

5th October 2015

The Hon. Mr Leung Chun-ying GBM, GBS, JP
Chief Executive
Office of the Chief Executive
Hong Kong Special Administrative Region
People's Republic of China
Tamar, Hong Kong

Dear Chief Executive,

On behalf of the British Chamber of Commerce in Hong Kong I attach our submission on issues for consideration for inclusion in your forthcoming Policy Address.

These proposals and comments are offered in an entirely positive spirit. The Chamber and its member companies are pro-Hong Kong and are committed to Hong Kong's continuing success.

The central theme of our submission is Hong Kong's medium-term competitiveness. Hong Kong is an excellent place to do business. Our concern is that Hong Kong needs to ensure that it maintains its leading edge at a time of ever growing competition from other cities in the region, including in key areas such as:

- Hong Kong's business efficiency and effectiveness
- Hong Kong's liveability
- the skills and talents available in Hong Kong

We are grateful for the excellent dialogue the Chamber has with your Administration. We look forward to carrying on this dialogue, including on the issues mentioned in the attached submission.

Yours sincerely,



Andrew Weir
Chairman

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British Chamber of Commerce
Policy and Budget Address Submissions for 2016 –2017

Enhancing Business Competitiveness in Hong Kong

Rightly, this administration is focusing upon livelihood issues and improving the living standards of Hong Kong citizens. The British Chamber welcomes initiatives such as increasing the supply of public housing, and the progress in improving air quality.

But central to the economic prospects of Hong Kong and its citizens, and to future opportunities for Hong Kong's younger generations, is our business competitiveness and our effectiveness as an international business centre. We still rank highly in international business surveys. But our competitiveness is being challenged by various mainland cities and other jurisdictions in the region. Our annual membership survey evidences our concerns – whilst broadly confident about the current business environment, only 63% of members are positive about the 5 year outlook – a drop of 10% since 2014 – the lowest level recorded.

To ensure Hong Kong remains over the medium term the best location in the region in which to conduct business, it is necessary to put in place the right policies and strategies relating to the areas central to its competitiveness: its business efficiency; its liveability (where we believe Hong Kong risks slipping back by comparison with other cities in the region) and the availability of the right people, skills and talent.

Therefore, while embracing the necessary regulatory change, we must keep a strong focus on the ease of establishing and conducting business; have in place a sustainable programme to keep Hong Kong's infrastructure leading edge, maintain its soft infrastructure with its exemplary standards of justice and rule of law and an independent judiciary at its core; and enhance our educational and social policies. All must be combined with a strong drive to enhance Hong Kong's liveability.

Immediate Priorities

We set out below a number of short term priorities which the Chamber believes should be considered for early implementation during the term of the current administration; together with proposals on more medium term priorities.

- (1) To ensure that business competitiveness and efficiency receive the priority they need, the Chamber recommends the appointment of a Minister for Business: akin to a 'mayor' for the business community. The Minister would be the Government's champion of business efficiency/effectiveness, vested with responsibility for enhancing and encouraging business, and with the authority to work with other Government departments/agencies to resolve differences and obstructions. This role would also encompass establishing a system to nurture Hong Kong small/medium sized enterprise (SME) start-ups, providing a one-stop shop service to encourage business establishment.. Such a Minister should also lead a critical review of Hong Kong's competitive position, with a transparent and objective view of its strengths and weaknesses, and formulate a cross-government competitiveness strategy.

