



**The British
Chamber of Commerce
in Hong Kong**

香 30th September 2008

港 The Honourable Donald Tsang
The Chief Executive
英 The Hong Kong Special Administrative Region of
The Peoples' Republic of China
商 5/F Central Government Offices
會 Main Wing, Lower Albert Road
Hong Kong

THE BRITISH CHAMBER OF COMMERCE IN HONG KONG
A CONSTRUCTIVE CONTRIBUTION TO THE DEVELOPMENT OF THE
CHIEF EXECUTIVE OF HONG KONG'S POLICY ADDRESS FOR 2008/2009

*"How to ensure that Hong Kong maintains its competitive edge
and reputation as an agile, business friendly, investment
partner providing the highest quality living and business
environment in the coming decade and beyond"*

Dear Chief Executive,

I write on behalf of the British Chamber of Commerce in Hong Kong to reflect the concerns and aspirations of our members in light of the forthcoming Policy Address. The last submission made by the British Chamber to the Chief Executive highlighted the perceived growing sense of unease among local business leaders that Hong Kong could be in danger of losing its competitive edge over traditional and new competitors in major centres in the coming decade and beyond. As one of Hong Kong's largest international business organisations, the Chamber represents a broad spectrum of views from business professionals with significant international and regional experience, who call Hong Kong home and are genuinely supportive of 'Hong Kong Inc'. Their views are not intended to be critical, but rather taken as early warning signals of the challenges facing Hong Kong in an increasingly competitive global marketplace and highlight areas where effort should be focused to build Hong Kong into a truly great city, in which to live and work, for the years to come.

As the Chamber has already made numerous separate submissions responding to public consultations in the last 12 months, including those on healthcare reform and competition policy, we intend this year's submission to comprise a brief synopsis of what Chamber members feel are the three most pressing issues. These are governance, education and the living environment. We also include a brief Appendix in which we list specific short and longer-term actions in these and other areas of importance to our members.

Where business gets done

Our first major issue is that of governance and transparency. Whilst our members acknowledge previous efforts to improve accountability, the overriding impression of the Government is of mounting red tape, particularly when compared to some of our regional neighbours and global competitors. Chamber members perceive a steady erosion of Hong Kong's free market economy and principles of 'small government' in the introduction of copy-cat legislation on topics such as food labeling, competition law, racial discrimination, and minimum wage. Certain proposed new policies appear to be advanced without first establishing the socio-economic cost benefit for Hong Kong that would make the case for any refinement in policy or statute on the part of the Administration. We fear the long-term effect of further constraints on our socio-economic flexibility by adopting the policies of others without such prior assessment. At the same time, we have also observed Government in the last twelve months seeking to exempt itself from major pieces of new legislation, including the Racial Discrimination Ordinance and mooted competition policy legislation. If legislation is warranted, then it should be determined through objective analysis and applied fairly. This is critical for Hong Kong to retain its level playing field, one of its key competitive advantages. In addition, pledges of 'small government' seem at odds with the new layers that have been added to the Administration in the last 12 months. There also appears to be an increasing absence of autonomy and concerns about the application of the one country two systems model that was offered to Hong Kong under the Basic Law. Increasingly, members seeking to advance business initiatives in Hong Kong are also reporting a creeping bureaucratic mentality, which is undermining Hong Kong's former "can do" spirit.

Our members would like to see a tighter, more coherent structure to the Policy Address linked to the Policy Agenda, showing how the tactics and priorities are derived from the Government's overall strategic plan and, more importantly, where the responsibilities lie for policy fulfillment. There is a real need for Government to objectively benchmark itself against its neighbours and global competitors, focusing on reviewing and prioritising enhancements necessary to streamlining bureaucracy to ensure that Hong Kong remains a better and easier place to do business. With a 'light touch' but effective regulatory environment, a new agility that facilitates business, and a low and simple tax regime, Hong Kong can redefine itself and perpetuate its relevance to China, the region and global business.

