

2014 Policy Address and 2014-2015 Budget Consultation

Submission by

Hong Kong Retail Management Association

(30 December 2013)

The Association would like to outline some recommendations in regard to the Chief Executive's 2014 Policy Address and the Financial Secretary's 2014-2015 Budget in the following deliberations.

(A) An Overarching Vision

1. Hong Kong is at a crossroad with acute challenges and heightened competitions on all fronts. It calls for the Government to commit itself for a long term vision on Hong Kong and chart out a clear roadmap for future development. Only with an overarching vision endorsed by the community, the Government's policies would play its role properly and be effective when implemented.

(B) Hong Kong's Competitiveness

2. Hong Kong is losing its competitiveness and attractiveness as a business hub. It is paramount for the Government to uphold Hong Kong's unique advantages and attributes, particularly the rule of law, free competition, free flow of information, and a business-friendly infrastructure conducive to economic efficiency and investment.
3. The Government should not lose grip on the needs of the business sector, which is the anchor of the economy. It should make decisive measures to improve some critical areas such as easing of bureaucracy, lowering compliance cost, improving air quality and the environment, and providing incentives to encourage investment.
4. Hong Kong's international status as a shopping paradise is our renowned competitiveness. The Government should lend long-term policy support to develop the retail industry, especially in manpower, retail space, and tourist reception capacity.

5. We support that as the economy prospers, the disadvantaged and the socially deprived segments of the population should be given due care and assistance. However, the Government should be mindful not lending its social policy towards a welfare society to an extent that it erodes the unique admirable character of Hong Kong people of being hardworking and self-reliance.
6. Cost of doing business in Hong Kong is not inexpensive, which regrettably is on the rise rapidly and exerts tremendous pressure to business sectors including retailers. Apart from the escalating rental prices, high wage levels, there are other cost elements that further exacerbate the burdens of retailers, namely, the credit card payments, and high compliance cost.

High Interchange Fee on Credit Cards and Transaction Fee on Octopus Payment

7. At present, international credit card companies are imposing higher interchange fees on banks in Hong Kong. As a result, retailers have to pay credit card transaction fee mostly in a range of 1.5% to 2%, which is about 1.5% higher than those in developed economies such as the US, the EU, and Australia. SME retailers are paying an even higher fee at more than 2% in general.
8. Octopus, another popular mode of payment in Hong Kong, is charging retailers at around 1.5%, which is not any lower than that of the international credit card companies. And it is worrisome that the Octopus charges have been on the rise in recent years.
9. The international market is noticeably moving towards greater transparency and fairness in regard to credit card payments. For example, the European Commission proposed in summer of 2013 to cap excessive fees charged by banks for processing card payments.
10. As the Competition Law is now in place in Hong Kong, we urge the Government to take the lead to review the respective mechanisms behind the current fixing of the interchange fees, the credit card transaction fees, as well as the Octopus charges, which might perceive as some form of anti-competition conduct.

High Compliance Cost due to Excessive Regulatory Measures

11. The retail industry is now facing a much more restrictive and stringent operating environment in the face of an increasing number of legislations and regulatory measures imposed in recent years which are either affecting the overall business community or specifically the retail industry. We would like to highlight the followings to show its implications to retailers.

Standard Working Hours (SWH)

12. We support work-life balance, and we maintain that a full picture of different industries' working hours should be evaluated before taking any further steps on SWH.

13. We believe that legislating SWH is not the best or only way to achieve a better work-life balance for employees. It is impractical to impose stringent requirements on working hours while the root cause of long working hours is largely attributable to the long-standing manpower shortage facing most industries.

14. The Government should consider relaxing the importation of labour for certain critical sectors including the retail industry.

Cigarette duty

15. The significant cigarette duty increases in 2009 and 2011 have each caused about a 20% decline in the total sales volume of duty paid cigarettes, but the smoking incidence of the Hong Kong population has remained relatively stable since 2007 and at between 11-12%, which is already one of the lowest in the world.

16. However due to the recent duty increases, 50% of the remaining smokers have now switched to consume cheaper cigarettes sourced from smuggled or counterfeit channels thus unwittingly funding organized crime, any further duty increase would make this even more lucrative for criminals.

17. This illegal market is also providing cheap cigarettes to entice youth smoking. It is depriving the Government of HK\$5-6 billion in revenue and is preventing the Government's on pack tobacco control measures from reaching the public.
18. There are over 6,500 SME retailers in Hong Kong who are mostly independent operators or franchisees, employing approximately 30,000 staff, who rely heavily on sales of cigarettes to maintain their businesses and provide for their families. Increasing cigarette duty is fuelling the illegal market seriously and thus jeopardizes their business.
19. We propose that the Government freezes the current duty levels and commits additional resources to combat the illegal, duty not paid, smuggled and illicit cigarette market. Our suggestion is to follow the policy in Singapore where all duty paid cigarettes are marked and it is an offence for residents to smoke unmarked duty not paid cigarettes.

Powdered Formula

20. We appreciate the Government's effort in addressing the problem of powdered formula shortage caused by the parallel traders who diverting large quantities away from the supply chain in Hong Kong. However, we do not see the export ban is an effective solution in the long run as it would seriously damage the free trade principle in Hong Kong.
21. As the market becomes more settled, the number of cans of powdered formula allowed to be carried by each person should be relaxed from two cans to a larger quantity, while with a view to lifting up the export ban eventually.
22. We suggest the Government to devise long-term measures by working closely with the suppliers and other stakeholders to ensure a stable and sufficient supply of powdered formula for the some 275,000 Hong Kong-born infants and young children, including 167,000 who are not residing in Hong Kong.

