



**Hong Kong Retail Management Association  
Submission on 2023 Policy Address Consultation  
1 September 2023**

Under the leadership of the Government and the concerted efforts by various sectors in the society, Hong Kong managed to come out of the three-year pandemic doldrums in early-2023, heading towards a gradual and orderly recovery. The cross-border travels between the Mainland and Hong Kong completely resumed in February and the city was reconnected with the rest of the world. In order to seize the tremendous opportunities generated from economic recovery, the HKSAR Government and various sectors, including the retail, tourism and catering industries, have been working at full steam to launch different strategies and activities, in a bid to restore the economy to the pre-pandemic level as soon as possible.

However, Hong Kong's post-pandemic recovery has been slower than expected. This is mainly attributable to a host of negative factors, such as the slowdown in global economic growth, the persistent tensions in the geopolitical situation and the increase in interest rates and the pressure on asset prices. Adding to these are the weak local consumption and the fact that the number of inbound visitors, though growing, is not expected to record a substantial surge in the near future. Therefore, the Government and various sectors of the community must add driving force and new vigour to Hong Kong economy in order to ensure that Hong Kong can maintain its edge facing the fierce global competition in this post-pandemic era.

The Hong Kong Retail Management Association ("HKRMA"), as the representation of Hong Kong retail, is highly concerned about the various opportunities and challenges facing the industry in the post-pandemic era. We call on the Government to lead different sectors of the community in joining hands to raise the overall competitiveness of Hong Kong's economy and to attract more international retail brands to invest or re-invest in Hong Kong, with a view to ensuring the sustainable development of the retail industry and rebuilding Hong Kong as an "Experiential Shopping Paradise".

## **A. Current Challenges Facing Retail**

### **1. The Long Recovery Journey for Hong Kong Retail**

Despite the full border reopening between the Mainland and Hong Kong since the beginning of this year, the number of inbound visitors to Hong Kong has only returned to 60% to 70% of the pre-pandemic level so far and the visitors' consumption power is on a downward trend. According to a survey by HKRMA, nearly 70% of the responding companies indicated that their visitor-related business had recorded a single-digit to 50% drop, with many companies reporting a decrease of 30% to 50%. Besides, over half of the responding companies indicated that the overall spending amount by visitors in each transaction recorded a single-digit to 30% drop compared to that of 2018, with some even reporting a decrease of 50%, indicating a decline in the visitors' consumption power.

Meanwhile, the weak performance of local retail-related businesses, coupled with the growing trend of Hong Kong people travelling overseas and to the Mainland after the border reopening, have offset part of the visitor-driven revenue, resulting in just a fair growth in the overall performance of Hong Kong's retail businesses. Total retail sales in Hong Kong in the first half of 2023 amounted to HK\$205 billion, representing an increase of 20.7% compared with the same period of 2022. However, the increase was mainly attributable to the low base of comparison, and the sales value still fell short of nearly 20% when compared with the first half of 2018. As per HKRMA's previous prediction, despite the gradual improvement in retail performance, there is still a long way to go before full recovery could be achieved.

### **2. Operations and Investments Obstructed by High Operating Costs**

In the wake of the pandemic, retailers are facing persistently high operating costs, particularly on the rental and labour fronts. According to a survey conducted by HKRMA in May, nearly 65% of the responding companies indicated that their landlords had increased their rents, or

had expressed an intention to do so, with the increase rate ranging from 5 to 30%. Another 30% of the responding indicated that the landlords were observing the situation of visitor arrivals in Hong Kong to look for a chance to increase their rents.

The persistently high operating costs in Hong Kong post a major obstacle to the operation and investment of local and international brands in the city. Although there are still international brands investing in the Mainland and Hong Kong, HKRMA has recently learnt that some large-scale international brands have started to slow down their investments in Hong Kong and the Mainland because of the unfavourable economic situation. In addition, due to the high costs and the reduced number of Mainland visitors coming to Hong Kong for shopping, some first-tier international brands have directly set up shops in first-tier cities in the Mainland, instead of expanding into the Mainland via Hong Kong.

