

HONG KONG 2020 - THE BIG PICTURE



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

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Full Reports on: www.bpf.org.hk

FOREWORD

These studies and reports are the outcome of many hours of enthusiastic voluntary effort by members of the Business and Professionals Federation of Hong Kong and others not our members who have freely given their support out of their love for Hong Kong and its future. That they have been willing to do this and have made so many constructive and positive contributions at a time when Hong Kong is going through a difficult patch is in itself a strong vote of confidence and a good omen for our future. We hope those, in whose hands we are placed, will consider carefully, our many thoughtful recommendations and proposals.

The pages focus on the governance and development of Hong Kong over the next ten years, but they will have far-reaching consequences stretching far beyond that. They are principally a studied reaction to the great changes taking place throughout China, to our economy and the world generally.

For us the over-arching conclusion is that a world of opportunity awaits us. This is not a time for pessimism. We must treasure our advantages, look outward, not shrink from difficult decisions, and seek the common good. We must not grow stale. We must not let our neighbours pass us by.

A handwritten signature in black ink that reads "David Akers-Jones". The signature is written in a cursive, flowing style.

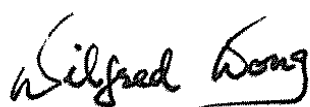
David Akers-Jones
President

INTRODUCTION

1. It is 10 years since we, the Business and Professionals Federation of Hong Kong (BPF), last took a comprehensive look at Hong Kong and its future. In the ensuing years, Hong Kong has grown in importance as a financial and commercial centre, and the whole of China has witnessed a great awakening. That is the starting point of this present study, it takes place once more against a background of serious concerns, world economic recession, global warming and, as a special distraction, a spreading flu pandemic. With this background to spur us on, we decided we must work quickly to point to those areas of governance we saw as needing change. We gave ourselves six months to complete the work.
2. In years to come, this year of the world financial crisis will be seen as the year which heralded the emergence of China as a major economic power. In the next 10 years and beyond, the focus will turn to China's role in the transformation of the world economy.
3. As China's leading commercial city and its most important source and conduit of foreign trade and investment flows, Hong Kong will doubtlessly find extensive opportunity to take advantage of China's elevated economic stature. Is Hong Kong ready to step up to this calling? The stakes are high. It is whether Hong Kong will seize the initiative and strategically position itself on the crest of China's economic ascent to strengthen its status as an international commercial hub, or whether it will miss the boat and allow its strategic role to be lost forever to eager competitors. Our action today, or inaction as the case may be, will determine the shape of our economy and society far beyond 2020.
4. Against the background of this highly uncertain world economic outlook, it is in fact difficult to find another city outside China that shares Hong Kong's abundance of economic opportunity. There is no doubt much of Hong Kong's unique economic advantage stems from the One Country Two Systems formula that makes the city both an on-shore and off-shore business platform.
5. For example, Hong Kong has an extremely powerful niche to serve as a national financial centre, with its one-of-a-kind combination of unrestricted capital movements, free access to global capital, complete transparency to the national financial regulators, and a natural firewall that shields the Mainland from global financial contagion. But even such a strong advantage will be for naught unless carefully cultivated, with a tax, regulatory, legal and human resource framework that is conducive to business. As another example, Hong Kong's combination of academic freedom and accessibility within China makes it a natural higher education centre in China and in Asia. But making that a reality depends on whether we, as a community, succeed in consolidating our fragmented public university system so that it could work as a unit in the pooling and deployment of resources fully to develop our research and educational capabilities.
6. The point is that Hong Kong does not lack opportunity but it must act upon it. Yet, twelve years after the reversion to Chinese sovereignty, Hong Kong seems to have lost its confidence and its ability to forge consensus for public action. Hong Kong used to impress the world with the

speed we got things done. Now public projects have a way of getting bogged down, from large projects like Kai Tak and West Kowloon to smaller projects such as the cruise terminal and the Wan Chai exhibition centre expansion. Tepid progress with important public projects has in turn deepened pessimism about our long-term future.

