

**Hong Kong Retail Management Association
Submission on
2022-23 Budget Consultation**

17 January 2022

I. Introduction

1. In the wake of the 5th wave of the COVID-19 pandemic triggered by the Omicron variant at the beginning of the new year, the Government has enforced stricter social distancing measures starting 7 January, 2022, for an initial period of 14 days, which has brought forth an immediate hard blow to the yet-to-recover economy.
2. On 14 January, 2022, the Government has announced to further extend the restrictive social distancing measures till 3 February, 2022. At the same time, it has disclosed a package of anti-epidemic measures especially to support the affected business categories.
3. The Association is very disappointed to see that the retail industry is not covered in this round of relief measures despite the Omicron variant and its highly infectious nature has damaged consumer confidence tremendously and has swept away almost all positive impacts on consumption sentiment catalyzed by the Electronic Consumption Voucher Scheme in 2021.
4. In this paper, we would like to put forward recommendations to the Government including a set of immediate measures, together with some short-to-medium-term initiatives to support retailers to weather through this prolonged market disruption that sees no ending in the months ahead.

II. Hong Kong Retail Market Outlook - Deepening Austerity

5. The retail industry has had its hardest time ever because of the COVID-19 pandemic. For the first 11 months of 2021, total Retail Sales Value (RSV) rose 8.3% year-on-year, but it still dropped by nearly 30% compared to 2018 when the

retail market was considered normal. For the whole year of 2021, it is expected that the RSV will register a high single-digit growth, albeit it is projected on a very low base in 2020.

6. Many retailers experienced relatively strong sales momentum during the Christmas period in 2021 and the first week of January 2022. However, the sales performance deteriorated rapidly once the social distancing measures are enforced on Friday 7 January, 2022.
7. Overall, when compared with the first week of 2022, a great majority of our members registered a low double-digit drop in sales value for the second week of 2022; some even registered a drop of up to 50%.
8. A swift retail industry recovery hinges on the resumption of normal travel and economic activities especially with the Mainland. However, the growing severity of the spreading of Omicron variant will likely call for tighter border restrictions, which will prohibit border re-opening and further dampen local consumption.
9. In the immediate term, the 5th wave of the pandemic is regrettably affecting the retail industry at its most high peak selling season of Chinese New Year in 2022 whereby many retailers are expecting to generate a large share of their annual income during the period.
10. Under such unfavorable circumstances, the Association is pessimistic about the market prospect for the year 2022. For the first half of 2022, we expect the RSV to remain flat when compared with the same period in 2021.

III. Immediate Measures to Relief Retailers' Hardship Amid the 5th Wave of the Pandemic

Measure (1) Earmarking Retail as a Target Industry for the Anti-epidemic Fund including Focused Subsidies & Initiatives to Alleviate Operating Cost

Extending Focused Subsidies

11. Since the pandemic outbreak, retailers have been facing surging commodity prices and transport costs, alongside rising rental pressure, and increasing manpower cost. With the 5th wave, retailers are anticipating that the

operational risks in 2022 will stay high or even increase if the spreading of Omicron is not curbed earliest.

12. To provide a lifeline to the struggling retail industry, we urge that the Government should earmark it as a target industry in the Anti-epidemic Fund and provide immediate and focused relief measures to address the specific needs of the most suffering retail categories.

Alleviating Heightened Operating Cost

13. To alleviate heightened operating cost, we urge that the Government should maintain or even strengthen relief measures that have been enforcing since the pandemic outbreak such as waiving of water and sewage charges, rate concessions, and consider subsidizing retailers' MPF contribution.
14. The tariff rate of the two electricity companies should be frozen in 2022, and further assistance should be provided to retailers to reduce their energy expense.

