



**Submission on the 2008-09 Policy Address**  
**Business and Professionals Federation of Hong Kong**  
**September, 2008**

***Review of the 2007-08 Policy Address***

- 1 In looking ahead to this year's Policy Address, it is worthwhile to start by taking stock of last year's Policy Address. A major focal point of the 2007-08 Policy Address was the Ten Major Infrastructure Projects. Progress of the ten projects has been uneven. In particular, the Central-Wanchai Bypass is facing new obstacles as a judicial review on harbor reclamation produced a ruling against the Government. The setback dealt on the Central-Wanchai Bypass is far reaching, as it not only delays much needed relief of traffic bottlenecks between Central and Wanchai, but it could also impact on the Shatin to Central Link (SCL) and development along the Wanchai waterfront. One would trust that the Government has taken steps to remedy these problems, and the public should be updated on the latest progress.

***Governance Issues***

- 2 Now and in the near future, the Government will have to make decisions on policy issues with far reaching consequences for Hong Kong. Of urgency are issues such as healthcare reform and the minimum wage. Other critical issues requiring a series of actions far into the future include political reform, cultural development including the West Kowloon Cultural District, the positioning of our ports and air cargo terminals in the face of shifting competitiveness, maintaining the leadership role of our financial markets and our convention and exhibition industry, a thorough review of our tax and regulatory regime to ensure that it

would continue to serve our competitive edge as the region's business hub, economic integration with Guangdong, etc. All of these are long term issues of critical importance to the territory's development strategy.

- 3 Yet, there are serious doubts as to whether the process in which long term policies are formulated and executed at present is serving its purpose. First of all, the standards of professionalism in government seem to have slackened, and this has contributed to an increasing occurrence of policy mishaps at the implementation stage. The same problem of slackening professionalism has also compromised the process of policy formulation. In addition, in recent years the formulation of long term policies also seems to have been overly influenced by shifting, "daily special" variety of media opinion that fails to take a comprehensive, long term view of public policy. For these reasons, tough policy decisions sometimes suffer extensive delays, if they are made at all. This trend is alarming, especially in light of the fact that competition between the region's economies is fierce, and some of our direct competitors such as Singapore and the Mainland cities are known to take bold, quick decisions in moving their economies forward.
- 4 Of course, one should be mindful of media opinion because it is influential. However, no society can afford to have media opinion replacing the government in being the key driver (or obstacle, as the case may be) of important policies. We believe that the Government could win more battles on the public opinion front, but it needs to do three things right. First, it needs to be more proactive in setting the terms of public debate and thus in the shaping of public opinion. Secondly, it needs to get a better gauge of public sentiments and, accordingly, shape policies that better cater to the public's concerns. Thirdly, it needs to minimize mishaps at the policy implementation stage, otherwise even policies with the best intentions could backfire badly and result in the loss of government credibility and

authority, as illustrated by the cases with the appointment of the deputy secretaries and the maid levy.

- 5 In addition, with the ministerial system now firmly in place, it is even more important for the professionals to be in control of the executive departments as well as to provide input in the policymaking stage at the bureau level. To this end, the Government should consider reverting to the matrix structure of the past where policy bureaus and executive departments operated in parallel with each other, rather than the tree structure of more recent years where policy bureaus have gradually been placed over the executive departments. These steps would not only help ensure that policies would be implemented professionally once they have been set, but they would also help ensure that the formulation of public policy itself would take into account practical issues of feasibility and execution. In addition, the greater emphasis on professionalism in the policy bureau would also help ensure continuity and retention of expertise and knowledge, which is an important consideration especially because policy formulation in many key areas such as healthcare reform and tax reform could easily span years and even decades. On this point specifically, the permanent secretaries in the bureaus and other senior A.O.'s should spend more time in individual fields of specializations, for the purpose of policy continuity as well as the buildup of expertise in an age when policymaking is becoming increasingly complex and specialized.

### ***Healthcare Reform***

- 6 Healthcare reform is an important issue as the current system which is already under stress could become downright unsustainable over time under the combined weight of population aging and the escalating cost of advancing

medical diagnosis and treatment. Healthcare reform is by nature highly controversial as it involves not just the well being of all Hong Kong citizens but also myriad deep seated vested interests, which is why decision on a new policy package has been delayed time and again. In fact, the public reception to the current round of consultation has again been less than supportive, in part because the consultation document has said much on how the public will have to cough up more money for healthcare but little on how it will benefit from better healthcare delivery. Still, the lukewarm public reaction notwithstanding, the reality is that on such a complex and controversial issue we may have to move ahead with reform without waiting for a broad consensus to emerge. Some areas where quick action is due include the following.

