



HONG KONG 2020 - THE BIG PICTURE :

INTERNATIONAL



**Business and Professionals
Federation of Hong Kong**
香港工商專業聯會

TABLE OF CONTENTS

	<u>Page</u>
Acknowledgements.....	1
A City Where Expatriates Want to Live.....	2
Air Quality - A Proactive Policy For Hong Kong.....	3
International School Places.....	3
Cultural and Sporting Considerations	4
A Good Business Environment	4
The Quality of Regulation in Financial Services	5
Tolerance of Insider Trading	5
Standards of Corporate Governance	5
A Good Location and Infrastructure	6
A wireless Hong Kong.....	6
Good Quality English-Speaking Workforce.....	7
English Ability in Hong Kong.....	7
Easy Working Visas for Hong Kong	7
A Place Where International Business is Respected and Has a Voice.....	7
Conclusion.....	8

ACKNOWLEDGEMENTS

We gratefully acknowledge the support given to this report by the following individuals:

(In alphabetical order)

Convenor

Victor Apps

Members

A Richard Brown

Eliza Chan

Bernard Pouliot

Andrew Work

Hong Kong 2020 - the Big Picture: International

1. Hong Kong is an extraordinary city, one of the great cities of the World. It is on one hand a Chinese city and on the other a truly international city. It is this international aspect that makes Hong Kong unique and special among Chinese cities and one of a handful of great World Cities.
2. In this study, we are looking to the future from the point of view of international business. We are considering the factors that make Hong Kong a World City and are making recommendations on ways that we can not only maintain Hong Kong's pre-eminent position but improve on it.
3. Many large international companies have set up their Regional Head Offices in Hong Kong. Why do they choose Hong Kong over other cities in Asia? Will they continue to do so? Note that the answer to this is not just a question of business climate, taxes, regulation etc. These are of course all important but the softer quality of life issues such as environment and culture are also crucial. The following are five criteria that international business considers:
 - i) A city where expatriates want to live.
 - ii) A good business environment.
 - iii) A good location and infrastructure.
 - iv) A good quality English-speaking work force.
 - v) A place where international business is respected and has a voice.
4. Of course this list could be much longer but we have chosen to focus our comments around these headings.

A City Where Expatriates Want to Live

5. This is of great importance to Hong Kong. If senior international businessmen do not want to live and work in Hong Kong, they will find reasons to recommend to their companies to go elsewhere. It is as simple as that.
6. In general the Hong Kong expatriate community has a love affair with Hong Kong. They enjoy the buzz of the city and compare it to 'boring' Singapore. There is a large expatriate community in Hong Kong supported by good facilities (schools, clubs, etc.). Moving to Hong Kong is easy and most foreigners adapt easily to the way of life.

7. There is however one major problem. If you ask 20 expatriates what Hong Kong's major failing is, probably 19 will mention pollution or air quality. When Hong Kong government officials meet representatives of the International Chambers, this is invariably on the agenda. The writer is Chairman of the Canadian Chamber in Hong Kong and that organisation's most active committee is its Environment Committee.
8. The response of the Hong Kong Government on air quality was at first denial and subsequently weak. They do not seem to appreciate that this is one issue that could truly marginalise Hong Kong. If Singapore is perceived as a livable city and Hong Kong is perceived as a toxic city, then Hong Kong's standing in international business will suffer.

Air Quality - A Proactive Policy For Hong Kong

9. Hong Kong should develop a long term plan to have the best air quality of any major city in Asia. This plan should be in two parts: one covering locally generated emissions and the other dealing with cross-border emissions.
10. Hong Kong's goal for locally-generated emissions should simply be to have the lowest level per head of such emissions among all major world cities. Hong Kong is a rich city and we can afford to spend money to make this happen. There are others who can advise on the specifics – careful review of our power generation policy, more efficient buildings, driving the petrol-guzzlers off our roads, cleaning up those pollution-producing lorries, etc.
11. This can be done and must be done. Although not generally a proposer of increased Government regulation, this is a project that must be led by the Government. It will need to take decisive action and will inevitably upset a lot of vested interests.
12. We acknowledge that cross-border emissions are a more difficult challenge. Hong Kong must reach out to other Pearl River Delta (PRD) communities and work with them to reduce their own locally-generated emissions. In the long run perhaps the most effective way will be to be a leader in the PRD in reducing our own emissions and encouraging others to follow a similar path.
13. Air quality is a huge problem for the whole People's Republic of China. Let Hong Kong show other Chinese cities the way forward by cleaning up our own act first.

