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HONG KONG GENERAL CHAMBER OF COMMERCE
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Since the financial tsunami struck Hong Kong and the region, members of the Chamber have been studying the long-term developments of Hong Kong with an added urgency, not only for finding our way out of the deep recession, but also with an eye on the broader horizon of long-term opportunities and challenges. We have since gained a better understanding about the key issues facing us, which helps inform our preparation for the recommendations for this year's Policy Address agenda.

As we see it, there are three priority tasks in front of us, namely managing the fragile recovery, further improving Hong Kong's attractiveness as a place to do business, and cleaning up the environment.

Part One: Three Priority Tasks

1. Managing a fragile recovery

Hong Kong's economic recovery is underway, but it is still subject to many uncertainties. We must not lower our guards in view of ongoing challenges in the global economy. The past two years saw global demand, and with it, trade, fall further than at any time since the 1930s. The financial shocks, largely felt in the US and Europe, continue to hang over investor confidence; thus raising the cost and reducing the risk appetite of investors. While there are good signs of recovery in the US and Japan, Europe has likely fallen back into recession amid a continuous stream of bad news, from volcanic ash disrupting air travel to the potential contagion of the Greek sovereign debt crisis.

We have witnessed how the SME Special Loan Guarantee Scheme has provided the much needed relief during crunch time. But the scheme will expire by the end of this year and there will not be another extension. It is time for the Government to consider alternatives for long-term support regarding SMEs' financing, especially on broad-based credit support. To this end, there should be a vigorous examination of possible options, such as different ways to introduce more flexibility and enhancement to some of the long standing schemes for SMEs.

2. Improving Hong Kong's attractiveness as a business hub

Hong Kong remains a good place for doing business, especially for those with China interest. But we should not be just sitting on our laurels. In view of the increasing regional competition, we must be more vigilant in managing the cost for businesses, including taxation and compliance cost.

We remain expectant that the profits tax be returned to 15% when circumstances permit. The increase in fiscal reserves by an additional \$151 billion from the end of 2007 through the last fiscal year suggests that there is room to act. Adjusting profits tax back to 15% will send a clear signal to the international business community that Hong Kong is determined to stay competitive.

The need to separate tax policy from revenue considerations is another issue which requires immediate attention. With a view to delivering strategic, game-changing fiscal policies aimed at supporting Hong Kong's competitiveness, a Tax Policy Office independent of the Inland Revenue Department should be established in the long run. If we are to avoid the erosion of our competitiveness, and our revenue base, the Government must have the necessary institutional support and apparatus to implement fiscal policy, without constantly being expected to maximise revenues.

On compliance cost arising from new regulations, the statutory minimum wage and competition law are the major policy developments that weigh on the minds of employers and investors. We recognise that there are both costs and benefits in these proposals, and we would very much like to see Hong Kong getting the best possible legislation. What we ask is that the impact on markets, companies and employment be given high priority.

3. Improving the environment

Improving the environment is a crucial task for Hong Kong to remain an attractive place to live and do business. To achieve noticeable and measurable improvement, particularly on air quality improvement, the Government must act boldly and swiftly. The most urgent need is to tackle roadside pollution with a firm hand. Other necessary tasks include waste management, promoting energy efficiency and conserving the marine environment.

Roadside emission

The ban on idling engine is a step towards the right direction in tackling roadside emissions, but it is also important that the Government should hasten the search for an effective way to incentivise the phasing out of existing pre-Euro, Euro I and II vehicles. Coupled with the upgrading of vehicles, the Government should introduce low emissions in congested urban corridors. Tougher measures can also be introduced to ban vehicles from filling up with low-grade fuel on the Mainland before they re-enter Hong Kong. The long-term solution to the fuel issue is to harmonise standards with the Pearl River Delta. Longer term still, in order to encourage more drivers to switch to electric vehicles, the Government can play an effective role by speeding up the development of complementary charging infrastructure.

