

**Hong Kong Retail Management Association**  
**Submission on**  
**2018 Policy Address and 2018-2019 Budget Consultation**  
**15 September, 2017**

**I. Introduction**

*The New Government*

1. The Association takes this opportunity to express our support to Mrs. Carrie Lam, the Chief Executive, and the Fifth Term HKSAR Administration who will be leading Hong Kong for the next five years.
2. We support Mrs. Lam's election manifesto, and above all, we regard the paramount task for the Administration is to rebuild harmony, heal divisions, and instill hope amongst different sectors so that Hong Kong can restore its growth momentum, and position itself for a next level of development.

*The Economy & Retail Prospect*

3. The Hong Kong economy and its business sectors will continue to face an increasingly uncertain world with heightened competitions, slower growth, intensified political and social risks, and unpredictable business volatility, both in local and external markets.
4. From 2014 to 2016, the retail industry experienced 3 consecutive years of negative growth due to stagnant tourist growth and diminishing spending. For the first 7 months of 2017, the downward trend finally stopped with a zero growth; while the Association expects there will be a 0-1% growth for 2017 as a whole. (Annex 1- Table 1)
5. Against this backdrop, the Association would outline some suggestions in regard to the Chief Executive's Policy Address for next year, and the Government's budget for 2018-2019.

## **II. Hong Kong's Competitiveness is being Challenged**

### *Dropping International Ratings of Competitiveness*

6. According to the 2016-2017 Global Competitiveness Index of the World Economic Forum, Hong Kong's ranking dropped from No. 7 to No. 9; while Singapore remained No. 2 on the list. (Annex 1 – Table 2)
7. Another recent report of the International Institute for Management Development showed that despite Hong Kong ranks No.1 as the world's most competitive economy, however, in terms of digital competitiveness, it only ranks No.7 and lags much behind Singapore who is top of the list. (Annex 1 – Table 3)

### *Take Urgent Measures to Enhance Competitiveness & Innovation*

8. These international reports highlighted an alarming fact that Hong Kong's competitiveness is being challenged on all fronts, and its slowness to innovate will inhibit future growth. Therefore, we suggest it is important for the Government to take urgent measures to:
  - a) Protect Hong Kong's unique advantages, including the open and free market principle, legal system, rule of law, freedom of speech, free flow of information, an efficient public sector, world-class protection of personal safety, and high-level of convenience in daily living.
  - b) Promote entrepreneurial spirit by rationalizing existing SME assistance schemes; and providing additional incentives, such as reduction in business license fee and other related expenses.
  - c) Provide assistance to encourage companies to drive innovation in a holistic manner.
  - d) Promote progressive and evolving legal and regulatory framework to accommodate and facilitate new economy businesses.
  - e) Implement Mrs. Lam's proposal of 2 tax reduction proposals, including a two-tier profit tax to relieve the burden on SMEs, and super tax deductions for corporate expenditure in R&D, and other innovative initiatives.

## *Spearhead Growth of New Businesses under New Economic Order*

9. The global marketplace is evolving at an unprecedented fast pace with rapid emergence of new business models and industries. The Government should have vision and leadership, and take courage to overcome hurdles and resistance within existing business structure so that new businesses e.g. mobile payments, initiatives on shared economy can flourish and serve as new growth engine for Hong Kong under the new paradigm shift.

### **III. An Over-regulated Business Environment will Disadvantage Hong Kong's Competitiveness**

#### *Growing Trend of Over-regulating*

10. In recent years, the Government inclines to adopt an over-regulating approach, while neglecting the cumulative effect of changes caused by legislative changes. It is a worrying trend that introduction of new rules and legislations is often a result of public demands, and in many cases, are politically driven.
11. In past some 8 years, a number of legislations impacting retail were introduced in a row, including plastic shopping bag charging scheme (2009), nutritional labeling scheme (2010), minimum wage (2011), unfair trade practices amendment (2012), milk powder export restriction (2013), Competition Ordinance (2015), and charging on Waste Electrical & Electronic Equipment (WEEE) (2016).
12. These new legislations not only increased operating cost substantially but also undermined business competitiveness and efficiency. We urge that the Government should not underestimate their total impacts on the economy, and conduct in-depth study to gauge the overall implications and compliance cost to enterprises, especially the SMEs, and to Hong Kong's competitiveness.
13. It is worth noting that some more new legislations are in the pipeline, such as charging on municipal solid waste management and glass containers, MPF offsetting, standard working hours, and voluntary health insurance scheme. The Government should take extra caution to assess their impacts on the economy when formulating enforcement.