7. The BPF initiated this project during the trough of the financial crisis, because we saw the severe recession as having long lasting ramifications for our economy and society. Hong Kong must be ready to respond, to take on the immediate challenge of the economic downturn, to identify and act on new opportunities brought forth by a transformed world economy. Hong Kong is at a crossroads and must act decisively. Government leadership is critical, but public input and support are just as necessary.
8. In our study, we did not set out to predict how industries will realign themselves globally and how our economy will fit in the new landscape. Instead, we identified five policy areas in which Hong Kong must get it right and to chart the course for progress. The five areas are included with recommendations in this publication and may be accessed in full at the BPF website www.bpf.org.hk :
 - Human Capital
 - Infrastructure
 - International
 - Hong Kong Mainland Integration
 - Social Issues
9. These five areas have policy implications that are self-explanatory. Put simply, regardless of what specific industries Hong Kong will develop in the future, be they finance, logistics, tourism, industry Research and Development (R&D), Information Technology (IT), healthcare, arts, entertainment, etc., our economic future depends on 1) human capital and skills, 2) infrastructure, 3) being international, and 4) integration with the Mainland. Finally, 5) social issues are important not only for building a caring society, but if neglected would lead to problems that impede economic progress.
10. The publication contains separate papers on the need for efficient and effective Governance and a section on the Economy outlines the proper parameters for government's role in the economy and some of the strategic considerations for its long term development. Some specific opportunities in the financial and non-financial sectors are outlined, along with the enabling policies necessary for their development.



Wilfred Y W Wong
Chairman

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The Hong Kong 2020 report could not have been completed in such a short period without the combined effort of so many advisors, members, supporters and friends, and we are most grateful to them. We would also like to thank the Advanced Institute for Contemporary China Studies of Baptist University for their contribution. Last but not least, we are especially grateful to Michael Somerville who worked tirelessly throughout.

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SOME MAJOR TOPICS

SECTION I

1. There are some topics which kept coming up in each of our task force groups, all of these areas in which we need to improve our performance or attitudes. They are worth mentioning here.
2. Foremost of these is our position as a Special Administrative Region (SAR) enjoying a separate system - One Country Two Systems - from the rest of the Mainland. Hong Kong with its small population of seven million preserves a capitalist system in a socialist country of over a billion people and retains a different style of government. This in itself is a remarkable privilege, but it is more than that. Since 1997, Hong Kong has been able to keep its lifestyle, law, freedoms and system of government and all those aspects of our lives which are precious to us. Are we inclined to forget the advantages which we receive from this two system arrangement?
3. Through One Country we are exposed both to the opportunities and the competition of our neighbours and of greater China. Two Systems enable us to maintain some of our great strengths, but can inhibit the free flow of people and the best use of opportunities.
4. While we have benefited considerably from our status as a special region, from the support we have received for our economy and from the wealth which has been generated by our entrepreneurs, particularly in the Pearl River Delta (PRD), and from our investments throughout China, we should try more to understand how we are perceived by the Mainland, not always asking for their understanding of difficulties we are experiencing but to look at the big picture to try to deepen our understanding of the rest of China, its people and their difficulties, progress and achievements.
5. To this end, our officials should be given the chance to travel widely in China, not simply to make official visits to Beijing, Guangzhou, Shanghai and the scenic spots but to go to the more remote towns and villages, their hospitals and schools and so forth. As part of this we could do far more too in our schools, universities and throughout the community to spread the use of Putonghua - it is after all the National language. Some things are being done but it needs a greater concerted effort similar to that we attach to the teaching of English.
6. As a world city we must look outwards. Our young people should not just see themselves as citizens of Hong Kong but as citizens of China and the world. And it is the bright citizens of the world that we wish to come, live and work here.
7. How different this is from the world cities with which we compare ourselves, New York, London and nearby Singapore. We put ourselves at a disadvantage. Talented people move to London from parts of the British Isles as the economy demands, the same goes for New York. There is no barbed wire fence to keep them out, no immigration barriers. One of the proposals of the task force on Human Capital is to appoint a Minister. (Whether yet another Minister is required, may be questioned when we are so short of candidates for ministerial appointment). This need

could be recognised in another way by giving it to say, the Minister for Education and for the Bureau to be strengthened with a Deputy or Junior Minister. The main point is that this is an area which needs special attention. Something must be done to implement a Human Capital Growth Plan and to link our immigration policies directly to the plan and to be administered by the appropriate Secretary.

