HKGCC
Hong Kong General Chamber of Commerce
香港總商會 1861
Serving Hong Kong for 160 Years

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Helping Business since 1861

18 January 2022

The Honourable Paul Chan Mo-po, GBM, GBS, MH, JP
Financial Secretary
25/F, Central Government Offices
2 Tim Mei Avenue, Tamar
Hong Kong

Dear Financial Secretary,

As we enter the third year of the pandemic, Omicron case counts are soaring to all-time highs in some parts of the world, and 2022 is shaping up to be just as uncertain as the last 12 months.

The impact of and uncertainties surrounding the latest variant are a sobering reminder of the long journey ahead of us in battling Covid-19. 2022 will also herald material changes to Hong Kong's tax regime due to developments outside of our borders, namely, the agreement on BEPS 2.0 and inclusion of the SAR on the EU's Grey List.

Despite these challenges, the Chamber remains cautiously optimistic because of the innate strengths that Hong Kong possesses. Although many of the changes to the local and international markets are beyond our control, we can choose how to respond. The attached sets out our recommendations on strategies to help Hong Kong navigate uncharted waters and emerge stronger.

We hope you find our suggestions to be useful in formulating the forthcoming Budget.

Yours sincerely,

Peter Wong
Chairman

Encl.

HKGCC Budget Proposals for 2022-2023

1. As the world continues to contend with the effects of Covid-19 and its various mutations, governments appear to have embarked on two distinctly different strategies, namely, by treating the coronavirus either as a pandemic, or as endemic. At the same time, and as with the rest of the world, Hong Kong will be party to a global minimum tax initiative put forward by the OECD. Our recommendations are therefore grouped into two parts, not only centering on the foregoing, but covering other key issues that we believe the Government should also be addressing in the near to medium term, given the significance that these will have on Hong Kong's ability to compete as a place to work, live, and do business.

A. <u>Recommendations for Immediate Pandemic Relief</u>

2. **Enhance government support programmes:**

    i. Although some semblance of normality was returning to Hong Kong, the emergence of Omicron has underscored the vulnerability of certain pockets of the economy, such as the travel, tourism and retail sectors, where businesses could be ordered to shut down sometimes at very short notice as in the case of the recent tightening of social-distancing measures. The abruptness with the imposition of such restrictions is often accompanied by uncertainty over the availability of interim government relief although, thus far, this is provided eventually. To address such a state of ambiguity, we suggest that instead of rolling out support arrangements on an ad hoc basis the government should state unequivocally its readiness to provide assistance if and when restrictions are imposed.

    ii. We also suggest that affected sectors be provided with targeted support through a narrower version of the Employment Support Scheme that is specific to the sectors that are adversely affected by government-mandated restrictions.

    iii. Furthermore, consideration should be given to extending such support to businesses that are indirectly affected by the imposition of tightened social-distancing measures. For example, in the food and beverage sector, temporary closures or reduced hours have also had a material and adverse impact on suppliers, and those providing entertainment services (such as musicians, performers, DJs and others). As and when conditions improve, we suggest that such short-term support schemes be rolled back gradually to avoid any unwanted withdrawal effects that would otherwise arise from a sudden cessation.

    iv. We also suggest that the SME Financing Guarantee Scheme, in particular, the time-limited Special Concessionary Measures, which provides 80% and 90% guarantee coverage, be reviewed to render these more accessible and user-friendly by SMEs.

3. **Consumption voucher**: The initiative, which began in August, has contributed immensely to supporting the domestic economy especially the retail and hospitality sectors, which

have been hardest hit by the pandemic. As it appears existing restrictions are unlikely to be eased over the coming months with the emergence of the Omicron variant, it may be necessary for another round of the stimulative scheme to blunt the contractive effects of dragged-out measures to prevent the spread of Covid. If and when such a scheme was reintroduced, we suggest extending the eligibility of the consumption vouchers to all permanent residents, regardless of their age. Other than providing support to the more vulnerable sectors, an expanded e-voucher arrangement would also be helpful to low-income families with young children aged 18 or younger. We suggest that at least HK$4,000 be made available and that the monies be distributed over two phases after Chinese New Year.

