

Hong Kong Retail Management Association
Submission on
2016 Policy Address and 2016-2017 Budget Consultation
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I. Introduction

The Hong Kong economy and its retail industry are facing heightened challenges in the wake of increasing uncertainties in the external environment, fierce competition from nearby and international cities, continued stagnant growth in tourist arrivals and its spending, and dwindling consumer sentiment due to Hong Kong's sluggish economic outlook. These unfavourable factors will continue interplay in the time to come producing negative impacts on the economy and our industry.

However, the retail industry will remain a major pillar of the economy and provide impetus for continued growth and employment. Its prospect hinges on the well being of our economy. The Association would take this opportunity to outline some suggestions in regard to the Chief Executive's Policy Address for next year, and the Government's budget for 2016-2017.

II. Harnessing Hong Kong's Competitiveness

Avoid an Over-regulated Regime

2. To fend off international competition, we think that the Government should adopt an "appropriately proactive" approach in its policies to stimulate growth as other competing economies have been doing effectively in this aspect. Nevertheless, the Government should be mindful not to over-regulating but to promoting greater efficiency, flexibility, incentives, and ease in doing business.

3. We are concerned that a number of new legislation introduced in recent years had not only increased operating cost substantially, but also undermined business competitiveness and efficiency. We worry likewise impact will arise from some latest regulatory developments as outlined in the ensuing paragraphs.

MPF Offsetting Mechanism

4. The MFP offsetting arrangement implemented since 1995 has been avoiding employers to pay double retirement benefits to employees. We urge the Government to adopt a cautious and balanced stance to protect the interest of all stakeholders, and not to abolish this yearlong practice as it will impose additional labor cost on SME retailers, and even threaten their survival at this severe market downturn.

Standard Working Hours (SWH)

5. Since the community is still building a consensus on SWH, which is a complicated subject having far-reaching impacts, the Government should not pursue legislating hastily. It should undertake comprehensive study to identify the root cause of long working hours in Hong Kong, evaluate working hours of various industries, and explore different options to promote work-life balance.

Statutory Minimum Wage (SMW)

6. Since its implementation in 2011, the SMW has been revised twice from its initial rate of HK\$28 to HK\$30 in 2013, then to HK\$32.5 in May 2015. The Government should straightly adhere to its review principle according to an “evidence-based” and “rational” approach, and not to raise the SMW because of political pressure. It should take into serious considerations that the SMW has prompted workers to move among sectors swiftly, thus exacerbating labor shortage, pushing up operating cost, creating worsened working conditions, and disharmonizing workplace relations.

Conduct Regulatory Impact Assessment (RIA)

7. We maintain that the Government should follow a proper legislating procedure by conducting RIA for new and existing legislation. When introducing main bills, it should be accompanied with details of implementation and guideline

Ease Cost of Doing Business

8. To lessen burden on business during economic downturn, we suggest the Government to lower corporate profit tax to 15%, offer additional tax incentives to SMEs, reduce business license fee, and to review the relatively high credit card transaction fees and Octopus charges on SME retailers.

Keep Government's Fiscal Policy healthy

9. The Government should be prudent in its fiscal policy and mindful of its anticipated scenarios of structural deficit in the coming years. It should strike a balance and act responsibly when heeding social needs so as to contain relevant expenditures in a rational and manageable manner.

III. Sustaining Manpower Development

10. Hong Kong's population will reach its peak in 2018. With a rapidly aging population and vigorous talent competition on international level, the Government should activate without delay a more open and embracing strategy to attract, nurture, and retain local and overseas young talents, whilst promoting the diversified career opportunities of different industries on easily assessable platforms.
11. To address the immediate labour shortage in many sectors which resulting in delays in infrastructural projects, erosion of service level, and business bottlenecks, the Government should pragmatically consider importation of labor on a large-scale sector-specific approach to uplift the Supplementary Labour Scheme which has not been effective to meet the diverse needs of different sectors.
12. Hong Kong's diversified growth is impeded by lack of entry of young and new blood into many industries, especially those relatively labour-intensive and requiring certain period of apprenticeship. The Government should promote actively the prospect of technical and vocational training to young people, and devise attractive schemes to groom talents in these areas.