8. The Basic Law emphasises that we are an Executive led administration. What does this mean? The phrase rather suggests crisp, decisive government “in which formal authority is concentrated at the centre and a single source of power is identified.” (Burch and Holliday, 1995, “The British Cabinet System”). Our Principal Officials would be better drawn from the private sector rather than being mostly, if not quite all, former civil servants who are too close to their former colleagues really to shake the dust of their former employment from their feet. This concentration of power in the Executive used to be the style of government but now that power seems to evaporate when it reaches the Legislative Council (LegCo). The Chief Executive, unlike other Executive led systems, has no power base in the Council in sufficient strength to enable him fully to exercise formal executive authority. There are other things which can be done, there are adjustments and strengthenings which can be made to the administrative base on which the power of the Chief Executive rests.
9. The administrative base is the hard working, dedicated and incorruptible civil service. Why then is there so much public sneering and jeering? So much opposition? Why is there an inability to make our machine move faster while we cast envious public eyes at Singapore and our neighbours in the Mainland. For in this fast moving world speed is of the essence. Is there a reluctance to let go of power and authority to hold on to the reins and, among senior civil servants where all are equal, to pass the files to one another, leaving no one to champion important policies and plans, leaving empty the large open spaces, with their grandiose dreams?
10. But will people want to come here to stay and work? There is no doubt that Hong Kong today is a much more attractive place than it was in 1997. Special efforts – the painting of road bridges which used to be grey and dirty, tree planting and flower beds have brightened up our city. But as we admire the flowers, getting rid of pollution of the air we breathe has defeated us. It has been the subject of lengthy discussion, consultation and analyses, some things have been done but there has not been enough determination to remove this scourge. Why do we allow this to happen? Are we lacking the will to devote more money to get rid of the sources of pollution, which are in our authority and ability to eliminate or reduce, from the trucks on the road, from the ships in our harbour and from our factories with their auxiliary generators in Guangdong? It is distressing to hear tales of families who have turned their back on Hong Kong because the air, which we have no choice but to breathe, turns them away. Self-interest alone should be enough to do what it takes to clean up the polluted air.
11. In our ambition to be a world city, these are some of the issues we have to get right.

GOVERNANCE

SECTION II

Introduction

1. We need to review how Hong Kong is governed or managed today, its strength and weakness, its position as an SAR, the possibilities and parameters for change allowed in our Basic Law, where it is likely we will be in 2020, bearing in mind various constraints, and the road ahead after that. The chief manager of the SAR is the Chief Executive and ultimately, the responsibility for implementing the changes recommended in the following pages rests with him. The recommendations do not give rise to Government expenditure unless extra recruitment is required, they are not made lightly but are the result of deep thought and wide discussion and we believe would be welcome, generally if the slow motion government can be speeded up.
2. In 2009 we have only a short while before 2012 and elections are upon us. Political or constitutional change comes only after long periods of gestation, of public consultation and legislative process and after that a two-thirds majority vote is needed in LegCo to institute any reforms. There are only two windows for change before 2020 when election terms occur. They are in 2012 and 2017. It is not realistic to think of reforms in the middle of a term of office. From statements made in Hong Kong by the Deputy Secretary-General of the Standing Committee of the National People's Congress (NPC), we know that in 2017 the Chief Executive may be elected by universal suffrage. It was not a definite statement, rather, one that implies that if the Basic Law conditions are met, it can happen. It has been said too that it is expected that the LegCo will be directly elected in 2020 although that too, was not specifically mentioned by the NPC statement or its explanation, rather, it says specifically that this shall not happen in 2012, thus dashing the hopes and extinguishing the fire of those who are calling for implementation of Article 68 of the Basic Law in 2012. With regard to 2020, this date is not mentioned either in the statement or the following explanation, what is said is that universal suffrage may take place after direct election for the Chief Executive with no date assigned. We should not waste further time discussing this. From other statements made we can infer that the balancing principle, that is to say the restraint mechanism, behind the presence of the Functional Constituencies group in LegCo, creating a virtual two-group council and the voting method of the two groups are important elements of the SAR democratic system in the eyes of the Standing Committee. For this reason, it has stated emphatically they will be preserved in 2012.
3. It is twelve years since the return of Hong Kong to the Mainland, during this time, there have been a few attempts at change, to adjust the political system, to bring it more in line with people's aspirations and with the Basic Law promises, but, to all intents and purposes, some changes can be no better described than false starts. Looked at objectively in 2009 it is said widely that the governance of Hong Kong is less effective, less decisive now than in 1997. Why is this? The answer to this question may give some clue as to how further change and reform should be approached.