4. **One-time 100% tax reduction for profits tax, salaries tax and tax under personal assessment for the year of assessment 2021/22:** As a one-off relief measure, we suggest that a similar reduction be given in all cases, subject to a ceiling of HK$20,000.

5. **Loss carry-back (LCB)**: We reiterate the call we made last year for the introduction of LCB to help businesses, especially SMEs, to recover on a solid footing from the losses incurred due to COVID-19. We suggest that this be implemented for a finite period, during which companies can make LCB claims subject to a cap of between HK$2 million and HK$3 million in losses for the period between 2019 and 2022.

B. Recommendations for Long-Term Competitiveness

Prepare for BEPS 2.0

6. The adoption of a comprehensive agreement on 8 October 2021 by G20 Finance Ministers and Central Bank Governors on an Inclusive Framework on BEPS 2.0 represents a material and historic change to the taxation landscape. The following are the Chamber's recommendations on this issue.

   Reinvesting additional revenues

   i. Consideration should be given by government to a planned and systemic approach to reallocating the additional revenues raised as a result of the implementation of BEPS 2.0. Although the OECD has explicitly ruled out the introduction of tax incentives, as these would undermine the integrity of the new international tax rules under BEPS 2.0, the government should proactively consider ways to constructively invest the additional income collected to enhance Hong Kong's overall competitiveness, whether in terms of improving the operating environment for business and/or delivery and availability of public goods.

   ii. **Recommendations:**

      (a) Consistent with the shift towards a global minimum tax rate of 15% as provided under Pillar 2 of BEPS 2.0, we suggest that a similar adjustment be made locally, whether immediately or incrementally as the government deems appropriate, in compliance with OECD requirements.

(b) Given the likelihood that domestic legislation would be introduced to 'localise' Pillar 2 (as detailed in the subsequent section under *Judicious Implementation*), this would effectively pave the way for group taxation aimed at in-scope entities in Hong Kong. To provide a balanced approach to the taxation of this group of taxpayers, consideration should be given to providing group relief on tax losses incurred as and when Pillar 2 is implemented.

(c) Efforts should also be made to identify and address policy inefficiencies and bottlenecks to ensure Hong Kong lives up to its reputation as a business-friendly city through the adoption of Regulatory Impact Assessments.

Promoting Hong Kong

iii. Competition across jurisdictions in a post-BEPS 2.0 landscape will be fought on non-taxation merits. As such, it is of critical importance that attention and resources be allocated to communicating Hong Kong's advantages on the measures that we will be taking to preserve our standing as an international finance and trade centre. Singapore has been proactively engaging stakeholders across the business spectrum through its Economic Development Board (EDB) to engage with and maintain interest from international businesses. In contrast, there is no designated government agency in Hong Kong to conduct similar marketing exercises.

iv. **Recommendations:** There should be regular updates on the government's approach post-BEPS 2.0, as in the case of Singapore, to provide visibility and ensure effective communication to maintain Hong Kong's competitiveness. In that connection, the government should look into assigning or setting up a dedicated office as a matter of urgency to ensure Hong Kong does not run the risk of a permanent loss of business. We would therefore suggest that the equivalent of Singapore's EDB be established to assume responsibility for such tasks going forward to pre-empt periods of lull and inactivity, such as the one in which Hong Kong finds itself at the moment with BEPS 2.0. We suggest that InvestHK be vested with powers similar to those of EDB so that it can fulfil such a mission critical function.

Judicious implementation

v. The Pillar 2 rules are anticipated to be brought into law in 2022 and take effect in 2023. Although jurisdictions are not obliged to adopt the Income Inclusion Rule (IIR) and Undertaxed Payments Rule (UTPR), they must accept the application of the rules by other jurisdictions. In the case of IIR, this will come into force by 2023, although it appears that UTPR would be implemented in 2024. In Hong Kong, for the authorities to collect tax from subsidiaries of MNEs under Pillar 2, a Domestic Minimum Tax (DMT) would be required. The Government had asserted that DMT regulations would mirror that for group tax, namely, these would all be set at 15% to align with OECD requirements. However, the OECD had been silent on whether a DMT was mandatory under Pillar 2 and, as such, it was at the discretion of jurisdictions to decide whether or not to institute a DMT. That being the case, a DMT in Hong Kong appears quite likely, as absence of the same would mean ceding taxing rights to other jurisdictions.