### *Regulatory Impact Assessment (RIA)*

14. As an overall approach, 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.

### *MPF Offsetting Mechanism*

15. We appreciate Mrs. Lam's decision to put forward a new MPF proposal and the Government's effort to conduct several rounds of consultation with stakeholders. We pledge that the Government should be more receptive to consider counter-proposals by trade associations or political parties.
16. Meanwhile, we do not agree with the Government's intent to set a "cut-off" date and earmark a sum to assist employers after the abolition is implemented, as employers would still have to allocate extra large amount of funds for severance payments and long service payments once the Government's contribution is used up.
17. This approach could be devastating to SME retailers, who are facing high operating and labor cost with an extremely slim profit margin.

### *Standard Working Hours (SWH)*

18. We support the SWH Committee's recommendation to legislate on the following two areas, including: (a) for written specification of working hours term; and (b) specification of overtime compensation to protect lower-income grass-roots employees.
19. However, we oppose to the SWH Committee's suggestion to formulate sector-specific working hour guidelines, which would be an interference on employment contract of a segment of labour force.
20. We maintain that the Government should conduct thorough study on specific sectors whereby long working hours are prevalent; and at the same time, it should take a head-on approach to tackle the root problem of long working hours in Hong Kong, i.e. acute shortage of labour.

### *Statutory Minimum Wage (SMW)*

21. The SMW has been revised thrice from its initial rate of \$28 (2011), to \$30 (2013), \$32.5 (2015), then to \$34.5 (2017). The ripple effects of SMW and its negative repercussions on labour market have been continuously impacting the retail industry and other low pay sectors.
22. The Government should cautiously review the SMW rate in the light of its impacts on the economy, society, low pay sectors, affordability of SMEs, Hong Kong's competitiveness, and how it relates to other policy and legislations. It should adhere to an evidence-based and rational approach, and not to raise the SMW rate because of political pressure.

## **IV. Developing Human Capital**

### *Ensure Stable Labour Supply*

23. With a rapidly aging economy, the Government should adopt a vigorous approach to foster a right mix of human capital and a sustainable pool of employable workers. It should attract, nurture and retain local and overseas young talents, and promote to them the diversified career opportunities of different industries on easily assessable platforms.

### *Promote Technical and Vocational Occupations*

24. Alongside the promotion of career opportunities in innovation, technology, finance and high-end service industries, the Government should strengthen promotion of technical and vocational occupations to young people, especially those relatively labour-intensive and requiring certain period of apprenticeship.

### *Relax Labour Importation Requirements*

25. To address the immediate labour shortage, the Government should review the Supplementary Labour Scheme, which has been ineffective to meet the burning needs of different sectors. It should consider importation of labor on a large-scale sector-specific approach, and to render assistance to employers to ease the accommodation problem for import workers.

## **V. Stepping Up Tourism Development**

### *Devise Long-Term Tourism Strategies*

26. 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, and define long-term strategies to rebrand Hong Kong through innovative marketing on international fronts.

### *Allocate Additional Funding*

27. We welcome the Government's additional funding allocated to Hong Kong Tourism Board (HKTB) to strengthen promotion and develop new tourist products in 2018. However, it should not be a one-off measure as Hong Kong's tourism is severely threatened by international competition initiated by other governments. To flourish and stay competitive, the Government should allocate sufficient funding for market promotion and development.

### *Develop High-end Tourism*

28. We agree with HKTB's direction to allure high-end visitors, both short and long hauls, and the affluent segments of MICE and cruise visitors. At the same time, promotion of the Individual Visit Scheme (IVS) should be continued, especially to mainlanders with higher spending propensities.
29. In terms of innovative products and services, the Government should help the trade to capitalize on the global travel trend of holistic personal experience such as culture tourism, eco-travel, sporting, family-friendly travel, arts and films, landscape exploration, and personalized and lifestyle travels.
30. While at the same time, the Government should seize opportunities to stage more international mega events in Hong Kong. In doing so, it would strengthen Hong Kong's differentiation among mainland cities as well as regional counterparts.