4. The Basic Law of the SAR was drafted during the period between 1985 and 1990, and completed seven years before the handover. In the years previous to 1985, some modest carefully explained reforms were made to the political system by the outgoing British administration. Hong Kong, under the overall charge of a British Governor, was Executive led within a cohesive political framework in which Executive and Legislative Councils worked closely together. Policies and legislation proposed by the Administration were made responsive to public opinion by a comprehensive range of over 500 advisory committees and were implemented with comparative ease after a reasonable period to allow for public debate and acceptance.
5. This was the background against which the Basic Law was drafted. Mainland and Hong Kong members of the Drafting Committee were venturing into unknown territory. The Joint Declaration by the two sovereign nations provided no help other than to say that Hong Kong should have a legislature “constituted by elections”. Legislative Council was divided into two numerically equal groups, directly elected and functional and a voting system introduced deliberately to have a restraining influence on the directly elected group.
6. Although Green and White papers issued by the British Administration in 1988 had advocated the elimination method of preferential voting for Legislative Council elections after 1997, at a meeting of the Preliminary Working Committee in December 1993 (Sze-yuen Chung, 2001, Hong Kong’s Journey to Reunification - Memoirs of Sze-yuen Chung, The Chinese University Press), Sir S Y Chung said that the SAR should develop its own system and it was subsequently decided that the Party List system for direct elections should be used. This system, while giving everyone and every party an opportunity to secure seats by election, produces a Legislature of disparate elements with no one strong party emerging. Other systems of proportional representation were not fully discussed or evaluated, so what appears to be the most democratic or representative form of direct election stifles the possibility of a strong party emerging and severely hampers the working of an Executive led government. There are examples of the stultifying effect of the List system which may be drawn from other Legislatures, similarly there are examples of how even in Presidential or Executive led systems the Executive has strong party support. Even though his party may not always be in a majority, if frustrated, he then can use his reserve powers as Executive.
7. It was also decided that our Chief Executive should not belong to a political party. Thus, the Chief Executive has no discrete political party support, and in the Legislative Council a disparate array of parties to contend with. It is twelve years since the transfer of sovereignty and it is no exaggeration to say that criticism of the ineffectiveness of the government is common.

Executive Council and Ministers

8. Whereas in former years, Executive Council and its members were centre stage, now they seem to hover in the background and not in the forefront of public life. Changes have been introduced to make the governance of Hong Kong more decisive but regrettably, the reverse

seems to have happened. There were a number of administrative blunders and carelessness and calls for a government official to take the blame. After a delay in responding, the Government introduced a “quasi-ministerial” system in which Heads of Bureaux were given designated responsibility and became accountable. A number of “Ministers” were appointed from the private sector to head these bureaux. They were given little direct support (they had no Deputies) and to some extent the government became dysfunctional.