IV. Stepping Up Tourism Development

Redefine Hong Kong's International Image

13. Hong Kong has been losing its attractions rapidly as a global tourist destination over the years. The Government should evaluate thoroughly the development and prospect of our tourism in the context of the aftermath of Occupy Movements and protests against parallel traders, strong Hong Kong dollar, aggressive tourist policy and new attractions of other destinations that have been seriously harming our retail and tourism.
14. Despite Hong Kong still has a lot to offer, however, its uniqueness seems becoming obscure in the international scene. The Government should redefine Hong Kong's image and attractiveness, and underscore it vigorously amongst its competitors by making Hong Kong a must see stopover for any visitors travelling to China or Asia.
15. It has to be done by pursuing a long-term vision with well define strategies to rebrand Hong Kong through an innovative, global marketing and promotion campaign in a consistent manner so as to revive visitors' interest.

Diversify Tourists Sources

16. Hong Kong's tourism should no longer be relying on the mainland tourists as the key growth impetus. The Government should provide the Hong Kong Tourism Board (HKTB) with additional resources to expand its marketing efforts to attract high-end visitors, both short and long hauls, as well as the relatively affluent segments of MICE and cruise visitors.
17. The HKTB can spearhead to organize mega sales events in certain selected areas, for example, the cross-border zones with special emphasis on selling discounted branded products. This would attract high spending mainlanders as well as those from countries with high import tax.

Individual Visit Scheme (IVS)

18. The Government should impose no further restrictions on the number of IVS visitors to Hong Kong, and should lobby the mainland authorities to open more cities in the longer term, especially those with higher spending

propensities, though with a cautious approach not to disrupt the daily life of Hong Kong people.

19. In view of fierce competitions from Singapore, Korea, Japan and European countries, the Government may lobby the mainland authorities to grant preferential custom duty to goods purchased from Hong Kong, and to raise the current duty-free limit for mainland visitors.

Step up Incentives to attract Mainland Visitors

20. The HKTB should step up its promotion to non-IVS mainland visitors in tandem with rejuvenating interest of IVS visitors. It can organize additional mega campaigns in cooperation with industries to lure overnight stay mainland visitors by offering creative and attractive packages in terms of air ticket, hotel stay (such as bonus night), visit to theme parks, and shopping vouchers.

Enhance International Connectivity

21. Strong connectivity with ease of travel via Hong Kong is the key to sustainable tourism. We have remarkable infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, Kai Tak Cruise Terminal, the roads and express railway networks to China, and the third runway in the pipeline. However, it is urgent for the Government to speed up the setup of peripheral facilities of these projects so that Hong Kong can maximize benefits when they are in full operation.
22. Our Hong Kong International Airport is almost at its full capacity. We are worried about its deteriorating service level as it has continuously dropped in its ranking in international rating, from being the top best airport during 2006-2011, to the 4th in 2014, and the 5th in 2015. We urge that despite there is an acute labour shortage, our aviation services and related land operations that affecting visitors' convenience should not be undermined.

Improve Tourist Reception Capacity & Services

23. To sharpen our edge as an international travel destination, Hong Kong has to enhance its tourist reception capacity, which included expansion of retail space and facilities, hospitality infrastructure, sufficient manpower supply to

related industries, and enhanced tourist check-points facilities and services.

24. Hong Kong's renowned reputation as a quality service hub is of paramount importance to the sustaining growth of retail and tourism. We urge the Government to mobilize additional resources and uplift synergy in working with the industry to enhance quality service via training and related award schemes.

Develop New Tourist Attractions

25. We suggest the Government to speed up the development of North Lantau Island as a new one-stop tourist hub as it enjoys proximity to the airport, Disneyland, Asia-Expo, and the Hong Kong-Zhuhai-Macao Bridge.
26. The international tourism industry is evolving rapidly. The Government should take the lead and render policy support to further develop innovative tourist products and services by riding on new trends in eco-travel, sporting, family-friendly activities, arts and culture expedition, and personalized and lifestyle travels.

Organize International Mega Events

27. The Government should spearhead to soliciting more international mega events to be held in Hong Kong. In doing so, it would not only yield tourist receipts and develop new tourist clusters, but more importantly, it would also strengthen Hong Kong's differentiation among mainland cities as well as regional counterparts.

V. Strengthening Retail Development

Adopt an Overarching Development Blueprint

28. Retail together with other related industries provides about 1 million job opportunities to the Hong Kong economy. Viewing their important economic contribution, we suggest the Government to set up a cross-departmental unit to oversee and devise a long term overarching development blueprint for retail and related industries.

