

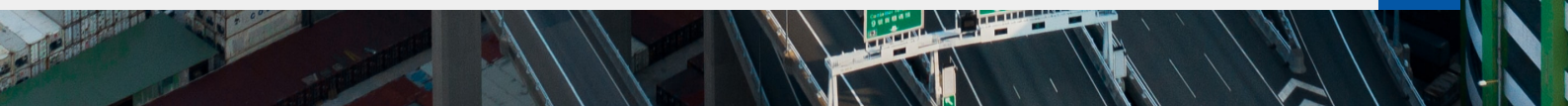


**EUROPEAN CHAMBER
OF COMMERCE IN HONG KONG**
香港歐洲商務協會



EUROCHAM SURVEY

Impact of COVID-19 on the Business Community



Foreword

Dear Readers,

“We live in unprecedented time” this is probably the sentence we have all heard and used for a period of well over 2 years. The COVID-19 pandemic has challenged the status quo of our all personal and business environment.

As the pandemic developed over time, we could also notice how the muscle memory from SARS was kicking in as the Hong Kong SAR Government reacted in a very swift and precise manner to keep its residents safe from a still unknown virus which was taking the world into stranglehold in early 2020. With the development of suitable vaccines by brilliant scientists all over the globe, we gained back control to a certain extent and hope was coming back as we could all see a way out of this. In this process many places in the world chose different approaches.

In summer 2021, the low vaccination rates among elderly people highlighted the limitations of the Hong Kong vaccination strategy. Against this backdrop, the Hong Kong SAR Government chose to follow the “Zero Covid” or “Dynamic Zero Covid” strategy .This indicated and led to severe consequences for businesses and residents as the one single biggest advantage of Hong Kong, its connectivity to the entire world and connector to mainland China, has been almost completely disabled.

Along the way, The European Chamber of Commerce in Hong Kong shared its thoughts, concerns and suggestions to major stakeholders within Hong Kong, the senior leadership of the Hong Kong SAR Government. As we see the world rapidly opening up and declaring to rather live with COVID-19, we have decided to once more measure the sentiment around our European Business Community in Hong Kong regarding the impact and outlook for doing business in and out of Hong Kong.

We wanted to take this opportunity to thank all our participating member Chambers and their member companies, as well as the Swiss Chamber and its members, for the overwhelming participation in our survey. This demonstrates the importance, urgency of the topic but also the strength of our community. We would also like to thank our EuroCham team which has been working very hard to put this meaningful survey together and processing the results in a very short time with the help and dedication of many of our board members.

Lastly, let me make one thing abundantly clear. We, The European Chamber of Commerce, strongly believe in the strength and importance of Hong Kong for the global business and financial services community. Many of us call Hong Kong their permanent home or feel to have a home away from home living in this beautiful city temporarily. This survey shall serve as a zero-measurement on the way to recovery. We will stand ready and supportive to shape this path based on the support of the European Business Community and all its stakeholders.

Faithfully yours,

A handwritten signature in blue ink, appearing to read 'FG', is positioned above the name of the signatory.

Frederik Gollob

Chairman, in coordination with Participating Chambers

Participating Chambers



DANISH CHAMBER OF COMMERCE
* HONG KONG *



German Chamber of
Commerce Hong Kong
香港德國商會



GREEK CHAMBER
OF COMMERCE IN HONG KONG



THE IRISH CHAMBER
OF COMMERCE HONG KONG



LITHUANIAN
Chamber of Commerce in Hong Kong



CÂMARA DE COMÉRCIO E INDÚSTRIA
LUSO-CHINESA 葡中工商會
PORTUGAL - CHINA CHAMBER OF COMMERCE & INDUSTRY



NorCham
NORWEGIAN CHAMBER OF COMMERCE HONG KONG



SWEDCHAM
Swedish Chamber of Commerce in Hong Kong



Summary

The purpose of the survey is to examine the challenges faced by the European Chambers of Commerce members represented in EuroCham and, more broadly, by Hong Kong's business community as a result of the ongoing COVID-19 pandemic and the policies of the HKSAR Government.

The survey was conducted through an online questionnaire of 15 questions, using multiple-choice, and open-ended questions opened for 19 days. The total size of the sample is 260 individuals of different Chambers of Commerce and 70% of our respondents represent companies with less than 100 employees.

The survey findings reveal that there is an unusually high staff turnover percentage and correlation with the number of employees. Moreover, 25% of the respondents affirm that they will fully relocate out of Hong Kong in the next 12 months given the current COVID-19 restrictions, 24% are planning to move partially, 17% confirm that they do not have any plans of relocation whereas 34% rest unsure.