9. A system of defined Ministerial responsibility is an essential requirement of an Executive led government, whose Ministers should be supported by Deputy Ministers of experience who may be drawn from the civil service (as in Canada) or from outside.
10. A reform of the well nigh invisible Executive Council is needed to raise its and its members’ status. “Ministers” of important portfolios drawn from members of the public are needed to include development, education, economics and health.
11. Some Ministers currently have multiple subjects in their portfolios. In others, the portfolio is too broad and seemingly incapable of delegating its parts since there is no competent Deputy to hand. As a result, important and far reaching policies are deferred and put aside in order to deal with the crises that are a daily occurrence in any large organisation. Bureaux should be split and more Ministers, possibly Junior Ministers, created. The Chief Executive needs to be able to stand back from the day to day administration and leave that to his accountable Ministers and their Deputies.

Urban and Regional Councils

12. Hong Kong previously had elected Urban and Regional Councils. These two representative bodies were removed from the political structure because it was said they were redundant now that Legislative Council was elected. They were an important training ground, a stepping stone to higher office, which has not been replaced. Responsibility would henceforth be delegated to the 18 elected District Councils. Although promised, this has not happened to any significant extent. Hong Kong is thus without any central city government and the role of the two Councils has devolved on the Public Service, and its departments and officials.

The Civil Service

13. Hong Kong prides itself on the quality of its civil service and civil servants but at the time of writing, there are frequent complaints that it is slow to make decisions and this fast moving city is impatient to match the speed of accomplishment of our Mainland neighbours. Undoubtedly, the constraints of corporate governance and prevention of corruption impose their requirements, which tend to slow things down, so too do a watchful media and a critical Legislature. Nevertheless, there are frequent complaints about the unwillingness to make decisions or that the decision requires the participation of the other Bureaux, there seems to be no “champion” of the subject under discussion who can get things moving.

14. There are also numerous complaints about the all too frequent movement of senior officials to another post in the interests of career development as though the concept of individual improvement was divorced from his or her value as a public servant. An examination of the number of even the most senior appointments held by some of the Principal Officials reveals that less than three years seems to be the norm. To remedy this the most senior officials, who by then are reaching the end of their careers, should remain in their posts for at least five years.
15. Administrative Officers (AOs) in the civil service are admired for their ability and dedication. At a mid level they, too, move around all too frequently, again in response to the need to develop their careers. When they have settled into a job and are becoming useful they are moved on. This should stop. Streaming of civil servants as is happening in civil services elsewhere should be considered thus retaining their experience in the Department or Bureau and the collective memory which is so important when new situations arise.
16. Administrative Officers are generalists and in this increasingly complex society should be underpinned by professionals from outside the government to strengthen their arm particularly in the fields of finance, insurance, education, development, infrastructure and technical subjects. Some positions should be professionalised (e.g. Insurance) thus releasing an administrative official for other more suitable work.
17. Finally, the SAR civil service is by nature hierarchical and the pecking order and an individual's seniority may take precedence over others more suitable for promotion. These ingrained inefficiencies are hard to correct and require tough decisions to be made.

Advisory Committees

18. There are over 400 committees and commissions advising the government on its programmes, policies and problems at any one time. In aggregate these committees have a membership of several thousand. They are the eyes and ears of the government and a sounding board for the introduction of new ideas and policies. Some advisory groups are chaired by departmental officials, and in most cases the agenda, minutes and papers are prepared by the officials. This stifles the initiative and innovative abilities of the non-official members. We should be more relaxed, more trustful and let the non-officials take the lead guided by an official deputy as was allowed to take place in District Councils.
19. Little is known of the work of these advisory bodies, who is on them and the number of appointments each member holds, for the most part they publish no account of their meetings and members of the public have little idea of the subjects which are being discussed. This lack of transparency and openness could be easily remedied. The advisory committees should be seen as an essential part of the political structure and their work should be woven into the political fabric by having some members drawn from Legislators. The principal advisory committees, for example Transport, Education, Welfare, should be chaired by Ministers who are members of Executive Council or by their Deputies.