### *Capitalize on Enhanced Connectivity*

31. The Government should set up peripheral facilities and supporting services for the Hong Kong-Zhuhai-Macao Bridge, Express Railway to China, and Kai Tak Cruise Terminal without delay. This would enable the retail and other sectors to capitalize on the enhanced transportation network that will draw high tourist traffic from the mainland and overseas.

### *Improve Tourist Attractions, Reception Capacity & Services*

32. To sharpen its edge as an international travel destination, Hong Kong has to enhance its tourist attractions and reception capacity, and to improve services at diverse touch-points with tourists. The Government should work with the industry to uplift quality service via training and related award schemes.

## **VI. Strengthening Retail Development**

### *Uplift Government's Support with a Designated Unit*

33. The role of retail and its direct and indirect contributions has always been under-estimated. Retail alone covers more than 63,000 establishments and employs about 10% of total workforce. Together with peripheral industries, such as import and export trade, wholesale, and accommodation and food services, a total over 1 million job opportunities are created.
34. Despite the downtrend trend seems to halt in 2017, the retail prospect remains uncertain, as many unfavorable factors are still prevailing, such as high and rigid cost structure, high rental, and acute manpower shortage. Retailers are still struggling for survival with SMEs are the most hit hard.
35. In view of the important economic contributions and employment creation, we suggest the Government to set up an independent, cross-departmental unit to oversee and devise a long term overarching development blueprint for retail and related industries.

### *Groom Retail Talent - Strengthen Promotion of Retail Earn & Learn Scheme*

36. Retail suffers severely in the talent war, especially in recruiting young new blood. The Retail Earn & Learn Pilot Scheme operated by VTC with government funding since 2014 has been falling short of student targets. The Scheme faces keen competition with VTC's similar schemes for other 9 industries. The Government needs to orchestrate with VTC's to render greater student recruitment effort, and to allow budget flexibility in the promotion of the scheme and the industry.

### *Groom Retail Talent - Promote Retail Qualifications Framework (QF)*

37. The retail Qualifications Framework (QF) proves to be an effective platform to enhance manpower training and recognition. We urge the Government to provide subsidies or tax incentives to employers and educational entities to develop QF-linked courses, since minimal investment returns especially at its start-up stage, would deter interest to develop likewise courses.
38. To promote the employers' buy-in and taking the lead to adopt QF in manpower training, the Government should ease and make the accreditation process for company's in-house QF-linked training user-friendly.

### *Groom Retail Talent – Introduce as a Formal Academic Discipline*

39. Retail as a formal discipline should be incorporated in the secondary and tertiary education curriculum. In tandem with this initiative, the Government should step up its cooperation with the industry to inform students, parents, careers masters, and school principals on the diverse retail career prospects.

### *Groom Retail Talent – Develop E-Commerce Practitioners*

40. E-tailing is an unbeatable and irrevocable trend that Hong Kong has to embrace. Nevertheless, our development in this aspect is severely impeded by shortage of home-grown practitioners at all levels. It is urgent to call for the Government's coordination on a thrustful approach to speed up the education and training of e-commerce practitioners through formal education as well as other in-service training platforms.

41. The Retail QF has launched a set of e-commerce Specification of Competency Standards (SCS) in March 2017. The Government should step up its promulgation and render assistance to retailers so that they can use it as a basis to uplift their business to a next level.

#### *Develop Retail Space & Warehousing*

42. At present, with limited supply of shopping space, high rental will continue to prevail and undermine retail's competitiveness. We urge the Government to provide more retail space and diversify shopping clusters in its land use planning in the long-term.
43. Hong Kong faces severe shortage of warehousing space, which hinders retail growth significantly, especially when e-commerce is flourishing. To solve the space bottlenecks and congestion at Kwai Tsing Port, the Government may expedite feasibility of establishing warehousing zones in nearby mainland areas by providing co-location of boundary crossing facilities.

