

**Hong Kong Retail Management Association  
Submission on 2022 Policy Address Consultation**

**4 August 2022**

**I. Introduction**

1. The Hong Kong Retail Management Association (“the Association”) is confident that the new Government led by Mr. John Lee, the Chief Executive, will bring Hong Kong into a new era of solidarity and prosperity in the next five years.
2. The COVID-19 pandemic has been impacting Hong Kong on every front for almost three years. Hong Kong’s economy is facing heightened uncertainties due to escalating inflation, interest rate hikes, volatilities in the equity market, geopolitical instability, supply chain disruptions, and the unpredictable pandemic.
3. All these unfavourable factors have posed tremendous risks to the retail industry in the coming months. The Association is highly concerned about the business sustainability of our fellow retailers, and would like to present in this paper our recommendations to the Chief Executive for his 2022 Policy Address.

**II. Latest Retail Market Situation and Dismal Outlook**

4. The retail industry experienced a tough start this year, as the fifth wave of the local pandemic rapidly worsened during the first quarter of 2022. The total retail sales value (“RSV”) recorded a sharp plunge of 7.6% in the first quarter of 2022.
5. Due to the relaunch of the Electronic Consumption Voucher (“ECV”) Scheme, the monthly RSV registered 11.7% growth in April. However, the retail sales in the following months will remain sluggish as the public will postpone consumption till receiving the next batch of ECV in August.
6. The total RSV in the second half of 2022 is expected to be at a similar level of the same period last year basing on assumptions that there will be a continued positive momentum of the ECV, a well-contained pandemic situation, while the borders with the Mainland remain closed.

7. For the entire year of 2022, the Association forecasts that the total RSV may either remain flat or register a slightly positive or negative growth compared with last year. The scenario will represent a decline of about 30% compared to a normal year of 2018. It will mark the fourth consecutive year for the total RSV to record an annual decrease at an average of around 30% against the “normal” retail business environment with tens of millions of travelers coming into Hong Kong annually.

### **III. Recommendations: Near-term Measures**

#### **A. Adopting Pragmatic COVID-19 Policies to Ensure Speedy Border Reopening**

8. Due to the stringent COVID-19 policy, Hong Kong has been isolated from the world for almost 3 years. Our economy suffered tremendously as inbound visitors almost came to a halt while international trade and economic activities were largely disrupted.
9. There is an urgent need for the Government to adopt a pragmatic COVID-19 policy so that all our borders can be reopened as early as possible. The first priority is to resume quarantine-free travel with the Mainland and then the rest of the world, which is critical for retail recovery.
10. Given Hong Kong’s unique status as an international premier city, when formulating the COVID control options, the Government should give top priority to balance safety and freedom in people movement so as to rebuild confidence among visitors.

#### **B. Addressing the Immediate Manpower Shortage**

11. The recent brain drain problem has aggravated the already acute manpower shortage. Many of our members reflected that they are struggling to fill vacancies, not only for the frontline positions, but also for a wide spectrum of professionals especially at middle management who form the backbone of retail businesses.
12. It is critical for the Government to devise immediate policy to help turn this tide. This may involve the following directions:
  - a) To relax the work restrictions for the Mainland and overseas students studying in Hong Kong and to enable them to join the local internship programmes;
  - b) To incentivize employers to offer flexi-hour jobs especially to female workers and the silver-haired groups;
  - c) To ease the stringent quarantine measures imposed on the foreign talents working in Hong Kong;

### **C. Containing the Skyrocketing Rise in Business Operating Cost**

#### **Providing Focused Subsidies to Alleviate Cost**

13. The Government should earmark retail as a priority industry to give focused relief measures to sustain survival of the SMEs. These measures may include waiving of water and sewage charges, rate concessions, assistance on energy expense, and subsidizing retailers' MPF contribution.