Publicity

20. The Government has a good story to tell. Newspapers with their preference for bad or exciting news prevent new items of general interest from becoming public knowledge. A weekly government newspaper would inform the public about what is going on in the districts about government and vital developments. Such newspapers are now common across the board in many organisations, universities, etc. and government is slow to follow suit. "The Week in Hong Kong" would be of wide interest, and could be a layman's complement to the Gazette.

Bureaucratisation

21. As a result of changes over the past several years, the management of Hong Kong has devolved almost entirely into the hands of those who have spent their whole careers in the public service from the Chief Executive down. In other words there has been a bureaucratisation of governance, a lessening of vitality somewhat, and lessening too, of the injection of new energy and ideas. Instead of making progress to the goals held out by the Basic Law of participation and representative government, Hong Kong, in 2009, seems further away than ever from this objective largely as a result of the introduction of measures ostensibly to improve the management of public affairs but which have had reverse effect.

Change in 2012

22. The need is therefore to introduce changes in 2012 and to heal the present disconnect between the government and the governed. There will be an opportunity in 2012 when fresh elections to Legislative Council take place. 2012 and its aftermath will be years in which Hong Kong should see considerable change and hopefully a significant step forward to the renaissance of an Executive led government.

Legislative Council

23. Hong Kong has a 60 member Legislative Council composed of 30 members elected by a List system of universal suffrage and 30 members by Functional Constituencies.

The Directly Elected

24. For the purposes of direct election the territory is divided into various regions, however the members elected because of their party affiliation are not directly identified by the electorate as their chosen representatives. The List system lacks the advantage of elected members whose sole responsibility is to represent distinct geographical districts. An improvement could be made by either abandoning the List system or, if that be too radical, by electing half the representatives by direct election from geographical districts using the elimination method of preferential voting, i.e. a member for Kwun Tong, a member for Shatin etc., and half by the Party List system. This would be a Mixed system which combines the advantages of both systems. This would bring about a vast improvement over the present arrangements and would bring a much more directly accountable representative system to the Legislative Council.

Functional Constituencies

25. Much has been written and spoken about Functional Constituencies which represent the other numerically equal group in the Legislative Council. They were introduced in 1984 to represent professional associations and business interests as an interim step forward in developing a popularly directly elected government which it was decided at that time would have unpredictable consequences, would abandon the established principle of consensus government and would substitute adversarial politics.
26. Functional Constituencies have been criticised. The registered electors of some functional associations do not fully represent the profession they are supposed to represent, other registered electors of professions consist only of the committee members of the profession or organisation, some functional constituencies in the business sector encourage corporate voting on behalf of companies which have no real existence. There are also strongly argued views that Functional Constituencies do not comply with the requirements of the International Covenant on Civil and Political Rights (ICCPR), this and other criticisms are directed at their shortcomings and their intended purpose is ignored.
27. In their defence it should be emphasised that the Basic Law lays particular emphasis on the representation of all sectors and on the need to safeguard the economy. To this end the representatives elected by the principal industrial and commercial sectors and by social groups bring a wealth of personal knowledge and professional expertise into the Council, such as, architects, doctors, educators and labour unions, among others. The Functional Constituency system directly protects these interests which no other system could similarly guarantee. There is disquiet in some quarters about retaining Functional Constituencies in their current form as though there were something shameful in not conforming to common international norms. We must first look at the reality of our political position and not necessarily follow other systems simply for the sake of conformity. While some functional representatives would be willing to surrender their right to elect a member to the Legislative Council, others will jealously guard that right. Any proposal to eliminate the Functional Constituencies is therefore likely to be bitterly contested and in any case will require a two-thirds majority of the legislators in the Legislative Council before it could happen.
28. The procedures for voting on bills and motions proposed from the floor of the Legislative Council requires a simple majority vote of each of the two groups of members. This introduces a restraining factor similar to that exerted by a Senate in a bicameral system. No doubt with this restraint in mind, on 29 December 2007, the Standing Committee of the Tenth National People's Congress at its 31st session ruled that the method of voting on motions introduced by members was to be retained in 2012. This procedure for voting requiring a simple majority of each of the two groups of the Legislative Council embodies aspects of the two chamber legislative system of very many national legislatures.