In addition, more than 50% of our sample face difficulties in attracting talent from overseas.

Finally, 58% received public funding from the HKSAR Government, yet this financial support has not been effective for the receiving companies.



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1

Introduction and scope of the survey

Established in 1997, the European Chamber of Commerce in Hong Kong (EuroCham) is a 'Chamber of Chambers' with 14 European Chambers based in Hong Kong and 1 in Macau. Among others, EuroCham serves as a European forum that facilitates the exchange of information and interaction between members of the Hong Kong business community, and it addresses common challenges through industry outreach, policy advocacy, and leadership initiatives.

Since the beginning of the ongoing COVID-19 pandemic, EuroCham has engaged in a series of industry outreach efforts and engaged representatives of the HKSAR Government to raise awareness among its members, bring value to them by advocating for policies, and contribute by providing feedback to the HKSAR Government. Some of our most recent initiatives are:

- On 19th August 2021, EuroCham sent an open letter to the HKSAR Government expressing the concerns of the international business community about recent changes in quarantine regulations for several European countries and beyond. The letter was addressed to the Chief Executive, the Secretary for Food and Health, the Secretary for Commerce and Economic Development, and the Financial Secretary.
- On 6th October 2021, the Chairman of EuroCham Frederik Gollob, discussed and elaborated on the European business sentiment in Hong Kong at "Bloomberg Daybreak: Asia".

- On 12th October 2021, Frederik Gollob spoke with BBC World News about HKSAR Government's approach to controlling COVID-19 infections within the city and expressed EuroCham members' views on the topic.
- In February 2022, EuroCham shared with its members a report produced by its Think Tank on the strategic outlook for the international business community in Hong Kong. The report presents different scenarios for the reopening of Hong Kong. It summarises the conclusions of the Think Tank based on a series of expert interviews and observations.
- In March 2022, EuroCham sent a letter to HKSAR Government sharing the concerns of the international business community about the existing travel restrictions and sharing policy proposals for how these can be optimized.

Furthermore, in the wake of the fifth wave of COVID-19 pandemic in Hong Kong, EuroCham launched a survey to understand the challenges faced by its members and, more broadly, by Hong Kong's business community and their respective strategies.

2 Research methodology

This report presents the results of a survey conducted by EuroCham, using an online questionnaire that consisted of 15 questions. Out of these, 13 are multiple-choice questions (4 of which offer the option for open comments), and 5 are open-ended questions. The data collection period extended from 18th January to 5th February 2022.

The sample size is 260 individuals (n=260) representing the members of most of the national chambers of commerce under EuroCham: Belgium/Luxembourg, Danish, Dutch, Finnish, French, German, Greek, Irish, Italian, Lithuanian, Norwegian, Portuguese, Spanish & Swedish. Despite not being a member of EuroCham, the Swiss Chamber also shared the survey with its members. It is important to note that British Chamber did not circulate this survey to their respective chambers, as their own questionnaire was circulated prior to the EuroCham survey.