(C) Education – Meeting Future Needs

23. Manpower is the crucial factor for sustainable development, and education is the key. We regret to see the current education system and its curriculum, to a great extent, do not provide the right match for the job market, especially in terms of language abilities, vocational/technical knowledge, and soft skills.
24. Even more worrisome, the young people in general only aspire to a few industries, such as finance, while without giving due attention to the positive career prospects provided by many other perceived as less “glamorous” industries such as the retail industry, which however provide ample employment opportunities.
25. The Government should take the lead to inform the young people, school masters, career councilors, and parents in a comprehensive and practical manner about the many opportunities in different industries, and the prospects to pursue vocational and technical training other than the mainstream academic attainment.
26. More importantly, the Government should not leave it to the market to shape the education curriculum in regard to the training of our future talents. It should devise a holistic plan on education that would cater for the need of Hong Kong’s long-term development.

(D) Infrastructure

27. To sustain Hong Kong’s international status and its prominent role in facilitating China’s economic development, it is imperative to maintain and further expand our connectivity and ease of travel through upgrading our world-class infrastructure at all levels.
28. The Hong Kong-Zhuhai-Macao Bridge which will be completed in 2016 is expected to promote further economic ties and integration among the three places. However, we are concerned that the community is not yet informed about the overall planning on the supporting and peripheral facilities pertaining to this imminent development at the moment, and how it would integrate with the already established tourist clusters in Hong Kong.

29. The Government should not only promptly work on the physical setup of the Bridge, but also to inform on an overarching development master plan that would encourage the business sector to capitalize on the economic opportunities offered by this key development.
30. Hong Kong is facing fierce competition in the international and regional airborne services and its facilities, the Government should speed up the building of the third runway without further delay.

(E) Retail & Tourism Development

Expand tourist reception capacity

31. There are concerns in the community recently about the continued influx of Chinese tourists and its negative impact on the economy. It is a fact that the Individual Visit Scheme (IVS) introduced since 2003 has been spurring significant growth in tourist receipts and generating many other economic gains to Hong Kong. We urge that the Government should stay steadfast on its policy on IVS, and not to restrict it in any manner.
32. To uplift Hong Kong's renowned status as a world-class shopping paradise, the Government should give policy priority to expand our tourist reception capacity, which includes expansion of retail space, hospitality facilities, new tourist attractions, and equally important is the promulgation of service excellence and hospitality culture. At the same time, the Government should seize opportunities to host international events in Hong Kong.
33. In particular, in order to diversify tourist and shopping clusters, we suggest the Government should step up the development of North Lantau Island into a new one-stop tourist hub, taking advantage of its proximity to the airport, Disneyland, Asia-Expo, and Hong Kong-Zhuhai-Macao Bridge.
34. To capitalize on the changing consumption pattern of the mainland tourists from luxury products to medium priced branded products, the Government may facilitate setting up brand outlet centers at designated locations which are convenient to the mainland tourists.

Manpower Development for Retail Industry

35. The Task Force on Manpower Development of the Retail Industry set up in March 2013 is the first ever measure by the Government to address the burning issues of manpower shortage and a lack of new blood facing the industry. We urge that the recommendations made by the Task Force should be sustained and served as a basis to develop long-term policy initiatives with the Government's support and funding.
36. The establishment of retail Qualifications Framework (QF) since 2010 has been driving the industry towards a more systematic and holistic approach to manpower training. It calls for continued funding support from the Government to promulgate the benefits of QF to the employers, the employees, and the community at large.
37. Besides stepping up promotion of QF, we suggest some form of subsidies could be granted to the employers or educational institutes who would like to develop QF-linked courses, given that the minimum returns at the start-up stage may deter interest in doing so. At the same time, employees could also be given subsidies when taking likewise courses.
38. We urge that there is a need to streamline the current application process of QF accreditation for companies' in-house QF-linked training. The easing of the accreditation process will motivate employers to install QF-linked courses for their staff, thus enhancing the overall manpower quality in Hong Kong.

Image Building of Retail Industry

39. The retail industry has long been viewed as one of the least preferred profession due to the public's many misconceptions about its career prospect and working conditions. Despite the industry has been evolving rapidly, as a very diverse industry covering a lot of categories, there lacks a focused force to inform the latest landscape of the industry, its contribution to the society, and its positive career prospect especially to the young people and parents. We urge that the Government should give a forceful push in terms of the industry's image promotion by some form of continued funding and support.

A Permanent Setup Overseeing Tourism & Retail Development

40. In tandem with the global trends of burgeoning tourism and the continued prosperity of the Chinese economy, we view that Hong Kong's tourism combined with the vigor of retail industry will enjoy much greater growth potential in the time to come, and will increasingly become a key source of foreign receipts and an engine for employment.
41. At the moment, apart from the Tourism Board who mainly takes care of international tourism promotion and marketing, we feel that the Government has not given sufficient attention and resources to sustain the long-term development and to promote synergy among the various industries that involved in this important segment of the economy. The development initiatives on the part of the Government are very often piece-meal, fragmented or sector-specific, neither with a holistic approach nor a broad perspective on its implication to Hong Kong as a whole.
42. In this regard, we urge the Government to consider to setting up a permanent structure/organization which will be overseeing the entire development of tourism and related hospitalities industries, as well as the retail industry. We believe with a designated setup, Hong Kong's unique advantages and potentials as a shopping paradise and a well-sought after tourist destination would be greatly elevated and promoted.

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