

Hong Kong Retail Management Association
Submission on
2017 Policy Address and 2017-2018 Budget Consultation
20 December 2016

I. Introduction

1. Since 2014, the Hong Kong retail industry has been experiencing three consecutive years of downward trends. The robust growth in the past decade has now been replaced by the “new normal” which is underscored by stagnant growth in mainland tourists and their spending, fierce external competitions, prudent domestic consumption, and continued high operating cost.
2. The global market will remain volatile and uncertain in 2017 in the wake of the US election aftermath and unsettled political situations in Europe, and the Hong Kong economy is expected to face a bleak outlook and so as for the retail industry.
3. For 2016 as a whole, the Association expects the retail sales value to drop by 7-8%. While seeing no positive factors in place, the retail performance is expected to remain relatively stagnant next year, and retailers will continue to face hardships and challenges.
4. Despite this dismay backdrop, the Association would like to commend the Government for having implemented some timely and appropriate measures to alleviate business hardships and launched mega events to stimulate spending and visitor inflows in the past two fiscal years. The Association would like to see the Government continues to take this pragmatic and prompt approach to address the immediate and pressing economic concerns.
5. In regard to the Chief Executive’s Policy Address on 2017, and the Government’s Budget for 2017-2018, the Association would set out recommendations in the ensuing deliberations.

II. Vision to Restore Harmony & Growth

6. Hong Kong has been experiencing a lot of disharmonies on the societal and political fronts in most recent years. This situation has severely damaged the

solidarity and confidence of people towards Hong Kong's future and jeopardized the Government's effort and goodwill in executing long term policies.

7. At this juncture of change, especially when the new term of Chief Executive would be elected in March 2017, we strongly urge the Government to take a forceful thrust to rebuild societal harmony which is most vital for healthy governance in the next 5 years.
8. Hong Kong should not be complacent but mindful of the fierce competitions coming from the region and mainland cities. The Government should take the lead to protect our strategic position and uniqueness, and be forward looking to catalyze medium to long term growth with a clear overarching vision supported by a roadmap with pragmatic measures.

III. Hong Kong's Competitiveness

Sharpen Hong Kong's Advantages

9. It is of paramount importance for Hong Kong to uphold its unique advantages including the rule of law, free and open market, free flow of information, freedom of speech, a business friendly environment, and an international image being a safe and hospitable city.

Alleviate Cost of Doing Business

10. Hong Kong's competitiveness is greatly affected by the high cost of doing business. The retail industry in particular has been negatively impacted by high manpower expense, operating costs, compliance cost and rentals.
11. In view of the bleak business outlook, we suggest the Government to reduce business license fee and related charges, lower corporate profit tax to 15%, and offer additional tax incentives to SMEs.

Curb Rising Compliance Cost

12. In recent years, a number of new legislations are introduced and have increased the businesses' compliance cost substantially. More importantly,

these regulatory measures have undermined business competitiveness and efficiency, and worsened the operating environment. We maintain that the Government should be prudent and conduct regulatory impact assessment when considering new legislations.

MPF Offsetting Mechanism

13. We advocate safe retirement arrangements for Hong Kong people. However, we maintain that the MPF offsetting arrangement should not be abolished as the employers should not be made to pay double retirement benefits to employees.
14. At this market downturn, the Government should adopt a balanced stance to protect the interest of all stakeholders, and not to induce additional labor cost on businesses alone.

Standard Working Hours (SWH)

15. Hong Kong is a highly service-oriented economy with its success greatly built on high flexibility on working hours honored both by employers and employees. SWH is a complicated subject, and many overseas experiences already show that a one-size-fit-for-all legislation is unable to address the core issues of long working hours, nor to achieve work-life balance.
16. We oppose to the legislation of SWH and support in principle the concept of specifying working hours arrangement in the written employment contracts, thus allowing flexibility in the labor market. We urge that the Government should conduct more thorough study to evaluate working hours of various industries, and explore different options to promote work-life balance.

Statutory Minimum Wage (SMW)

17. The SMW has been revised three times with its initial rate at \$28 in 2011, \$30 in 2013, \$32.5 in 2015, and \$34.5 to be effective May 2017. It is evident that the SMW has jerked up the wage levels, worsened the manpower shortage, and undermined overall competitiveness by continued negative ripple effects.
18. We urge the Government should uphold that the SMW is a wage floor but not

a living wage, and the “evidence-based” and “rational” approach should be strictly observed. As economic prospect is still uncertain, the rate should be maintained in the immediate years ahead and not be reviewed due to political considerations.

IV. Sustain Tourism Development

Vision to Sustain Development

19. We commend the Government for its swift efforts to sustain visitor growth at times of recent economic downturn by stepping up on international image promotion, organization of mega events, rationalization of tourist attractions, and diversification of tourist sources, and more.
20. However, the continued prosperity of our retail industry is inseparable from a healthy tourism development, which calls on the Government for a visionary blueprint on the industry long term growth and a holistic planning supported by stakeholders.