International School Places

14. A second negative issue often raised by expatriate executives is the perceived difficulty in finding school places for the children of expatriate executives relocated to Hong Kong.

15. The international schools in Hong Kong are of a good standard and this problem comes from their success. Many children from Cantonese-speaking homes attend these schools because it gives those children a good education and better access to major foreign universities.
16. The government has provided land for these schools, largely because it wants to provide a good education for the children of international businessmen. It is therefore entitled to interfere on this issue.
17. Our recommendation is that a system be developed that guarantees a place in an international school for the children of expatriates relocated to Hong Kong. Non-Cantonese speaking individuals must have clear priority in international school placement over those that are able to attend local schools.

Cultural and Sporting Considerations

18. Hong Kong has done relatively well in recent years in developing itself as a cultural centre. Although we are not in the same league as London, New York, Paris or Tokyo, we do have a reasonable calendar of cultural events led by the Arts Festival and the Fringe Festival. However, this is an area that still requires improvement and the development of the West Kowloon facility should proceed.
19. On the sporting side, Hong Kong is weak. We have the very successful Hong Kong Sevens and the improving Standard Chartered Marathon, but little else. Hong Kong's sports administration is unimpressive and lacks vision.
20. Hong Kong cannot host major sporting events, because it lacks the facilities. We do not have a modern all-weather stadium for 50,000+. Also we have no local teams to get excited about. For sports, Hong Kong's independent status gives us our own (weak) football league and our own (weak) team at the Olympics. In competitive sports, we should throw our lot in with China and have a Hong Kong team in the Chinese football league, compete as a Chinese province in Mainland events and occasionally host an international event as part of China. In many areas, Hong Kong's separation from Mainland China confers advantages, but the opposite is true in sports. Our athletes would develop better if their goal were to be on the China team rather than settle for representing Hong Kong.

A Good Business Environment

21. Hong Kong is above all an easy place to do business. Entrepreneurs flourish here. International business wants to be here.
22. Hong Kong's world-class legal system is invariably mentioned by international businessmen as a key competitive advantage for Hong Kong, in particular in comparison to the Mainland. It

is of course crucial that this is maintained. An independent and transparent judiciary is a necessity for Hong Kong.

23. Invest HK and the Trade Development Council are world class organisations that should be continuously encouraged and upgraded. They show an attractive face of Hong Kong to the international business community.
24. There are however three areas of concern:
 - i) The quality of regulation in financial services.
 - ii) Tolerance of insider trading.
 - iii) Standards of corporate governance.

The Quality of Regulation in Financial Services

25. The regulators in Hong Kong are honest and do their best but are generally in the “gifted amateur” category. For example, the Insurance Commissioner, overseeing a sophisticated industry, might arrive in the job with next to no knowledge of that industry. This system served Hong Kong well in the past but is very dangerous at a time when financial services are so complex and so international. International financial institutions already practice “regulatory arbitrage” – placing products in jurisdictions which lack key controls on those products. Does Hong Kong want to be the victim of such practices?
26. Also, Hong Kong’s regulation of financial services along industry lines is outmoded and dangerous. Institutions like HSBC and AIG have multiple companies licensed in Hong Kong. Products often cross over industry lines and the companies naturally place their products in the company that best suits them.
27. Financial services regulation must be product driven, not industry driven. This is driving most sophisticated jurisdictions in the direction of the so-called super-regulator that regulates all financial products. Hong Kong should go in the same direction and get rid of the amateurs.

Tolerance of Insider Trading

28. There is an unfortunate tendency in Hong Kong to view insider trading with a certain tolerance. Those involved in high profile cases are still in positions of authority. Insider trading has no place in Hong Kong. It must be stamped out.

Standards of Corporate Governance

29. International business recognises that Hong Kong has a governance structure that is strong by Asian standards. However, there remains much room for improvement. There is a strong

perception that the Government and its agencies listen too much to big business, in particular, the developers.

30. There have been a number of recent events that have tested the Government's resolve: the CITIC Pacific issue, the PCCW privatisation, and the debate about quarterly reporting.
31. The Government must be decisive and principled on governance matters. Pragmatism will be misinterpreted. Hong Kong must have a governance structure of the highest quality.
32. Quarterly reporting is a good test case. Many major companies came out against quarterly reporting on the grounds that it was unnecessary and expensive. This is hardly surprising. You would not expect big business to encourage regulation that limits their freedom. However, quarterly reporting and the resulting constraints are the right way to go and the Government should show the appropriate resolve to force this through.

