

3<sup>rd</sup> July 2012

The Hon 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,

British Chamber of Commerce member companies employ over 10% of Hong Kong's workforce in small, medium and large businesses. We look forward to your leadership of Hong Kong at a critical point in its history, where there are many local, regional and international competitive forces at play.

The Chamber has previously shared the views of its members with you, during our meeting in February, and now wishes to set out suggested policy priorities for your consideration in developing your 2012-2013 Policy Address.

As a business chamber, we are mindful of the need to focus on business issues. This does not mean we ignore social concerns. In the summary below we have grouped our thoughts into areas that not only relate to business competitiveness but also recognise that, for business to thrive, the community within which we trade must also thrive. We believe passionately, however, that it would not do the community a service if business's ability to succeed is damaged by well meant actions attempting to meet concerns on the social agenda.

In recent times, we have become concerned by the erosion of Hong Kong's business competitiveness and a lack of recognition of the unique, small, city market nature of Hong Kong which has generated the community's wealth for so many decades. With this in mind, you will note two broad themes in the attached summary that we commend to you, as you begin to tackle our city's challenges.

First, anticipation of the impact of policy measures and careful planning of their implementation is crucial to their success. Since 2007, the Chamber has urged the Government to prepare *Regulatory and Government Impact Assessments* for major legislation, as is frequently done overseas. Uniformity of policy that ignores micro issues such as wide differentials in the sizes of businesses, will damage Hong Kong's ability to adapt fast to new global conditions as it has done so successfully in the past. For example, the poorly implemented minimum wage legislation and the vaguely worded competition law are matters of concern. The Chamber is a strong supporter of fair competition – it is good for business in the long run - but poorly implanted law perversely risks making Hong Kong a less competitive place in which to do business.

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The second theme generalises this point. To continue to succeed, *Hong Kong's economy needs to be flexible*. Europe's problems currently provide an appalling case study of how well-meant policy has, over the years, led to a more and more rigid economy which cannot respond to global competition. The wealth of their citizens and their employment situation is now paying the price. It is crucial that Hong Kong avoids this trap.

Our members are therefore concerned that the extension of law into standard working hours and paternity leave will serve further to undermine Hong Kong as a competitive place to do business. Any new legislation should only be advanced after critical and objective impact studies of the consequences to the economy and society, and informed and transparent debate between businesses, society and government.

The summary below endeavours to distil priorities for the first five-year term for your consideration as our Chief Executive with the aim of reinforcing Hong Kong's position as the best city in which to live and work in Asia. Detail policy-related Chamber positions and initiatives have been shared in detailed proposals with the previous Administration (which may be downloaded from the British Chamber's website ([www.britcham.com](http://www.britcham.com))).

Finally, could I add that we appreciated very much the thoroughness of your election agenda and manifestos, which our committees and membership reviewed with interest? We know from your manifesto that your approach is in many areas fully aligned with the Chamber's. The attached notes are designed to provide a broad summary of our concerns for your references, rather than necessarily implying any disagreement. In that spirit, we hope that this Submission is helpful as a synopsis of our thoughts in relation to the challenges facing your Government, the Administration and Hong Kong people.

Yours sincerely,

Nick Sallnow-Smith  
Chairman

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**Submission of Proposed Policy Priorities for the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) for 2012-2013 by the British Chamber of Commerce in Hong Kong**

**Enhancing Hong Kong as the Best City to Live and Work in Asia**

The purpose of this Submission is to summarise the views of members of the British Chamber of Commerce for consideration by the Chief Executive in the Policy Address for 2012-2013.

These suggestions aim to re-establish Hong Kong as:

- I. A city where international business continues to thrive;
- II. A city to which international business people are attracted to live and work; and
- III. A city enjoying effective local government and a prosperous local community

**I. A City where International Business Continues to Thrive**

**Strategy and Connectivity**

- The previous Administration was regrettably thought as having a lack of vision and strategy. The new Chief Executive and his government should urgently develop and articulate a vision and strategy of Hong Kong's role in China, the region and the world, and align all Hong Kong promotional bodies to espouse that vision and strategy in global markets.
- The new Administration needs actively to lobby Hong Kong's strategic interests in China and advance Hong Kong's role, autonomy and priorities in the context of China's next five-year plan and increase both the personnel and resources of HKSAR's trade commissions in tier one and the rising tier two Chinese cities.
- Within the Southern China region, the new Administration needs to coordinate policies to facilitate Hong Kong's 'super connectivity' at local, regional and global levels and continue infrastructural investment in Hong Kong, and with the Greater Pearl River Delta, including the sustainable development of Hong Kong International Airport's third runway project to retain the airport's status as one of the best in the world and the regional aviation hub of choice.