Measure (2) Implementing Another Round of Electronic Consumption Voucher Scheme (ECV)

15. The retail industry had received timely support and assistance from the Government during the pandemic, including the Anti-epidemic Fund, the Employment Support Scheme in 2020, and the ECV in August 2021. However, given all these support measures, the overall retail sales performance is still far below its pre-pandemic level.
16. Now that with the Omicron variant, the retail industry will face a much tougher business environment alongside hikes in inflation in 2022. Many retailers particularly those tourist-oriented are at risk of closure as they have been struggling with limited resources to sustain their businesses.
17. In addition, as the effects of the current ECV subside, the local consumption sentiment will soon be deeply dampened, and the industry will not have any growth impetus that can help sustain business and protect employment in the months ahead.

18. In this regard, we earnestly implore the Government to implement a second round of the ECV or any other equivalently effective measures in 2022 to boost consumption and help bring a positive atmosphere in the community.

Measure (3) Containing Landlords to Charging High Rents & Related Fees

19. Many landlords are preparing to raise rents once the border reopens. Without knowing how long the 5th wave will last, the Government should prohibit the landlords from increasing rents, and when circumstances required, to adopt the Emergency Regulations Ordinance compelling the landlords to offer rental concessions according to market needs.
20. The Government should set itself as an exemplary landlord to continue the arrangement of granting of 75% rental or fee concessions to tenants of all government properties.

IV. Short-term Measures to Sustaining Retailers' Survival in Prolonged Economic Doldrums

Measure (1) Organizing Large-scale Events to boost Consumption and the City's Ambiance

21. To continuously engage international tourists and to boost the city's ambiance, the Hong Kong Tourism Board (HKTB) should organize large-scale events to boost consumption and to conduct virtual tourism with innovative shopping elements and appeals, especially targeting mainland tourists.
22. At the same time, while planning for border reopening, the HKTB should initiate innovative enhancements regarding tourist hardware including hotels, dining, parking facilities, and software such as spearheading a series of attractions in various sectors like F&B, sightseeing, shopping festivals and carnivals.

Measure (2) Addressing Manpower Shortage

23. Paradoxically, despite the dampened retail market, retailers have been facing an acute manpower shortage, which is a result of Hong Kong's yearlong problem of aging population, alongside the recent surge in emigration.

24. This structural problem virtually affects all industries, with retailers feeling the strongest pinch on their daily operation and seeing impediments on their long-term business development and competitiveness.
25. We view that the Government must adopt appropriate policy with short, medium, and long-term measures to address the root problems of this worrisome population development that has been eroding the long-term competitiveness and growth of Hong Kong economy.
26. For example, we welcome the Government's doubling the annual quota to 4,000 persons under the Quality Migrant Admission Scheme, and its efforts to draw I&T experts under the Global STEM Professorship Scheme.
27. When pandemic subsides, the Government may consider launching a pilot scheme to allow labor-intensive industries like retail to flexibly employing mainlanders in nearby border areas to commute to Hong Kong daily for work purpose, alike Macao's current practice.

V. Short-to-medium-term Measures to Advancing HK Retail Industry

A. Assisting Hong Kong Retailers to Entering China Market

Measure (1) Setting up a High-level Government Task Force

28. The Government should assist retailers to capitalize on the business opportunities arising from the Central Government's "Domestic Circulation" initiative and the Greater Bay Area (GBA) development by setting up a high-level task force with representatives from related trade associations.
29. The said task force should help formulate initiatives to enable retailers gaining strong online and offline foothold in the prospering Mainland market, including but not limited to the lifting of current importation restrictions of certain products due to the differences in the regulatory requirements in terms of quality and/or hygiene standards between Hong Kong and the Mainland.

Measure (2) Prioritizing GBA Market Inroads

30. On the Government level, to seize the fast-evolving opportunities in the GBA development, we urge that an overarching policy framework to assist retail and related industries entering the market should be devised without delay.
31. Under the suggested framework, priority incentives and assistance schemes such as subsidies and tax concessions should be granted to retailers; while these support initiatives should be made user-friendly to facilitate and speed up retailers' market penetration and brand building in the GBA market.