vi. **Recommendations:** Given the impact of DMT rules on MNEs, and because the design and structure of DMT would be dictated to a large degree by UTPR, we suggest that the former – if this were to be implemented – should not be rolled out before the latter as this would not come into force until 2024 as explained above. Although such a delay could result in the government forgoing a certain amount of revenues, these potential revenues would be more than offset by avoiding any losses from potential missteps, given Hong Kong's lack of prior experience in this area – losses which would run the risk of undermining Hong Kong's competitiveness. Such an approach would allow Hong Kong to observe the approach in other jurisdictions and learn from their experiences. We also urge the government to consult as widely as possible before DMT and UTPR are implemented, to ensure our attractiveness to MNEs is not compromised.

Exercise Fiscal Prudence

7. Notwithstanding the increase in revenues stemming from the implementation of BEPS 2.0, we urge the government to review its finances especially with the chronic imbalance between recurrent revenues and spending. As pointed out by the Financial Secretary in his blog on 7 November, "*spending on healthcare, social services and education have increased by 53%, 62% and 25% respectively over the past five years. However, the increase of operating revenue over the same period is far from catching up with the same pace.*"

8. **Recommendation:** It is imperative that, going forward, attention be given to achieving a balanced budget on an operational basis. This is not only consistent with the government's constitutional obligation as set out under the Basic Law but also a key element in ensuring that government's presence in the economy does not become overly dominant.

Manage Hong Kong's Exit from the EU's Grey List

9. The government's undertaking earlier in October to amend Hong Kong's tax legislation by the end of 2022, to address EU concerns over the non-taxation of certain offshore passive income, has sparked concerns given that this would affect all businesses, regardless of their background or size. Within the local business community, there are concerns about the government's approach to dealing with Hong Kong's longstanding source principle. If Hong Kong were to continue with the existing offshore regime but garnish that with new provisions, this could give rise to the impression that such entitlements were still available but were denied in practice, thereby creating confusion and uncertainty. Although examples on royalty and interest incomes were provided, no reference was made to dividends, which also falls under the meaning of passive income. At the same time, the inclusion of substance as a pre-condition to qualify for offshore treatment is regarded as self-contradictory. In the case of royalties, if these were to meet the criteria for substance on a domestic level, this would, by definition, mean that activities to derive such income would not be offshore-based. As to taxation of interest, this would only be valid if the principle of tax on provision of credit was observed. If, however, a Hong Kong-based business was actively engaged in borrowing and on-lending

activities, it would no longer be eligible for offshore status. As it appears the crux of the issue concerns double non-taxation, if a business was able to demonstrate that it had paid withholding tax overseas, this should be adequate in meeting the condition that tax payment has been made.

10. **Recommendations:** Clarity on whether dividends fall under the meaning of passive income is important because this income type is more prevalent compared to royalties and interests. As pointed out above, dividends are usually subject to tax at source and, as such, should not be taxed again. We also suggest that (1) the meaning of offshore be preserved by avoiding the imposition of substance as a criterion. Failing that, the offshore regime should be eliminated as this would no longer useful nor relevant, and (2) if there was credible evidence of no double non-taxation where passive income was involved, such income should be exempted from tax in Hong Kong.

Enlarge Hong Kong's Tax Treaty Network

11. The number of double taxation treaties (DTAs) Hong Kong has entered into has remained mostly unchanged over the last 12-month period. Likewise, there have been negligible changes to the number of treaties under negotiation. Increasing Hong Kong's DTAs is important if we wish to attract more businesses to set up regional headquarters here, and to support the Central Government's Dual Circulation Strategy by assuming the role of a super connector between the Mainland and ASEAN economies. Hong Kong also stands to benefit through the creation of jobs and increased economic activity, especially in a post-BEPS 2.0 environment.