The second concern that we would like to raise comprises education. The Chamber acknowledges that the Government has been investing heavily in developing human capital in Hong Kong. However, academic excellence is only one facet of education that is required to produce a highly effective, well educated, bi/tri-lingual workforce based on diversity of skills, personalities and experience that matches the needs of a rapidly changing business environment. Whilst our members support all efforts to improve the academic attainment of Hong Kong's young people, we would like to see a more balanced and inclusive approach aimed at broadening the skills base in Hong Kong, including enhancement of business English and Putonghua language skills, and the promotion of lifelong learning and support for vocational training. We also note that Government needs to facilitate immigration policy to allow Hong Kong to compete globally for the skills needed to complement those found locally. Sufficient international school places should be provided to enable business executives to relocate their families to Hong Kong. Further remarks are presented in the Appendix under Education.

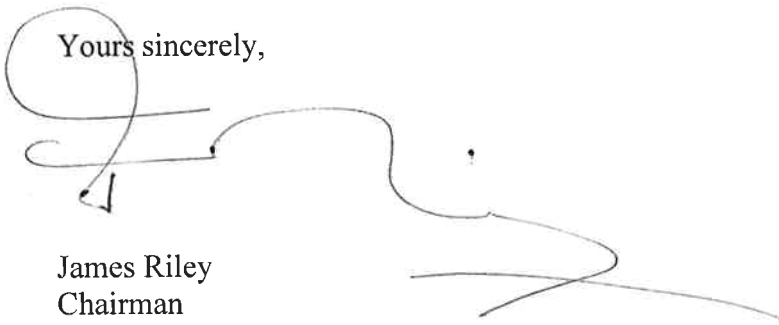
The third issue is Hong Kong's living environment, which is still a major concern for both our members and potential investors in Hong Kong. The Government needs to champion this cause, not just in terms air quality, but also with an approach that cuts across all sectors an all areas of government and includes improvements on a wide range of environmental fronts. Our members are well aware of the regional challenges in controlling air pollution, and acknowledge the Government's most recent efforts on cross-boundary collaboration to tackle pollution. Further efforts are required, however, to make a noticeable improvement to Hong Kong's air quality and to attain a high quality living environment for the community and international businesses.

The deterioration of Hong Kong's environment has become a serious problem and one that has not gone unnoticed around the world. Without further delay, the Government should acknowledge this and commit sufficient funding and expertise to tackling this problem. Hong Kong still has no overarching environment and sustainability strategy and has yet to advance a mature response to climate change. Urgent action is needed to prevent any further damage to our air, water, and other natural and cultural resources. Chamber members would also wish Government to advance a sustainable, balanced approach to planning and urban renewal, the disposal of our waste, the provision of energy and the formulation of transport policy. Specific details are highlighted in the Appendix under Environment.

As stated, this letter aims to share the three most important areas of concern of our members. Significantly, these are not areas of narrow business interest, but major foundation stones for the enhancement and future success of Hong Kong. Any attempt to re-brand Hong Kong must be built on the solid foundations of real improvements in these areas. We hope that the Government will consider our members' remarks in their development of future strategy and initiatives. Should further discussion be warranted, our members would be happy to meet with representatives of your office.

Yours sincerely,

James Riley
Chairman

A handwritten signature in black ink, starting with a large, stylized 'J' and ending with a long, sweeping horizontal line.

