

# **A Quantum Leap in Tourism**

**September 2004**

## **Introduction**

Over the last few years, Hong Kong has experienced impressive growth in visitor arrivals each year. Hong Kong Tourism Board (HKTB) estimates that visitor-arrivals will pass 20 million at the end of 2004. Despite of these encouraging figures, we have much to be concerned about and these include:

- (a) Hotel occupancy has not grown at the same rapid pace.
- (b) Average hotel room rates continue to experience downward pressures as more rooms are added to the lower end.
- (c) Approximately 6,000 to 10,000 additional rooms will be added over the next few years. Moreover many hotels to be built are expected to cater to the lower-rated market.

The Federation of Hong Kong Hotel Owners (The Federation) fully understands that the tourism industry is facing unprecedented challenges, and is committed to promoting the industry and will work closely in partnership with the Government and all the stakeholders. Apart from the ongoing initiatives to strengthen Hong Kong's competitiveness, the Federation tries with a macro approach to help the tourism industry to regain its ground by this short but condensed paper. There are three main parts to elaborate our points.

**Part I Market Driven Strategy—Quality & Quantity**

**Part II Tourism Infrastructure and Policy**

**Part III Industry Representation and Election Advice**

## **Part I Market Driven Strategy---Quality & Quantity**

To echo the above points (a), (b) & (c) in the introduction, hotel investors of course hope for that hotel occupancy and room rates grow at the same pace with the growth of visitor arrivals. Hence this part would focus on two areas, i.e. quality and quantity to study the cause and effects regarding points (a), (b) & (c).

### **(1) The Mainland Market**

For years, Hong Kong has been a magnet for visitors from all over the world. In recent years, it seems to be attractive mainly to Mainland China now. Mainland visitors to Hong Kong have been growing at an annual rate of 17% and will soon be over 60% of total arrivals. Although the growth rate is very impressive, hotels make very limited benefits from this. Studies show that only 26% of the Mainland visitors would choose commercial accommodations during their stay in Hong Kong. (Note 1)

The Government and the travel trade always insist upon that hotel accommodation for lower-rated market is under supply. A government proposal in 2003 of converting HOS flats into budget guesthouses is a good example. However, the Federation strongly believes that market regulation is the best to keep a balance of supply and demand in all categories of hotel rooms. Excessive encouragement from the Government to building low category hotels or converting HOS flats into budget guesthouses would only upset the free market economy.

Is it risky for HK to rely on any single market? The answer is “No.”

To sustain the growth and success of tourism in HK, it requires more new hotels in the right categories and with adequate facilities to cater for different markets. It also needs tailor-made promotional strategies to blend well with the demands of different source markets which include the mainland China as well as other long-haul markets. It is important that HK as Asia’s world-class city to remain its cosmopolitan mix of visitors from all over the world.

## **(2) High Yield Business—MICE Market**

Meeting & incentive, Convention & Exhibition (MICE) business is blooming. Hong Kong enjoys an extremely prestigious position in the MICE market. We should be proud of our superb services and location. However, now and then we hear the Hong Kong has turned down so many exhibitors due to the limits of our exhibition facilities. We hope after the open of the *AsiaExpo* close to the Airport, such regrets would be minimized to zero.

The MICE market encounters keen competitions in recent years. Whether Hong Kong Tourism Board (HKTB) and even Trade Development Council could win over other destinations in attracting international exhibitions and conferences to HK, it really depends on the facilities, promotions and publicity overseas.

On the other hand, Government's attitude in supporting MICE market is very crucial. It is suggested that Government should be more friendly in bridging the relationship for the HKTB to win international conference.

Note 1. DTZ September 7, 2004

All other visitor statistics are sourced from HKTB

## **Part II Tourism Infrastructure and Policy**

As mentioned in Part I, good tourism infrastructure is the key to encourage visitors to stay longer and to spend more in Hong Kong. Hence the Federation recommends the followings.

### **(1) Diversified Tourism Infrastructure**

While people are preparing for the open of Disneyland soon in 2005, other proposed tourism facilities such as Aberdeen Fisherman Wharf, world class museum facilities to host major exhibition of art and private collections, world class venue for international sports and performing arts etc. are still under endless study and consultation.

Hong Kong should consider a variety of entertainment and performing arts infrastructures so as to keep itself as an international city in Asia. Facilities big or small should be complemented to each other, instead of duplicated or competing with each other.