### **3. Diminishing Edge of Hong Kong Retail**

As a free trade port, Hong Kong's duty-free imports and exports are an inherent advantage of the industry, and have contributed to Hong Kong's reputation as a "Shopping Paradise" in the past. However, in recent years, certain provinces and cities in the Mainland have started to develop in this direction. For example, all local customs border checkpoints in Hainan Province will cease to operate to establish its "zero tariff" regime in 2025. With the Mainland's taxation relief and other concession policies, coupled with the depreciation of Renminbi, Hong Kong's edge in terms of commodity prices has been undermined considerably and some of the goods are even priced higher in Hong Kong than in the Mainland. In addition, the types of products available in the Mainland under international luxury brands of clothing, watches and jewellery have matched or even surpassed those in Hong Kong, significantly undermining Hong Kong's competitiveness in the domain of high quality consumer goods.

#### **4. Changes in Customer Spending Behaviour**

Mainland visitors nowadays no longer come to Hong Kong merely for shopping. In particular, the new generation of customers care more about the characteristics, creativity, quality of goods and services as well as the consumer experience. Indeed, given the scarcity of operating space in Hong Kong, coupled with manpower shortages, retailers used to allocate their resources mainly on addressing immediate difficulties, that was, striving for higher revenue to afford the high operating costs. Under these circumstances, they could hardly address the needs of the new-generation customers for creativity and freshness because of the relatively less resources and efforts they could afford for creative initiatives. This has resulted in the slow development of consumer experiences in Hong Kong. To catch up with the new trend, it is necessary to reduce retail's operating costs to allow more resources for creative sales initiatives and for enhancing customers' consumption experiences. It is only by doing this that Hong Kong retail's attractiveness for visitors could be enhanced while Hong Kong people would be encouraged to stay in Hong Kong for leisure spending.

#### **B. Suggestions for the Policy Address – How to Raise the Competitiveness of Hong Kong Retail**

Notwithstanding the new changes facing different sectors in the post-pandemic era, Hong Kong's unique strengths and attractiveness remain unchanged. These include favourable conditions for business operations such as high transparency, efficiency and agility as well as free economy. In addition, as a melting pot of Western and Eastern cultures, Hong Kong's rich historical, cultural and arts ambience can help attract Mainland and global visitors and give an impetus to international brands' investments in the city. Meanwhile, enjoying strong support of the Motherland and the huge Mainland consumer market, Hong Kong can serve as a gateway for investments in the Mainland for local retailers and international brands, especially new second-tier foreign brands, leading foreign businesses in setting foot and exploring business opportunities in the Mainland in the future.

HKRMA recognises the Government's efforts to develop Hong Kong's tourism under a diversified, high value-added and sustainable approach. We urge the Government to consider incorporating the following suggestions from the retail industry in this year's Policy Address, so as to create a favourable business environment for the sector, consolidate Hong Kong's long-established advantages and enhance the attractiveness of Hong Kong among international retailers for investments or reinvestments.

### **1. Reducing Operating Costs for Raising Retail's Competitiveness**

The high shop rents in Hong Kong have not only suppressed the room for survival of local retailers, but also significantly reduced the city's attractiveness among international brands for setting up of operations and investments. Although shop rents recorded a mid-double-digit drop during the pandemic as compared with the pre-pandemic peak level, they are still not competitive at all compared with those in neighbouring Southeast Asian regions or Mainland provinces and cities. Besides, the worsening manpower shortage problems have caused a double-digit increase in manpower costs as compared with the pre-pandemic period, which has offset the impact of the occasional drop in rents and limited the breathing space for retailers. This has resulted in the persistently high overall operating costs borne by retailers.

HKRMA is calling for the Government's support in solving the deep-rooted problem of persistently high rents as soon as possible. For example, incentives may be provided for landlords to encourage rent reductions, while subsidies may be provided for both landlords and tenants to facilitate their cooperation in organising sales and creative customer experience activities.

