



Hong Kong General Chamber of Commerce
香港總商會 1861

香港總商會
香港金鐘道統一中心廿二樓
Hong Kong General Chamber of Commerce
22/F United Centre,
95 Queensway, Hong Kong
Tel (852) 2529 9229
Fax (852) 2527 9843
Email chamber@chamber.org.hk
www.chamber.org.hk

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23 September 2019

The Hon Mrs Carrie Lam Cheng Yuet-ngor, GBM, GBS
Chief Executive
Hong Kong Special Administrative Region
Tamar
Hong Kong

Dear Chief Executive

Policy Address Submission

We appreciate the opportunity of submitting recommendations on policy measures to the advancement and prosperity of Hong Kong.

The situation that we are in at the moment is historically unprecedented given the mix of external and internal pressures that Hong Kong faces. Geopolitical uncertainties combined with domestic issues that have since manifested into social restiveness pose serious threats to Hong Kong's overall well-being. Despite these, we remain optimistic about and confident in the prospects for Hong Kong in our capacity as a world-class city and key gateway for the Mainland.

The task of 'righting the ship' will not be easy as you have already acknowledged and we hope that our suggestion on rethinking the Government's approach to policymaking would be useful to the process of restoring public confidence and trust. We also hope that you will find our proposals on enhancing Hong Kong as a place to live, work and do business to be positive and constructive.

As always, the Government has our strong support and we look forward to working with you to see Hong Kong through the existing socio-economic difficulties and in ensuring a prosperous SAR for all Hong Kong citizens.

Yours sincerely

Aron Harilela
Chairman

Encl.

Submission by Hong Kong General Chamber of Commerce on suggested public policy priorities for the 2019-20 Policy Address

Introduction

1. As in previous years, we welcome this opportunity to set out our recommendations and suggestions as to what the Government's policy priorities should be in the next year.
2. The forthcoming year is a particularly challenging one, because Hong Kong is clearly beset by major challenges from within and without. The dragged-out Sino-US Trade War and ongoing social upheaval have given rise to a "perfect storm" that will require a mix of courage, leadership, pragmatism, and empathy to help steer Hong Kong through the political and economic troubles that we now face.
3. With the above considerations in mind, our recommendations for policy priorities in the next year are set out in the following sections of this submission.

Transparent and Inclusive Policy-Making Processes

4. We welcome the announcement you made on 9 July 2019 that there will be a major and substantive review of the manner in which the Government consults and collects feedback from the public. We also welcome your suggestion on 4 September 2019 to, among other things, formally withdraw the proposed amendments to the Extradition Bill, engage with the community in direct dialogue, and invite community leaders, professionals and academics to independently examine and review societal problems, and advise the government on finding solutions.
5. Transparency and proper public consultation are key to obtaining the public's support to proposed policy initiatives. The fact that, in the case of the Extradition Bill, these fell well short of the usual standard which Hong Kong citizens have rightfully come to expect, as the Government itself seems to have accepted, was in our view a major factor which triggered the current public discontent. Other than the Extradition Bill, there are also notable examples of well-meaning but potentially disruptive legislative proposals, which include, among others, the Vacancy Tax; statutory cooling-off period for beauty and fitness services

consumer contracts; raising penalties under the Occupational Safety and Health Legislation; and the Smoking (Public Health) Ordinance.

6. More specifically:

- (a) **The reasons for the policy initiative in question should be spelt out clearly in a well-publicized consultation paper. There should also be a widely-publicized media release inviting comments on the consultation paper.** The consultation paper should include an explanation of the perceived benefits of the proposal, whether legislation (as opposed to a less-intrusive measure) is necessary to achieve those benefits (and if so, why), and why the benefits of the proposal exceed its costs and other disadvantages or potential harm to society. In other words, a proper, evidence-based regulatory impact assessment (RIA) should be conducted before any new policy measure is introduced, a mechanism which we have been advocating for the last few years.
- (b) **In terms of the period of public consultation, the norm should be three months (as is usually the case at present).** If there are genuinely urgent factors which necessitate a shorter consultation period, these should be spelt out in the media release inviting comments on the consultation paper, so that all interested members of the public have proper notice of the consultation, and a reasonable opportunity to submit their views in time. **An integral and important aspect of RIA is to allow citizens and stakeholders to participate in, and contribute to, policy-making** throughout such a process.

