



The British  
Chamber of Commerce  
in Hong Kong  
香港英商會

16 January 2012

The Hon Mr. John Tsang Chun-wah, GBM, JP  
The Financial Secretary  
25/F, Central Government Offices  
2 Tim Mei Avenue  
Tamar, Hong Kong.

Dear John

### **BUDGET 2012-13**

You will be aware that in 2011 the British Chamber of Commerce in Hong Kong submitted its twelfth "Budget Submission Paper" to you for your consideration. I am pleased to send you our thirteenth submission which is a summary of the key issues that we believe should be taken account of in your forthcoming Budget. As ever the purpose of these submissions is to give you an alternative view from the perspective of a major section of Hong Kong's international business community. This paper faithfully reflects some of the economic and fiscal concerns of our members and given that Hong Kong faces milestone in the election of a new Chief Executive these are things which we believe are either quick wins or those with an enduring lifespan and should also be addressed. The subject of what we think should be in the budget is the product of input from senior members of the Chamber.

I hope that you will see in this note some themes that you and your staff will regard as making a positive contribution to the thinking that goes into the preparation of the Hong Kong budget. In particular I would pick out the concerns that our members have stressed as being key to Hong Kong's future success such as:

- Whilst the past 12 months have seen Central Government take action that has led to the further development of Hong Kong as the premier offshore RMB financial centre nevertheless there is much more to be done to secure this position. Hong Kong RMB deposits have increased 10 fold between the beginning of 2010 and late 2011 to RMB600 billion and this money is looking for an outlet. At the moment Hong Kong has not yet developed the range, incentives and related structures to facilitate this market. In particular we would argue that the budget should give clear direction about further measures to deepen the range of RMB financial services which in turn will act as an incentive to Fund Managers and international equity IPOs to use Hong Kong as their centre of activities and persuade them to take advantage of Hong Kong's given advantages in terms its rule of law and free and open communications and easy access to mainland financial markets. Any investment in this area will be monies well spent.
- It is realized that much has been done since we raised the subject of the vital importance of rapidly arriving at a decision to construct a third runway for Hong Kong International Airport but there remains the issue of setting a clear timeline for its early development.

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- We have raised the subject of the vital importance for the administration to take urgent action to increase the number of school places in the international school sector at pre-school, primary and some secondary streams where there are currently no vacancies. We are supported in this by the entire international business community in Hong Kong. This is a serious business issue and directly affects the competitiveness of Hong Kong and we are aware that potential investors are turning away to other locations where their staffs are able to educate their children. We are mystified about why this matter is not being given the priority attention that it needs. The survey being conducted by Hong Kong University has not so far approached a single major 'Business Leader' in our Chamber for their input. We have made constructive suggestions about how to manage the immediate problem but nothing seems to be done and it appears we have once again missed the boat regarding any investment in this area, a real shame.
- We support the need for sustained investment in the next ten 'mega' infrastructure projects to enhance Hong Kong's long-term 'superconnectivity' regionally and internationally.
- Inescapably there is the need to take steps that will result in a real and measurable improvement in the air quality of Hong Kong which is deteriorating and doing so in front of our very eyes. Forty percent of Hong Kong's roadside pollution originates from buses and 75% of buses on Hong Kong's roads are equipped with Euro II or older engines; only 1-5% of buses meet the current cleanest engine standards. The oldest diesel engines (Euro II are below) are 34 times dirtier than the newer, cleaner engines (Euro VI and above). A simple and easy measure would be to convert the entire bus fleet to Euro 5 engines and dispense with those that are older before 2016.
- No one would disagree with your belief that 2012 will provide significant challenges as there is inescapably the need for caution however it is clearly understood by all that growth and innovation originates in very many economies, Hong Kong included, from the SME sector. But it is this sector that is the most vulnerable in times of economic stress and the measures which you took in 2008 to provide support to the SMEs should in our view be re introduced for the next two years. I refer of course to both the SME Training Grant Scheme and to the SME Loan Guarantee Scheme.
- We strongly support any measures that you hopefully will propose to alleviate the poverty wealth gap particularly in the New Towns and ask that given the clearly emerging ageing of the population that there is a concerted effort to reduce unemployment in the younger age groups.
- There is the question of the commitment at the appropriate time made by the Chief Executive to reduce the 'Profits Tax' to 15%. Whilst he has stated both in the past and more recently that the conditions are not right we would argue that going into a difficult time with all the reserves that have been accumulated is in fact the very time to take this measure. If this is not possible in the round then perhaps SMEs should be given some relief. We would point out that there are a number of jurisdictions around the world that set lower rates of tax for companies that fall below certain income thresholds, and it is our suggestion that the same be done in Hong Kong. Reducing the rate to 15 percent for small businesses would bring the Profits Tax rate into line with that levied on unincorporated businesses and aligning the two rates would not penalize those small businessmen who have chosen (perhaps for risk reasons) to operate through a limited liability company structure. It will give a welcome spurt to our competitiveness.

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- I realize that in his 'Policy Address' the Chief Executive recognized the implications of an ageing population, a subject which the Chamber has raised over a number of years. But bound up in this is the issue of the need to improve and enhance the MPF and also to tackle the issue of the reform of the delivery of healthcare going forward. Since you set aside HK\$50 Billion and the first proposals from the Health Secretary came to naught this seems to have gone on the 'backburner' but ageing is with us now and the problems for the Hospital Authority are mounting.

Finally, as this is possibly your last budget I would like to congratulate you on a terrific job guiding Hong Kong to remain fiscally strong whilst still investing in some great projects. Like every healthy business community we are always looking for ways to improve.

May I take this opportunity of wishing you and your family a 'Happy and Prosperous New Year of the 'Dragon' – Kung Hei Fat Choi?

Yours sincerely

Kevin Taylor  
Chairman

Cc: General Committee Members

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