### **VII. Driving Retail Innovation & Technology**

#### *Capitalize on New Retail Normal & China's E-Market Potentials*

44. The emergency of omni-channel retailing, O2O integration, social media, mobile platforms, and evolving technologies is revolutionizing consumer behavior and shopping experience. In particular, fueled by a young technology savvy population, China's e-tailing market is growing at an exponential rate. With lower tariff and ease of logistics, the trend of "Haitao"(海淘), that is the overseas online shopping, has flourished rapidly.
45. To Hong Kong retailers who are mostly brick-and-mortar operators, this new paradigm shift not only opens up a vast and boundary-free business horizon but also poses great challenges. With much diverse shopping options now made available online, the mainlanders' interest to visit Hong Kong would be undermined.

### *Overcome Limitations of Hong Kong Retailers*

46. However, Hong Kong retailers are lagging very much behind their mainland and international counterparts in innovation and technology adoption. They have a strong inhibition to grow beyond brick-and-mortar, and are lacking resources, talents and knowledge to develop a holistic business model to cope with the new retail ecosystem.

### *Pledge for Government's Forceful Support*

47. We call for the Government to give policy support to Hong Kong's some 65,000 retailers, who are mostly SMEs, to assist them with a holistic approach to transform themselves from physical operation to O2O mode with multiple purchase and delivery options, social media channels, E-CRM, big data tracking, and optimized supply chain.
48. We suggest the Innovation and Technology Bureau to take an active role to set up a cross-bureau taskforce to formulate an industry upgrade strategy to speed up innovation and technology adoption in retail, which also should be in tandem with the Government's overall strive to build up Hong Kong as a smart city.

### *Adopt HKRMA's "Proposal on Enhancing Technology Adoption to Uplift Competitiveness of Hong Kong Retail Industry" (July 2016)*

49. Our Association in cooperation with Hong Kong Productivity Council had submitted the captioned proposal to the then Financial Secretary in 2016. We believe the recommendations made in the proposal remain relevant to our industry's agenda in going forward. A gist of the recommendation is set out at the ensuing paragraphs.

### *Recommendations - Government-led Measures*

- 49.1 On the forefront, the Government should orchestrate the building up of a top-notch, neutral e-Commerce platform that embracing all attractions Hong Kong can offer to the world.
- 49.2 The Government should review its Free Trade Agreements (FTA) with the mainland and other countries to help Hong Kong retailers to obtain greater

preferential treatments for their products sourced elsewhere to enjoy same treatment when entering the mainland via Hong Kong.

- 49.3 The Government should collaborate with other countries to speed up custom clearance and preferential taxation for Hong Kong based e-commerce transactions.

*Recommendations – Government Support and Enterprise-led Programmes*

- 49.4 The Government should use funding in 3 key areas to stimulate concerted efforts from the industry and stakeholders, namely including (a) industry development; (b) human capital development; and (c) incentive projects.

- 49.5 The funding on industry development would be gearing towards to the following:

- a) Facilitate the building up and sharing of a larger customer base which would in turn encourage standardization for long term sustainability.
- b) Encourage enterprises to develop affordable solutions that enabling mass deployment among SME retailers.
- c) Facilitate the sharing of best practices of retail technology adoption among leading retailers and SMEs.

- 49.6 On human capital development, we suggest the Government should step up the promotion of e-commerce, take lead to nurture a new generation of related talent, and strengthen in-service training.

- 49.7 On incentive projects, the Government should use funding to swiftly orchestrate the cross-linking of public funded projects as well as supplier incentive projects to foster multi-stakeholder cooperation.

*Recommendations – Government Funding*

- 49.8 At present, the Government provides about 36 funding schemes for SMEs, and among them, there are about 17 schemes that retailers are eligible to apply, including the Retail Technology Adoption Assistance Scheme for Manpower Demand (ReTAAS), which is the only retail-specific funding

scheme for our industry. (Annex 2)

49.9 In view of this large number of funding schemes relevant to retailers, we feel there is an urgent need to streamline them as it is too much a burden for SME retailers to understand thoroughly each scheme, to go through the cumbersome application procedure, and to monitor the subsequent implementation.

49.10 To speed up the refinement of funding arrangement, we suggest the Government may consider to earmark a portion of existing funding schemes to specifically cater for the purpose of uplifting technology adoption and innovation in the retail industry.

*Closing Remark*

50. We would like to share again our said proposal with the Government together with this submission.

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