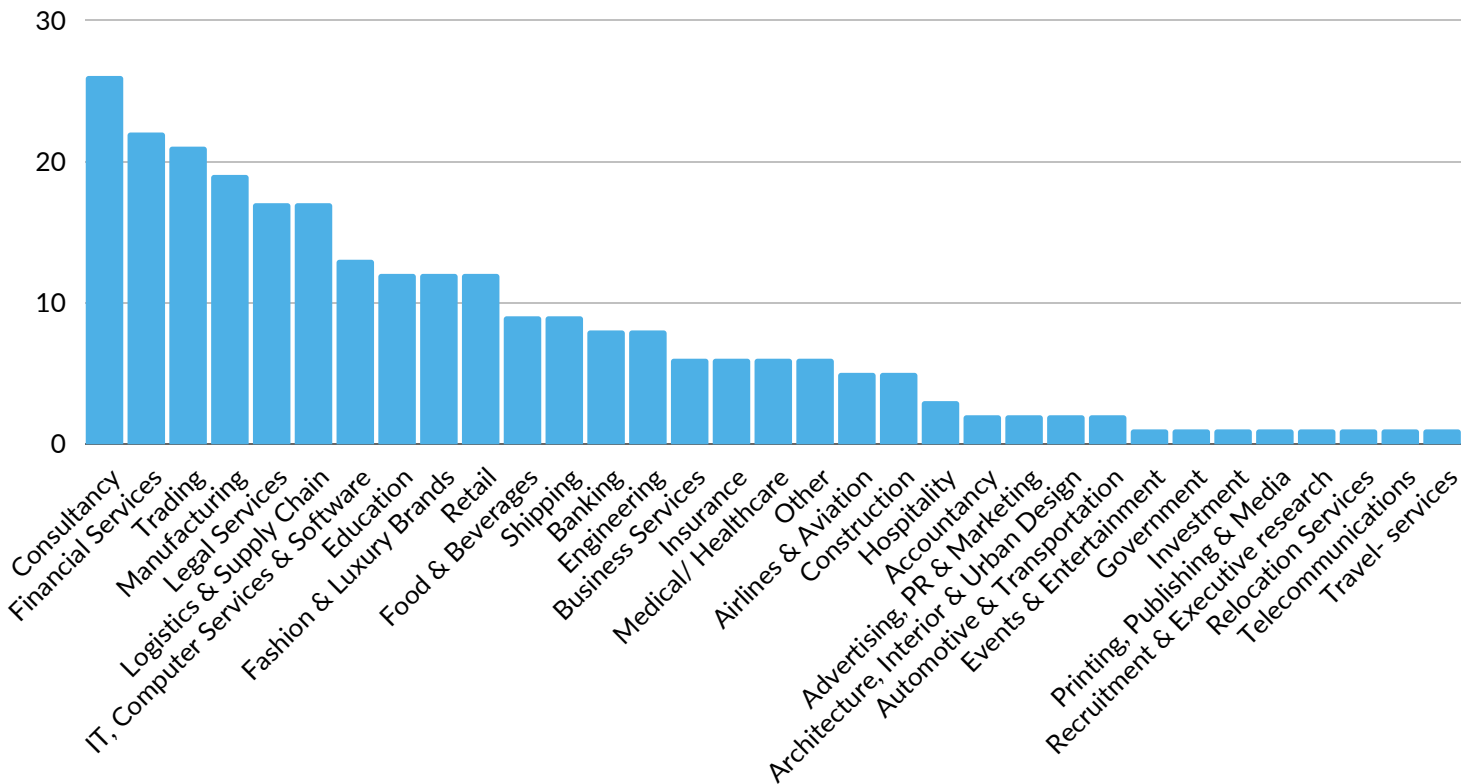
Based on our responses, 70% of our respondents represent companies with less than 100 employees.

Table 1: Number of employees per firm divided into segments

Number of Employees per firm	
Less than 10	31%
11-19	13%
20-49	15%
50-99	11%
100-499	17%
More than 500	13%

Moreover, the contributing companies represented a wide spectrum of business sectors, including consultancy, financial services, telecommunications, and retail.

Chart 1: Ranking of the most frequent business sectors of the respondents.



It is also important to highlight that some of the member chambers shared the questionnaire through their online newsletter, and therefore, a small percentage of the respondents of the survey’s sample are not members of any national chamber.

Last, given that our respondents are primarily members of the European Chambers of Commerce, it comes as no surprise that 80% of the represented companies are multinational, while 66% of our contributors replied that their company is a regional headquarter.

3 Survey findings

a. Impact of COVID-19 on companies' strategic plans

The ongoing COVID-19 pandemic has taken a heavy toll on Hong Kong's business life. This has been the case with EuroCham members, as 65% of our respondents confirmed that COVID-19 restrictions have impacted their corporate and strategic planning in Hong Kong.

Our findings further validate these observations, as 49% of our contributing companies consider relocating their offices fully or partially in the next 12 months, given the current COVID-19 restrictions. On top of this, 34% are not sure about relocating their offices (fully or partially), leaving only 17% of the companies sharing that they do not have any relocation plans for the next 12 months.

Table 2: Plans to relocate out of Hong Kong in the next 12 months

Does your firm plan to relocate in the next 12 months	
Yes, full relocation	25%
Yes, partial relocation	24%
No	17%
Unsure	34%

Aside from relocation plans, our contributing firms shared additional business trends as a result to the ongoing pandemic situation, including plans to scale down investments and operations in Hong Kong and significant difficulties with accessing the market of mainland China.

At the same time, since the beginning of the COVID-19 outbreak, the HKSAR Government has initiated multiple rounds of funding support for businesses and the public. Hence, when asked, 58% of our contributing companies reported receiving funding support. While this percentage is moderately high, the effectiveness of the government's funding schemes has been assessed as below average. In particular, our respondents gave an average score of 2.2 out of 5, while only 8% gave a score of 4 out of 5 or above.

