

**Hong Kong Retail Management Association
Submission on
2025-26 Budget Consultation**

14 January 2025

1. Introduction

- 1.1 The Hong Kong Retail Management Association (“HKRMA”) welcomes the Central People's Government (CPG)'s recent measures benefitting Hong Kong and the Hong Kong Special Administrative Region Government (HKSARG)'s various initiatives to boost market sentiment, which may take some time to fully realize their benefits.
- 1.2 Hong Kong’s retail industry is undergoing significant transformation, driven by a strong local currency affecting tourists’ spending, a shift in Mainland tourists' preferences toward cultural experiences with reduced spending, and a rise in northbound and overseas travel among Hong Kong residents. Additionally, the industry faces challenges such as underperformance in the local equity and real estate markets, disproportionately high operating costs, imminent risks of capital chain disruption, global economic uncertainties, geopolitical tensions, and escalated trade conflicts. As a result, the total retail sales value has witnessed a 7.1% decline from January to November in 2024 compared to the previous year.
- 1.3 To counteract these circumstances, retailers have been reassessing their business scales and undergoing consolidation. Meanwhile, they are also making substantial efforts to adapt to evolving market conditions and consumer needs through product innovation, increased promotions, enhanced digital capabilities, and improved shopping experiences. These proactive initiatives reflect retailers’ commitment to navigating impending challenges and ensuring long-term sustainability in a progressively competitive environment.
- 1.4 With concerted efforts from the HKSARG and across industries, HKRMA remains cautiously optimistic about the market outlook as the city’s economy continues to maintain its growth momentum amid the increasingly challenging external and internal environments facing the retail sector.



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- 1.5 HKRMA, as the leading organization representing retail in Hong Kong, presented a submission for the 2024 Policy Address to the Chief Executive, outlining a comprehensive approach to address the current challenges, along with specific recommendations to secure a robust and sustainable development of the retail industry. We would like to take this opportunity to reiterate and elaborate on the key areas requiring the HKSARG's fiscal and policy support in this submission.

2. Reinigorating Inbound Travel and Consumer Spending

Greater Bay Area (GBA) and other Mainland Cities

- 2.1 The recent resumption and expansion of multiple-entry Individual Visit Scheme (IVS) for Shenzhen, the extension of the IVS to 59 Mainland cities and the increase of duty-free allowance for Mainland resident visitors have provided **greater convenience and incentives for visitors from the GBA, provincial capitals and other cities in the Mainland travelling to Hong Kong**. In this connection, the retail sector has been diligently exploring ways to translate foot traffic into economic benefits given tourists' changing spending patterns.
- 2.2 To further facilitate the movement of people to and from Hong Kong, we advocate for the **expedited implementation of the expansion of pilot cities for the "one trip per week" Individual Visit Endorsements within the GBA**. The enhanced cross-boundary infrastructural connectivity, combined with Hong Kong's improved capacity to receive visitors, enables the city to effectively accommodate the increasing foot traffic from inbound travelers, thereby invigorating tourism-related industries such as retail and catering.
- 2.3 We urge the HKSARG for the early implementation of the "Southbound Travel for Guangdong Vehicles" in a less restrictive approach to facilitate southbound travel by Mainland and Macau motorists. Particularly, we suggest **allowing Mainland and Macau travellers to drive directly to the shopping areas already developed or to be developed within Lantau Island**, such as Citygate Outlets and 11 SKIES, instead of limiting their vehicles to the designated parking



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facilities at Hong Kong-Zhuhai-Macao Bridge. A quota system can be considered to minimize the impact on the local traffic.

- 2.4 With the recent inclusion of additional Mainland cities in the IVS, we request the HKSARG's attention to **developing more convenient and budget-friendly transportation options** to draw foot traffic to Hong Kong from these new visitor sources in inland regions. It is important for the HKSARG to liaise with Mainland counterparts to **boost flight capacity and bolster high-speed sleeper train service**, especially for high-value overnight visitors. **Intensified promotional efforts** should also be undertaken to showcase Hong Kong's unique attractions and experiences.
- 2.5 With the Government **enhancing promotion and coordination of large and small events to bolster a vibrant mega-event economy**, the Association hopes to see an increase in visitors from the GBA and Mainland who will contribute to greater spending in Hong Kong.
- 2.6 To accommodate the anticipated increase in visitors and enhance their experience, it is crucial for the HKSARG **to step up efforts in promoting a culture of hospitality throughout the city**. For example, we suggest expanding the "Hong Kong Pals" Volunteer Programme under the Hong Kong Tourism Board by recruiting more volunteers, especially young individuals, to serve as hospitality ambassadors, and increasing service locations to support the vision of "tourism is everywhere in Hong Kong". Moreover, it is necessary to implement timely and creative solutions to improve taxi service citywide to enhance high-end tourism.

