

**Hong Kong Retail Management Association  
Submission on  
2024 Policy Address Consultation**

**21 August 2024**

**1 Introduction**

- 1.1 The Hong Kong Retail Management Association (HKRMA) welcomes and appreciates the Central People's Government (CPG) and the Hong Kong Special Administrative Region Government (HKSARG)'s tremendous support in launching recent initiatives, including but not limited to expanding the Individual Visit Scheme to 59 Mainland cities, raising duty-free allowance for Mainland resident visitors and promoting a mega event economy, to bolster Hong Kong's economy. While it may take some time to see the benefits of the various initiatives, the retail industry is facing unprecedented headwinds which have dampened near-term market prospects and jeopardized the survival of some retailers.
- 1.2 Hong Kong's retail industry is undergoing a period of significant transformation amidst various post-pandemic challenges. Following three years of pandemic-driven turbulence and the subsequent retail slowdown since the second half of 2023, as evidenced by year-on-year consecutive declines in total retail sales values from March to June this year (at a rate of -7.0%, -14.7%, -11.5% and -9.7% respectively), the retail market is still subject to a combination of internal and external factors, such as the surge in Hong Kong residents' northbound and overseas travel, the slower-than-expected return of inbound visitors, changes in tourists' preferences and behaviours, disproportionately high operating costs, the imminent threat of capital chain rupture, the strong local currency, elevated geopolitical tensions and uncertainties in the global economic outlook. We are most concerned that a possible wave of business closures and worsening unemployment rate might follow in the coming months if no positive factors merge in the retail market, and thereby generating a ripple effect across the city's overall economy.
- 1.3 The retailers have stood united to find ways to navigate the changing retail landscape. HKRMA, as the leading organization representing retail in Hong



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Kong, puts forward a series of strategic recommendations in this paper to address the current challenges as well as securing a robust and sustainable development of the retail industry. We also call on the HKSARG to lead different sectors of society in raising the competitiveness of Hong Kong overall. With continued support from the HKSARG and concerted efforts across industries, the medium- to long-term retail outlook remains cautiously optimistic as the city's economic recovery gains momentum.

## **2 Reinigorating Inbound Travel and Consumer Spending**

### **2.1 Hong Kong as a Vibrant Metropolis with Frequent and Attractive Events both Big and Small**

Hong Kong is a compact and globally connected city characterized by its cosmopolitan and vibrant lifestyle buzzing with excitement and activities. The city's calendar of year-round events for 2024 has reflected the HKSARG's recent efforts in attracting more visitors and generating business opportunities for tourism, retail, catering and related sectors. We support the promotion of mega events economy and hope that the HKSARG would **continue to expand, diversify and cross-leverage the array of both big and small events**, covering finance and business, exhibitions and conventions, culture and arts, innovation and technology, sports, fashion, festivals, celebrations and others, beyond 2024 to draw different types of visitors from the Mainland and the rest of the globe, driving economic gains for related sectors such as retail and catering, and reinforcing Hong Kong's status as an international city. It would be equally important for the HKSARG to **strengthen event coordination and promotion efforts**, for example, to allow ample time prior to the launch of events for retailers to make plans for preparing relevant products and marketing in order to maximize sales out of the traffic to be brought by nearby events.

### **2.2 Consumption Vouchers for Visitors**

To attract visitors to the city and boost shopping sentiment, we suggest that the HKSARG could ride on the success of the "Hong Kong Goodies" campaign last year, which distributed around two million visitor consumption vouchers of value over HKD100 each, and **consider exploring large-scale, citywide travel**



**incentives with more comprehensive coverage of retailers and higher worth of vouchers to encourage spending of all visitors or targeted shoppers.** As an example, a travel voucher scheme implemented in Taiwan starting from May 2023 until June 2025 offers vouchers worth about HKD1,200 (TWD5,000) each to incoming independent travelers either in the form of a pre-paid card which can be used in a wide variety of outlets or a set of accommodation vouchers through lucky draw. Such initiatives would bring potential benefits to a broad range of sectors such as retail and catering.

## 2.3 Greater Bay Area and other Mainland Cities

Despite a surge in Hong Kong's northbound travel since border reopening in early 2023, inbound visitors from the Mainland did not return as fast as expected and their spending in Hong Kong dropped considerably compared to pre-pandemic levels. To promote tourism and travel convenience among the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and other Mainland cities, the following measures are recommended, in addition to the abovementioned travel voucher scheme:

- With the completion of three important cross-boundary infrastructure projects, namely the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Zhuhai-Macao Bridge (HZMB) and the Heung Yuen Wai Boundary Control Point, a “one-hour living circle” is taking shape with enhanced cross-boundary connectivity between Hong Kong and other cities in the GBA. We urge for the **early implementation of measures that can further facilitate easy and frequent travel to and from Hong Kong such as the “Southbound Travel for Guangdong Vehicles”**. Moreover, we suggest that **the arrangements under the first phase of “Southbound Travel for Guangdong Vehicles” could be made more visitor-friendly by allowing Mainland and Macao travellers to drive directly to the shopping areas already developed or to be developed within Lantau Island, such as Citygate Outlets and 11 SKIES respectively, instead of restricting their vehicles to the designated parking facilities at HZMB only**. In order to minimize the impact on the local traffic, a quota system can be considered to regulate the southbound vehicles entering Lantau Island, so as to ensure that parking facilities are adequate for both Hong Kong

residents and visitors in the area. We also urge the HKSARG to **facilitate the provision of additional convenient and budget-friendly options of transportation**, with a view to drawing foot traffic to Hong Kong from nearby GBA and other Mainland cities.