**Maintain Hong Kong Business Competitiveness**

- The new Administration should:
  - Maintain the Hong Kong Dollar peg as a pivotal feature of economic policy;
  - Consider reducing the Profits Tax rate to 15% (or lower) in the 2013-2014 Budget to assist Hong Kong's competitiveness and attraction to local and international businesses;
  - Maintain the HK\$28 statutory minimum wage level in the current review.
  - Commission an independent third party to conduct a regional comparative review of the costs of doing business in Hong Kong, thus to identify areas for improvement;
  - While fully supporting the need to improve the working conditions of Hong Kong people, the Chamber is concerned that this must not be done in ways that reduce the flexibility of

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Hong Kong's labour force. Targeted measures to address poverty would have our full support. However for Hong Kong to continue to generate wealth that can address poverty, it will be essential to avoid economy-wide measures that reduce its flexibility to respond to changing global conditions.

- For example, the Chamber's members consider that mandating standard working hours is not a solution to improving work-life-balance. The Chamber's members, both SMEs and larger businesses, are opposed to standard working hours, which will adversely affect the competitiveness of Hong Kong in the region and internationally; and
- Government must carefully consider objectively and transparently the full impacts of the introduction of paternity leave on the Hong Kong workplace.

#### **SMEs**

- Hong Kong's small and medium-sized enterprises account for more than 85% of the economy and are facing both economic uncertainty and escalating competitive pressures. We recommend reinstatement of the government-funded SME Training Fund, the elimination of compulsory annual financial audits and guidelines on collateral and that government make available micro-finance applications that meet specific short-term needs of SMEs and services companies than current Loan Scheme, which is trade/manufacturing oriented. The Chamber also suggests the Financial Secretary considers suspending provisional tax payments for SMEs and lowering the tax rate for SMEs with turnover/profits under a reasonable ceiling in the 2013-2014 Budget.

#### **Competition Law**

- Now we have a Competition Law, the new Administration needs to provide a clear definition of anti-competitive behaviour in business. In addition, it should consult with business on the terms of reference and membership of the future Competition Commission and Competition Law 'guidelines' and further consider exempting vertical agreements from any challenge under the proposed First Conduct Rule.

#### **Financial Services**

- The new Administration should support the expansion of the financial services sector, and further develop the range, incentives and related structures to facilitate the RMB market, with directions and a vision about extending financial services of and for RMB transactions. Further, it should continue to engage with the PRC to encourage the PRC more easily to recognise Hong Kong professional qualifications, especially in finance-related fields, to enable easier transfer of qualified personnel from the Hong Kong financial services sector to support financial services sector in the PRC.

## **II. A City where International Business People are Attracted to Live and Work**

#### **Availability of International School Places**

- The Chamber commends the new Chief Executive's understanding that the availability of international school places is an economic issue and one that materially affects Hong Kong's competitiveness. Despite the introduction of new international school places by the previous Administration, the problem is not solved. The new Administration must continue to support all initiatives relating to the procurement of spaces for expatriate children in Hong Kong's international schools, especially at Primary level, and throughout the territory (i.e.,

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not only Hong Kong Island). In this regard, provision of unused Government facilities to international schools to meet the growing demand for school places should be accelerated and a priority.

#### **Environment and Climate Change**

- The Chamber acknowledges the previous Administration's modest actions on the environment and commends the new Chief Executive's understanding on this subject, and particularly that our air quality is affecting our competitiveness and has weakened Hong Kong as a city where international business people are attracted to live and work. For over a decade, the Chamber has been advocating improvement of Hong Kong's air quality and beseeches the new Administration urgently to improve roadside air quality by phasing out all 5,000 pre-Euro V buses still in use by 2016 and to introduce a Euro V franchised bus fleet by 2016. Green House Gas (GHG) emissions from road transport must be reduced. Any associated additional costs may be met from 'one-off' public funds to avoid fare increases. The new Administration needs to support greater use of lower air pollutant and GHG emission fuel sources, including natural gas, for electricity generation. To this end, the Administration will need to educate the community and business on their joint responsibilities to bear the costs of cleaner air and associated fuels and to reduce energy demands.

#### **Property**

- The new Administration will need to legislate for and provide accommodation that meets the needs of a prosperous community demanding larger living space, more amenities, better ventilation and with convenient access to sustainable forms of public transport.

### **III. A City with Good Local Government and a Thriving Local Community**

#### **New Regulations and Improved Governance**

- The Chamber recommends the new Administration initiate plans for the adoption of objective Regulatory and Government Impact Assessments for all new legislation and to consult transparently on implications to society and business. The new Administration could devolve more authority to the District Councils, within the requirements of the Basic Law, and more closely integrate them into the process of government.

#### **Education and Vocational Training**

- The new Administration ought to establish renowned, privately funded universities in Hong Kong to contribute to Hong Kong's role as a regional educational hub, without any further delay. To help social mobility and strengthen Hong Kong's work force, the new Administration needs actively to encourage vocational training.

#### **A Sustainable Construction Industry**

- The new Administration has the opportunity to review the status and challenges facing the construction industry and to address outstanding concerns and planning for the sustained future of the industry. Further, the new Administration should be a disciple of more sustainable building designs and construction, and undertake a major study of disused buildings throughout Hong Kong to assess those that can be sustainably renovated or refurbished for reuse rather than demolished.

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