- 6.1 Primary Care: An immediate priority is to reform the structure and management of primary care and prevention, so that every citizen would know whom to turn to when he or she gets sick, and indeed how to avoid getting sick in the first place.
- 6.2 Planning and development of resources: This process needs to be managed systematically and with foresight and continuity, so as to eliminate shortfalls in both hardware and software – the doctors, nurses, and other professionals and supporting staff, as well as the buildings, equipment, and so forth.
- 6.3 The building up of a community wide patient database that could be accessed by all registered healthcare practitioners with proper authorization.
- 6.4 Government, instead of giving funds directly to hospitals or other providers of healthcare services, should gradually adopt the “money follows the patient” concept with payments being made through intermediary mechanisms such as vouchers and medical insurance. This would

broaden the choices for patients and promote efficiency in healthcare delivery and ultimately facilitate the healthcare reform process.

### ***Minimum Wage***

- 7 The 2007-08 Policy Address had pledged that, if the Wage Protection Movement (WPM) which is due for review in October is found to be unsatisfactory, then the Chief Executive would move to introduce a statutory minimum wage for two types of workers, namely cleaning workers and security guards.
- 8 Overall the BPF is sympathetic to the introduction of a minimum wage. However, we believe that the legislative process must be managed with great care. First of all, we are skeptical that a minimum wage could be legislated for workers in two sectors only, on the grounds of fairness and effectiveness. This is especially because some of the lowest market wages are paid to workers outside the two proposed sectors—fast food workers being a prime example. Furthermore, the legal definitions of jobs such as “cleansing” and “security” could themselves be complicated and contentious. We are therefore concerned that a minimum wage limited to two sectors could create a storm of controversy and backfire on the proposal’s good intentions. Overall, the BPF believes that if a minimum wage is to be introduced at all, it would best be done as an economy-wide minimum wage applicable across all sectors.
- 9 There are two primary justifications for a general minimum wage. One is that the prevailing wages received by the lowest paid workers are so low as to be deemed exploitative. The second justification is that workers should not have to work full time and remain deprived of hope of ever achieving a decent standard of living, which is where many of the workers in the lowest rung of the employment ladder find themselves at present, in jobs with skimpy pay and no future.

- 10 However, while the minimum wage could play a useful role in tackling the problem of the working poor, it also has its limitations because as a policy tool it is a one-size-fits-all instrument applied to workers with diverse circumstances and needs. For example, the “appropriate” minimum wage for a 23 year old unmarried person still living in his parents’ home is very different from that of a worker struggling to raise a family of four on one paycheck. To resolve this policy dilemma, the BPF believes that one should adhere to the notion that the minimum wage should be a *wage floor* for work done by an individual and not as a family support mechanism. Indeed, by itself the minimum wage is neither effective nor appropriate in raising the living standards of poor working families. Instead it could serve its purpose only as part of a wider policy package that also includes targeted use of income supplements and assistance with commuting expenses and daycare (both childcare and elderly care) services, and other measures that would augment the livelihood of the poor while making it practicable for them to get to work. In this regard, too, CSSA payments must be structured in a way so that the incentive for people to work and bring home extra labor income is preserved.
- 11 The minimum wage is also a double-edged sword and it has its pitfalls. One downside is that the minimum wage intervenes in the free working of the labor market and, importantly in our case, could tarnish our “Brand Hongkong” and our much touted status as one of the world’s freest economies. But perhaps the most important argument against the minimum wage is that it could increase unemployment, although this prospective effect depends greatly on the level of the minimum wage itself.
- 12 In assessing the likely unemployment effect of a minimum wage, it would appear that the most vulnerable employment sector is that of small business—the

mom-and-pop operations that run food and retail shops and provide myriad local services, the kind of low cost businesses that tend to employ no more than a handful of individuals. These businesses too provide valuable services at a cost that low income households could afford, which means any pass-through effect of a minimum wage on consumer prices could have the greatest impact on low income consumers.

13 We urge the Government to conduct a detailed, comprehensive study on the issue of the prospective impact of a general minimum wage on these and other businesses, and specifically the effect on unemployment, and conduct elasticity analysis as to how unemployment effects would vary under different minimum wage levels. Armed with such findings, the Government should then take the lead on the public debate as to what specific level of the minimum wage would serve its purpose most effectively, i.e., to uplift the standard of living of a large swath of the working population without creating significant barriers to employment.

14 To conclude, while there is a downside to the minimum wage, it does not in our view outweigh the benefits. The BPF believes that it is possible to set the minimum wage at a level that would meet with society's sense of fairness and acceptability while keeping any prospective unemployment effects to a minimum. Nonetheless, the public would do well to be informed of the mixed ramifications of the minimum wage, and the Government should be ready to take steps to mitigate some of its negative effects.

### ***A Government Strategic Investment Fund***

15 The Government is one of the largest managers of foreign exchange reserves in the world. As the combined portfolio of the Exchange Fund and government

reserves has expanded over time, there has been increasing call for the Government to review the management of these assets to increase prospective investment returns. We believe there are indeed good reasons to review the management of the government portfolio, not just to increase investment returns but also to see whether we could not deploy at least a portion of the portfolio for strategic, direct investments to serve Hong Kong's long term economic development. This could take the form of a Hong Kong Strategic Investment Fund akin to the sovereign wealth funds found in many countries. Of course the primary purpose of the Exchange Fund should remain one of maintaining our currency regime for stability, but under this premise there seems to be ample room to set aside a portion of the portfolio for direct investments, especially for that portion of the portfolio contributed by government reserves.