Carbon reduction target

While actions to tackle roadside emissions are of the highest priority, we should not lose sight of the big picture of developing a low carbon economy. This can be achieved by setting a clear carbon emissions reduction target for Hong Kong, at least in line with the national pledge to cut back emissions per dollar of economic output by 40-45% by 2020, compared with the 2005 levels. A roadmap, which possibly includes sector targets, can be rolled out for Hong Kong to meet the emissions reduction target by 2020. Collaborative measures with the Mainland, according to the direction set in the “Framework Agreement on Hong Kong/Guangdong Co-operation,” can be incorporated into the roadmap. The Government can set an example by taking the lead in practising low carbon management and require all government departments and facilities to conduct regular carbon audit and reporting.

Cleaner Fuel for Vessels

It is important for the Government to step up its efforts in working with shipping operators on switching to ultra low sulphur diesel, which, according to the Government’s own estimate, will reduce sulphur dioxide by 99%, bringing major environmental and health benefits. The immediate next step in reducing pollution from vessels is to further tighten emission control on ocean-going vessels.

Circular economy

In the Chamber’s consultancy report on the development of a circular economy for Hong Kong and the Pearl River Delta¹, it is recommended that the Government should explore with potential partners among PRD cities in “closing the loop” of a circular economy, with a view to turn waste into resources and reduce the reliance on landfill. We are glad to note that both the “Outline of the Plan for the Reform and Development of the Pearl River Delta” and the “Framework Agreement on Hong Kong/Guangdong Co-operation”

¹ The report has been shared with the Environment Bureau of the HKSAR government and the Ministry of Environmental Protection of the State Council

have set as a key target the cooperation in developing a circular economy. The Government plays a vital role in developing a regional circular economy because of the need to overcome the current restriction on delivering waste, which can be used as raw materials in the recycling industries across the border. There is also a need to review the strategic role of the EcoPark in Hong Kong in the context of cooperation with the PRD.

Part Two: Accelerating the Flow of Funds, People, Goods, Services and Information

The longer term development of Hong Kong will hinge on the success in the “flow” of five key elements in the economy: funds, people, goods, services and information. Put in another way, Hong Kong’s strategy should be complementing the country’s development by continuously transforming itself into a high value-added, knowledge-based economy.

RMB-related business

One important role we should strive to play in accordance with the national strategy of gradual internationalization of its currency is the facilitation of an orderly development of RMB business, with a view to develop Hong Kong into a major offshore RMB centre. Hong Kong has been the only place outside the Mainland that is able to offer RMB deposits and bonds and, until recently, RMB trade settlement. The RMB settlement pilot programme, launched last year and extended in June, has added significant momentum to Hong Kong’s RMB business and opened the way for the financial sector to develop new RMB products.

Success in broadening RMB business will hinge on our capability to develop a broad range of RMB-related products that meet the needs of foreign investors and capital markets. We wish to emphasise that, post-crisis, while the regulatory authorities have become more vigilant in their efforts in enhancing investor protection, there are worries that the pendulum might be swinging too much to the side, at the expense of innovation. An optimal balance is much needed for developing a vibrant market while ensuring adequate investor protection.

Wealth management centre

Hong Kong is best suited to provide Mainland China with wealth management service of international standards. Industry experts have observed that Asia Pacific’s high net worth individuals (HNWIs), including those in Mainland China, favour home-region investment in general, and have become even more locally oriented after the global financial turmoil. There are tremendous opportunities for Hong Kong to take advantage of the “home bias” of Mainland HNWIs as they remain cautious and are not looking very far from home yet. We need to hasten this development through policy support to encourage development of new products and training of personnel, especially in view of the regional competition. We are worried that the wealth management industry will be limited by the increasingly stringent regulations. Once again we would like to highlight the importance of striking a balance between developing a vibrant market while ensuring adequate investor protection.

The Power of “ShangKong”

Investors and experts increasingly recognise the potentially huge competitiveness of the partnership between Hong Kong and Shanghai, as embodied in the recently coined notion of “ShangKong”. The Chamber has also been championing the huge potential for Hong Kong to bolster cooperation between the exchanges of Shanghai and Hong Kong, with a view to creating a globally leading partnership in the financial arena. The Agricultural Bank of China's dual listing in Shanghai and Hong Kong once again highlights the huge potential for the collaboration. Hong Kong has always been playing an instrumental role in facilitating the capital raising activities of Mainland enterprises and the role can be further strengthened under the 12th Five Year Plan. Hong Kong's authorities should continue to actively pursue collaboration opportunities in order to assure Hong Kong's role in future developments in the nation's financial sector.