In view of the facts that the economic outlook is yet to be entirely certain while different retailers, especially SMEs, are still in a difficult time, HKRMA urges the Government to introduce short-term support measures for enterprises, such as profits tax concessions, rates

concessions, waiving of business registration fees, reductions in electricity, water and sewage charges, as well as subsidies for employers' MPF contributions, which will help to alleviate the operating pressure of retailers.

## **2. Supporting the Nurturing of Retail Talents to Solve Manpower Shortage Problems**

The retail industry has long been suffering from manpower shortages and the situation has further deteriorated after the pandemic. Regarding the recent enthusiastic discussion about the suggested launch of night markets and extension of mall hours, the industry is aware that their aim is to revive Hong Kong's night economy as soon as possible. However, in view of the acute manpower shortages, the industry cannot afford the suggested extension of opening hours at this stage.

According to HKRMA's recent survey, 90% of the responding companies were facing moderate or acute manpower shortage problems, falling short of 10-20% of manpower on average. The problem was the most acute regarding frontline staff. According to government figures, there were a total of 240,000 retail workers in September 2022. Compared with the pre-pandemic retail workforce comprising 270,000 workers, this figure represented a shortage of 30,000 workers in the retail industry.

In view of acute shortages of frontline staff, the industry is short of manpower to provide even the most basic services, not to mention deploying additional staff to enhance customer experience. The industry is worried that if this situation persists, the service quality and competitiveness of Hong Kong retail will keep deteriorating, thus undermining Hong Kong's image as a "Shopping Paradise".

### **Simplification of Enhanced Supplementary Labour Scheme**

Facing the acute manpower shortages, the retail industry welcomes the Government's move regarding the enhanced Supplementary Labour Scheme. In this regard, HKRMA urges the

Government to streamline the application and vetting procedures. HKRMA believes that it will take some time before the effectiveness of the Scheme could be realised. For it, we look forward to continuous communication with the Government to closely monitor the impact and changes in the labour market upon the Scheme's implementation. We also deem timely reviews and enhancements of the Scheme necessary, and hope that these efforts could concretely help alleviate the manpower shortage problems facing the retailers.

### **Nurturing of New Blood for Retail under a Comprehensive Approach**

In the long run, we hope to attract more local young people to join Hong Kong retail through manpower training, so as to raise the competitiveness of the industry. With this in mind, HKRMA has long been committed to enabling young people to get a taste of retail through universities, vocational and tertiary education institutions, and secondary schools, in order to attract new blood to the industry.

At the university level, HKRMA successfully drove the addition of the Strategic Retail Management & Innovation Concentration in Hong Kong Baptist University's Bachelor of Business Administration (Honours) programme last year. While the concentration programme has achieved initial success, strong support from the Government is needed to encourage more mainstream universities or institutions to offer retail programmes by means of education policies and re-allocation of resources, so as to nurture and reserve retail management professionals for the sustainable development of Hong Kong retail as a key economic pillar in Hong Kong.

Chief Executive Mr. John Lee's recognition for the development of vocational and professional education and training ("VPET") in last year's Policy Address is highly appreciated. With this respect, the industry hopes to strengthen co-operation with the Government in promoting

VPET in retail. Cooperation efforts may include stepping up the promotion of the Qualifications Framework and incorporating retail-related content and teaching materials into the Applied Learning programmes of secondary schools. For example, retail elements could be incorporated into the subjects of Citizenship, Economics and Society as well as Fundamentals of Business Studies, while retail-related courses should be re-adopted as an Applied Learning elective. Besides, these programmes should be articulated with VPET and specialised programmes at universities, so as to provide young people aspiring to pursue their career in the retail industry with clear, articulatable and systematic professional training to enhance the competitiveness of Hong Kong retail in the employment market.

To tie in with Hong Kong's overall economic development in the future, HKRMA suggests that the Government should formulate a comprehensive and forward-looking manpower plan, which includes nurturing professionals for the sustainable development of the retail industry, subsidising the industry in digital transformation, and supporting the industry to rebuild its image as a professional, innovative and vibrant sector to attract young new blood for driving Hong Kong's development.