### ***The Crisis in PRD Manufacturing***

16 There is widespread misperception that manufacturing has long ceased to matter in our economy. However, a 2006 study by the TDC shows that the manufacturing and trading sector contributes directly to about a quarter of our GDP and total employment. (TDC Study: Development and Contribution of HK's Manufacturing and Trading Sector, "Trade Watch", November 2006). The simple key to making sense of this apparent paradox is that even though the bulk of our manufacturing takes places across the border, especially in the Pearl River Delta (PRD), it generates an enormous demand for high value added services such as trading, management, shipping and logistics, and financing which take places in Hong Kong. Therefore, the health of our manufacturing and trading sector will continue to exert a great impact on the overall performance of our economy.

17 Unfortunately, at present our manufacturing sector is facing challenges that, in our

collective memory, are rather unprecedented. This is due to a combination of factors such as escalating costs of energy and raw materials, a rising RMB, and unfavorable policies pursued by governments in the PRC concerning labor and outward processing. Alarmed by spreading failure of Hong Kong manufacturers operating in the PRD, the Guangdong government has more recently taken steps to help them by cutting charges and levies, and offering assistance for them to upgrade their operations.

- 18 The Hong Kong Government should also do more to help manufacturers operating on the Mainland, primarily in the areas of helping these manufacturers to upgrade their technology especially for meeting environmental standards, promote branding, develop domestic sales on the Mainland, and relocate factories to lower cost locales. In any case, a very good place to start would be to move quickly to implement the recommendations long advocated by tax and accounting professionals, and that is to expand the tax deduction for research and development, which would help our manufacturers move up the value chain, and to extend to import processing the same 50:50 apportionment of profits for tax purposes currently applicable to contract processing.

### ***Cooperation with Guangdong***

- 19 In recent months, both Guangdong Party Secretary Wang Yang and Shenzhen Mayor Xu Zongheng have expressed the desire for closer economic cooperation with Hong Kong. Mayor Xu specifically mentioned that Shenzhen and Hong Kong could fruitfully cooperate in the areas of financial services, the innovation zone, high-end services, major cross-border infrastructure, and development of the Hetao area. Likewise, Party Secretary Wang has also expressed the wish to further develop the financial services sector in Guangdong by leveraging on the

financial center status of Hong Kong. We suggest that the Government should produce a substantive response as to what measures Hong Kong will take to bring to fruition these initiatives.

### ***Captive Insurance***

20 The BPF has recently completed a detailed study on captive insurance which has been forwarded to the relevant government officials. As large Mainland enterprises continue to expand their international operations at a rapid pace, that gives rise to complex off-shore insurance needs including captive insurance. At the same time, captive insurance is a promising business that would fit perfectly into Hong Kong's positioning as a world financial center, by adding depth to our range of financial services and serving as a catalyst for strengthening our status as a regional reinsurance and risk management hub. However, for this business to take hold and thrive in HK would require an accommodating regulatory and tax regime, as well as active promotion to the Mainland companies and support from Mainland authorities. The BPF believes that the Government should seize the initiative in the development of this business as a win-win proposition with the Mainland.

### ***Convention and Exhibition***

21 HK has long been a regional leader in the convention and exhibition business. However, continued success of this industry is far from assured. Emerging competitors such as Macao and Guangzhou have invested heavily to attract business while HK has been seriously lagging in adding the necessary space to meet the demand of ever-expanding mega fairs. The Atrium Link expansion currently under construction at the HK Convention and Exhibition Centre (HKCEC)

will not fundamentally resolve this problem. If nothing is done, in just several more years Hong Kong will no longer have the required capacity to host mega fairs. The obvious and urgent solution is timely construction of the proposed Phase 3 of the HKCEC, but there are fears that this plan may be met with opposition as it involves the building of an exhibition venue on the waterfront displacing an existing sports stadium.

22 While Asia World Expo and the surrounding airport site have been proposed as an alternative to Wanchai, this itself would be a mega-undertaking involving upgraded exhibition facilities and new, supporting facilities such as hotels and dining, shopping, and entertainment outlets as well as transport links. Aside from the commercial viability of such a plan which is far from assured, planning and construction on such a scale could easily take well over a decade but to date there appears to be no concrete proposal to show how this might work.

23 Hong Kong has long been known to be a “can do” city. The quandary in which our convention and exhibition industry finds itself makes one wonder if we have tried hard enough to think outside of the box to explore broader options. One idea is that as the Hong Kong Stadium is left idle most of the time, could it not be converted into a fully enclosed facility and substitute for the Wanchai waterfront stadium? Another idea is that as the government offices next door to the HKCEC in Wanchai are to be moved, is it not possible for the area to be used for HKCEC expansion? In any case, this issue needs urgent attention to avoid jeopardizing the convention and exhibition industry in Hong Kong which has long been a proud symbol of our status as the region’s prime trading and investment hub.

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