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### **Policy Priorities for the New Administration**

Please allow me to, on behalf of the Hong Kong General Chamber of Commerce, extend our congratulations to you on becoming the next Chief Executive for Hong Kong. The challenges you face cannot be overstated and we wish you well.

We would like to share with you our members' thoughts on the key issues which need to be addressed. In particular, we propose the formulation of a comprehensive action plan with proactive steps to rejuvenate Hong Kong's competitiveness, improve the air quality, smooth our integration with the Mainland, and promote sustainability of the economy.

We believe that Hong Kong has continued to prosper in the last decade, and we have made a great deal of progress in certain areas. However, we feel that Hong Kong could and should have done far better in other areas. In the near term, our competitiveness is directly and substantially threatened by the poor quality of our living environment. The foremost priority for the new Administration should be to quickly and aggressively reduce roadside emissions. There are also issues which require immediate and concrete action and, if achieved, will go a long way in strengthening the quality of our society and the governance of Hong Kong.

I sincerely hope you and your Cabinet will find our proposals useful. We look forward to working closely with the new Administration for the continued prosperity and harmony of our society.

Yours sincerely,

C K Chow  
Chairman

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## **Policy Priorities for the New Administration**

### **1. Introduction**

1.1 In welcoming the new Administration into office, the Hong Kong General Chamber of Commerce would like to share with you our thoughts on the key challenges facing Hong Kong in the coming five years, and to present our recommendations for strengthening a clear vision and leadership for our future. What is most important is the need to clearly and transparently lay a strong and comprehensive plan of action early, so as to present society with a vision of who we are, where we are going and how we are going to get there. Within this plan, there ought to be proactive steps to revitalise Hong Kong's competitiveness, dramatically improve the quality of our air and living environment, strengthen our education and manpower training and prepare the Government, political parties and society for anticipated changes to how we choose our leaders.

1.2 Hong Kong's success has arisen from entrepreneurial enthusiasm being supported and encouraged by good physical and institutional infrastructure and only the most necessary regulatory control. As a small, open economy, we are highly dependent on our flexibility, agility and ability to react quickly to changes in the regional and global business environment. The Chamber and the broader business community do not oppose regulation *per se*, but rather encourage and support good regulation.

1.3 The top policy priorities are *sustainability* and *competitiveness*. In the near term, our competitiveness is directly and substantially threatened by the poor quality of our living environment. **The foremost priority for the new Administration should be to quickly and aggressively reduce roadside emissions.** Whether the solution is introducing interest-free loans to replace vehicles prior to an outright ban or some other method, the Government definitely needs to take bolder action. The ensuing paragraphs set out the various key areas we hope the Administration will seriously look into in the next five years. There are also issues which require immediate and concrete action and, if achieved, will go a long way in strengthening the quality of our society and the governance of Hong Kong. They are:-

### ***Environment***

- i. Implement proactive measures to curb roadside emission, e.g. getting dirty vehicles off the road.
- ii. Consider building green incinerators and implement a waste management charging system.

### ***Fiscal Policy***

- iii. Establish a strategically focused Tax Policy Office.
- iv. Set up a dedicated fund to finance future healthcare and public pension requirements.
- v. Reduce the cost of doing business, including the profits tax rate and non-policy fees.

### ***Governance***

- vi. Evaluate and redefine responsibilities among bureaux and agencies.

### ***Land***

- vii. Formulate a long-term urban land use master plan for Hong Kong.

### ***Education***

- viii. Improve quality of the local education system and expand international schools.

### ***Society***

- ix. Undertake a comprehensive review of the Mandatory Provident Fund.
- x. Develop a comprehensive population policy.

## **2. Competitiveness**

2.1 International rankings aside, we need to benchmark our competitive offering against the very best in the world, from the living environment to banking regulations, educational opportunities and social cohesion. In doing so, we will identify areas where we can do better, and where we need to focus our attention.

### **Regulatory Environment**

2.2 We are not against regulation, but we do oppose badly written laws. As such, we are concerned that the direction and pace of regulatory reform in recent years have not been focused on sharpening our competitive edge. Narrow regulations, such as the poorly

conceived nutrition labelling law, may be overlooked as minor inconveniences, but broad laws (minimum wage, competition) need to be extremely well thought out, drafted and – where necessary – amended. We do ourselves an injustice when we copy laws from abroad without thinking clearly about the special conditions and characteristics here at home. Certainly, our international finance and business reputation should be second to none, but we do not benefit from European-style over-regulation. Moreover, we too often introduce new rules when simply enforcing existing law effectively would suffice. **We do not need more regulation but we need better regulation as well as more consistent implementation across the board. This is to ensure that the business environment remains favourable and is a level playing field for all.**

2.3 There is much discussion recently for introducing legislation governing standard working hours. While employees working in areas where personal and public safety is at risk should have adequate rest, someone appearing in court would very much like to have his legal team working as long as necessary to prepare the proper case. **One size cannot fit all cases and so we urge great caution and thorough discussion within the community before the Government considers legislating on standard working hours,** especially when it is far too early to assess the impact of the recently implemented statutory minimum wage.