### **(2) Speed-up New Cruise Terminal**

Cruise tourism, which is growing rapidly, is no doubt a worldwide trend. Cruise passengers from around the world are high spenders. Lacking berthing facilities will result in cruise liners by-passing Hong Kong.

The new cruise terminal earmarked for development at the tip of the former Kai Tak Airport runway has been discussed for years. It is planned to be completed by the end of 2009, but from the Federation's point of view, it is too late to capitalize the business. Hong Kong should speed up the construction of a new cruise terminal.

### **(3) Local Culture Events and Festivals Committee**

Some local festivals such as the Dragon Boat Festival and Cheung Chau Bun Festival are popular overseas and can draw the attention of foreign visitors. We suggest forming a high ranking government committee comprising relevant bureaux, departments and tourism representatives.

The Committee's functions include assessment and screening of local cultural events and festivals which have the potential of attracting overseas visitors to come to Hong Kong, policy assistance, processing funding to local event organiser or applicant. The Committee should develop a calendar of events and festivals to ensure better co-ordination rather than competition in the community.

A study report on "How attractive is the Cheung Chau Bun Festival to Visitors?" is enclosed. (For internal reference only and not to be disclosed to other non-Federation members.)

#### **(4) Aviation Policy**

Neighbouring cities of Hong Kong have aggressively restructured their tourism facilities and are now direct competitors to Hong Kong for business and leisure travellers. Shanghai, Beijing and Guangzhou have attracted many multinational firms to set up their offices there. International direct flights to these cities are increasing and bypassing Hong Kong, which used to enjoy its niche role as the "gateway to China".

For example, the recent Sino-American Civil Aviation Agreement will allow carriers of both countries to be increased from 4 to 9 with the flight numbers be increased to 4 folds over the next 6 years. Guangzhou Baiyu Airport will be a key competitor of Hong Kong. These are the alarming signals for Hong Kong's tourism industry.

The Government should fast track the negotiation of air service agreements to allow more airlines to operate more flights and links to other international cities including the Mainland. The travel industry considers that Hong Kong should position itself as the dominant aviation hub for the region. It should expand air routes and frequencies and maintain a reasonable and competitive policy on aviation charges.

## **Part III Industry Representation and Election Advice**

Investors, not only hotel owners, are sensitive to the business environment. For example, it is important for the Government to review those outdated regulations and procedures for the tourism and hotel industry. On the other hand, Government should take strict enforcement actions on those bogus short term and illegal accommodations so as to protect the lawful interest of bona-fide hotel owners and operators.

Equally the 3% hotel accommodation tax should be also levied on guesthouses in order to provide a level playing field and a fair competition environment for everybody in the hotel trade.

### **(1) Secretary for Tourism**

The Federation recommends the Government to set up a Secretary for tourism and increase the representation for hotel sector so as to maintain a better business environment for investors.

It has long been the Federation's objective to have a high ranking official to look after this very important industry. Only a policy level decision maker with sufficient executive power could help HK in the long run. In this area, HK is far behind our competitors in the region. We strongly recommend that a Secretary (D8) for Tourism is urgently needed during the re-positioning period of HK's tourism industry.

### **(2) Political Representation and Election Advice**

The hotel industry as one of the big contributors to the GDP (3-5%) plays a significant role in HK's economy and employment. Under the current functional constituency election model, regardless how large a company is, each company can only have one vote in the Tourism sector. It is unfair that a travel agent having two or three employees has one vote. While a hotel employs over hundreds of staff and with millions dollar investment also has one vote. The travel agents who have over 1,000 votes versus 100 votes from hotels dominate the Tourism Functional Constituency Election.

The Federation suggests that 50 hotel rooms count for one vote depending on the number of rooms to reflect the size of hotel. From the business point of view, it requires \$1.7 million to \$2 million dollar for one room. In terms of employment, room to staff ratio in general is 1 to 0.7. Hence 50 rooms need at least 37 staff from the labour market.

It is therefore believed that this can better balance the influence of the travel agents in Tourism FC Election and encourage more trade representatives to service the community.

## **Conclusion**

The above points are not total solutions for HK tourism industry, but for brain storming only. Repositioning HK is an extremely urgent agenda. In the foreseeable future within the coming decade, HK will be surpassed by other Asian destinations if we could not sustain our competitiveness.

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