- Due to residents' continuous concern over Hong Kong's carrying capacity to receive visitors, the HKSARG implemented the replacement of the "multiple-entry" Individual Visit Endorsements for Shenzhen residents by the "one trip per week" Individual Visit Endorsements in 2015. Given the city's overcapacity to receive visitors in the post-pandemic period, we suggest that the HKSARG could strengthen communication with the relevant Mainland authorities about the way forward to **reinstate the measure of "multiple-entry" Individual Visit Endorsements for Shenzhen residents, and extend the relevant policies to other cities in the GBA.**
- These measures, coupled with the recently raised duty-free allowance for Mainland resident visitors, would **provide greater convenience and incentive for frequent visitors to Hong Kong and entice more Mainland shoppers to travel south of the border to buy what they desire**, further promoting the "one-hour living circle" in the GBA.
- The CPG's recent expansion of the Individual Visit Scheme (IVS) to cover 59 Mainland cities, including all provincial capitals in the country, enables Hong Kong to tap into new sources of visitors from inland regions. While we welcome the inclusion of more new cities in the IVS, we would appreciate additional efforts from the HKSARG to **step up promotional activities in these cities, as well as strengthening air connections and high-speed sleeper train service with them** to attract more visits particularly by high value-added overnight visitors to Hong Kong.

#### 2.4 Overseas Countries

Against the backdrop of a strong Hong Kong dollar, along with changed spending patterns among tourists, outbound travel rebounded at a faster pace than inbound, protracting the recovery of the retail market in the post-pandemic era. Considering the slow return of North American and European tourists, we urge



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the HKSARG to **build stronger links with emerging economies in Southeast Asia and the Middle East under the country's Belt and Road Initiative as well as enhancing its hospitality to welcome Muslim travellers.** Efficient and effective promotions targeting these short-haul markets, for example, by inviting travel trade, the media and KOLs on social media platforms, are critical in promoting Hong Kong as a preferred destination of choice. Stronger efforts are required to establish Hong Kong as a Halal-friendly tourist destination with a multitude of food, entertainment, shopping options for Muslim visitors.

### **3 Repositioning Hong Kong's Retail Industry**

3.1 Hong Kong has been famed as a shopping paradise for its great variety of products with good quality at competitive prices for visitors to choose from. Nevertheless, in view of the changed circumstances brought by the implementation of the Individual Visit Scheme (IVS) since 2003 and the impact of the pandemic, **Hong Kong is at a critical juncture to redefine the positioning of its retail industry.** Since the introduction of IVS, the city has seen a strong inflow of Mainland visitors to generate promising retail sales until the onset of the pandemic but simultaneously driving up the retail property rents, retail labour costs, and thus the operating costs for the retail industry. The pricing of Hong Kong products has become less competitive than before, offsetting its advantage of tax-free consumption. Meanwhile, a richer variety of products has become available in the Mainland than before, weakening Mainland tourists' desire to shop in Hong Kong. Their preference shift from a sole focus on shopping towards a greater emphasis on in-depth cultural tour and social media-driven activities has further exacerbated the situation. **Given the diminishing competitiveness in product pricing and variety, Hong Kong has an urgent need to redefine the positioning and value of its retail industry.**

3.2 To support Hong Kong in becoming an "Experiential Shopping Paradise", we have come up with some interesting ideas, such as:

- The continual introduction of new brands, local or from all over the world, which are not accessible in China or Asia into Hong Kong would attract more traffic and demands from Mainland or Asian visitors who look for a fresh and unique variety of products which cannot be found easily in their hometowns.



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- Homegrown brands with solid historical and cultural background can step up promotion to bring out the story of Hong Kong, providing customers with shopping and travelling experience filled with Hong Kong characteristics.
- Hong Kong's small size, population density and convenient access to physical stores provide a good basis for retailers to develop seamless online-to-offline shopping experience for customers. More advanced technology and financial support could help retailers optimize retail processes, analyze customer preferences and improve customer experience, expediting the industry's transformation for new retail developments.

All these ideas cannot be realized without influential leadership and concerted efforts that can transform the retail industry as a whole. We urge the HKSARG to **lead the repositioning, turnaround and development of the retail industry by establishing a new body (for example, an advisory council comprising a diverse group of industry experts and stakeholders) under the Commerce and Economic Development Bureau (CEDB) to govern the relevant initiatives, while HKRMA could provide all kinds of support required.** The Financial Secretary, Mr. Paul Chan, stated in his blog on 19 May 2024 that the recovery is still uneven among different industries, with sectors such as retail and catering still striving to adapt to the challenges. We seek immediate and necessary assistance from the HKSARG to help the retail sector tide over the current difficulties amid economic transformation.

