

2015-16 Policy Address cum Budget Submission

Hong Kong General Chamber of Commerce

The divisions within our society that were so painfully exposed in the fourth quarter of 2014 will not easily heal. The immediate task, which the Hong Kong General Chamber of Commerce hopes will find this submission overtaken by events, is to close this confrontational chapter swiftly. Hong Kong cannot absorb the impact of social unrest as easily as jurisdictions with large internal economies, being without natural resources and entirely dependent on investor confidence for its survival as an entity that can justify a separate identity from the Mainland. Most important of all, to maintain our reputation as the stronghold of free market, there is an urgent need to articulate a vision of a sustainable future for Hong Kong we all may share, and a firm roadmap for getting us there. If this is where your Policy Address points us, you will have our firm support.

A Sustainable Future

2. Standing for the business community, the Chamber has time and again highlighted what we see as the most important priorities for Hong Kong: sustainability, competitiveness, planning and vision. Hong Kong is more than “just another Chinese city;” it is widely recognised as the most important business and financial centre in the Asian half of the world. It is well past time we invested in sustaining that unique position, not only for ourselves but also so that we may provide the services and institutions that will help the Mainland achieve its dreams.

3. Once we agree on a means of reducing tensions and rebuilding a degree of trust, the necessary next step must be to define what Hong Kong is, and what we want it to be for our children. Only with a clear sense of direction, and easily understood plans for achieving what we all desire, will we find a willingness to accept compromise for this society to forge ahead.

Immediate Actions Needed

4. While a longer-term vision for Hong Kong is needed to sustain our future, there are five areas where immediate action should be taken if we are to remain on top of our game:

- i) Developing and implementing a holistic **population policy** so as to connect the dots among fiscal sustainability, an aging society, healthcare financing, talent development and proper public education.
- ii) Developing a workable **Supplementary Labour Scheme** to alleviate our tight labour market and go beyond the construction industry as both the existing and enhanced versions are not working properly.
- iii) Building the **third runway** right now as any further delay will cost us dearly in the medium- and longer-term. Air connectivity has been a key to Hong Kong’s success, and we must not allow our competitive edge to slip away.
- iv) Fixing the unworkable **Town Planning** structure which causes prohibitive delays and stands in the way of our economic growth, in particular accelerating the planning and approval procedures required for the expansion of Kwai Tsing Port.
- v) Extending landfill sites and building the **integrated waste management facility** we need to deal with the soon overflowing waste problem.

Population Dynamics

5. Our labour force will begin to shrink in 2018, and with it our tax base and our ability to care for and fund the need of an increasingly aging society. We have some 750,000 able-bodied people unwilling to join the labour force. If some of these latent workers, in particular female home-makers, could be brought into the fold, through programmes designed to help them cope with family responsibilities, we might delay our confrontation with demographic destiny. On the other hand, despite the agreement reached in the Labour Advisory Board earlier this year to expedite the processing of importing construction workers for major infrastructure projects, approvals have not been forthcoming. In view of the long queue of mega projects in the pipeline, delays and cost over-runs are only to be expected. Therefore, we urge the Government to ensure the enhanced Supplementary Labour Scheme really works, and to expand it to cover all sectors where shortages are threatening our ability to grow.

6. The Government may wish to consider the precedent established in building Chek Lap Kok International Airport, and take the lead by importing workers on a project-defined basis, tailored to the needs of our largest infrastructure projects. This will free up local workers to take construction jobs in the private sector, including building affordable housing. If clearly defined boundaries and conditions are set and the imported workers are confined to public projects, our experience tells us that this is a workable solution to one aspect of the manpower shortage.

7. The younger generation does not see a bright future for themselves or for Hong Kong, which is not borne out by our economic performance. This calls for comprehensive policies to address such frustration on the lack of career opportunities. It may require the setting up of a cross-bureau review to include, for instance, the Education Bureau (on whether the current system has instilled the right attitude and equipped students with the correct skills that Hong Kong needs), the Labour and Welfare Bureau (to work with employers on talents and skill sets needed from the youth in a more co-ordinated and systematic manner), and the Commerce and Economic Development Bureau (on identifying new opportunities that could tap the talents of our youth). In fact, businesses are willing to offer more summer jobs for young people but the minimum wage requirement has discouraged such motive. Mentorship for university students and fresh graduates is also possible. As always, the business community is ready to work with the Government on studying the upward mobility issue and finding an appropriate solution.

8. The looming ageing population issue requires a swift reform of our healthcare system. Also important would be to ensure an adequate future supply of hospital beds and convalescent homes to meet the anticipated soaring demand.

Building for the Future

9. Major infrastructure projects take years to complete. In particular, our airport is very close to reaching its full capacity, seriously undermining our competitiveness vis-à-vis neighbouring airports where significant improvements are already in place. Without the third runway, the aviation industry and the affiliated tourism, retail, and finance industries cannot grow. Construction of the long-overdue third runway will safeguard our leading position as an air transport and logistics hub. Delay also adds to the cost, in both dollars and lost opportunities. Even if we began work this year, the airport would not be ready to handle expanded capacity until the mid-2020s. The other

mega infrastructural projects, including the Hong Kong-Zhuhai-Macau Bridge, several major MTR lines and the Hong Kong section of the Express Rail Link, are important pieces of the jigsaw puzzle needed to maintain our global connectivity and international business hub status. They will also take forward our further integration with the Pearl River Delta and the rest of the Mainland market.

