year high of 3.4 percent in January 2020 and is expected to climb further in the coming months.

### **The Government's Anti-Epidemic Fund**

The HKG has taken decisive steps to contain the detrimental economic impact of COVID-19 and successfully obtained HK\$30 billion (US\$3.9 billion) to establish the anti-epidemic fund. The fund is meant to enhance measures to combat the virus, help various fledgling industries, and improve the well-being of the public. In reference to the food trade, there are two measures directly or indirectly benefitting the sector.

<b>Subsidy Items</b>	<b>HK\$ million</b>	<b>US\$ million</b>
Enhancing Anti-epidemic Capability	10,190	1,310
Retail Sector Subsidy Scheme	5,600	720
<b>Food License Holders Subsidy Scheme</b>	<b>3,730</b>	<b>479</b>
Subsidy for the Transport Sector	3,230	415
<b>C&amp;E Industry Subsidy Scheme</b>	<b>1,020</b>	<b>131</b>
Special Allowance for Low-income Households	990	127
Additional Student Study Grant for 2019-20 School Year	900	116
Rental Waivers for Tenants at the Science Park, Industrial Estates, and Cyberport	380	49
Subsidies for Live Marine Fish Wholesale Traders and Fishing Vessels with Mainland Deckhands	270	35
Support to Childcare Centers	220	28
Arts and Culture Sector Subsidy Scheme	150	19
Licensed Guesthouses Subsidy Scheme	150	19
Travel Agents Subsidy Scheme	140	18
Support to Training Bodies	90	12
Licensed Hawkers Subsidy Scheme	30	4
Contingency	2,710	348
<b>Total</b>	<b>29,800</b>	<b>3,830</b>

## **Food License Holders Subsidy Scheme**

The food license holders subsidy scheme is to provide immediate financial relief to the foodservice sector. The HKG's paper suggested that the foodservice sector generated a value added of US\$7.7 billion, representing about 2.2 percent of gross domestic product (GDP). This sector employs 239,000 people, accounting for 8.4 percent of the total number of people employed across all industries. The government has earmarked US\$479 million of the fund to provide relief to eligible license holders of food related businesses such as catering and food manufacturing. Large and small enterprises will be entitled to a one-off grant of US\$26,700 (HK\$200,000) and US\$10,282 (HK\$80,000), respectively. A total of 28,000 licensees are expected to benefit from this relief measure. The industry welcomed the announced subsidy and voiced their need for continuing support over the next three to six months.

The one-off grant will certainly help the industry in the short-term, potentially one to two months. However, the biggest expenses of Hong Kong's restaurant industry are rent and labor. The most substantial and significant assistance would be for property developers to agree to reduce rents. There is a unanimous outcry by retailers and the catering industry to ask property developers to cut or waive rents for several months to minimize losses and avoid permanent closure of small businesses across the city. Anecdotes suggest that certain property owners are willing to reduce rents by 20 to 40 percent.

Restaurants are working on all fronts to increase revenue and cut costs in order to survive. Many outlets are asking employees to take unpaid leave for several days a week. There has also been a surge in restaurants subscribing to home delivery services to diversify revenue streams. Deliveroo, one of the two major food delivery companies in Hong Kong, received double the amount of orders in the first two weeks of February 2020 than it did in 2019. The company also reported that in February it has received threefold more enquires from restaurants asking how to join, reflecting the urgent need for restaurants to diversify income sources. Nonetheless, this source of income is far from enough to compensate for the loss of on-site diners.

## **Convention and Exhibition Industry Subsidy**

Hong Kong is renowned for its convention and exhibition (C&E) industry. The on-going protests in the second half of 2019 and the current COVID-19 epidemic have led to the cancellation or postponement of a number of exhibitions such as Seafood Expo Asia 2019 and Vegetarian Food Asia 2020. Currently, the C&E industry is at a standstill. In order to rejuvenate the industry, the HKG secured US\$131 million (HK\$1.02 billion) to subsidize trade show exhibitors.

The plan is to subsidize a) participants, both local and overseas (hence, including U.S. exhibitors), of exhibitions and conventions with over 400 participants that are organized by the Hong Kong Trade Development Council (HKTDC) and b) private organizers of exhibitions and international conventions at the Hong Kong Convention and Exhibition Center (HKCEC) and AsiaWorld -Expo (AWE). For the first measure, participants will be subsidized 50 percent of their participation fee per participant, subject to a cap of US\$1,285 (HK\$10,000). This applies for trade shows and conventions to be held within the first 12 months of HKTDC resuming events. For the second measure, private trade organizers (other than HKTDC) that stage exhibitions with over 400 participants at HKCEC and AWE will be exempted

from paying any of the convention venue rental fees. The HKG has urged trade show organizers to share the subsidy with exhibitors, with a view of attracting international exhibitors to shows and reinforcing Hong Kong's role and reputation as a major C&E center in the region. Such subsidy measures will last for 12 months.

U.S. food exporters should fully utilize this upcoming opportunity to showcase their products at a lower-than-normal cost and to meet Hong Kong importers who are hungry for new, quality products that attract consumers, so as to help importers recoup losses suffered during the social unrest and COVID-19 outbreak. The HKG has sent a very clear message that it is determined and committed to supporting the C&E industry. The relevant Hong Kong government agencies have been tasked to work out the details and launch promotions. U.S. exhibitors stay tuned!

### **Prospects Bright in the Medium-Term**

Hong Kong is suffering from a significant economic setback at the moment, but the government and industry alike are preparing to rebound as soon as the epidemic is under control. A recent report pointed out that Hong Kong has strong, latent domestic demand which has been overshadowed by the booming inward tourism associated with affluent mainland Chinese tourists. This pent-up domestic consumption power expected to be released after the epidemic could be very powerful. To further boost domestic consumption and provide immediate relief, the HKG will distribute US\$1,285 (HK\$10,000) to each Hong Kong citizen in the summer of 2020, amounting to a total of US\$9 billion (HK\$71 billion). This domestic demand will be the key driving force that the HKG will rely on for stark economy resilience in the near future. The Hong Kong Tourism Board is also planning promotions targeting local consumers, which are expected launch as soon as the epidemic is contained.

In the food and beverage (F&B) industry, strong players probably will be able to survive the current economic contraction. If property owners cooperate and adjust rents out of sense of social responsibility in the prevailing market situation, the F&B industry will maintain its focus on using quality food ingredients to tickle diners' taste buds. Hong Kong people have been self-quarantining at home during the outbreak and are anxious to go out and enjoy delicious food. Together, these favorable factors set the tone and create momentum for a rebound of the F&B industry.

**Attachments:**

No Attachments.