APPENDIX

Issue	Short Term	Long Term
Logistics	<p><u>1. Shipping Industry</u></p> <ul style="list-style-type: none"> - reduce cargo migration to Shenzhen ports and increase competitiveness by liberalising the cross-border trucking market and reducing Terminal Handling Charges; <p><u>2. Regional Air Cargo Hub</u></p> <ul style="list-style-type: none"> - protect our preferred hub status by liberalising the regulatory regime for trans-shipments; <p><u>3. Human Capital</u></p> <ul style="list-style-type: none"> - increase logistics industry talent pool through active engagement together with education and industry - to collaboratively promote career attractiveness to attract, develop and retain talented professionals in the logistics industry - develop and actively promote 'regional centre of excellence' facilities, programs and profile; 	<p><u>1. PRD Connectivity</u></p> <ul style="list-style-type: none"> - continue development programmes and initiatives with Guangdong and South China authorities to increase and sustainably expand Hong Kong's connectivity to the Pearl River Delta region; <p><u>2. Airport Infrastructure</u></p> <ul style="list-style-type: none"> - protect and enhance air cargo regional hub status by continuing investments in infrastructure, specifically second road link to Chek Lap Kok and construction of third runway;
Environment	<p><u>1. Roadside pollution</u></p> <ul style="list-style-type: none"> - The earliest possible introduction of electric cars and other vehicles; - An aggressive programme to remove pre-Euro, Euro I and Euro II vehicles from our streets; - A visionary expansion of pedestrian schemes; <p><u>2. Sustainable Development</u></p> <ul style="list-style-type: none"> - Encourage energy savings on building life cycle new and existing; - Consider Carbon footprinting on all infrastructure and building projects starting with Government projects; - Incorporate sustainable development assessments into all new projects over the life cycle of the project; <p>Importantly, the electricity rebate granted by the Financial Secretary in the March 2008 Budget seems to be at</p>	<p><u>1. Roadside pollution</u></p> <ul style="list-style-type: none"> - A programme to tackle congestion through improving public transport and other policy measures; <p><u>2. Sustainable Development</u></p> <ul style="list-style-type: none"> - Adopt and implement a coherent policy on sustainable urban and building design including integration of cultural and heritage values; - Incorporate zero waste and zero carbon requirements for all new and existing developments and projects; - Enhance the whole life costing and life cycle costing requirements on all projects and new developments and slowly roll this out to refurbishments; <p><u>3. Air and Marine Emissions</u></p> <ul style="list-style-type: none"> - Adopt emissions controls and incentives on aircraft and marine emissions; - Improve air quality through emissions controls and incentives on air craft and

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	odds with HKSARG's stated aims to encourage the community to conserve electricity;	marine emissions;
Education	<p>1. <u>Medium of Instruction</u> - The report on medium of instruction, which was issued a few years ago, recognises that children learn best in their native tongue. At the same time, it is generally recognised that our population needs to be fluent in the language of international business, which is English, in order to maintain its position as a leading world financial centre. We encourage the government to devote more of its resources to improving such skills;</p> <p>2. <u>Overseas university providers</u> - The British Chamber would encourage the Government to consider the role of overseas universities in the overall delivery of tertiary education and to take steps to support overseas university providers, for example in the area of registration and accreditation;</p> <p>3. <u>Continuing education</u> - The current administration should encourage other sectors of business to introduce continuing education for its workforce;</p>	<p>1. <u>The change to the education system</u> - We believe that the change from a 5-2-3 education system to 3-3-4 may provide a rare opportunity to tackle these perceived shortcomings, limited capacity for problem solving and reluctance to assume independent responsibility, – to rebalance the structure of our tertiary education system, and introduce changes to better shape the curriculum in our schools and universities;</p> <p>2. <u>International school places</u> - We welcome a diversified curriculum in Hong Kong to accommodate the diverse learning needs and secondly the capacity to attract overseas students to consider studying in Hong Kong. A world-class international school in Hong Kong could help accomplish Hong Kong's vision to be the International Education Hub. We believe that Government should look for innovating and modern approaches when planning for these new international schools;</p>
Information Technology	<p>1. <u>Information Technology</u> - On technology our members support the range of 'joined up government' initiatives outlined in the latest Digital 21 Strategy document. Information technology has an important part to play in areas including healthcare where, in the UK, it is improving both the efficiency and cost effectiveness of service provision as well as reducing the burden on the taxpayer;</p>	<p>1. <u>Information Technology</u> - Building on China's success in establishing technology centers in Dalian and Tianjin, Chamber members would like to see similar initiatives being progressed as a joint venture between Hong Kong and Guangdong. Such initiatives should expand on existing private enterprise driven cross border co-operation to include the establishment of a world class business process outsourcing and data centre capability – effectively combining Hong Kong's abundant business and major project management experience with the significant technology expertise and talent now available in mainland China;</p>
Infrastructure and Development	<p>1. <u>Sustainability</u> - The Chamber supports policy and practices whereby all infrastructure and developments in Hong Kong are</p>	<p>1. <u>Sustainable Urban Design</u> -The Chamber recommends the adoption of a clear policy on sustainable urban design that includes:</p>