2.4 Many of the recurring problems limiting our progress and disrupting society stem from the piecemeal short-term solutions to dealing with emerging issues. Policy initiatives requiring cross-bureau coordination and cooperation are only rarely dealt with in a timely and useful manner. Instead, bureaux and agencies operate as silos, leading to repetitive, inconsistent policy and regulatory approaches. **We must break down these silos to operate as one joined-up administration.**

#### Land Policy

2.5 We will need to comprehensively rethink land policy. Since we cannot significantly reduce the Government's dependence on income from land, and probably should not seek to sharply reduce the value of existing investments, the next best option is to **ensure that adequate and regular land supply comes onto the market in the most minimally disruptive way. Where policy preferences take priority, the Government should specifically designate plots for identified purposes such as logistics, hotel construction, small retail establishments or affordable housing.**

2.6 Decentralising government offices and expanding the emerging secondary business districts will help hold down the overall cost of doing business, and that cost is one of the main challenges we face. **The Government should formulate a forward-looking land use master plan, taking into consideration infrastructure and other ancillary facilities.**

#### Manpower

2.7 We are blessed with one of the lowest unemployment rates in the developed world, largely thanks to our renowned flexibility. But it remains our two-fold challenge to secure the talent we need for the highest-level positions while at the same time ensuring that our school leavers are able to find meaningful, rewarding work at various levels in society.

2.8 We also need to live up to our responsibility to ensure that those entering the workforce are prepared for the kinds of jobs we have to offer. That requires a significant improvement in the quality of local education, and a major investment in both vocational training and mid-career retraining. **We strongly urge an ongoing assessment of future human capital needs, coordination of various human resources development initiatives, and a forward-looking strategy on appropriate skills needed, as well as priorities accorded to skill shortages and occupations.** All in all, a consistent long-term education policy should be in place to provide a clear signal/direction for educators as well as students and parents to follow.

2.9 Our city's international character is a key competitive advantage, but it requires investment. We do not provide an adequate number of education places for international families, and as a result many are forced to reconsider contributing their talent to our labour pool. Central to this supply shortage is the overwhelming desire of local families to provide better education for their children than is readily available in their own language. Immediately, **the Government needs to facilitate the expansion of existing international schools, particularly at the primary level. At the same time, we must also ensure that the quality of our local education churns out graduates who benefit Hong Kong's character as a world class international city.**

#### Population Policy

2.10 We have aspirations that exceed our resources, and so we are dependent on foreign talent, on top of our own labour. We should not shy away from this part of our

character, regardless of political considerations, but embrace it as a sign that we are, and should be, greater than the sum of our parts. Many sectors are facing difficulties recruiting enough low-skilled workers to support their operations. If we need to bring in certain kinds of workers to achieve our goals, so be it. **From a macro perspective, human resources planning, education policies, the aging population, attracting talents, healthcare financing and other related issues should all be assessed under an overall comprehensive population policy, which is currently lacking.**

2.11 In particular, while we support the development of a well-regulated health insurance market, with appropriate safeguards for those who cannot afford the premiums, the proposed government-regulated voluntary health protection system may not be an effective healthcare financing solution. A mandatory system will be more sustainable in the long run. **To ensure the enrolment necessary to create a sufficiently large pool and thereby reaching an acceptable cost-benefit ratio, such a programme must be mandatory.**

#### Fiscal Policy

2.12 We have long prided ourselves on our simple and low tax regime, but that model alone is now inadequate. Our competitors have broadened their tax bases and offered targeted incentives to attract businesses away from our shores. **We need to think more strategically about our fiscal regime, including not only rates but also the breadth and purpose of the funds collected.**

2.13 A strong first step would be **the establishment of a Tax Policy Office** to review our basic assumptions. Such an office would monitor the competitiveness of our tax system, review its certainty and clarity, and recommend steps to shore up our international competitiveness. In particular, it would address concerns that taxation today is increasingly arbitrary and subject to case-by-case decisions.