- (2) The Chamber recognises the difficulties in making new land available for development. But the availability and affordability of land are major constraints on business. We recommend a major initiative to expedite the re-zoning of former industrial land, and to incentivise the provision of brownfield rather than greenfield development.
- (3) Developments in capital markets in China, and the financial services opportunities that the 'One Belt One Road' and AIIB initiatives present, combine with our reputation as a world class, well-regulated financial centre, to present a major strategic opportunity for Hong Kong. As one immediate step needed to improve our competitiveness, we recommend the Government takes urgent action to develop a broader, more liquid bond market. Others in the region, especially those involved in asset management, are already making inroads in this area.
- (4) Hong Kong-Shanghai Connect and other initiatives impact upon our capital markets. Simplification and acceleration of SFC licensing approvals; clarification of the tax regime for offshore fund income; and a more sophisticated weighted voting rights regime are needed.
- (5) The Chamber welcomes the increased provision of sites for international schools. However high and fast rising fee levels at existing schools, plus the changing demographic of international talent, with traditional expatriate packages disappearing, are creating great demand for reasonably-priced international education. The increasing scarcity of *affordable* schooling is harming Hong Kong's ability to attract and retain talent. We recommend urgent action by the Government to address this key issue.
- (6) Hong Kong has no sustainable future as a low wage, low value-added economy. Given Hong Kong's aging demography, the need for properly educated, trained and skilled talent assumes even greater priority. But in the short term we are facing a labour and skills gap. This already negatively impacts on our infrastructural development; our technology and creative industries and other sectors. We believe a limited and targeted labour importation scheme is needed to meet these labour/skills shortages.
- (7) In recent years, Hong Kong's attraction for talent has declined in comparison with its regional rivals. Our liveability and quality of life have been brought into question. Rapid implementation of an urban greening campaign, the creation of more attractive and vibrant urban open spaces of mixed use, including the Victoria Harbourfront; and greater pedestrianisation of roads (eg. Des Voeux Road Central) are initiatives which could have an early and positive impact.
- (8) Building up systemic resilience: with our limited size, location and a lack of natural resources, we are susceptible to unexpected external impacts. We need a plan to ensure provision of our energy, water, food supplies and logistics centres in emergencies, and such a plan should be commenced and completed within 2 years.

Medium Term Priorities

Looking beyond the areas above, where we believe immediate action is desirable, we set out below other aspects of policy and action which we see as critical to this medium term competitiveness picture. We would welcome dialogue with Government on these.

Business efficiency and opportunity

As a broad point we welcome the government's ambitions to diversify the economy, including the technology and creative industries. Hong Kong's significance as a business centre, together with its compact size, provide a real opportunity for it to be a leading smart city and cultural leader of the region. For this to succeed, an enabling business environment, the city's liveability and attractiveness to highly mobile talent, will be key factors.

Regulatory Impact Assessment

Given innovations such as the minimum wage and, (possibly), statutory working hours, future regulatory and policy developments with the potential to impact, positively or negatively, upon business, should be subject to transparent and cross-sector regulatory impact assessments – akin to Hong Kong's established EIA system.

Enhancement of Financial Markets

The introduction of Automatic Exchange of Information and Common Reporting Standards enhanced by the OECD, supported by the G20, comprise important changes for Hong Kong. The Government should engage with the international community to ensure that we benefit properly from the competitive advantages arising from our support for these new international parameters.

MPF

The Chamber has long advocated reform of the MPF. With an aging population, an efficient and attractive scheme is essential to encourage and facilitate the necessary level of retirement savings, including so as to avoid future unfunded pressure on government spending. Public confidence in the current MPF is low. We recommend increasing both compulsory and voluntary contributions; a simplification of the scheme; reducing fees and increasing their transparency; extending participation by temporary and excluded workers; and reviewing the right of offset against severance and long service payments. We welcome the proposed consultation on the future of the MPF and look forward to engaging with the government on this.

Infrastructure and Construction

The current cyclical element to infrastructure development has negative consequences for the construction industry itself, and also to skills and manpower development and retention, and to the industry's longer term competitiveness. We urge the Government to ensure a sustained medium term programme of infrastructure development, so as to make the industry sustainable and viable; and to increase its attractiveness as career. We also have concerns that a lack of innovation in government procurement and other

processes is hindering companies bring leading edge technologies and approaches to infrastructure and other public procurement contracts.