12. **Recommendations:** The government should set specific targets on the number of DTAs to be achieved over a predetermined period – we suggest a number between 20 and 30 within a 5-year period. Priority should be given to RCEP members (such as the Philippines, Singapore and Australia). Other potential treaty partners include the Seychelles, and jurisdictions in LATAM, North Africa and members of the Shanghai Cooperation Organization. Efforts should be made to mirror, to the greatest extent possible, the Mainland's network when formulating plans for the expansion of Hong Kong's network of DTAs. To achieve these objectives, the government could consider increasing the headcount in the respective agencies.

Promote Maritime Businesses

13. In her Policy Address, the Chief Executive suggested that the government would "*introduce tax concessions to attract more shipping agents, shipbrokers and ship managers of the maritime industry to establish presence and conduct shipping business in Hong Kong.*" The following sets outs the Chamber's proposals to achieve such an outcome.

    i. **Expand Hong Kong's treaty network** – Broadening our network of comprehensive DTAs (as recommended above) and shipping agreements would (a) allow Hong Kong shipping groups to better manage any potential overseas tax exposure, and (b) attract overseas shipping groups to establish a presence in Hong Kong.

ii. **Sustain Hong Kong's tax competitiveness as a maritime shipping centre** – We suggest that the Port and Maritime Board be charged with monitoring the effectiveness of various tax concessions relevant to the maritime industry. For example, a statistical database could be established to keep track of the number of companies applying for and vested with the relevant tax concessions. Information on the database should be publicly accessible, to promote transparency and provide clarity to prospective applicants in assessing their eligibility.

iii. **Extend profits tax concessions to shipping-related services** – Currently, a 0% and 8.25% profits tax rate are provided respectively to qualifying ship lessors and leasing managers. To foster a strong and healthy maritime business ecosystem in Hong Kong and encourage more shipping groups to establish their functions in Hong Kong, consideration should be given to extending existing concessions to other shipping-related or logistics industry players engaged in ship broking, ship agency, ship management, freight forwarding and logistics services, and other ancillary shipping-related activities.

iv. **Provide fiscal measures to encourage "green shipping"** – The government should consider providing incentives to industry players to encourage activities such as technological investments in eco-friendly vessels, tracking of carbon emissions, and other green initiatives. Incentives could include a reduction in registration fees for qualifying energy efficient ships or those using more environmentally-friendly fuels such as LNG, and subsidies to fund the development and adoption of green technological solutions.

v. **Introduce fiscal incentives for maritime businesses operating in Hong Kong and the Greater Bay Area** – Under the current tax regime in Hong Kong, 50% of the charterhire income derived from vessels operating in waters between Hong Kong and River Trade Limits is chargeable to Hong Kong profits tax. In contrast, charterhire income derived by vessels on international routes between Hong Kong and other ports is not liable to Hong Kong taxation. To promote commercial shipping and transport activities between Hong Kong and the Greater Bay Area, consideration should be given to providing concessions to shipping-related activities conducted between Hong Kong and River Trade Limits by businesses engaged in such activities on both sides of the border.

vi. **Support carriers through subsidies on operational fees and charges** – There are two specific areas where the government could provide practical assistance to shipping lines. These concern, (1) extending the waiver on light dues, which will expire on 30 September 2022. Instead of a yearly review, we suggest that this be made every three to five years to provide certainty and facilitate vessel deployment planning by carriers, and (2) institute a subsidy for pilotage dues similar to that at Shenzhen Port, where carriers enjoy financial assistance on 25% of the fee incurred for pilotage services provided.

vii. **Promote cargo throughput in Hong Kong** – We suggest that incentives be introduced to attract transshipment (involving both international and domestic transshipments respectively to overseas and the Mainland) to be routed through the SAR. Such incentive programmes could draw reference from those currently being offered by ports in South China (summary details as given in the attached table), where subsidies are provided for increases in traffic/cargo volume under such scenarios as the addition of new service loops offering a predetermined number of port calls within a defined period, and throughput growth for freight shipped to/from jurisdictions that fall within the meaning of the Belt and Road Initiative, as well as GBA.

