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

Mr. CHAN Mo Po, Paul, GBM, GBS, MH, JP
Financial Secretary
Financial Secretary's Private Office
25/F, Central Government Offices
2 Tim Mei Avenue, Tamar
Hong Kong

14 December 2022

Dear Financial Secretary,

2023-24 Budget Consultation

We were grateful for the opportunity to attend the 2023-24 Budget Consultation you held with members of the international business community earlier this week and to put forward our views in person. Time did not allow us to cover all our points so, on behalf of the British Chamber of Commerce in Hong Kong, I write with a summary of our recommendations and key priority areas for your consideration in the 2023-24 Budget.

It is clear that, despite a positive medium to long term outlook, the economy faces both global and domestic headwinds in the short term; and, despite a moderate inflation rate compared to Europe and the United States and a relatively low unemployment rate, this will bring significant challenges for our city. We understand that the latest Government economic forecast for 2022 is negative Gross Domestic Product (GDP) growth of 3.2 per cent and that the economy is now expected to grow at a slower pace in 2023 than previously expected. COVID restrictions (both in Hong Kong and on the Mainland) continue to have an effect and, we were pleased to hear that the Government further relaxed the restrictions in order to continue opening up Hong Kong and enable it to fulfil its role as an international financial, trading and logistics hub. The recent Financial Leaders Investment Forum and the Rugby 7s were important milestones (and deserve congratulations) but momentum needs to be maintained. This will be critical in attracting talent back into Hong Kong.

In terms of tackling immediate issues, we would put forward three areas for consideration in the upcoming Budget.

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- **Stimulate consumer demand**

Key sectors of the economy have been particularly badly hit by the pandemic, most notably the F&B / retail industry, tourism and many SMEs, all of which are critical to Hong Kong's future economic growth and stability. In order to get the economy back on track, we would suggest that it is essential to continue to stimulate consumer demand and encourage local spending. In that regard, we would recommend consideration be given to further consumption voucher or similar schemes, together with continued or new subsidies to reduce the rent and tax burden in badly affected sectors. The consumption voucher schemes have proved popular and, provided they are appropriately targeted, are a simple and effective tool to stimulate domestic demand. We realise that rent or tax subsidies are more controversial but as short-term measures, they also deserve consideration.

- **Review of strategic regulations to deliver rapid economic growth**

The regulatory environment in which businesses operate has a material impact on their ability to grow and expand, and therefore on broader economic growth. In that context, we would recommend that the Government review as a matter of urgency the competitiveness of all key strategic regulations that apply to businesses in Hong Kong, with a view to enhance the efficiency of the business community (and hence the economy more generally) whilst retaining the effectiveness of the regulations themselves. Such a review has the potential to immediately boost Hong Hong's GDP by reducing costs on businesses and enhancing Hong Kong's international business appeal to new investment.

Similar studies conducted internationally of which the Chamber is aware have delivered between 2-3 per cent growth to GDP within a short timeframe. A review of business regulations conducted in the Netherlands delivered 1.3% growth in GDP by removing the burden of administration from many regulations. Similarly, a study conducted in the United Kingdom focused on regulation of the financial services sector. This found that optimising regulations could deliver between 2-3% GDP growth.

Given the strategic importance of the Financial Services, Professional Services and Trading and Logistics sectors to the Hong Kong economy (these sectors alone directly generate over 50% of Hong Kong's GDP), we would suggest that these sectors should form the initial focus of a review to optimise regulatory effectiveness. Ultimately, such a review offers the potential to deliver rapid savings to businesses – which – on the strength of similar exercises conducted overseas – could provide an immediate stimulus to the Hong Kong economy and assist our return to growth.

- **Tax and related incentives**

Measures should be included to continue to encourage strategic businesses and regional operations to be established/ retained in Hong Kong. In that regard, we would particularly mention family offices (which we are aware is a priority area for the Government and a focus of Invest HK) and where tax and residency considerations play a large role in determining decisions as to where to locate. Another critical area is regional headquarters. Historically, Hong Kong has been one of the top locations in Asia Pacific where multinational corporations have established their regional headquarters. This has suffered to some extent recently but remains very important for Hong Kong's future. In order to continue to retain and attract new regional headquarters, we would suggest consideration of the introduction of a more favourable tax regime for such regional operations that meet certain criteria in terms of tax relief and/ or tax holidays. This will help increase business volumes and attract/ retain talent and may also attract businesses from the broader ASEAN markets (and enable Hong Kong to fully capitalise on RCEP).