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	<p>undertaken with full regard to the principles of sustainability. The Chamber recommends the adoption of an appropriate “Sustainable Buildings and Community Development” Awards programme supported by the Building’s Department / Government regulatory authorities by 2009;</p> <p>2. <u>Construction workforce</u></p> <ul style="list-style-type: none"> - The Chamber observes that for construction ageing demographics, with 60% of our workforce over 40 and 35% over 50, may comprise a serious issue in achieving the positive infrastructure workload. - The Chamber suggests a need to think and prepare for a controlled imported labour scheme for construction workforce. - The Chamber also observes that on the education front in the engineering industry that Hong Kong has one third of engineering graduates leaving engineering for other industries, a concern not limited to the engineering industry but needs to be addressed as it too could comprise a serious issue in achieving the positive infrastructure workload. 	<ul style="list-style-type: none"> • Improved pedestrianisation and pavement enhancement, • Minimisation of street furniture and signage, • Upgrade and rationalization of street furniture and use of solar technology (eg solar powered lighting), • Maximises pedestrian access, • Ensures consistent policy on disabled access, • Greening the streetscape, • Regulates illuminated signage, • Streamlining areas of responsibility into single department jurisdiction. <p>2. <u>Waterfront and Harbour Access</u></p> <ul style="list-style-type: none"> - The Chamber believes that HKSARG should fully recognise public aspiration for greater access and enjoyment of the waterfront including but not limited to the harbour areas, noting the current Urban Design Study of the Central Harbourfront, and the Shatin / Tolo Harbour areas as good opportunities to meet these aspirations; - The Chamber has long advanced the suggestion of establishing a Harbour Authority and is heartened by the Development Secretary’s recent pledge to seriously review this requirement; <p>3. <u>Hong Kong Heritage and Urban Renewal</u></p> <ul style="list-style-type: none"> - The Chamber believes that Hong Kong Heritage and urban renewal should be fully integrated. The current review of the URA and its urban renewal strategy should include appropriate and clearly defined responsibilities for ensuring Hong Kong’s cultural heritage and urban design are maintained in a sustainable manner;
Financial Services	<p>1. The Chamber suggest that HKSARG maintain steady regulatory overview of the financial markets, through the HKMA and SFC, and the Insurance Commission. At this challenging time it is imperative that an internationally respected hand is</p>	<p>1. Hong Kong’s regulatory framework must align with the macro-economic goals envisioned for Hong Kong , and those , we believe should be identified and built on in the Policy Address. The following areas are economic leaders in Hong Kong, with much inward investment from</p>

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	<p>needed at the helm of these bodies in these uncertain times, and going forward. Unexpected changes may be unwelcome. The Government should be ready to act in the markets, in extreme circumstances;</p> <p>2. Short term measures and financial give-aways may be inappropriate. Specifically, the Chamber is aware of the HK\$11bn 'giveaway' in July 2008 which was unbudgeted, which was in addition to the March 2008 Budget, which itself already contained many 'giveaways'. The most recent rebates and concessions were perceived by many to be unnecessary in light of the economic conditions before the summer. Importantly, the electricity rebate seems to be at odds with HKSARG's stated aims to encourage the community to conserve electricity and demonstrates a lack of joined up policy and emphasises the 'silo mentality' perceived by the business community;</p>	<p>foreign investors. We should enhance these business areas and strengths with future long-term policy initiatives, to keep them competitive and to continue to attract foreign investors;</p> <p>2. A long term view on revenue raising and tax policy is required. We support the main findings of the Bauhinia Foundation Taxation Survey in terms of the changes needed to the Hong Kong tax system, to maintain the competitiveness of the financial services (and other) sectors in Hong Kong. Particularly as there is direct competition on taxation matters from many other countries, trying to attract these very mobile businesses. The uncertainty over the offshore taxation status of some businesses and personnel is now hurting Hong Kong. A taxation policy concerning more tax certainty in offshore taxation claims in practice, likely trends in tax rates, personal allowances and rate bands over say the next 5 years would be welcome;</p> <p>3. The financial services sector continues to suffer from extremely high rentals in Central District, uncompetitive conditions, and lack of local talent. It is difficult to arrange employment visas and securities licenses for new personnel coming into the financial services sector in Hong Kong; there should be a special fast track visa and licensing system for financial services personnel. Many parties in the sector have now dispersed away from Central, causing reduced critical mass. The Chamber believes China expects Hong Kong to innovate and lead the way in the capital and financial markets, for the future benefit to both China and Hong Kong;</p>