Support the Retail and Tourism Sectors

14. Although conditions in the retail and tourism sectors have improved in recent months, due mainly to the joint efforts by the government and community in containing the pandemic and the launch of the Consumption Voucher Scheme, the outlook continues to be fraught with uncertainty as a result of the continuing restrictions on cross-border travel. The highly contagious Omicron strain, which was recently found in the local community and the resultant reimposition of stringent restrictions on social gatherings have served to underline the tumultuous situation that businesses and the general public have to live under. In the meantime, as Hong Kong strives to achieve a sufficiently high vaccination rate, businesses in these sectors will have to contend with ongoing measures to prevent the spread of Covid. Our recommendations to the government on assisting and supporting businesses to weather existing challenges and prepare for a return to normality are as follows:

Economic and policy support

i. Launch a scheme similar to the SingapoRediscover Voucher Scheme[1] to stimulate spending on local tourism in Hong Kong;

ii. Lower the threshold for the current Convention and Exhibition Industry Scheme, which is only applicable to large scale events involving venue usage of no less than 1,200 square meters of Gross Floor Area and international conventions for over 400 participants. We suggest reducing these requirements to allow smaller sized events to take place, especially in enabling the "restart" of business incentive meetings. This is of particular relevance as events held will be much smaller in size due to ongoing restrictions and border controls.

iii. Fast-track the implementation of a vaccine bubble to cover establishments and operations that are highly susceptible to government-mandated closures or shortened operating hours. We recognise that some time is required for the unvaccinated public to be inoculated but the government's timetable to put in place an expanded vaccine bubble by 24 February 2022 is inconsistent with its aggressiveness in controlling outbreaks. As such, the deadline should be brought forward.

iv. Provide financial support for local tours aimed at local residents similar to the Hong Kong Tourism Board's Free Tour programme offered in 2020, when members of the public were eligible to join a free local tour by spending at least HK$800 at brick-and-

[1] SingapoRediscover Vouchers (life.gov.sg)

mortar retail and dining outlets. A similar initiative would encourage residents to explore local attractions and enable travel agencies to gradually resume operations through local tourism.

v. Allow foreign labour to be imported to take up difficult to fill specialist or lower end positions.

Business Digitization

vi. Encourage e-payment providers to reduce fees payable by merchants to sustain the momentum created through the e-Consumption Voucher Scheme for e-payment adoption among businesses, especially SMEs. We also suggest that, where possible, the larger e-wallet operators consider providing same day settlement services through the adoption of FPS to facilitate cash flow in merchant users;

vii. Support digitization in the retail and tourism industries to implement technologies such as electronic kiosks, to automate and improve operational efficiency. We suggest setting up a dedicated fund to finance such an undertaking; and

viii. Simplify the application process for government funding for the adoption of technological upgrades.

Eco-Tourism

ix. Promote the development of eco-tourism by promoting hitherto lesser-known places in Hong Kong of historical, cultural and social interest and value, and engage local residents to become district ambassadors.

x. Review eligible Green Spots under the Green Lifestyle Local Tour Incentive Scheme initiated by the Commerce and Economic Development Bureau to include UNESCO Hong Kong Geopark sites that are not currently covered under the Scheme.

Synergies with the Greater Bay Area (GBA)

xi. Explore prospects for entering into mid- to long-term arrangements with international cruise operators to provide short-term itineraries (comprising two- to three-night visits) to cities in the GBA; and

xii. Develop multi-city tours across the GBA that also include Hong Kong.

Service Standards

xiii. Promote the efficiency and quality aspects of Hong Kong's service delivery to supplement the existing tagline of "service with a smile."

Strengthen Hong Kong as a Logistics Hub

15. As a pillar industry and key contributor to GDP and employment in Hong Kong, the logistics sector plays a critical role in our economic well-being. This is especially the case in the context of GBA, where Hong Kong boasts comparative advantages such as its extensive network and connectivity, robust legal system, central location and provision of world class services. It is therefore important that attention and resources continue to be directed to the sector to maintain Hong Kong's standing over the longer term. The following sets out our recommendations to achieve such an objective.