Overseas Countries

- 2.7 In light of the prevailing geopolitical tensions and trade conflicts, particularly the uncertainties associated with the new U.S. administration, the return of long-haul travellers from the United States and Europe has been notably gradual. We acknowledge the HKSARG's strategy to establish a more diversified portfolio of visitor source markets. **More effective leadership from the Government** is essential to unite sectors of the community in **creating a hospitable environment for visitors** from emerging economies in the Middle East and



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ASEAN. Moreover, it is crucial to **intensify targeted promotional activities** through both traditional and social media marketing to attract these visitors to experience firsthand the distinctive charm and vibrancy of Hong Kong as an international metropolis.

3. Reinforcing Digital Development in New Retail

- 3.1 According to the “Hong Kong Enterprise Digitalization Index Survey” conducted by the Hong Kong Productivity Council and supported by Microsoft Hong Kong in October 2023, the retail industry had the lowest digitalization index at 31.3 among the six surveyed industries, compared to the overall index of 35.9.
- 3.2 Retailers are actively adapting to an increasingly online-to-offline(O2O)-driven retail ecosystem in Hong Kong, alongside the rising demand for cross-boundary e-commerce. HKRMA welcomes the funding and business matching support provided by Cyberport's Digital Transformation Support Pilot Programme (DTSP) to small and medium enterprises (SMEs) in the retail industry, targeting three solution categories namely Digital Payment Solutions and Shopfront Sales, Online Promotion, and Customer Management and Loyalty Solutions. Nevertheless, we urge the HKSARG to **allocate more resources to promoting and marketing the DTSP services** and to **streamline its operational workflow in order to shorten the processing and vetting time for SME applications**.
- 3.3 Apart from the three solution categories mentioned above, additional government support is required to help retailers advance their digital methodologies in retail management. HKRMA hopes that the HKSARG can **allocate further resources to assist retailers in adopting more advanced technologies, such as leveraging big data analysis to enhance customer experience and optimize efficiencies**.
- 3.4 In view of the significant impact of **e-HKD (e-Hong Kong dollar) development and e-CNY (digital renminbi) cross-boundary payments** on the retail sector, we encourage the HKSARG to engage with HKRMA as the representative voice of Hong Kong retail, as deemed appropriate.



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4. Repositioning Hong Kong's Retail Industry

4.1 Hong Kong, recognized as a shopping paradise for its extensive selection of high-quality products at competitive prices, now **stands at a critical juncture in redefining the positioning of its retail industry**. In light of the declining competitiveness in product pricing and variety, along with a significant shift in tourists' spending preferences and anticipated increased competition from neighboring Shenzhen and the Hainan Free Trade Port, it is imperative for Hong Kong to undertake a comprehensive reassessment of the value proposition of its retail sector to move forward.

4.2 It is equally important for **Hong Kong to reinforce its status as an "Experiential Shopping Paradise"**, for example, by enhancing physical shopping experiences, creating a seamless O2O journey, and promoting Hong Kong brands.

4.3 Strong government leadership is essential for the repositioning, turnaround and development of the retail industry. We recommend that the HKSARG **establish an advisory council under the Commerce and Economic Development Bureau (CEDB) to govern relevant initiatives**. Comprising diverse industry experts and stakeholders, this council, led by the HKSARG, is expected to better integrate resources and strengthen collaboration among various industries and stakeholders, thereby accelerating the recovery and sustainable growth of the retail market.

4.4 The Association appreciates the invitation from the CEDB to attend the meeting on 3 January 2025, regarding the promotion of the silver economy. We encourage the HKSARG to **incorporate the retail sector's perspectives into its various development plans**, including initiatives related to the Northern Metropolis, the harbourfront promenade, and the low-altitude economy.

5. Reducing Retail Operating Costs for Raising Hong Kong's Competitiveness

5.1 Operating costs continue to be a significant challenge for retail businesses, causing enormous pressures on retailers. In recent months, it has been observed that the rent levels for renewed contracts have been adjusted to align more closely



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with market conditions, although they are still considered high. On the other hand, the rents for existing leases offer little room for negotiation and **remain disproportionately high** compared to current sales performance, constituting a substantial portion of overall costs.