Retail Education & Training

29. Manpower is the most important asset for the retail industry. We urge that despite the retail downturn, the Government should continue its promotion strives on retail under its HK\$130 million allocation for manpower development including the Earn & Learn Pilot Scheme, which has proved to be a successful model to train new blood.
30. For retail Qualifications Framework (QF), we suggest the Government to provide subsidies or tax incentives to employers and educational entities to develop QF-linked courses especially at its start-up stage, since minimal returns would deter their interest to develop likewise courses.
31. To promote QF to the business community at large, especially the employers' buy-in to adopting QF in manpower training, the accreditation process for company's in-house QF-linked training should be further eased and made user-friendly.
32. The Education Bureau should incorporate retail as a formal discipline in the secondary and tertiary education curriculum. In tandem with this, the Bureau should cooperate with the industry to organize activities to update students, parents, careers masters, and school principals on the diverse retail career prospects for youngsters.

Retail Space & Warehousing

33. We urge the Government to provide more retail space and diversify shopping clusters in its land use planning. With limited supply of shopping space catering for different customer segments right now, high rental in retail will continue to prevail and undermine the industry's competitiveness.
34. Hong Kong faces severe shortage of warehousing space, which hinders retail growth significantly. To solve the space bottlenecks and congestion at Kwai Tsing Port, the Government may expedite the feasibility of establishing warehousing zones in Zhuhai by providing co-location of boundary crossing facilities between the two places.

VI. Driving Retail Innovation & Technology

Catch up with Mega Developments of e-Commerce in Retailing

35. The megatrends of Omni-channel retailing, O2O integration (online to offline), and social media application are revolutionizing global retail industry. Evolving technologies such as powerful smartphones, connected sensors knowhow, and mobile apps are transforming consumer behavior and shopping experience. Brick-and-mortar retailers worldwide are increasingly adopting technologies to take advantage of digital engagement and marketing capacities.
36. On the supply side, these new breakthroughs in innovation and technology also impact different spheres of retail operation such as customer engagement, business analytics on much diverse customer touch points, application of big data, new payment modes, in-store overhaul, supply chain, and warehousing management, etc.
37. The Government should give designated support to Hong Kong's some 65,000 retailers, who are mostly SMEs, to stay competitive and not lagging behind in these worldwide revolutionizing megatrends of retailing and e-commerce due to insufficient resources and knowledge, and yearlong inhibitions to grow beyond brick-and-mortar.

Capitalize on China's Enormous e-market Potentials

38. China's e-commerce development especially in e-retailing is growing at an exponential rate. The overwhelming development offers enormous business opportunities as well as threats to Hong Kong retailers.
39. Amongst various challenges, Hong Kong retailers have to prepare themselves without delay in the wake of the rapid rise of "Haitao" (海淘 i.e. 海外淘寶物), that is an emerging form of overseas online shopping, in which mainland consumers can buy foreign goods online by paying Import Tariff on Luggage and Personal Shipment (行李及郵遞品進口稅 or 行郵稅) at a much lower rate of about 10% inclusive of value-added tax (VAT) and consumption tax.

40. This rising trend of “Haitao”, will certainly threaten the brick-and-mortar business of Hong Kong retailers as mainlanders’ interest to visit Hong Kong might be undermined. However, on the other hand it will open up a promising online channel to tap into the vast mainland market. Nevertheless, the involvement of Hong Kong retailers in this platform, and how they can ripe benefit from it are yet to be mapped out.

Pledge for Government’s Forceful Policy Support

41. With the above-mentioned background, and in the view that the various funding schemes currently financed by the Government on innovation and technology are not retail focused except RETASS (a matching fund primarily on addressing manpower shortage launched in 2014), we urge that the Government should take the lead to drive innovation and technology in the retail industry with funding and policy support.
42. With the newly setup of Innovation and Technology Bureau, we suggest the Government may consider setting up a cross-bureau taskforce to enabling the initiative for enhancing retail innovation and technology, that could be evaluated and devised in a holistic manner.
43. We welcome the invitation from Mr. John Tsang, the Financial Secretary in November this year, for a proposal on the subject from the Association, which we will work out with relevant stakeholders, and submit to the Government in due course.

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