10. In Town Planning, we need to speed up decision making and ensure that Hong Kong gets the land and facilities it needs in a timely and cost-effective manner. Impediments to our progress arise in the unpredictable stream of land supply for property development, especially housing. As the overall development goal should account for both strategic needs and long-term economic growth, we urge the Government to develop a strategic plan to guide overall land use, explaining the strategic linkage of the some 140 Outline Zoning Plans with the overall goals and objectives. In this way, we will better strike a balance between long-term social and economic development and our environmental sustainability.

11. The lack of an overall planning covering different land uses also leads to bottlenecks when development in a certain category of land use is not commensurate with the corresponding growth in a complementary land use. For instance, as pointed out in our previous submissions, the pace of land parcels allocated for port supporting facilities have fallen far behind port development itself. In fact, the expansion of Kwai Tsing Port land and berth facilities is urgently needed in order to alleviate congestion and increase regional efficiency promptly. Another example is the growth of our recently booming retail sector being constrained by the severe shortage of warehouse space.

Competitiveness

12. We would like to propose a modest amendment to our long-standing mantra of a “low and simple tax regime.” We believe it should be “low, simple and competitive,” which it is not. Just as our global transport and logistics business needs new infrastructure to maintain its position among the best in the world, so, too, does our fiscal policy. Our competitors built new ports and airports, and also adopted innovative tax incentives and lower overall tax rates. In such a highly competitive environment, we strongly urge the Government to consider adopting a more drastic approach, with the aim of creating high value-added jobs, attracting regional MNC headquarters and strengthening Hong Kong’s status as an international financial hub for professional services. Meanwhile, our SMEs are being taxed at a higher rate than their direct competitors in other jurisdictions because of our single tax rate. To rebuild our competitive advantage, we should invest in our SMEs through a general two-tiered tax system whereby the first \$2 million of taxable profits are taxed at a lower, 10% rate.

13. Profitable companies pay tax, and are happy to do so. They also pay a variety of fees and charges, not all of which encourage good behaviour or discourage the bad. Our SMEs make up over 90% of the local economy, and in these difficult times, they are wholly focused on cash flow. We propose the Government to stop collecting provisional profits taxes and extend the deadline for paying the full tax owed, without extra interest or penalties. These tax payment adjustments would cost nothing but time (the full tax would eventually be paid), but may well mean the difference between life and death for a wide range of companies, especially SMEs.

Waste Reduction and Environment

14. Precious time has been wasted in political battles and LegCo filibustering while waste continues to be generated and the imminent landfill saturation problem remains unresolved. There is a consensus that we must act quickly, and while it is undesirable and unsustainable, landfill is the only feasible option available to us today. In view of the relatively long time required for extending existing landfill sites and building the Integrated Waste Management Facility, the Government has to make every effort to expedite the approval process in order to get these projects started as soon as possible. The approval of the Tseung Kwan O landfill extension is only a baby step. In practical terms, we probably need to consider building more than one such incinerating facility. Above all, a combination of alternative measures should be installed after a careful evaluation of the proper proportion of these waste disposal solutions. More urgent is speeding up the solid waste disposal charging scheme and fully utilising the \$1 billion recycling fund. The Chamber would like to reaffirm our support to these initiatives to build up a clean and sustainable waste treatment system for Hong Kong.

15. The Chamber commends the Government for making steady progress in improving air quality and reducing carbon emissions through various initiatives, including subsidy schemes to phase out pre-Euro IV diesel vehicles and encourage cleaner production across the border, mandatory measures to promote energy efficient buildings and the mandatory requirement for ocean-going vessels to switch to cleaner fuels when berthing. Still, the public is longing for faster improvement. In fact, we need a vibrant environmental industry to drive a green economy with innovations and new technologies. Therefore, it is crucial for the Government to develop an overall strategy to support the growth of the local environmental sector, to facilitate the international transfer of advanced environmental technologies, to lead by example through adopting new green technologies in public projects, and to consider making it mandatory that diesel vehicles not meeting latest Euro VI standards should not be imported.

Moving Forward

16. Hong Kong is at a crossroad. Rebuilding public confidence in the Government's leadership will take time. In the near term, the global economic environment will only add to the pressure to get the policy mix right, and to the urgency. We believe the Government can get it right, as evidenced by the strong progress made in recent years toward providing the international educational facilities a world-class city requires. Now, we need to roll out that "can do" spirit across the board. For instance, despite the progress, any policy which would add more international school places would definitely help attract international talent and investors to come to Hong Kong.

17. Part of getting it right is to fully understand the intended and unintended consequences of policy initiatives. We firmly believe that the Government must conduct thorough regulatory impact assessments prior to deciding on a policy direction, and that such an assessment needs not unduly delay action when it is urgently needed. Yet, we observe a dangerous trend toward shortening the time allocated to public consultations. If we are to get it right the first time, it is crucial that those taking the time to provide their expertise during consultation exercises be permitted to refine and present their views in a realistic timeframe. The traditional three-month consultation period should be mandatory. Most important of all, in-depth regulatory impact assessments must be conducted.

18. While there have been heated debates on the relationship between Mainland China and Hong Kong, nobody can deny the fact that both economic and social ties between the two places have become stronger as time passes. The trick is how to maintain a delicate and fine balance of adhering to “one country two system”. On the one hand, we should take advantage of our knowledge and experience of doing business in China as well as our long established relationship. On the other hand, we should keep on maintaining our rule of law heritage and expanding our international characteristics, which make Hong Kong special. Accordingly, we should strengthen our role as the bridge between the Mainland and the rest of the world, channeling flows of investment and resources both ways. It is especially important for Hong Kong to keep up with the rapid growing pace of our neighbouring economies, or else we will find ourselves lagging further behind. In this process, the Chamber stands ready to support and work with the Government for the years to come.

9 December, 2014