A Good Location and Infrastructure

33. One of Hong Kong's advantages is its excellent location on the edge of China, but also centrally located in East Asia, about midway from Jakarta to Tokyo. We propose therefore that Hong Kong remain in its present location!
34. Elsewhere in the Hong Kong 2020 report, much will be said about the vital importance of infrastructure. This is doubly important from the perspective of International business. This is an area that Hong Kong's Government has generally given a high priority and our airport, road system and subway system are first class. We must continually upgrade this infrastructure if we are going to compete successfully with a Singapore that also gives this a high priority.

A wireless Hong Kong

35. One important area of infrastructure that we would like to discuss is broadband connectivity. Visiting businessmen highly value the ability to easily link their Personal Computers (PCs) to the World Wide Web.
36. Hong Kong is geographically compact and the concept of a wireless Hong Kong is a practical and exciting one. Other cities are looking at this and Hong Kong cannot afford to be left out. By wireless we mean that the infrastructure is established so that, anywhere in Hong Kong, a PC can be linked to the web with no wires and at no cost. We appreciate that this will involve a differing role for telecommunications firms and this will involve some negotiations.
37. Our recommendation is for a wireless Hong Kong Island by 2012 and a wireless Kowloon by 2014.

Good Quality English-Speaking Workforce

38. International business values the well-educated English-speaking workforce of Hong Kong. They also value the ability to bring expatriate staff into Hong Kong with minimal bureaucracy. There are however concerns on both fronts.

English Ability in Hong Kong

39. In recent years, international businessmen have often commented that the English language ability of the Hong Kong workforce has deteriorated. If this continues and at the same time, English standards elsewhere improve, an important competitive advantage for Hong Kong will have been eroded. Already we lag well behind one major competitor, Singapore, in this regard.
40. The quality of English taught in Hong Kong's schools must be improved. The Government understands this and tried to implement a very simple rule - that those who teach English should be fluent in English. This was well meaning, but weakly implemented. The Government must enforce this requirement with vigour and at the same time bring more native English-speaking teachers into Hong Kong to improve standards. Hong Kong can afford the cost of these teachers but cannot afford the cost of a gradually reducing English ability in the workforce.

Easy Working Visas for Hong Kong

41. Hong Kong must continue to make it easy for those with job offers to gain entry into the SAR. However on top of this, we should offer work visas for those without job offers but with specific skills (MBAs, engineers, accountants etc.). Also foreign entrepreneurs who want to establish businesses in Hong Kong should be given the appropriate visas.
42. Hong Kong can afford to increase its population quite significantly over the next 20 – 30 years. Our current immigration programme (150 per day) is too small and is focused in exactly the wrong place. A more open approach aimed at bringing the right sort of people to Hong Kong can only aid Hong Kong's development.

A Place Where International Business is Respected and Has a Voice

43. International business has a significant voice in Hong Kong. Foreigners and locals representing international companies have risen to senior positions in such organisations as the Hong Kong General Chamber. Also the Government meets at a senior level with representatives of the many international chambers in Hong Kong. This level of access is far superior to that enjoyed by international business in other Asian cities.

44. Our recommendation is that international business continues to get this special consideration in Hong Kong. In particular, when the Hong Kong Government chooses the members of key advisory committees, they should, when appropriate, include representatives of the international business community in Hong Kong. Often the members of such committees are all too familiar and it would in any case be a good idea to get some new faces on them.

Conclusion

45. Hong Kong has historically done an exceptional job at attracting International business. We lead all other Asian cities in this regard but certainly must not rest on our laurels. Singapore is snapping at our heels and Shanghai is expected to mount a challenge over the next two decades.
46. Taking this into consideration our key recommendations for Hong Kong are:
- i) Make the environment, in particular air quality, a major priority and set world-beating goals for locally-produced emissions.
 - ii) Ensure that school places are available for the children of expatriate businessmen.
 - iii) Develop Hong Kong as a sporting centre. In particular, build a major sports stadium.
 - iv) Stamp out insider trading.
 - v) Move to professional regulators and a super-regulator for financial services.
 - vi) Have world-leading corporate governance including compulsory quarterly reporting for listed companies.
 - vii) A wireless Hong Kong Island by 2012.
 - viii) Takes the necessary steps to ensure a radical improvement to English tuition in Hong Kong schools.
 - ix) Grant work visas for well qualified expatriates even without job offers.
 - x) Increased representation from international business in appropriate government advisory bodies.
47. Hong Kong is a great World City. Let us keep it that way!

**Room 2107-08 Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong**

**Tel : 2810 6611 Fax : 2810 6661 Email : info@bpf.org.hk
Website : www.bpf.org.hk**

Copyright © 2009 Business and Professionals Federation of Hong Kong.