Table 3: Effectiveness of the government's funding scheme (1-low, 5-high)

1	36%
2	25%
3	31%
4	6%
5	2%
Avarage Score	2.2/5

We need to stress that the responses of our contributors about the effectiveness of the government's funding scheme is not linked to any funding support that they might have received.

Table 4: Relation between if a company has received funding from the Hong Kong Government and the effectiveness of it.)

Government Funding & funding effectiveness (1- low, 5-high)	1	2	3	4	5
Have received	36%	26%	30%	6%	2%
Haven't received	38%	20%	33%	6%	3%

b. Impact on talent acquisition and retention

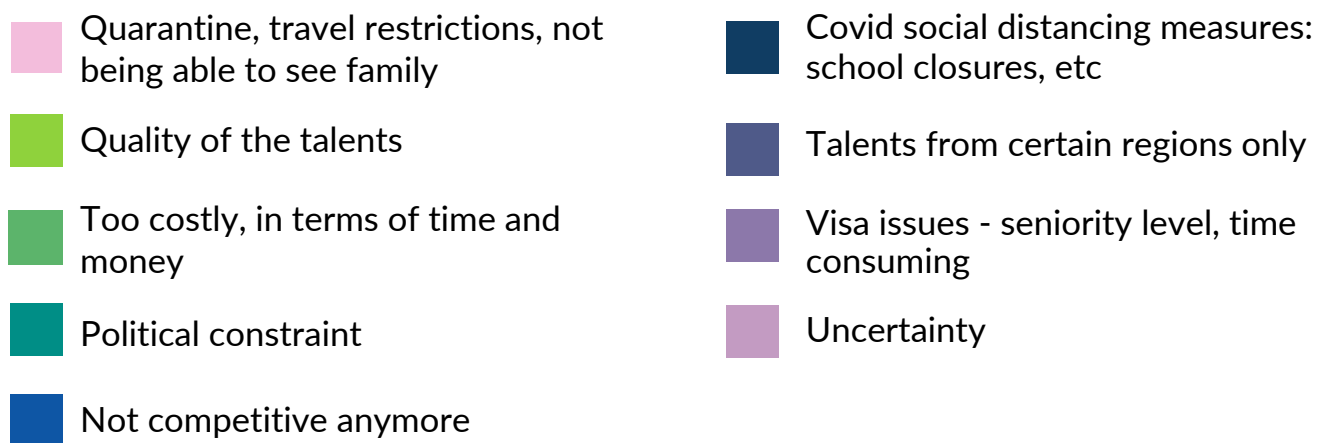
In addition, we asked our respondents if there has been unusually high staff turnover in their company in Hong Kong during the last two years. In order to assess their responses, we used a 5-point Likert where 5 denotes the highest level of turnover. Our findings confirmed what has been discussed among Hong Kong's business community, as more than half of our respondents have observed unusually or very unusually high staff turnover (3 or above on our scale).

Table 5: Staff turnover (1-low, 5-high)

From early 2020 till now, has there been unusually high staff turnover in your company in Hong Kong? (5 denotes the highest level of turnover).	
1	30%
2	19%
3	16%
4	19%
5	16%