16. **Recommendations:**

    i. **Labour** – As with other segments of the economy, the logistics sector is experiencing difficulties in filling vacancies in lower end positions. Policy support is therefore needed to help the sector recruit labour and, where necessary and without compromising the interests of the local workforce, enable the importation of foreign workers.

    ii. **Land** - There is currently an acute shortage of mid to large size warehouse space for the logistics sector. This has driven up land lease costs and consequently the overall cost of operations for logistic businesses in Hong Kong. Logistic operations that deploy fully-automated and mechanized sortation systems, and other digital/space and labour-saving solutions have likewise been affected. If this troubling trajectory is not addressed, Hong Kong will lose its competitive edge as a trade and logistics hub. It is therefore recommended that adequate supply of land be designated for commercial storage purposes.

    iii. **GBA** – To facilitate the movement of goods within the region, we suggest (1) implementing policies that support cargo movement between Macau and Hong Kong via the Hong-Kong-Macau-Zhuhai bridge. This includes but is not limited to the provision of customs infrastructure (at the border) for cargo inspection and movement, and processes and procedures; and (2) reviewing existing regulatory controls on trans-shipments of air-land or vice versa transportation (or air-sea and vice versa if via Macau) by relaxing or simplifying licensing requirements for controlled commodities such as strategic commodities and dutiable commodities. Such a facilitative measure would have the virtuous effect of consolidating Hong Kong's position as a transshipment port of choice in the GBA.

    iv. **Green Logistics** – In addition to the "greening" of private vehicles, efforts should also be made to do the same for commercial vehicles such as trucks and vans. A viable infrastructure is essential to achieving such an objective, and to this end, we suggest providing incentives for industrial and warehouse owners to install the requisite facilities to support the implementation of a charging network and other electrification provisions. Alternatively, the government could cooperate with commercial vehicle suppliers and logistic companies to trial hydrogen powered trucks and vans. Consideration should also be given to providing alternative cleaner fuels at the Hong Kong International Airport.

v. **Technology** – Continuous investments in innovative solutions and advanced technologies should be made to sustain the flow of trade between Hong Kong and other jurisdictions with particular regard to the GBA. Examples include that on facilitating the exchange of trade-related information amongst the relevant authorities to expedite the physical movement of goods in and out of our airport and seaport, as well as through border checkpoints. Enhanced communication and data standardization are important contributors to maintaining Hong Kong's status as a key trading centre. On a local level, efforts should be made to deploy smart city applications to address challenges in safety, mobility, sustainability, and economic vitality. Consideration could be given to implementing such solutions as dynamic routing systems to reduce travelling time, distance, fuel, emissions and cost.

Compete for Global Talent

17. As with other economies, Hong Kong is facing an aging labour force and worker shortages. The situation we are in is especially dire because we lack few natural resources. As noted in other sections of this submission, the need for manpower spans the entire spectrum between those engaged in physical labour and those with advanced skills. Maintaining a stable, diverse and adequate supply of human capital is therefore of critical importance, given our plans to develop as an innovation and technology hub and to deliver major infrastructure plans to support Hong Kong's growth and development. At the same time, we are up against intense competition from other economies including cities in the GBA.

18. **Recommendations**:

i. We suggest introducing a programme similar to the US' H-1B, which is a non-immigrant visa that allows foreign workers to live and work in the country for up to six years, after which they can apply for a green card. Under this programme, employers pay a US$10 fee when registering electronically for a lottery conducted by the US Citizenship and Immigration Services. Only those selected are required to complete the requisite paperwork and pay the full fee ranging between US$1,710 and US$6,460 per worker. Since its introduction some 30 years ago, H-1B has become an extremely sought-after programme, attracting talented workers in fast-growing specialised fields such as research, engineering, and computer programming.

ii. The government should also introduce a rent assistance scheme or provide low-rent housing for overseas talent. The limited success of Hong Kong's talent admission schemes has inevitably invited concerns over the SAR's ability to attract talent. High housing cost has been cited by the Urban Reform Institute and the Frontier Centre for Public Policy as one of the major factors affecting Hong Kong's competitiveness as a place to work. In contrast, many overseas governments have already introduced a variety of preferential housing initiatives to attract skilled labour. According to a Legislative Council research brief issued in June 2020, compensation in Hong Kong has been lagging the Mainland and Singapore for certain professions on a like-for-like basis since 2018. Our attractiveness, cost-wise, pales further when compared to major cities on the Mainland and in the GBA where attractive housing schemes including rental subsidies and rent-free units are offered.