- 5.2 Additionally, **high labour costs offer little flexibility for reduction**, primarily due to rising minimum wage requirements, the abolition of the MPF offsetting arrangement, and persistent issues such as workforce shortages and high turnover rates. In light of sluggish retail performance, retailers are compelled to limit staff employment due to unaffordable labour costs, rather than enhancing service quality with additional staff.
- 5.3 In July 2024, HKRMA formally issued a request to over 20 major mall landlords in Hong Kong, requesting them to provide immediate rental relief to retail and catering tenants experiencing a year-on-year decline in sales performance. While these landlords acknowledged the challenges facing the retail sector, they refrained from committing to any rental concessions. HKRMA calls for the HKSARG to **assist retailers facing financial difficulties**, particularly in terms of rent and labour, **to navigate this challenging time**.
- 5.4 Furthermore, we urge the HKSARG to **reassess the timing of new policies** that impose additional operating costs on the retail sector, such as the requirement for retailers to provide take-back and rebate services under the Producer Responsibility Scheme on Plastic Beverage Containers and Beverage Cartons. We also request the **reduction or waiver of rates, rents, and related public charges** in the coming year to alleviate financial pressures on businesses.
- 5.5 In addition to these operating costs, retailers face **significant compliance costs associated with the importation requirements for various goods**, such as electrical appliances. Coupled with **unregulated importation from overseas and Mainland e-commerce platforms**, this situation undermines the competitiveness of Hong Kong's retail sector. We suggest that the HKSARG earnestly address this issue to prevent further erosion of our market competitiveness. Any additional measures that assist the sector in achieving more sustainable cost ratios would be highly appreciated.



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6. Replenishing and Retraining Retail Workforce

6.1 Echoing the HKSARG's commitment to developing Hong Kong into an international hub for post-secondary education, we recognize the potential to **establish Hong Kong as a regional hub for retail management education**, leveraging the sophistication of its retail industry and exemplary talent management.

6.2 In this regard, we urge the Government to incorporate retail management education into its development blueprint and render policy support through practical measures. We advocate for the **inclusion of the retail industry in vocational and professional education and training (VPET)** by strengthening the progression pathway from secondary schools to tertiary institutions, for example, through:

- Allowing the **re-entry of an Applied Learning (ApL) course for retail in secondary schools** to pave ways for students' articulation to relevant retail programmes at the tertiary level;
- Facilitating **more tertiary education providers to offer retail management as a conventional or applied degree programme**, both in Hong Kong and at their Mainland branches, in addition to the current collaboration between HKRMA and Hong Kong Metropolitan University (HKMU) and Hong Kong Baptist University (HKBU) in retail-specific courses; and
- Including **Vocational Training Council's higher diploma programme in retail within the Vocational Professionals Admission Scheme (VPAS)**.

6.3 We also call for the HKSARG's efforts in **launching educational programmes aimed at cultivating young talents with digital and innovative skills** that are increasingly in demand across various retail office functions and frontline supervisory roles.

6.4 In consideration of the expanding mega-event economy and the concurrent shortage of young talent in the retail industry, we recommend that the HKSARG



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allocate funding to enhance the sector’s public image to attract new blood. Specifically, it is imperative to introduce secondary education students to the dynamic and diverse career opportunities available in retail. Furthermore, government support is essential for strengthening initiatives aimed at equipping frontline retail staff with improved language proficiency, digital literacy and customer service skills.

- 6.5 **An early review of the two-year Enhanced Supplementary Labour Scheme (ESLS)**, implemented in September 2023, is crucial for enhancing the scheme’s practicality and effectiveness in addressing the needs of the retail industry. We advocate for the **continued acceptance of labour importation applications for the retail sector** after the conclusion of this ESLS in September 2025.

7. Conclusion

- 7.1 At this pivotal time of transformation, HKRMA seeks the full support of the HKSARG for the recommendations outlined in this submission around five key areas, including “Reinvigorating Inbound Travel and Consumer Spending”, “Reinforcing Digital Development in New Retail”, “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 with strengthened collaboration across various sectors, we envision that Hong Kong’s retail sector will leverage its unique strengths to enhance overall competitiveness, paving the way for significant economic and social benefits for the city.

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