#### **Curbing the Heightened Compliance Cost**

14. In recent years, there are a number of legislations that have far-reaching impact on labour cost such as the review of the statutory minimum wage rate, the increase of the statutory paternity leave entitlement, and the abolishment of the MPF Offsetting mechanism.
15. There are also other legislations in the pipeline that are of concern to retailers such as the Class Action and the proposed amendments to the Occupational Safety & Health Legislation to raise the penalties.
16. The Producer Responsibility Scheme (PRS) also incur extra costs on the retail and catering operators. These include the PRS on Waste Electrical and Electronic Equipment, and the forthcoming Municipal Solid Waste Charging Scheme, the PRS on the Glass Beverage Containers, the PRS on Plastic Beverage Containers, and review of the Plastic Shopping Bags Levy Scheme.
17. The Government should exercise a holistic and prudent evaluation on the total compliance cost arising from these ever-growing legislations and the affordability of the retailers before rushing into implementation. In particular, it should take up the responsibility to shoulder the long-term financial outlays arising from the abolishment of the MPF Offsetting Mechanism instead of passing it solely onto the enterprises who would be given subsidies only for a limited number of years.

### **D. Sustaining Domestic Consumption Sentiment**

18. The local consumption will continue to be dampened due to the dismal outlook of the global economy, the yet-to-open borders and the lingering pandemic. We urge the Government to proactively monitor the situation and to implement rounds of the ECV Scheme continuously as circumstances required, until the retail business environment entirely resumes back to normal.

### **E. Restraining a Rapid Increase in Retail Rental once Borders are Reopened**

19. Currently, many landlords are preparing to raise rents once the Government reopens the borders. They tend to disregard the reality that the retail industry will take a much longer time to recover from the prolonged recession.

20. Due to the irreversible changes in consumer behavior and the changing perception about Hong Kong especially among the Mainlanders, the reopening of borders will not lead to a significant or immediate rebound in visitor numbers, and the retail sales situation may not resume to the pre-pandemic level.
21. The Government should take due measures to ensure that the landlords would not increase rents at an unreasonable rate once the borders are reopened. Otherwise, the prospect of a gradual recovery of retail business would be ruined while another wave of shop closures would be unavoidable.

**F. Relaunching Hong Kong as an International Premier City**

22. As the international community has already returned to normalcy despite the prevailing COVID-19 pandemic, the Government should rebuild the image of Hong Kong as a world-class premier city without further delay.
23. The Government should launch international high-profile MICE events, and stage large-scale citywide activities synergized with retail, culture, sports, and sectors alike. It will help inform the world that Hong Kong is back on track.
24. The Hong Kong Tourism Board (HKTB) should rebuild HK as a “Smart Shopping Paradise”, highlighting both our yearlong retail strengths and also the most up-to-date technology applications and convenience that we can offer as many retailers and F&B operators have been evolving fast given the catalyst of the pandemic and the wide-spread adoption of digital payment.

**G. Designating a Specific Government Bureau to Oversee the Development of Hong Kong’s Retail Industry**

25. Currently, the retail industry covers a total of 63,000 retail establishments and employs about 250,000 people, representing 10% of Hong Kong’s total workforce. Together with related peripheral sectors including import/export trade, wholesale, accommodation and food services, as well as transportation, storage and courier services, the retail industry creates about 1 million jobs for Hong Kong people.
26. Despite the importance of the retail industry, there is an absence of clear ownership within the Government pertaining to retail matters. In most cases, the industry issues are handled by a piece-meal approach, and it greatly impedes the development of the retail industry.
27. Given the new Government’s determination to reform the cabinet and to enhance its efficiency through reshuffling of the bureau and their responsibilities, we deem it would be an opportune time to designate a specific bureau to oversee the retail industry, or to consider setting up an independent, cross-departmental unit to assume the mandate.

## **IV. Recommendations: Mid-to-longer-term Measures**

### **A. Accelerating New Retail Development**

#### Capitalizing on the Rapid Growth of O2O Retailing in Hong Kong

28. The post-pandemic era witnesses an exponential growth of online purchases on a global scale. In Hong Kong, the online sales amounted to HK\$28.6 billion in 2021, representing 8.1% of the total RSV in the year, and 39.1% growth over 2020.
29. For the first five months in 2022, the online sales amounted to HK\$13.3 billion, representing 9.4% of the total RSV, and 29% growth compared to the same period of last year.
30. Given the unique strengths of HK retailers in brick and mortar, the continued surge in online sales represents an unbeatable trend of O2O integration. To facilitate retailers to speed up this integration and to grow overall O2O business, we urge the Government to provide strong support to the industry in different aspects as deliberated in the following paragraphs.