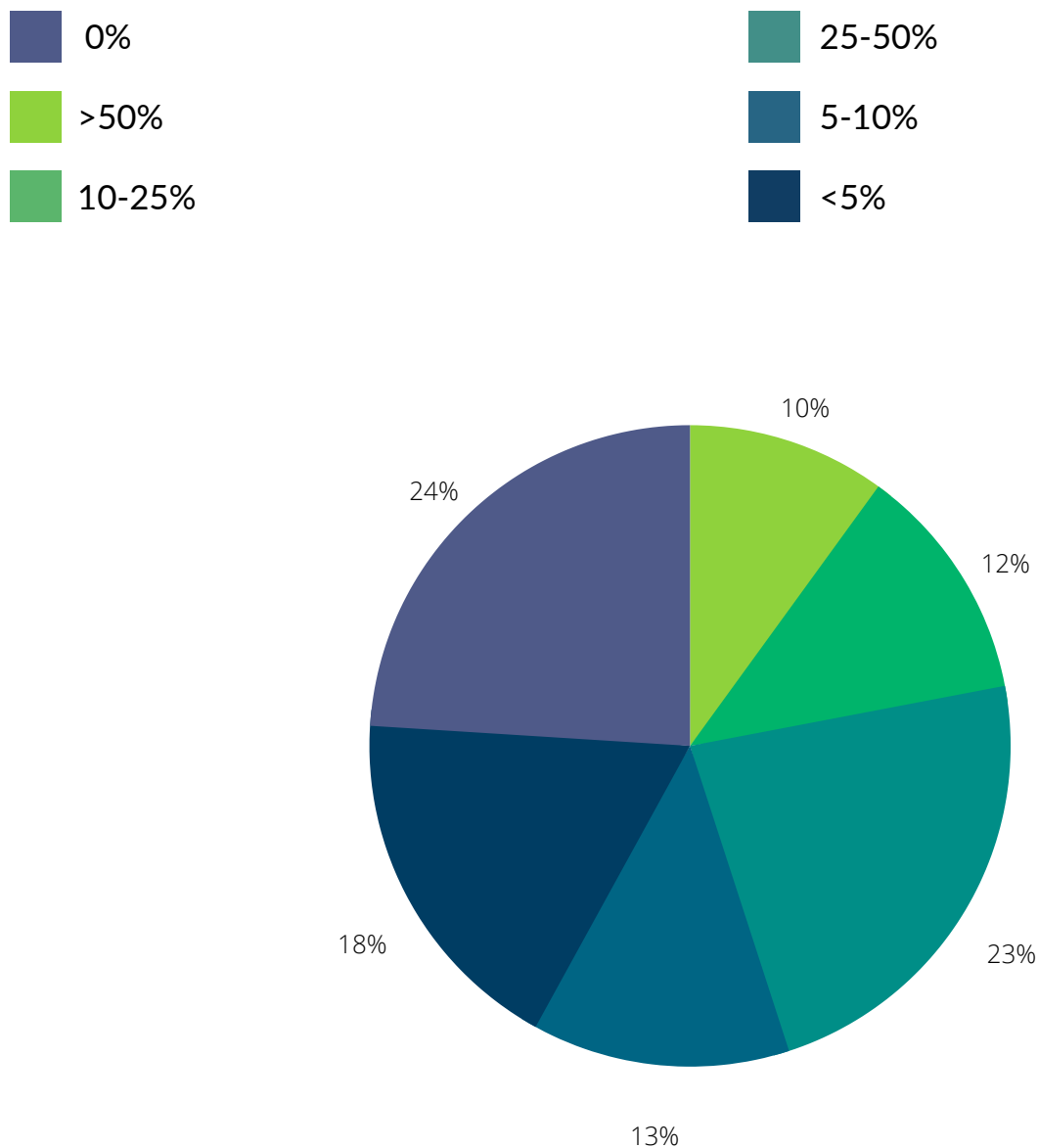
To understand more about this trend, we asked our respondents to share additional data on the number/percentage of your staff who have decided to leave either their company or Hong Kong because of quarantine or other restrictions related to COVID-19.

Chart 2: Type of difficulties to bring talent to Hong Kong from overseas



In line with our earlier findings, 1 out of 3 firms replied that more than 25% of their personnel decided to leave Hong Kong due to quarantine restrictions for international travel.

Chart 3: Percentage of staff that decided to leave Hong because of the ongoing traveling restrictions to fight Covid-19 .



A closer look at our data allows us to conclude that there is a direct relationship between staff turnover and the company's size. As we can observe at the heat map below, there is a direct relationship between the companies' number of employees and their staff turnover. Almost 70% of firms with more than 100 employees recorded an unusually high staff turnover in the same context (3 or above in a scale of 1 to 5). We also need to mention that some deviations from the pattern described above can be attributed to sampling limitations.

Table 6: Relation between unusual high staff turnover and the number of employees of the company.

Unusual high staff turnover (1 low-5 high) & number of employees	Less than 10	11-19	20-49	50-99	100-499	More than 500
1	51%	36%	33%	15%	16%	7%
2	17%	12%	26%	29%	13%	24%
3	10%	7%	15%	22%	27%	18%
4	10%	33%	15%	15%	26%	21%
5	12%	12%	11%	19%	18%	30%

We also need to stress that no significant differences have been observed between local and multinational companies, as well as between companies who had their regional headquarters in Hong Kong and those who did not. Similarly, we did not observe any relationship between staff turnover and our contributing firms' industry.

Moreover, there is moderate correlation between loss of employees and funding, as those who have received financial support have observed lower staff turnover than those who have not received any support (2.5 and 2.9, respectively). This can be seen as a sign that the funding support has assisted companies to retain their staff and operations during the COVID-19 pandemic.