Universal Suffrage

29. "The ultimate aim is the election of all the members of the Legislative Council by universal suffrage", Article 68 of the Basic Law says. This Law goes on to say that Annex II of the Basic Law describes the specific method for forming the Legislative Council. Annex II says that after 2007 if there is a need to amend the provisions of the Annex for forming the Council and its procedures for voting "such amendments must be made with the endorsement of a two-thirds majority of all the members of the Council and the consent of the Chief Executive, and they shall be reported to the Standing Committee of the National People's Congress for the record".
30. What the Standing Committee has said is that "appropriate amendments may be made to the specific method for forming the Legislative Council" in 2012.
31. The conclusions to be drawn from these statements for those who are prepared to read them is that the Functional Constituencies are to be retained in 2012 in the same half and half ratio, that the voting method on motions introduced from the floor is to be retained, but the specified method of forming the Functional Constituencies and the specific method of electing the directly elected half may be changed. Debate therefore should be confined to these two subjects.
32. The debate on what form of Legislative Council the SAR is heading to universal suffrage has therefore been substantially left until after 2012, nevertheless later debate subsequent to 2012 is bound by the same requirement of a two-thirds majority. Furthermore, even introducing a debate on the subject leaves the question wide open of what sort of Legislative Council the Special Administrative Region is to have. The two-group system and the restraint mechanism would disappear with the abolition of the Functional Constituencies. Would this be gradual and orderly progress!? These are very big questions to which no answer has yet been given.
33. A way forward may well be to reform the Functional Constituencies. The list of the present Functional Constituencies covers the whole community but not their registered electorate. There have been many ideas put forward over the years aimed at gradually whittling away at the Functional Constituencies so that they disappear. This is wishful thinking. Another way to move in the direction of a fully directly legislature is by enlarging the representativeness of Functional Constituencies so that virtually the whole electorate is covered.
34. This could be done for example by the amendment of corporate voting, by expanding the registered electoral base of each Functional Constituency and so forth. There is every likelihood that this solution which aims at a more representative status for each Functional Constituency might well be attractive and might pass the two-thirds hurdle!
35. This too would allow for gradual and orderly progress to the ultimate goal. It would allow too, the retention of the two-group Council and for further thought to be given to the desirability to be found in so many democracies of a true two chamber solution.
36. Suffice it to say that there is no one council suits all. All are different from one another. Hong Kong must put forward its own solution.

An Electoral Commission?

37. How the political system should develop after 2012 to move towards universal suffrage if the Functional Constituencies are to be abolished represents a major challenge. It cannot be dealt with by the long drawn out process of consensus building currently in vogue. If no solution capable of achieving a two-thirds majority is reached, it might be necessary to appoint an authoritative Electoral Commission to deliver a solution.

Election of the Chief Executive

38. The BPF has written extensively on this subject, its views are driven not simply by the narrow interest of the SAR but also the need to meet with those of Central Government expressed in the Basic Law that the elected candidate must secure the approval of the Central Government. What better way to ensure this than to require the candidates to have at least a number of nominations from the NPC members of the fourth sector? Of course this is an anathema to politicians with extreme views but these NPC members must be recognised for what they are and as having a special representative responsibility.
39. All candidates should have at least some support from each of the four sectors, professionals, social groups, economic interests, Councillors and NPC delegates. This will lead to the election of candidates who have broad sectoral support, who do not merely represent a narrow party or sectional interest. This is practical politics, the politics of compromise and consensus which we are seeking to achieve.

An illustration of requirements for successful nomination of the Chief Executive in 2012

a) Premises:

Nomination Committee = 800 members (made up of four sectors of 200)

LegCo = 60 members

LegCo members are to remain in the Fourth Sector of the Nomination Committee

b) Requirements recommended by BPF

- Threshold for successful nomination (12.5% of 800) = 100

- Support from each of the 4 sectors (10% of 200) = 20

- Support from LegCo (25% of 60) = 15

Based on the above, the following is the composition of the requirement for successful nomination:

- First, Second & Third Sectors: 20 x 3 sectors = 60

- Fourth Sector: 15 LegCo + 5 = 20

- From any of the four sectors = 20

Total nominations = 100

Notes: Those numbers could be modified: the principle is to nominate candidates with some support from each sector.