#### Enhancing Technology Adoption & Digitalization

31. The Government should incorporate the retail industry into its roadmap to develop HK as a smart city. It should facilitate technology adoption and digitalization by providing tax incentives, easing the current cumbersome funding hierarchy and application process, and providing extra funding resources to the SME retailers.
32. The Government may leverage the expertise efforts of statutory bodies like the Hong Kong Productivity Council to designate the retail industry as a showcase to exemplify the advantages of adopting latest technologies, 5G, digitalization, AI, robotics, big data, to the wider business community.
33. The launch of the ECV Scheme has speeded up the application of e-payments among retailers especially the SMEs. The Government should ride on this positive momentum to urge the e-payment operators to provide more merchant incentives to accelerate technology adoption in all facets of retail operation.

#### Facilitating the Development of Smart Logistic Facilities and Solutions

34. Smart supply chain and logistics driven by technology are key success factors for a flourishing new retail ecosystem. The Government should allocate land under the Northern Metropolis Development Strategy and Lantau Tomorrow Vision to spearhead innovative logistic facilities that enable retailers to enjoy cost-effective support.
35. Concurrently, the Government should expedite feasibility of establishing warehousing zones in the nearby Greater Bay Area by providing co-location of boundary crossing facilities.

## **B. Facilitating Hong Kong Retailers to make Inroads into the Mainland's Huge Domestic Market including the Greater Bay Area (GBA)**

### Advancing Retailers' Business Expansion in the Mainland Market

36. The Central Government is committed to advance the prosperity of the domestic economy in the time ahead. Our new Government should establish a high-level industry task force including representatives from the leading retail associations to formulate due support policy and initiatives for HK retailers.
37. Particularly, the Government should negotiate for fast-track policies and favourable incentives to facilitate retailers to enjoy speedy inroads into the GBA, the Free Trade Zones including Nansha and Hainan, and the new international consumption center cities in the Mainland.

### Developing the GBA Market as Top Priority

38. Above all, the GBA poses as the most important single market for HK retailers. The Government should provide first mover advantages to retailers such as subsidies, tax concessions, streamlining of registration process, funding schemes, relaxation in product categories of imported goods, and promotion of logistic efficiency.

### Promoting Hong Kong Branding in the Mainland

39. The Government should stage large-scale branding campaigns in the Mainland to reinstate Hong Kong's vibrant image as a shopping hub and to reconnect with the Mainland customers.
40. The HKTB and the HKTDC should work closer together to support HK merchants to develop quality and experiential driven shopping experience so that the Mainland customers would continue to have confidence and interest in HK.

### Facilitating Online Business to Lure Mainland Customers Under "Individual Visit Scheme" (IVS)

41. It is expected that the visitor number from the Mainland via the IVS will not be restored to its pre-pandemic level even when the borders are reopened. Virtual business platforms will become indispensable avenues for HK retailers to tap into the huge domestic market in the Mainland.
42. The Government should provide further assistance to the SME retailers in expanding their presence on these platforms; and orchestrate large-scale online cross-border shopping festival(s) to showcase HK merchandise and its unique attractions, initially targeting the Mainland visitors eligible for the IVS.
43. To relieve bottlenecks and align standards in online cross-border business between HK and the Mainland, the Government should fight for the relaxation

of the strict requirements in goods inspection and long lead time as required by the Mainland authorities.

### **C. Sustaining Manpower Supply to Support Economic Growth**

#### **Formulating a Visionary Roadmap on Population Policy and Manpower Supply**

44. Human capital is the key to sustaining economic growth. In the wake of the fierce international talent war and the severe brain drain challenge, the Government should reposition its population policy and manpower supply with a visionary roadmap and innovative initiatives.
45. This may entail directions such as: (a) rethinking labour importation; (b) launching innovative programmes to attract the Mainland and overseas talents; (c) retaining local talents by promoting family-friendly social facilities like childcare services; and (d) incentivizing employers to diversify labour sources and work modes.
46. The Government should relax the requirements on the overseas and the Mainland students to work while studying in Hong Kong. For example, we can tap into the existing pool of Mainland students who are currently studying in different education institutes in Hong Kong.