Develop Niche Advantages

21. Apart from capitalizing on obvious strengths such as unique culture, shopping hub etc, the Government should identify new niche advantages, and drive new type of tourist experience in the wake of the emergence of a new generation of visitors, particularly those from Asia where the growth impetus comes.
22. The new trend of international travel that underscores by the importance of a holistic personal experience in terms of sight, sound, taste and emotion should be well incorporated in the development of new tourist attractions and facilities. Innovative elements can be built on our strong tourist and retail foundations.

Capitalize on New Connectivity

23. With the new HK-Zhuhai-Macau bridge coming up, along with the Express Rail Link to Shenzhen and Guangzhou, the Government should speed up peripheral facilities and supporting services, diversify visitor hubs, and take advantage of new opportunities that can be beneficial to tourist and retail

industries.

24. In longer run, with the gradual economic integration of Hong Kong and Macau with the Pearl River Delta area, the Government should take the lead to orchestrate the development of an integrated tourist-cum-retail ecosystem allowing Hong Kong businesses to tap greater opportunities.

V. Strengthen Retail Development

Earmark Retail as Growth Engine

25. As a pillar of the economy that employs over 260,000 people, the retail industry is undergoing a structural change that requires the Government to give a higher priority to its sustainability when driving Hong Kong's future growth.
26. We reiterate that the Government should consider to setting up a cross-departmental unit to orchestrate a long term development blueprint for retail and associated industries, and articulate its advancement in a wider context of the overall city's future development.

Nurture Professional Workforce

27. Hong Kong's renowned reputation as a shopping hub with quality service should be reinforced by continuous efforts by grooming of professional manpower via structured education and training recognition such as the Qualifications Framework (QF), while at the same time ensuring a sufficient supply of professional new blood.
28. As the retail industry is gradually attuning to the new normal, we urge the Government to appropriately reactivate the image promotion of the retail industry earmarked under the \$130 manpower funding, and enable the VTC to have more resources to market the Earn & Learn Pilot Scheme to secondary schools and parents.

Retail Space & Warehousing

29. We urge the Government to provide more retail space and speed up the

diversification of shopping clusters. As such, it would alleviate the prevailing high rental that impedes the industry's growth and competitiveness.

30. Hong Kong faces severe shortage of warehousing space. To solve the space bottlenecks, 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. Speed up Retail Innovation & Technology

Catch Up with International Trends

31. The global trend of O2O retailing supported by the rapid advancement of innovation and technology has revolutionized the retail marketplace and consumer behavior. However, majority of Hong Kong retailers have been lagging behind in this mega development due to the stickiness to physical retailing, low awareness, lack of knowledge, and inhibitions. It has been estimated that the development of e-retailing, even not to mention O2O mode, is at least 10 years behind our counterparts in the mainland.

Take Reference of Industry Proposal

32. We have been losing a lot in terms of business opportunities, and the first mover advantage to building up an e-tailing ecosystem when the mainland online shopping has been growing exponentially in the past decade.

33. To stay competitive in the midst of challenges, we have submitted to the Financial Secretary a "Proposal on Enhancing Technology Adoption to Uplift Competitiveness of Hong Kong Retail Industry" in July 2016. The key recommendations would be outlined in the following paragraphs.

Proposal - Recommendations

Government-led Measures

34. We suggest the Government to take the lead to devise an overall plan with immediate measures to uplift the fading Hong Kong branding through

technology adoption and involve stakeholders in this initiative. The ultimate goal is to building up a top-notch, neutral e-Commerce platform that embraces all attractions Hong Kong can offer to the world.

35. The Government should review its Free Trade Agreements (FTA) with the Mainland and other countries with a view to fight for greater preferential treatments for Hong Kong retailers, especially allowing their products sourced elsewhere to enjoy same treatment when entering the Mainland via Hong Kong.

36. The Government should explore collaboration with other countries on speeding up custom clearance and preferential taxation for Hong Kong based e-Commerce transactions.

Government Support and Enterprise-led Programmes

37. We suggest the Government to use funding to lend focused support to enterprises to develop 3 main types of programmes, including (a) industry development; (b) human capital development; and (c) government support incentive projects.

38. For industry development, the Government is called to support the following 3 initiatives, including:

Initiative 1: To cross-link Hong Kong customers with a larger customer base to facilitate standardization for long term sustainability

Initiative 2: To encourage enterprises to develop affordable solutions that enabling mass deployment among SMEs

Initiative 3: To facilitate sharing of best practices of retail technology adoption among key and SME retailers

39. For human capital development, we suggest the Government to lend support to promote public awareness of e-Commerce and application of latest technologies, and nurture a new talent pool with the assistance of VTC, HKPC, industry associations and alike.

40. For the Government support and incentive programme, we suggest the Government to provide funding to launch Government-led projects as well as supplier incentive projects in a bid to foster multi-stakeholder cooperation.

Government's Thematic Funding

41. We suggest the Government to set aside a portion of existing government funding schemes covering R&D and applied technology for the purpose of uplifting technology application in the retail industry.

42. We take this opportunity to enclose a copy of the said proposal together with this submission for the Government's consideration.

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