More generally, and as we have mentioned in previous submissions, we believe steps should be taken over the longer term to broaden and diversify the tax base towards more sustainable or recurrent sources and mitigate the over-reliance on 'one-off' land premium. We understand that this would require intensive consultation with the business community and other stakeholders. In the short term, we would, however, recommend a review of current stamp duty requirements so as not to discourage the redevelopment of old buildings in Hong Kong and to improve affordability for both first time buyers and buyers looking to upgrade their homes across the primary and secondary housing markets.

In terms of other focus areas for the Budget, we would mention the following:

- **Healthcare**

The COVID pandemic has highlighted the importance of Hong Kong's healthcare system and we would recommend that Government allocate more funds to support the Health Bureau and the Hospital Authority; and at the same time clarify the Health Bureau's role in relation to approval and oversight of the Hospital Authority's budget. New additional targeted funding for the proposed Primary Care Authority will alleviate the strain on hospitals, and collaboration with the private health sector can facilitate this scheme and other schemes in the future.

In addition, we would recommend that the Government consider enhancing tax incentives to encourage Hong Kong residents to take up sufficient life and health protection, building on the success of the launch of the Voluntary Health Insurance Products (VHIS). As proven by the VHIS scheme, tax incentives can effectively encourage uptake of insurance protection, which will relieve rising pressure on the public health budget in the long run.

Another focus should be on mental health to address the rising challenges recognised in the Policy Address; in that regard, we would recommend an immediate, separate and dedicated allocation be made in the Budget for the Student Mental Health Support Scheme outlined in the Policy Address to include increased funding to address the alarming rise in the number of suicides amongst our youth and to increase the accessibility and affordability for lower income families in receiving support for children identified as being in potential danger of harming themselves.

- **Education**

In addition to the mental health considerations mentioned above, we would recommend increased funding for organisations/ schools that offer support to families with special needs, and for organisations/ schools that promote sport and outdoor education.

- **Infrastructure**

As mentioned in previous submissions, we strongly believe that the Government should use the impressive pipeline of infrastructure projects announced in the Policy Address to utilise the resources of the private sector to support Government to finance and deliver these projects on time. By so doing, Government would support the development of Hong Kong as a regional centre for green and sustainable infrastructure finance, and support growth in the green bond market.

- **Sustainable Development**

In order to encourage low carbon refurbishment and/ or sustainable redevelopment of existing and older buildings, in particular for residential use, additional incentives should be provided and where appropriate a mechanism should be introduced whereby such older buildings when retrofitted to a certain standard could be mortgageable.

- **SME**

As mentioned above, SMEs are a critical segment of the Hong Kong economy and have been badly affected over the last two years. The Government has recognised this and the support schemes (particularly the ESS and the job creation schemes) have been well received. These schemes may well need to be extended into 2023.

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

We would also ask that future plans to distribute subsidies to such businesses be discussed with representatives of the industries being targeted to ensure that practical issues around eligibility, application process and distribution of funds identified are resolved at the planning stage; we would be very happy to participate in such discussions. A case in point would be the rent deferral scheme. Similarly, we have received feedback that the 100 per cent loan guarantee scheme has become increasingly difficult to access with long delays in the application process and tightened reviews, and that the scheme is therefore not fulfilling its original intention of providing effective, quick and efficient relief. A review would be welcomed.

- **Creative Industries**

As mentioned in previous submissions, we believe that creative industries will be an important element in the future positioning of Hong Kong and were very pleased to see the focus on this in the Policy Address. Accordingly, we would continue to encourage further consideration of tax and other incentives to promote the growth of creative industries in Hong Kong.

We trust that these recommendations will receive due consideration and would be very happy to discuss further with you or your colleagues.

May I also add our best wishes for the holiday season and a successful 2023-24 Budget.

Yours sincerely,

Ir Dr Anne Kerr
Chair

Cc: Mr. WONG Wai Lun, Michael, GBS, JP, Deputy Financial Secretary, Financial Secretary's Private Office
Mr. Willy TSOI, Adm Asst to Financial Secretary, Financial Secretary's Private Office
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