iii. We also suggest reviewing the salaries tax to identify ways to enhance Hong Kong's attractiveness as a place to work. In contrast to the limitations imposed by BEPS 2.0 on corporate taxation, this is a policy area where the government can still exercise full fiscal control. Enhancements of a meaningful nature would also have a positive impact on Hong Kong's middle class, which has hitherto not enjoyed much government support and is equally impacted by the pandemic.

iv. At the local level, more resources should be allocated to the labour and housing agencies to broadcast grassroot employment opportunities to help job seekers find suitable jobs and employers fill job openings in the same districts. For example, information on employment opportunities could be streamed on digital bulletin boards installed in existing and new public housing estates to broaden coverage and reach. Similarly, the approach to posting vacancies at the Labour Department should be done electronically rather than the existing means of doing so manually at the Department's employment centre.

Enhance the GBA Youth Employment Scheme (YES)

19. The launch of GBA YES in January 2021 was met with enthusiastic support from the private sector in Hong Kong. A total of 417 enterprises participated in the programme, which collectively offered 3,494 openings to qualifying graduates. Despite the employment opportunities that were made available through YES, only 31% of the positions on offer were filled. Given that this is the scheme's first year of implementation, there are inevitably 'teething' issues that would have to be addressed going forward. In that regard, the Chamber has partnered with MWYO in conducting a study of participating businesses and employees to assess and collect feedback on the structure of and potential improvements to the scheme. The key recommendations arising from the findings are set out as under.

20. **Recommendations:**

i. On balance, YES is useful to participating employers and employees. As such, we recommend extending the scheme for a further two years. The government would then have sufficient information to make a decision on whether the scheme should be enhanced, regularised or rescinded.

ii. To attract more interest and participation from talented youths especially those possessing specialised or professional skills, YES could be modified and enhanced by drawing on the Research Talent Hub programme, which is overseen by the Innovation and Technology Commission. Under such an augmented scheme, employers of research talent holding either a bachelor, master or doctoral degree are eligible to receive from the government a maximum monthly allowance of HK$18,000, HK$21,000 and HK$32,000 respectively capped at four such employees and an engagement period of not more than 36 months. Employers would continue to pay HK$8,000 to each employee recruited under such an enhanced scheme.

iii. Under the scheme's current arrangements, participation is open to anyone who is legally eligible for employment in Hong Kong. By definition, this also includes Mainland graduates from Hong Kong universities. Such a cohort of prospective employees would already be quite familiar with conditions in the GBA, and although some may plan to take up employment in the SAR, it is unlikely that this would be on a permanent basis. To address such a 'loophole', we suggest that the scheme be revised so that eligibility is confined to Hong Kong permanent residents.

Leverage on Public Private Partnerships (PPP)

21. As noted by the World Bank, delivering infrastructure projects is challenging for the public sector. In Hong Kong's case, the Lantau Tomorrow Vision, near-shore reclamation projects and ongoing/planned large scale projects, as well as the recently unveiled Northern Metropolis Strategy mean that the government would have to deploy the requisite technical knowhow and capital resources to fulfil the infrastructure objectives that it has set for itself. Given the extent, magnitude and complexity of the functions concerned – such as design, construction, financing, operations, and maintenance – in managing these projects, the government should be open to involving the private sector to allocate risk and optimize project delivery in a cost-effective manner.

22. **Recommendations**: PPPs provide more efficient procurement, life cycle maintenance, and new sources of investment to either augment or supplement government input to any major undertaking. PPP offers a good model for implementing public projects by combining the strengths of government and the private sector to support communities. In that respect, we suggest that the government proactively consider collaborating with the private sector to deliver the large number of projects currently envisaged on time and on budget. PPP is not new to Hong Kong. An example is the development of Sha Tin in the 1970s, when four developers were charged with works relating to the reclamation, formation, and construction of a 56-hectare site. A variant of PPP, the Private Sector Participation Scheme (PSPS) has also proven highly effective and efficient with notable examples being Kornhill Garden in North Point, Chi Lok Fa Yuen in Tuen Mun, and Richland Gardens in Kowloon Bay, which were all constructed in the 1980s. To leverage on private developers' land banks, the government could consider improving on the erstwhile PSPS through a step-by-step process based, more or less, on the following: (1) government-led planning, (2) private sector construction of public and private housing at a prescribed ratio within a specified period of time, and (3) government purchase of flats at an agreed price to shorten the time for accessing public housing. We believe there should be a dedicated agency within government that is tasked with the responsibility of taking forward and coordinating the implementation of PPP and would suggest that the Land and Development Advisory Committee take on such a role.