Commodities-related business

A key priority for Hong Kong's financial industry is the continued development of commodities-related financing, risk management and trading activities. This is particularly important as other financial centres in Asia are seeking to further develop their commodities businesses and obtain a first mover advantage. The Mainland has now become the major global consumer of a broad range of commodities products. Hong Kong has the infrastructure, talent and experience of a leading international financial centre, which can be used as leverage to ensure the price setting for strategically important commodities occurs within Greater China. We believe that such developments could play a key role in improving risk management practices and further underpin economic growth and stability.

Integration with the PRD

The national development strategy envisions the Pearl River Delta (PRD) to be a world-class base for advanced manufacturing and modern service industries. Through deepening integration, Hong Kong will help the PRD develop its service industries that match and complement the service sector in Hong Kong, creating a world-class cluster of services (shipping, logistics, trade, conferences and exhibition, and innovation) that serve the manufacturing base in the region.

On a wider basis, the PRD and Hong Kong will forge a multi-layer community of industries in the peripheral areas and the Pan-Pearl River Delta Region, in which the different layers will complement each other and reinforce growth. As we mentioned in our submission on Hong Kong's positioning in the 12th Five Year Plan, in order to facilitate this strategic development, it is crucial for Hong Kong's advanced logistics industry to be allowed to take part in developing a supply chain of international standard in the PRD. Hong Kong's contribution will be mainly about setting international standards, sharing best practices, training of personnel and on the ground servicing. Although in principle CEPA has made market entry and business opportunities possible,

much work remains to be done to make things actually happen on the ground. As in other sectors, promoting the implementation of CEPA at the local levels is crucial to reaping real benefits from the liberalization policy.

Nurturing and attracting talent

In order to continue the development of Hong Kong into a high-value added, knowledge-based economy, a comprehensive strategy is required to make appropriate adjustments for our population policy and develop relevant skill sets in our manpower market, by recruiting talent at all levels: secondary schools and universities, professionals and other specialists. Indeed we believe the government should undertake a comprehensive review exercise to update the manpower needs of our economy and develop relevant immigration policies, which should not be just a matter of security, but also a tool for the proactive recruitment of talented people, driven by departments with an economic development portfolio, so as to ensure responsible policies that support the future manpower needs of our business community. While the immigration authorities will continue to play an important role in vetting candidates and regulating the procedures, we believe the policy should be steered by a different and higher authority, outside of the Security Bureau.

Hong Kong's success depends on its international connectivity. We are glad to see that our universities putting more emphasis on helping students to widen their international exposure, through different initiatives such as exchange programmes with overseas partner institutions. The relaxation of the cap on foreign student enrolment to 8% of university student numbers has also helped create a more international mix of students on campus. As the universities transition into a four-year system, we agree that more can be done and we would urge the Government to provide adequate funding and other support to facilitate related efforts. As we have said before, the foreign student quota should be eliminated as soon as possible, so as to further internationalise the student body. Mainland China will remain an important catchment area but we urge that we should not lose sight of the ASEAN countries.

We remain interested in the Government's plan to facilitate the development of self-financing higher education services by providing them with land. We are of the view that Hong Kong should aim to bring in more international educational bodies in order to diversity the sector and offer more choices for prospective students. The existing local institutions are of high quality, but we consider that awarding all the earmarked sites to the local institutions would likely result in a simple extension of what they have already been doing. New institutions will bring new ideas, new values, and add to the overall offerings of our educational services, which will appeal to both local and international students.

Apart from university education, we support the idea of allowing Mainland senior secondary school students to study in non-public schools in Hong Kong. Hong Kong's population is ageing quickly and birth rate will continue to remain low. Attracting talented students from across the border will be a good way to fill our talent pool and

further enhance our connectivity with the Mainland. But one precondition is that we have schools that suit their educational needs. The plan to provide greenfield sites for international schools development should take this into consideration.