### **3. Incorporating the Retail Industry into Hong Kong's Digital Technology Development Blueprint**

The electronic consumption voucher scheme run by the Government in recent years has greatly enhanced the popularity of digital payment in Hong Kong and facilitated the adoption of digital technology applications among retailers as the foundation of omnichannel business developments.

The retail industry has a close tie with people's lives and it is an important industry serving visitors. Therefore, HKRMA hopes that the Government will incorporate the retail industry into the blueprint of Hong Kong's digital technology development to allow more precise



adoption of digital technology among the retailers to make people's lives more convenient and to provide enhanced travel and shopping experiences for visitors.

At the same time, the Government should consider speeding up the digitisation in terms of payment and transport services, so as to develop Hong Kong into a smart city and enhance Hong Kong's attractiveness among Mainland and international visitors.

HKRMA is pleased to see the Government's efforts in promoting and supporting innovative technology in recent years, including the provision of the technology vouchers or related subsidies. The industry hopes that related authorities could further streamline the application procedure and requirements, shorten the vetting and approval time and increase the subsidy amount, so as to benefit more enterprises, especially SMEs with limited resources and technology.

#### **4. Rebuilding Hong Kong's Image as an "Experiential Shopping Paradise"**

Hong Kong's edge regarding commodity prices over the Mainland is diminishing and knowing this, Hong Kong retail must establish a sustainable positioning. As visitors nowadays are looking for in-depth cultural experiences, HKRMA proposes the rebuilding of Hong Kong's image as an "Experiential Shopping Paradise". Hong Kong has a strong foundation of quality services and a strong East-meets-West culture. Besides, many local retail brands are unique and have a long history, showcasing the progress of Hong Kong's economic developments and landscape. These retail brands are of certain attractiveness to visitors. Proceeding on this track, the Government's leadership, support and facilitation for cross-sectoral co-operation are needed for the overall development of auxiliary facilities, so that quality historical, cultural and arts experiences could be provided for visitors.

Indeed, there have been a number of new arts and cultural attractions in Hong Kong in recent years, such as M+ and the Hong Kong Palace Museum. The Government has also been

proactively organising a number of mega events to attract visitors. HKRMA hopes that the Government could incorporate related industries such as the retail, catering and tourism sectors into its overall plan for promoting Hong Kong’s tourist destinations and mega events in future, so as to enhance the synergy and provide the visitors with all-encompassing experiences comprising eating, playing and shopping elements unique to Hong Kong.

This year, HKRMA debuted our large-scale “Hong Kong Shopping Festival”, to synergise with the Government’s “Happy Hong Kong” and “Hello Hong Kong” campaigns. The Shopping Festival secured strong support from around 150 retail and catering brands, with a total of 6,000 outlets joining hands to offer consumption privileges worth over \$1.5 billion for both locals and visitors. The event has demonstrated the power of a united retail industry.

## **5. Strengthening Hong Kong’s Role as a Gateway for International Brands to Set Foot in the Mainland Market**

Although many first-tier international brands have already set foot in Hong Kong or the Mainland, it is believed that many second-tier international brands are still exploring the chance of entering the Hong Kong market or even expanding into the Mainland via Hong Kong.

Given the similarities in language and lifestyle between Hong Kong and other cities in the Greater Bay Area, the industry hopes that the Government could proactively strive for more preferential policies by the Central Government to facilitate the development of Hong Kong retailers in the Mainland market, including the Greater Bay Area and Hainan Province, which is set to become a free trade port in 2025. If Hong Kong retailers can gain a foothold in the Mainland market, more foreign brands, especially second-tier international brands that have limited understanding about the Mainland market, will see Hong Kong as a gateway to expand into the Mainland market, thus enhancing Hong Kong’s edge and attractiveness.

### **C. Conclusion**

Although the three-year pandemic has caused significant changes in the overall economy and different industries in Hong Kong, HKRMA is confident that under the leadership and support of the Government, synergies will be created through united cross-industry cooperation to leverage the strengths of each and every sector in raising our overall competitiveness and consolidating Hong Kong's position as an international metropolis.

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