3.3 Retail is a highly complex and competitive business involving diverse influencing factors and multiple stakeholders across different sectors of society. We expect that the new body led by the HKSARG can better integrate the resources of relevant industries and stakeholders and strengthen the synergy among them in order to accelerate the recovery of the retail market and foster the industry's healthy development.

#### **4 Reducing Retail Operating Costs for Raising Hong Kong's Competitiveness**

4.1 The disproportionately high operating cost continues to be a major challenge to running retail business. Despite some adjustments as compared to the pre-





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pandemic level, the rental expenses are still disproportionately high based on the current sales performance. In other words, high rent still takes up a significant portion of retailers' overall operating costs, and labour costs apparently have little room for downward adjustments given the ever-rising minimum wage rate, the abolition of MPF offsetting arrangement, chronic manpower shortage and high staff turnover rates facing the industry.

- 4.2 According to our survey conducted this July, 50% of the surveyed members reported a decline in their profit margin. Nevertheless, 75% of them saw an upward trend in both the rental to sales ratio and the staff cost to sales ratio during the same period, reflecting the enormous pressures on retailers from high rental and labour costs. 70% of the surveyed members experienced a drop or even turned negative in the net profit to sales ratio in the first half of 2024 compared to the same period last year, indicating drastic business downturn in the retail industry with many retailers operating their business at a loss.
- 4.3 To rectify the structural distortion which greatly affects the survival and competitiveness of Hong Kong retail, we call on the HKSARG to **help the industry control the operating costs to an effective and competitive level**. We urge the HKSARG to **implement measures that could lead all commercial landlords to face the retail business devastation and transformation together without delay, such that some breathing space for retailers could be allowed immediately to avoid big wave of business closures**. It is worth noting that major developers commonly point to the decisions or actions of the HKSARG when being asked to take social responsibilities during crisis times.
- 4.4 We also urge the government to **reconsider the timing for the execution of various new policies** which incur additional operating costs during this challenging time of our industry. Moreover, we hope that the government can **consider the reduction and/or waiving of the rates, rents and related public charges in the coming year** to temporarily alleviate some of the operating cost pressures facing the industry. Other measures which could help our industry regain reasonable ratios would be highly appreciated.

## 5 Replenishing and Retraining Retail Workforce

### 5.1 Enhanced Supplementary Labour Scheme (ESLS)

We welcome the HKSARG's efforts to alleviate the chronic manpower shortage in the retail industry through the two-year Enhanced Supplementary Labour Scheme (ESLS) implemented since September 2023 as a near-term measure. **An interim review of the ESLS one year after its implementation would be recommended** to enhance the practicality and effectiveness of the scheme to cater for the needs of the industry, and to evaluate the feasibility to regularize the arrangement of accepting labour importation applications for the 26 job categories normally excluded from the Supplementary Labour Scheme.

### 5.2 Inclusion of Retail into Vocational Professionals Admission Scheme (VPAS)

While the ESLS addresses the manpower shortage for frontline staff, a shortfall of professional and digital talents across multiple retail office functions and frontline supervisory level remains a challenge which hinders the healthy development of the retail industry during this critical period of significant transformation. **The retail sector has a genuine and urgent need for new blood with digital and innovative expertise across all levels** in response to emerging technologies and market demands. We therefore urge the Government to **allow the inclusion of the retail industry in the VPAS for the 2025/26 academic year** as an important step to expand the retail talent pool in Hong Kong. Under this scheme, non-local students enrolled in designated full-time VTC Higher Diploma programmes are allowed to apply for employment in Hong Kong upon graduation. These students who are equipped with adequate and relevant retail digital skills and familiar with Hong Kong and Mainland/foreign cultures, languages and use of Chinese social media platforms are suitable future talents to bridge the manpower gap for digital, office and frontline supervisory positions in our industry and fully support the government initiatives in promoting mega events and pursuing a vibrant economy. In this connection, we seek the HKSARG's support for the inclusion of the retail industry in the VPAS starting from the 2025/26 academic year onwards.

### 5.3 Retraining Frontline Workforce

To echo the Hospitality Campaign launched in June this year, we call on the





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HKSARG to **provide financial support for projects and activities aimed at retraining the frontline workforce in the retail industry to enhance language proficiency (eg. biliterate and trilingual), digital literacy (eg. social media) and customer service.** These are key vocational skills in need for the frontline staff to adapt to changing consumer trends and build Hong Kong as an “Experiential Shopping Paradise”.

## **6 Conclusion**

We look forward to having the HKSARG’s full support in our recommendations outlined above around the four strategic areas including “Reinvigorating Inbound Travel and Consumer Spending”, “Repositioning Hong Kong’s Retail Industry”, “Reducing Retail Operating Costs for Raising Hong Kong’s Competitiveness”, and “Replenishing and Retraining Retail Workforce”. Under the leadership of the HKSARG and more joint efforts from various sectors, we hope to witness a steady recovery in the retail market and enhanced overall competitiveness in the near future, hence bringing economic and social benefits to Hong Kong at large.

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