#### **Developing Digital Talents to Enhance Industry Growth**

47. In view of the shortage of digital-savvy talents in Hong Kong, retailers are facing fierce competition from different industries for this particular pool of talents. This has become one of the biggest hurdles to foster new retail development in Hong Kong.
48. The Government should have a holistic plan on projecting digital and technology literate talents including those required in retail for the next 5 years. With such a blueprint, HK can nurture required talents through the local education system, and to attract international talents to fill the gaps.

### **D. Stepping Up the Integration of Retail Education into HK's Mainstream Education System**

#### **Promoting Retail in the Mainstream Education System with A Well-defined Roadmap**

49. The retail industry has long been viewed as one of the least preferred career options by the young people. The root problem is an absence of a coherent roadmap on the part of the Government to promote retail in the education system.
50. The Government should work with the industry to devise a medium-to-long term roadmap to introduce retail as a formal subject in the secondary to tertiary levels.

### Mainstream Education System – Secondary Level

51. Retail as a subject in the Applied Learning (ApL) Course for the secondary school students had been removed for some years. In 2022, the VTC intended to reinstate the retail ApL in the secondary school curriculum and submitted a course proposal on ‘KOL Marketing & Live Streaming’ to the Education Bureau.
52. We urge the Government to support this initiative and leverage it as a new start for incorporating retail in the secondary school curriculum and allocate more resources for the Business-School Partnership Programme so as to promote ApL.

### Mainstream Education System – Tertiary Level

53. We welcome the Hong Kong Baptist University (HKBU) as the first UGC-funded university to offer a specialized concentration on “Strategic Retail Management and Innovation” in its existing BBA programme starting from September 2022.
54. We deem that the Government should provide more support to the HKBU so that it can extend this course soonest to the graduates of Associate Degree and Higher Diploma who will enjoy UGC-funding as those in other degree courses.

### Supporting Degree-Level Vocational and Professional Education and Training (VPET) in Mainstream Universities

55. We urge that the Government should speed up the inclusion of VPET in the mainstream universities and retail should be included as one of the disciplines.
56. To raise VPET’s attractiveness to the young people, the Government should subsidize VPET degree programmes just like other mainstream disciplines in the UGC-funded universities, and strengthen the connection between VPET and Qualifications Framework (QF) by enabling credit accumulation and transfer (CAT) of QF-linked qualifications to VPET programmes.

### Providing Funding Support to Promote New Image of the Retail Industry

57. The Government should render budget support to the retail industry to enhance its image as a technology savvy profession to attract young people, and to equip practitioners with new technologies and skill sets through in-service training.

### **E. Building Hong Kong as a Retail Management Education Hub in the GBA**

58. To ride on the increasing prominence of Hong Kong in the GBA, the Government should facilitate Hong Kong’s tertiary education providers to join hands with the retail industry to promote Hong Kong’s world-class retail management expertise in the region.



59. The Government can enable HK's renowned universities to set up campus in the GBA with retail management as a specialized discipline; and to facilitate students of Hong Kong and GBA to have reciprocal exchanges via industry visits and in-service workplace attachment.
60. The Government may also promulgate HK's retail QF to the GBA and introduce our renowned customer service recognition schemes and award programmes to the counterparts in GBA.

**F. Formulating Policy to Rectify Hong Kong's Distorted Retail Rental Market**

61. The distorted retail rental market is one of the biggest challenges hindering the long-term development of the industry. It drives retailers' operating cost to an inconceivable high level and damages the competitiveness of Hong Kong.
62. The "Rental Enforcement Moratorium" legislation, introduced by the Financial Secretary in his 2022-23 Budget, demonstrates the Government's determination and the capacity to tackle Hong Kong's deep-rooted imbalance of power between landlords and retailers.
63. We encourage the Government continues to look for practical ways to regulate the retail rental and related fees charged by the landlords, such as the management fee, promotion fee, and air-conditioning charges.

**V. Conclusion**

64. The retail industry is one of the hardest hit industries during the past three years. We hope that the recommendations deliberated above would help the Government to formulate focused measures to assist our industry amid prevailing hardships and to bring its transformation to a next level.
65. The Association is committed to work with the Government to re-energizing the Hong Kong economy and creating a more prosperous and sustainable future.

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