2.14 In the near term, the unfulfilled promise to reduce the profits tax rate to 15% may now be out-of-date. If our fiscal philosophy prevents common sense approaches such as a broad consumption tax or introducing group loss relief, then **we need to think seriously about a much more aggressive reduction in the cost of doing business.**

2.15 We have the narrowest tax base in the developed world, and one of the largest holdings of fiscal reserves. If we are unable to broaden the tax base, **we need to have a clear and well-articulated plan for returning our budget to balance and either putting**

**the excessive reserves to productive uses or returning them to the taxpayer.** One possibility would be to set up a fund similar to a sovereign wealth fund to finance future healthcare or retirement needs. Whatever the decision, simply holding hundreds of billions of dollars without purpose is both unfair and unwise. We will not, however, be able to address this issue unless we have an accepted definition of the optimum level of fiscal reserves.

### MPF Review

2.16 The poor performance of the MPF is widely acknowledged as unacceptable. The time has come to review lessons learned and consider reforms and revitalisation. **We need a comprehensive review of the MPF,** and then may have to consider a total revamp of the system or some other approaches to achieving the objective of securing a comfortable retirement for the people of Hong Kong.

## **3. Sustainable Growth**

3.1 The Chamber has all along championed a green society and our members have strived to contribute in various ways to control pollution so that as little damage as possible is done to the economy, human health and the future of Hong Kong. Nonetheless, each year our own surveys indicate the highest degree of dissatisfaction among our members is with the quality of the air, and the Government's attitude towards dealing with the environment. A recent study conducted by the World Health Organisation has placed Hong Kong among the worst in a group of more than 500 cities in terms of excessive fine particles in the air. Unacceptable air quality deters foreign businesses from setting up offices in Hong Kong, discourages top talent from contributing to our growth, turns off visiting tourists and threatens the health of our families. **There should be no further discussion, just actions to immediately remove heavy-polluting vehicles from our roads, and further steps to encourage the use of cleaner ones.**

### Air Quality

3.2 The sustainability of Hong Kong is at stake if the environment is not given a higher priority in the policy agenda. While the Government has announced a schedule to launch the updated Air Quality Objectives, more efforts are required to push forward the associated strategies. In particular, the serious roadside pollution problem has been bothering our citizens almost on a daily basis. Getting dirty vehicles off the road and promoting cleaner ones should be an imminent strategy that the Government can take, and

road management, pedestrianisation and congestion charging should also be considered. There is no reason for further delay as this is the single most important issue we face and society is united in its view. **We need a more rigorous air pollution strategy benchmarked to local and global realities and matched against resources and political will, rather than simply relying on education, to ensure a sustainable economy.**

3.3 We are responsible for most of our air pollution, and thus we should muster resources to address that issue. On a broader, regional basis, we fully support stringent emission requirements for power plants. We need a clear and effective energy policy to ensure that we have the power we need to fuel our vertical city. The key question for a “clean” energy policy thus lies in the right fuel mix and emission control while accounting for efficiency and demand management. The current mix aims to ensure supply reliability, which is important. The more specific question is how far we should go towards phasing out coal. **We believe that conservation and efficient design can have a major impact on the demand for power, and that subsidies for electricity bills are counter-productive.**

#### Waste Management

3.4 **The Chamber is a strong advocate of a comprehensive package of waste management measures including landfill charging; incentives for waste reduction at source; recycling; responsibility for packaging; building rehabilitation; alternatives to demolition; and incentives for life cycle costing.** We have consistently held the view that the same user-pay principle applied to landfill charging should apply to commercial, industrial and municipal waste as well. While charging may not be a popular policy for the business community as a whole, the proposed charging schemes on municipal waste may help spur new business opportunities for the waste management, recovery and recycling industries. We need to comprehend the regional circular economy to resolve the waste issue and to capture opportunities in building up a green manufacturing supply chain in partnership with the PRD region.

3.5 Substantial investment and adequate space are needed for a modern recycling plant to handle collection, sorting, treatment, packaging, etc. This requires land, which the Government should allocate in sufficient size and on long-term leases so that operators may recover their capital investment.

3.6 In addition to the demand for a more aggressive waste reduction and recycling programme, there is a need to develop effective large-scale integrated waste management facilities to treat and dispose of mass volumes of residual waste. With the advance of



modern technology, “green” incinerators with minimal impact to air quality and human health could be utilised to achieve the goal of “zero landfill waste,” as well as providing energy to supplement conventional and non-renewable fuels. **The Chamber believes that such clean and efficient “green” incinerators should be an option to be actively explored.**

#### **4. Integration and Administration**

##### Integration

4.1 Hong Kong is the only international business and finance centre in China, and the third most important one in the world. With these twin characteristics, we need balance. **We need to support and sustain national goals while maintaining our international standing and competitiveness.** It won’t be easy, but we are fully capable of managing the challenge. It will take vision, planning and coordination, none of which have been abundantly apparent in recent years.