Improve Quality of Life

7. **The recommendations given in the consultation report issued by the Task Force on Land Supply earlier this year should be implemented as a matter of priority, to provide more affordable homes for would-be homebuyers.** We support reclamation as an effective means of creating land supply, but given the amount of time associated with the process, a multi-pronged strategy as advocated by the Task Force should be adopted to provide new homes as soon as practicable.
8. We continue to advocate **the need for the Government to incorporate decisive and effective policies to create a cleaner and healthier environment** in the interest of enhancing Hong Kong's overall competitiveness and, on a more global scale, contribute to the fight against climate change. Actions taken in this regard

would also demonstrate the Government's commitment to securing a better and more sustainable future for younger members of society. Part and parcel of such an approach is **the development and incorporation of a sustainable growth plan that takes into account our capabilities and readiness for various economic activities**, while ensuring that these do not strain our resources.

9. Consideration should also be given to reducing our carbon footprint, which is an important challenge that faces the whole world. Hong Kong should play its part, as the Council for Sustainable Development has advocated in its public engagement exercise. In that connection, **we support the Government's initiative of levying a fee to reduce municipal solid waste and encourage recycling. The Government should also set ambitious but realistic environmental targets (in such areas as decarbonization, better air quality, reduction in solid waste, among other things) across the economy**, ensuring Hong Kong remains economically competitive with other jurisdictions and allowing sufficient time for the community and businesses to adjust and plan ahead.

Support the Local Economy

10. **Interim relief measures should be implemented to help individuals and businesses, especially SMEs, weather difficulties caused by falling confidence and a challenging operating environment.** Although we do not have any influence over international events, we can exercise control over local circumstances, as explained earlier in this paper, through incorporating changes to the Government's approach to public governance, by being more attuned to prevailing sentiment. Accordingly, we applaud the Government's relief measures announced on 15 August and 4 September to help address the liquidity problem faced by businesses, particularly SMEs. The setting up of a one-stop referral system on funding available to SMEs and consolidation of services provided by existing SME centers would also help promote better access to and improve the effectiveness of such funding schemes.
11. In the above connection, we would like to highlight one particular aspect of government funding support, which admittedly is quite diverse and abundant, that would benefit from a major review. This concerns the considerable difficulties associated with the application process due to the need to ensure that taxpayers' money is well-spent as a matter of principle. This is understandable

and commendable. On the other hand, the inability of such funds to fulfil their intended purpose also gives rise to the question of whether there should be a rethink of existing application and vetting procedures. To address this, **we suggest that government recast its funding programmes as matching funds, and defer screening responsibilities to its partners in the private sector.** This arrangement has the advantage of addressing government's perceived unfamiliarity with sectors and industries, and the consequent overly conservative attitude towards the disbursement of funds.

12. Over the longer term, **Hong Kong should also initiate more discussions on free trade agreements or investment agreements with other markets to offset the negative impacts of growing trade protectionism.**

Capitalise on the Greater Bay Area and Belt & Road Initiatives

13. These two national initiatives continue to offer considerable market and employment opportunities to Hong Kong in its capacity as an international financial and services centre under the framework of "One Country, Two Systems." **We should continue to leverage on our intrinsic comparative advantages to capture opportunities arising from these policy initiatives through better integration with the other cities in the GBA, and by supporting the Mainland's outreach programmes to markets along the Belt & Road.**
14. With respect to GBA, there are a number of areas in which Hong Kong could assume an important role. These include developing the SAR into a data centre hub, strengthening our standing as a leading international financial centre, capitalizing on our capabilities as a major aviation, maritime shipping and logistics hub, and providing a test-bed for Smart City initiatives for replication across the region. The Government should ensure that businesses and the public are fully aware of the benefits of these initiatives, and how they can participate in them to the fullest extent. The provision of additional WiFi hotspots and the new 5G network standard will further enhance Hong Kong's connectivity, and schools should be encouraged to include digital skills education in their core curriculum. **The Government should play a greater role in helping more Mainland enterprises to use Hong Kong as a platform, or partner with Hong Kong enterprises to develop global, belt-and-road, and ASEAN businesses. Hong Kong should also actively participate in the latest round of financial and service industry opening on the Mainland to further deepen capital market connections,**

and play an active role in helping to attract more foreign investment into the Mainland.