Measure (3) Mandating HKTDC to Organize an Online Shopping Festival and Earmark Retail as a Prioritized Industry in Its Promotion Plan in China

32. The Government should allocate funding resource to HKTDC to orchestrate a large-scale online shopping festival targeting Mainland customers. This would enable a wide spectrum of retailers with less resources and capabilities to make market inroads and benefit from the booming cross-border online trade at minimal cost.
33. The HKTDC should be mandated to include retail as a priority industry in its new initiative of the one-stop "GoGBA" platform and to provide multi-faceted support for retailers to expand to the GBA market.
34. The HKTDC should help retailers especially SMEs via its existing design gallery online/offline stores, and to provide due support in handling operational issues such as import declaration, logistics and settlement of payment.

Measure (4) Expediting Opportunities in the Duty-free Shopping Hubs

35. The Government should help expedite business opportunities for Hong Kong retailers in the newly earmarked Duty-free hubs in the Mainland, for example, obtaining rights in setting up retail shops, and/or forming joint venture in these hubs.
36. At the same time, the Government should raise Hong Kong's competitive edge by persuading the Central Government to increase its duty-free shopping quota for travelers returning to China from RMB 8,000 to at least RMB 100,000.

B. Building Hong Kong as a Retail Management Education Hub

37. The Government has been promoting Hong Kong as an education hub in the region. Since our retail industry is renowned for its sophistication and world-class quality talent management, the Government should include retail management education into this blueprint.
38. In this regard, we urge the Government to render policy support with practical measures in the following areas:
 - a) To enable more Hong Kong tertiary education providers, especially renowned universities to adopt retail management as a specialized degree programme, both in Hong Kong and their Mainland branches.
 - b) To facilitate the interflow of retail talents between Hong Kong and the Mainland via visits, in-service workplace attachment, and exchange programmes.
 - c) To enhance the status of Retail Qualifications Framework (QF) and promote it to the Mainland counterparts.
 - d) To promote the signature service recognition schemes and award programmes of Hong Kong retail industry to the Mainland counterparts.

C. Tackling High Rental Cost Issues

39. To fostering a healthier rental market, we urge that the Government should rectify the current distorted retail rental market and consider adopting the following measures:
 - a) To replace the current laissez-faire policy by a proactive and heavy-handed approach on all rental matters.
 - b) To set up some form of regulation on commercial rental and related fees such as management fee, promotion fee, and air-conditioning charges.
 - c) To adopt net lettable area concept in retail leasing contract to align with current rules governing sales of residential premises.

D. Rebranding of Hong Kong Retail Industry

Measure (1) Establishing a Government Setup for Overseeing the Retail Industry

40. The retail industry is a key pillar of Hong Kong economy. It employs about 10% of the total workforce, involving 248,082 people; and covering 62,752 retail establishments.
41. Currently, the Government handles the industry matters often with a piece-meal approach. The absence of a clear ownership within the Administration has been impeding the well-being and development of the retail industry.
42. Upon the setup of a new government cabinet in July 2022, we urge that the Government should designate a specific bureau with a mandate to oversee the industry matters and development, or to set up an independent, cross-departmental unit to take up the task.

Measure (2) Providing Funding Support to Invigorating Retail Image & Technology Adoption

43. At this critical juncture of the retail industry's transformation from physical to omnichannel models, we urge that the Government should earmark funding to help uplift industry image, and to upgrade practitioners with new technologies and skill sets through mainstream education and in-service training.
44. With retailers' extensive interfacing with consumers on a daily basis, our industry can be aided with funding and used as a powerhouse to exemplify advantages of adopting latest technologies, 5G, digitalization, AI, robotics, big data to the industrial and commercial sectors at large.
45. The Government should provide more funding to SME retailers to accelerate their digitalization transformation so that they can expand new sources of revenue from brick and mortar to online channels.
46. The Government should introduce a one-stop funding solution to SME retailers to replace the current different schemes which apparently are serving similar purposes.

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