4.2 Integrating our physical infrastructure is well underway, from the Hong Kong-Zhuhai-Macao Bridge to the high-speed rail and other logistics and transport projects. Certainly, a third Airport Runway is a must if we were to be able to meet the growing demand on Hong Kong’s passenger and cargo freight. Timing and coordination are crucial, but delays are being detected owing to the lack of a comprehensive work plan covering the various transport modes relating to near-term and longer-term integration. Once again, we see a lack of vision and planning taking a toll on our future.

4.3 Hong Kong is in an enviable position vis-à-vis our proximity to the Mainland and our international stature. Yet, the Government does not seem to be proactively capitalizing on these advantages when formulating policies. The great success of integration and the side-by-side rising challenges are most easily seen in tourism. We have benefited greatly from the surge in Mainland visitors, but we are also beginning to feel a bit uncomfortable with our neighbours’ habits and mannerisms. Over the longer term, neglecting the need for society to better understand and accept our neighbours will be a costly mistake. **Certainly, Hong Kong should contribute to the integration process and be part of China’s future prosperity. At the same time, we should prevent integration from diminishing our international flavour, turning Hong Kong into “just another Mainland city”.** This would be detrimental to the further development of our economy, and to maintaining our global competitiveness.

## Tourism

4.4 Rapidly increasing numbers of visitors from the Mainland are part of integration. As almost half of such visitors are day trippers, the Government may not see an urgent need for more business and tourist hotels. This would be a mistake. The tight room supply not only constrains any further expansion of our tourism business, but, coupled with the lack of large exhibition venues, also hurts development of the lucrative meetings, incentives, conferences and exhibitions (“MICE”) business and is beginning to undermine our status as a regional business centre. **The Government should pay special attention to MICE as associated industries account for a significant share of Hong Kong’s services economy.** Since visitors attending MICE events and Mainland visitors may demand different accommodation, hotel supply planning should be done in a holistic manner.

4.5 We should also keep in mind that our unique culture and heritage are the key ingredients which draw visitors from around the world. The fusion of our inherited traditional Chinese customs and the colonial Western culture being rolled along by the surging economy has created the special identity of present Hong Kong. **The Government should ensure that such cultural traditions be properly conserved and developed for future generations to enjoy and avoid overlooking cultural development for the sake of economic prosperity.**

## Public Governance

4.6 In recent years, we have noticed a steady increase in the size of the Civil Service, one that is not justified by expanding services or the emergence of new challenges. Hong Kong has always prided itself on maintaining a small government, but we have also carefully avoided noticing that the quasi-governmental space is expanding. Statutory and government-subsidised bodies need to be rethought, with an eye towards what services we really need from the Government, and which ones are better left to the private sector. The original mission for these supporting agencies may no longer stand up to scrutiny and there are legitimate questions as to whether such agencies should continue. **We urge a reassessment of the services provided by the Government in such areas as healthcare, tertiary education, water supply and landfills, to determine their suitability for transfer to the private sector. It would also be useful to re-evaluate the relevance of a broadened mandate for certain statutory bodies.**

4.7 Within the Government itself, there is ample low-hanging fruit in the form of efficiency and rationalisation. Charging departments for their office space would

encourage consolidation and decentralisation of functions that do not need to be located in some of the most expensive office space in the world. Reducing the levels or ranks of the Civil Service would go a long way towards modernising public sector human resources management. Transforming trading funds into fully privatised businesses would shed unneeded layers of bureaucracy while creating taxable revenues. The list goes on, but the subject has been well off the agenda for a long time. **We need to rethink the Government's *modus operandi***, and now is the time to start.

4.8 There are issues which may not have any imminent impact but could have significant future consequences. For example, whereas the status quo is guaranteed under the Basic Law to remain unchanged for 50 years, are we prepared for Hong Kong after 2047? What will be the effect, on both the economy and society, of having to pay taxes to the Central People's Government? Do we have enough school places to accommodate future students from Mainland mothers giving birth in Hong Kong? According to the Basic Law, both the Chief Executive and Legislative Council Members will eventually be elected by universal suffrage. Isn't it time for the Government to start planning for the preparatory steps required in order to achieve such aim, especially for the 2017 Chief Executive election? It would be to our advantage if answers are ready for these questions before they appear on the horizon.

## **5. Conclusion**

5.1 The Chamber looks forward to working with the new Administration to strengthen Hong Kong's competitiveness and sustainability in the years ahead. We firmly believe that the issues outlined above, and our recommended actions, will go a long way towards ensuring that Hong Kong remains the pre-eminent regional business and financial centre, an attractive place to live and work and an asset to the nation and the people. We also look forward to hearing your broad vision of the next five, 10 or 25 years which will provide the foundation on which to build a better coordinated government and a more supportive society. In every step of the way, you can be assured of the Chamber's support in playing our part to promote the prosperity of this great city.

HKGCC Secretariat  
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