Table 7: Employees' turnover and government funding

Unusual turnover (1-low, 5- high) & government funding	Have received	Haven't received
1	31%	30%
2	24%	12%
3	17%	14%
4	14%	25%
5	14%	19%
Avarage Score	2.5	2.9

On the other hand, it is very encouraging when asked, 65% of our respondents replied that during the last 2 years, their firm has been hiring or seeking to add new headcounts in Hong Kong. A further breakdown of our responses reveals that as the size of companies in terms of number of employees increases so does their plans to hire more staff. This should come as no surprise, as based on table 6, it is mainly firms with more than 100 employees that have experienced an unusually high turnover.

Table 8: Relation between companies' size with their intention to hire new accounts.

Hiring & Number of employees	Less than 10	11-19	20-49	50-99	100-499	More than 500	Total
Yes	33%	73%	77%	70%	86%	85%	65%
No	67%	27%	23%	30%	14%	15%	35%

We acknowledge a contradiction here as almost half of the firms plan to relocate in the next 12 months, and at the same time 65% replied that they have been hiring during the last 2 years. While we can attribute this to sampling limitations, such explanation does not hold water due to sample size and the high percentage of respondents who provided the answers mentioned above, however, they reached a tipping point where they cannot continue pursuing the same strategy, and they plan to relocate or scale down their operations.

While there is a positive correlation between the size of companies in terms of the number of employees and their hiring activity, government funding does not appear to have a significant effect on their plans to increase their headcount. In particular, 66% of the companies that have received government funding responded that they are currently hiring, just 3% higher than those companies hiring, although they have not received any financial support from the government.

Table 9: Companies' hiring strategy and government funding

Is the company hiring?	Has your company received any funding support?	
	Yes	No
Yes	66%	63%
No	34%	37%
Total	100%	100%

The above should come as no surprise based on our previous findings; in particular, according to our respondents, the effectiveness of the government's funding scheme has been below average (2.2 out of 5) while funding has provided only some limited assistance to retain their headcount. All in all, we can conclude that HKSAR Government's financial support has not been sufficient for recipient companies to replace lost employees.

Aside from the limited contribution of the government's funding schemes, 67% of the companies that have been actively hiring during the last 2 years have experienced difficulties with bringing talent into Hong Kong from overseas. In particular, the most common issue raised by the respondents has been the quarantine restrictions for inbound travelers, severely restricting mobility and limiting their ability to visit their family and friends. Our respondents also mentioned the lengthy and uncertain process to secure visas, the closure of schools and other social distancing measures as the major obstacles to bringing foreign talents to Hong Kong.

4

Conclusions and policy recommendations

Undoubtedly, COVID-19 brought a huge toll to individuals and companies in Hong Kong. At the same time, we need to acknowledge that the efforts of the HKSAR Government and the city's healthcare employees have kept the death toll relatively low and definitely much lower than in other markets in Asia or elsewhere.

At the same time, however, the ongoing "Zero- Covid strategy has come at a very high cost for Hong Kong's business community. The responses of our contributing firms portray a distressing landscape with companies facing half of the companies in Hong Kong experiencing unusually high staff turnover and/or planning to relocate their operations outside Hong Kong. Moreover, existing restrictions have hampered the corporate strategy or hiring plans for 2 out of 3 companies in Hong Kong.

Against this backdrop, HKSAR Government has introduced a series of measures to support businesses in Hong Kong, with the most recent being the latest funding scheme under the 2022-2023 Hong Kong budget. The percentage of the firms that received financial support has been moderately high (58%); while such measures are towards the right direction, they have not been enough to help companies meet the mounting challenges from the COVID-19 pandemic and the resulting restrictions introduced by the HKSAR Government.

Among others, our contributors gave a below-average score to the government's financial support (effectiveness 2.2 out of 5) and based on their responses, the funding has not made any actual difference to their recruitment strategy.

Committed to bringing value to its members and contributing to the Hong Kong business economy, EuroCham has submitted policy proposals to help the HKSAR Government mitigate the mounting challenges of the COVID-19 pandemic while providing a lifeline to Hong Kong businesses. Among others, we recommend that the HKSAR Government allows fully vaccinated and tested incoming travelers to isolate at home and expedites the adjustment of the Travel Regime to bring it in line with the government's latest guidelines for self-isolation under the StayHomeSafe Scheme. Such measures will improve the business environment of Hong Kong without undermining the city's safety.

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