We believe Government should embrace new technology and enhanced work and ethical standards for the construction industry (including health and safety). We applauded the CIC initiative involving the McKinsey construction industry strategy study and urge the Government to follow through on the report's recommendations so as to improve the effectiveness of the industry, its attractiveness as a career, and its international competitiveness. A major element will be ensuring that government construction contracts and the way they are implemented by or for the government ensures an appropriate balance of risk between the public and private sectors and that remuneration for work completed is managed fairly.

Liveability

Land and Housing Policy

We wholeheartedly support an increase in the public housing programme to cater for young families' accommodation at affordable prices. In addition, the Chamber urges a review of the Capital Works Reserve Fund, and consideration that funds realised from future land sales be applied to assist those within the community in most need of support. In its regard, Government could consider funding essential infrastructural projects and developments with bonds, not cash, and secure such developments on an economically viable basis.

The Environment

It is vital for Hong Kong's competitive edge that it becomes a more comprehensively liveable city: this is a key factor in attracting talent and business from around the world, and in retaining Hong Kong's own talent. As noted above, a 'greening' campaign, and more imaginative use of public open space, could be relatively quick wins. But there is a need for a wider strategy. Other cities in the region have moved ahead of Hong Kong in their liveability. The Chamber encourages the Government consciously to follow relevant best practice in this area.

While we have seen welcome improvement in air quality and developments in waste management, the Chamber requests Government to engage with the Guangdong authorities to establish a 'clean air zone' for the entire PRD, and formulate a plan through to 2020 to achieve this end. There must be action and regulation to limit marine and industrial emissions, with Hong Kong ruthlessly improving its own local air quality. Particular emphasis must be made to reduce roadside emissions and a target of establishing fleets of low to zero emission public and private vehicles.

Further environmental protection and biodiversity requires strategic consideration. Better and more sustainable recreational exploitation of our natural assets, be they Victoria Harbour, the Country Parks and our islands, is a key. This requires changes to planning procedures, in particular incorporating the recommendations of the Hong Kong Biodiversity Strategy and Action Plan under the Convention on Biological Diversity.

People and Skills

English Language Capability

Whilst applauding the improvement in capabilities in Putonghua in Hong Kong, there has been a regrettable but commensurate decline in the standards of English. This remains the global language of international business and commerce. High standards of proficiency are a key competitive advantage – including in respect of Hong Kong's ambitions in the high tech and start up sectors. We believe a comprehensive 5 year strategy, perhaps led by the The Chief Secretary for Administration, is necessary to address this decline. Elements could include encouraging the use of English (as one of Hong Kong's official languages) within Government itself and in Government communications; strengthening the education sector by a focus on improving the standard of teachers' English; and adoption of effective and appropriate teaching methodologies in schools.

Hong Kong has insufficient facilities for those children and adults who have, and continue to need, special educational care. This is true for not just the international community but also the local community.

Healthcare

Manpower requirements within the health sector are critical. We believe a prompt, objective and transparent review of the current shortages of doctors and nurses is needed, with a view to taking the necessary action to rectify identified shortages. We have in mind expanding the recruitment of suitably qualified doctors and nurses from appropriate overseas jurisdictions, with the safeguard that any such candidates should meet the same professional standards as apply in Hong Kong.

To build a healthy and productive workforce we recommend further strengthening of the Government's efforts to improve primary care with scientifically proven disease prevention measures, and chronic disease management approaches.

Conclusion

The theme of our Submission is to highlight areas of concern relating to Hong Kong's competitiveness, and to propose various initiatives which will serve to sustain and enhance the competitive position of Hong Kong, whilst improving and enhancing the living environment for our citizens. We must, as a first-world society, continue to strive to sustain and encourage business – yet as a part of the wider community to which our members also belong. We particularly need to protect and care for the needy, the young and the elderly.

We look forward to enhancing our dialogue with Government on these issues.