

Cross-border Consumption: Challenge and Opportunity

Introduction

During weekends and holidays, there is a mass exodus of people from Hong Kong to Shenzhen for shopping. With the increasing volume of cross-border consumption, the impact on Hong Kong retail sector and total employment is profound. As Shenzhen has come to represent value and opportunity for Hong Kong consumers, market forces will push Hong Kong higher up the value added ladder. The changing consumption pattern is certainly a cause of concern for Hong Kong's future economic development, but the dark clouds could hide a silver lining. Hong Kong could respond to the challenges and explore a new direction – the extension of retail business across the border and the development of leisure consumption business in the territory.

From Win-Win to Win-Lose

Our hinterland, the Pearl River Delta, has long provided us with fresh food, an abundant supply of labour, water and other resources. Meanwhile, investment from Hong Kong has played a role in transforming the economic structure in Guangdong, by creating numerous employment opportunities. However, this win-win pattern of a two-way flow of benefits is now disturbed by the one-way flow of cross-border shoppers.

Nowadays, cross-border consumption has become a casual leisure activity for local people. Since the Asian Financial Crisis, Hong Kong people have become more price-sensitive, in response to the unfavourable economic conditions. Shopping and dining across the border offer a value-for-money option for local consumers. According to government statistics, the number of non-business related private trips made by local residents to the Mainland surged 22.5% year-on-year to 33.8 million in 2000ⁱ. Their total spending reached HK\$29.4 billion, approximately equivalent to 4% of the local private consumption expenditure. The Guangdong Province accounted for 69% (HK\$20.3 billion) of the total. However, this spending outflow has not been compensated for by an equivalent expenditure by our Mainland neighbours. The amount spent by Mainlanders in Hong Kong was far less, at HK\$18 billion.

In economic terms, Hong Kong people are acting rationally when they spend north of the border, as they capture the lower cost of goods and services. However, this is at the expense of local retailers and their employees. This leakage of retail dollars to the Mainland is particularly difficult to live with at a time when retailers are struggling against falling prices and modest demand. Also, the job security of a large number of employees is at stake. The wholesale/retail and restaurants/hotels industries employed more than 572,300 workers in 2000, accounting for 17.5% of total employmentⁱⁱ.

With the ongoing improvement of the cross-border travel infrastructure, including new rail and road links and streamlining of immigration controls, shopping across the border will become increasingly convenient. Meanwhile, as the Guangdong economy advances, the quality of consumption will only get better. The trend of cross-border shopping is not going to reverse.

The Cost of Travel

Like cross-border shopping experiences elsewhere in the world, the total cost of travel defines the development path. There are both direct, and indirect, costs.

The direct cost is the physical cost of travelling. There is the monetary cost, the time and discomfort of travelling a longer distance, and the inconvenience of passing through customs. However, this direct cost is relatively easy to overcome. With computer-assisted immigration controls and better trains and roads, the cost of commuting is reduced to an acceptable level.

The indirect cost is more subtle. It arises from the socio-political differences across the border. Most people feel uneasy when travelling to or staying at a place where the political system and social infrastructure are unfamiliar. The common areas of concern are the rule of law, personal security and medical services. The longer the stay, the higher the cost would become.

Hong Kong cross-border shoppers can be classified into two categories.

The first category is shoppers with a low travel cost. This category includes people such as retirees, who place a relatively low value on time. It would also include those who have convenient access to the border, such as residents of the northern New Territories or along the Kowloon Canton Railway (KCR). The group may also include those who have a greater acceptance of the socio-political differences across the border, for example those who have close business relationships with the Mainland. This category's low travel cost allows them to take advantage of lower prices. They travel to buy household goods, or to dine at restaurants. In this case, there is a direct substitution of Hong Kong products by Mainland goods.

The second type of shopper is attracted by the unique consumption options in the Mainland. For instance, they go for a golf trip or to spend a weekend at their vacation homes. What attracts them is the quality and variety of choices, many of which are simply not available in the territory, or at least not at affordable prices. In this case, substitution of consumption between Hong Kong and the Mainland is not obvious. In fact, this spending may generate new opportunities for local retailers. For example, Mainland golf clubs will not crowd out local services, as there is virtually no supply here at affordable prices. But golf-practising stadiums and equipment suppliers in the territory have enjoyed increasing business in tandem with the growing popularity of Mainland golf clubs.

Hidden Opportunities

Hong Kong is unlikely to reverse the net loss of retail earnings to the Mainland. Nevertheless, there are untapped opportunities in the cross-border shopping phenomenon.

Retirement facilities across the border

Hong Kong businessmen have been tapping the cheap land and labour in the hinterland for decades. But there are ample opportunities beyond manufacturing. For example, these same resources could be put to use to foster the development of retirement facilities for Hong Kong's greying population.

As estimated by the government, there will be 852,000 elderly people aged 65 or above in 2004, accounting for 12% of the total population. The proportion is projected to rise to 20% in 2029ⁱⁱⁱ. If the issue of our aging population is not properly addressed and resolved, it could result in severe stress on the financial resources of both the government and the economy. The recent launch of the Mandatory Provident Fund (MPF) is one of the steps aimed at addressing this issue.