Position Hong Kong as a Centre for IP-backed Financing

23. Intangible assets are assuming greater importance as companies increasingly recognize the importance of innovation. As a global financial hub, Hong Kong is one of the few places in the world where technology companies can raise funds through means such as Initial Public Offerings, equity financing, and venture capital. The emergence of a new source of funding, namely, IP-backed debt financing, provides an attractive and low-cost alternative for IP-rich companies to monetise their intangible assets. Hong Kong is in a

uniquely favourable position to become an international hub for IP-backed financing, as well to consolidate its standing as a centre for innovation and technology. In addition to our intrinsic strengths that include our status as an international financial centre, the practice of common law and gateway to the Mainland, the Central Government has expressly indicated in its National 14th Five-Year Plan its intention to develop the SAR into a premier regional IP trading centre.

24. **Recommendations**: Although Hong Kong possesses the requisite qualities to become a centre for IP-backed financing, policy support is necessary to realise this objective. For this purpose, we suggest that the government:

    i. Review IP laws to create a legal environment that is conducive to the conduct of IP-backed debt financing. This should include facilitating the efficient transfer of IP rights to ensure lender's rights are protected in instances where there is a transfer of the underlying loan security;

    ii. Support startups and early-stage companies in commercialising their products or services through such means as the provision of interest subsidies or by participating in IP-backed financing activities, as in the case of other economies including the Mainland. This could also include establishing partnerships with incubators and accelerators including the Cyberport, Science Park and potentially the future Innovation and Technology Park in the Lok Ma Chau Loop, to create an ecosystem that supports companies at different stages of their IP-building lifecycle;

    iii. Cultivate and expand local insurers' appetite for discovering and underwriting the value of IP rights registered in China and Asia, to create new and diversified sources and streams of premiums for Hong Kong's insurance market;

    iv. Nurture local talent through university programmes that include courses on IP-related issues such as assessment and valuation, laws, filing and litigation.

25. The Chamber will be providing detailed recommendations on this issue and will be presenting such details to the government in due course.

HKGCC Secretariat
18 January 2022

Annex

Area	Incentive program's terms and condition (Game Rule)
Shenzhen	Shenzhen Government Subsidy for Mirs Bay Pilotage (大鹏湾"二次引航"补贴申请) Shenzhen Government plans to grant shipping lines transiting Mirs Bay with HK pilot on way to Shenzhen east a 50% subsidy and this serves as a notification only and subj to approval by SHZ Gov
Nansha	广州市港务局: 建设广州国际航运中心集装箱运输扶持资金 Volume contribution subsidy to shipping lines On the condition that shipping company with volume increase more than 3,000TEU, maximum RMB3 million per shipping company.
Nansha	南沙区"1+1+10"奖励政策申请 (航运物流业提升能级奖) Volume contribution subsidy to shipping lines (for Int'l trade). On the condition that shipping company with volume increase more than 10,000TEU (incl Trunk & feeder), Maximum RMB25 per TEU, maximum RMB1.5miilion Yuan per shipping company.
Nansha	广州港集团: 南沙区"一带一路"奖励政策申请 1. 2020 年内净增加的航线 2. 2020 年内航线吞吐量超过 5 千 TEU（含）。 3. 2020 年内班轮公司在南沙港区的集装箱吞吐量同比实现正增长。
Haikou	海口市促进航运业稳定发展办法 第十条 鼓励集装箱在海口港中转和外贸出口。 对在海口港中转的内贸重箱每标箱补贴 25 元，中转的外贸重箱每标箱补贴 150 元（均不含本省中转箱量），外贸出口重箱每标箱补贴 100 元。
Haikou	Yangpu terminal recongized new feeder service calling the port for one year, not less than 36 calls