Shipping

Hong Kong's position as the eminent maritime cluster in Asia needs to be pro-actively supported, which may best be accomplished by the appointment of a dedicated Policy Secretary with broad policy responsibility for the harbour, an upgraded Marine Department and sector-specific training and research programmes. Suggestions put forth separately by the Hong Kong Shipowners Association would go a long way toward enhancing this vital industry sector's natural advantages. Meanwhile, we believe attention should be paid to the following key areas:

- Harmonising cross border customs and trucking standards, to align customs declarations, and maintenance inspections. Cross border logistics infrastructure development, including optimal utilisation of the Western Corridor through better user facilities (e.g., convenient stores, food outlets and washrooms).
- Construction of specialized logistics facilities are prerequisites to Hong Kong's local logistics industry's sustainable development.
- The introduction of a trans-shipment/re-export ordinance to simplify and accelerate the process so as to transform the SAR into an ideal location as a regional distribution centre.

Part Three: Quality of Life Issues

As we see it, housing, healthcare and heritage are the three major quality of life issues that most concern local residents.

Housing

Adequate housing is a vital social good that must be high on the agenda for any government. We understand public concerns about property prices and the rationale behind the suggestions of resuming the building of a certain amount of HOS flats and providing some forms of financial assistance to the "sandwich class" in buying their own homes. We would like to emphasize that there is no single measure that, on its own, can fully allay the concerns about the property market.

We believe that the government's main role in the property sector is in maintaining a sound, stable and predictable market. Reducing barriers, in a methodical and paced way, to the resale of existing HOS flats, will be an effective means to boost supply within a relatively short period of time. In the long run, ensuring adequate land supply is most fundamental. The existing application list system should be continued, although increased

transparency in its operation would make it work better and more often. In addition, regular land auctions of various sizes and types should be scheduled which will help smooth out the supply cycle and provide price indications to the market on a regular basis. It is important that the supply side “pipe line” is at a measured pace that is intended to gradually increase the new production over time.

Healthcare

The Chamber has already submitted its views to the Government on healthcare reform, and we look forward to participating in the upcoming consultation on supplementary financing based on voluntary participation. We have highlighted in our submission what we regard as essential principles that should underpin the reform.

The overall goal of reform should be achieving a basic coverage that will pay for a basic level of care, in either the public or private system. Coverage must be “personal to the individual” without consideration for age, employment or family status. Premiums are paid by the individual, although those who are unable to pay may seek government assistance. No one in need should be denied care because of an inability to pay.

Healthcare reform is a pressing issue in view of the ever escalating cost and ageing population. But it is equally important that we get it right. The essential principles that we advocate need to be carefully considered when officials and experts work on the detailed options for reform.

Heritage and Culture

In recent years we have witnessed a seismic shift of public sentiments towards preserving our city’s rich heritage. We applaud the Government’s positive responses to the community’s aspirations in this aspect. Indeed, as we mentioned in last year’s submission, it takes concrete actions to create a culturally exciting and vibrant city by protecting our cultural heritage and facilitating civically beneficial initiatives. While we are glad to see the Government’s new initiatives in protecting heritage buildings, more needs to be done to protect one of our most important heritage – the Victoria Harbour.

The shoreline of Hong Kong is cluttered with construction and facilities that bar public access to the waterfront. There seems to be a lack of overall planning and management of the waterfront. We believe that streamlining the administrative regime for managing the waterfront is one of the most urgent reforms required for improving the governance of our city. And there is no better place to start the governance reforms than the waterfront management.

CONCLUSION

Chief Executive, in this year’s submission we again cover a broad range of policies and issues. As a business chamber we are concerned about the uncertainties in the global

economy and Hong Kong's own competitiveness. We believe that Hong Kong remains a very good place to do business, and we will not be easily replaced in the near future. But we need to be rigorous in maintaining our advantages and invest in our future in a smart way: in our connectivity, our manpower and our integration with the Mainland economy.

As we pledged to you last year, we stand by to do our part to uphold a competitive and business-friendly Hong Kong. But we are more than just businessmen, executives, employees and employers. We, too, are residents of Hong Kong and we are deeply concerned with the future of our city. Thus, we put forth recommendations aimed at improving our environment and protecting our heritage. We have no doubt that, with firm and confident leadership from our Government, Hong Kong will have everything it needs to carry on successfully.

Yours sincerely,

Anthony Wu
Chairman