The hinterland can also be part of the solution. It can be a supplier of retirement facilities, especially in light of the increasingly close integration with Hong Kong. If Hong Kong people are crossing the border in search of vacation homes, they are also very likely to consider retirement in the Mainland an attractive option. Spacious accommodation, better quality of living and affordability all have appeal to local retirees. As a matter of fact, there are now more than 2,000 elderly Hong Kong people living in the Guangdong Province.

However, to make this a viable alternative, attention must be given to areas such as medical and health care services, easy visiting policies for friends and relatives and improved security. When all these complementary elements are in place, both retirees and society as a whole can benefit.

Local retailers moving northwards

The rising trend of cross-border consumption will not be reversed. As more shoppers spend their discretionary incomes across the border, the already tough local retailing business is getting tougher. One of the responses by Hong Kong retailers is to follow their customers, catching Hong Kong consumers on both sides of the border. Establishing a presence across the border also serves as a stepping-stone for developing the lucrative and extensive Chinese market. With the huge population of our hinterland (4.1 million in Shenzhen and 72 million in the Guangdong Province), and the rapid economic advances in the region, there will be increasing demand for high quality goods and services. Hong Kong retailers have the expertise to deliver that quality in an effective and competitive manner. They now have an opportunity to go beyond the mature local market and establish their brands in the potentially huge Mainland market.

Hong Kong Should Pursue New Avenues in Domestic Consumption

The inevitable conclusion from cross-border shopping trend is that local retail businesses will continue to be adversely affected. While we suggest that retailers follow their customers northward, this option will not be viable for those working in the retail sector. Retraining of these surplus workers may be one option. Another alternative is to upgrade local consumption services to retain more spending within the territory, and hence create jobs for retail workers in their existing field of expertise.

As explained above, many people go north to improve the quality of their lifestyle, for example, playing golf and spending weekends in vacation homes. This reflects the potential demand for higher quality leisure activities, which Hong Kong is not providing. In reality, the local shopping mall is no longer sufficient for them. If Hong Kong wants to continue to take pride in its ability to provide unique and quality services, much effort will be needed to win back customers.

Hong Kong may not be able, nor does it need, to replicate the golf clubs and vacation homes in the Mainland. There are many ways to convince people to spend their money in the territory. This may include building attractive resort facilities on outlying islands, promoting social and cultural activities, and other potential leisure initiatives. The government has already put

much effort to foster these developments. In the future, the government may want to consider additional initiatives as part of a policy objective to promote domestic consumption.

A good example is the Disneyland initiative. Hong Kong people will be able to visit Mickey Mouse and his friends by 2005. It will be a world-class international theme park with a resort hotel complex and a retail, dining and entertainment centre. The government estimates that the project will generate 18,400 jobs at opening and up to 35,800 new jobs over 20 years^{iv}. As long as there are more similar quality options, local consumers will be more willing to stay in the territory during weekends and holidays. This will also enhance Hong Kong's ability to attract tourists.

Conclusion

Losing earnings to neighbouring cities is never a sweet experience for retailers. However, from the macro view, the economic advance of our hinterland will only enhance Hong Kong's overall competitiveness. Closer integration with the Pearl River Delta is a positive development to embrace, not one to be dismissed with scepticism and negativity. Attempts to block consumers from going north will be in vain and, in the long run, counter productive.

However, this does not mean that we cannot compete to get some of our customers back. While we are unlikely to be able to compete on price, we can compete on quality. Success in enhancing quality leisure activities would not only generate more economic activities and hence job opportunities, it will also be a crucial factor in establishing Hong Kong as a world city. If our own people feel Hong Kong is too boring and opt to travel across the border in search of leisure activities, how can we attract tourists to come to Hong Kong to visit, and overseas companies to establish offices? According to the World-Wide Quality of Life Survey^v, Hong Kong ranks 69th among the 135 cities surveyed, behind New York, London and Singapore. Quality consumption is an indispensable ingredient of a high standard of living, a key characteristic of a world city. Hong Kong has a lot to do to catch up.

Every time we hear news of hundreds of thousands of residents crossing the border over a long weekend, we should be glad that we are no longer an isolated enclave. It is also a regular reminder that the regional economic dynamics are changing. We must continuously re-examine our position and find ways to upgrade ourselves to make Hong Kong, not just a good place for work, but also to live. By so doing, we will see that the win-win situation of Hong Kong and its Guangdong hinterland has never left us, but has just taken another form.

ⁱ Source: "Consumption Expenditure of Hong Kong Residents Travelling to the Mainland of China", a feature article from Monthly Digest of Statistics April 2001, Census and Statistics Department, HKSAR.

ⁱⁱ Source: Table of employed person by industry (detailed group), Quarterly Report On General Household Survey (January to March 2001), Census and Statistics Department, HKSAR.

ⁱⁱⁱ Source: Hong Kong Population Projections 2000-2029, Census and Statistics Department, HKSAR.

^{iv} Source: Press release "CE announces Disney deal for Hong Kong" on 2nd November 1999, Information Services Department, HKSAR.

^v The survey is carried out by William M. Mercer Companies LLC, an international human resource and employee benefits consultancy.