15. **In the area of aviation, focus should be given to allocating more airspace for civil aviation use, single management of airspace over GBA and introducing more direct flights to increase passenger and cargo flows. As such, the Government should lead and review air service agreements in the interest of consolidating Hong Kong's role as a super-connector for Belt and Road countries.** The publication of the GBA Development Outline Plan earlier this year also lends itself to accelerated discussions on, and implementation of, single skies / unified airspace management, an outcome that is of mutual benefit to all GBA constituents.
16. **The Government should also take the lead in promoting the harmonisation and unification of the digitisation of trade transaction requirements, through the implementation of information technology platforms.**
17. We should continue to be mindful of the need to preserve and nurture Hong Kong's distinct strengths and unique capabilities. This is important in sustaining Hong Kong's character as an international city, and gateway between the Mainland and the rest of the world. **The Government should give greater prominence to its commitment to upholding "One Country, Two Systems" as a way to promote international and local confidence in Hong Kong.**

Enhance Tax Competitiveness

18. **There are number of issues that the Tax Policy Unit (TPU) should address as a matter of priority.** These concern the following, which will be further elaborated in our Budget Submission.
 - *New Economic Substance Requirements in Low-Tax Territories*
 - (i) Hong Kong companies registered in BVI, Cayman Islands and Bermuda are affected by the new economic substance requirements. For issuers, failure to comply with the new regulations could result in delisting. At issue is the difficulty in applying for a Certificate of Residence (CoR) from the Inland Revenue Department (IRD) for Hong Kong companies registered in these territories, particularly those which do not have a tax treaty with Hong Kong.

The CoR is useful in exempting companies from fulfilling the new requirements, as it helps to establish their status as being tax resident in the SAR. In the interest of certainty, **we suggest that consideration be given to (1) extending the validity of CoR beyond jurisdictions with which Hong Kong entered into bilateral treaties to signatories of multilateral agreements such as the Multilateral Competent Authority Agreement and the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, and/or (2) amending the Companies Ordinance to allow the re-domiciliation of foreign-registered companies in Hong Kong.**

- *Super Deduction for Research and Development (R&D) Expenses*
 - (ii) There are a number of areas in which the enhanced deduction for qualifying R&D expenses introduced last year could be improved upon, through such means as elaborating on the intended approach by IRD in deeming royalties received by Hong Kong taxpayers for developments made before the introduction of the new legislation as being taxable. The ability to enjoy super-deduction is to some extent curtailed due to the narrow definition of qualifying activities and geographical scope. **We suggest that existing provisions should be reviewed, so that these are able to serve their intended purpose of supporting R&D by Hong Kong companies not only within the SAR's borders, but also through the Greater Bay Area.**

- *Review the Tax on Spirits*
 - (iii) Since 1994, liquor with an alcoholic strength of 30% or above is taxed at 100% based on its declared import value. This has remained the case while most developed economies have since shifted towards a taxation system based on alcoholic content. This has placed Hong Kong at an economic disadvantage and the city is not achieving its full potential as an international tourism and auction centre. According to a Benchmarking Exercise completed in January 2019, a reformed spirits tax could generate as much as HK\$1 billion in additional benefits for Hong Kong's economy in the first year of implementation. We therefore suggest replacing the **existing tax on spirits to a formula that calculates excise tax on products with alcoholic strength of 30% or above based on the alcohol content regardless of its import price.** This would benefit a wide cross section of the local economy

that include such activities as auctions, premium tourism, gastronomy and entertainment, luxury retail, convention and education, and logistics. Such a change would also be timely in helping the retail and tourism sectors weather increasing challenging operating conditions due to the effects of the China-US trade war and local unrests.

HKGCC Secretariat
September 2019