40. With regard to the size of the Election Committee, a Committee of 800 is sufficient, to increase it is merely cosmetic, playing with numbers, without any practical effect.

Choice of the Final Candidate

41. After completion of nomination by this process, the final choice between the competing candidates in 2017 should be put to all registered voters to elect the Chief Executive through one man one vote. This would amount to universal suffrage for the election of the Chief Executive. The ultimate goal stated in the Basic Law (Article 45) would then have been achieved. The Chief Executive at the end of the day could legitimately claim that he had wide public support.
42. With regard to the election process, a one-round first-past-the-post voting method may produce a winner with less than 50% of the total vote, the alternative merit of a two-round run-off between the two candidates with the highest number of votes needs careful evaluation. In theory it should produce a majority winner. The possibility of a run-off discourages the coalition of opposing parties during the run up to the first round of the election in the hope of winning in the second round run-off. Political parties making the decision to run their own candidate may have as their goal either to finish in the top two in the first round or to demonstrate an electoral following that can be delivered in the run-off election to one of the top two finishers in exchange for benefits in the future. Studies have shown the percentage of votes received by two leading parties in these circumstances tend to be smaller than those in one-round elections. Moreover, the run-off system encourages the development of political factions rather than major coalitions.
43. For these reasons, the preferred option for the election of Chief Executive is the one-round first-past-the-post voting. In such a system, the candidate with the largest number of votes wins the election. Political forces in these circumstances will tend to form a broad coalition behind the "front-runner" and the opposition will also tend to coalesce behind one "principal" challenger to gather as many votes as possible.

THE ECONOMY

SECTION III

1. We start from the fundamental premise that our economy should continue to be market driven. Compared to the private sector, the role of the government is limited yet absolutely indispensable. The proper roles of the government in the economy are:
 - i) To provide the hard infrastructure and soft infrastructure (e.g., rule of law, education).
 - ii) To provide enabling policies that could be of a general nature (e.g., immigration policy to attract skills), industry-specific (e.g., abolishing the wine tax), or both (e.g., CEPA).
 - iii) Where warranted, to make the necessary public investments to spur industry.
2. The last of these has more recently fallen into controversy as to whether the government should start “picking winners and losers”. However, we believe that such argument is often mired in confusion for in fact the government has for decades made judicious public investments to benefit the growth of specific industries such as trade, manufacturing, and tourism. Examples include establishing industrial estates and new industrial towns such as Kwun Tong, the building of the convention and exhibition centre, Ocean Park, Science Park and so on. Hence the real issue is not whether public investments in industry should be avoided as a matter of principle, but the circumstances where such investments may be warranted for strategic development purposes.
3. With the financial crisis ushering in a period of slow growth globally and competition intensifying, it is incumbent on the government to step up rather than retreat from its critical supportive role in the economy, by actively pursuing enabling economic policies and making public investments where necessary to spawn new industries and help existing ones to upgrade.
4. In addition, the Government should step up its efforts to facilitate and promote our role in China, to ensure that we benefit fully from our integration with the PRD in particular and at the national level more generally. This requires a re-examination and substantial strengthening of the structures and competencies of both the Administration and the public institutions responsible for promoting our interests on the Mainland.
5. With the whole spectrum of social and economic issues getting more complex than ever, there is increasing need for professional and issue-specific expertise in public administration. Past successes have been the result of devolving management to professionals within a defined entity. We also urge this approach in the context of health care reform, the West Kowloon Cultural Project, and other major government-led projects. This is the right model for Hong Kong.

6. We believe that the financial crisis has not altered the fact that Hong Kong has always been a city of traders and service providers - traders of goods and services and of financial instruments, and providers of business and professional services, especially to global corporations. Indeed, in the years ahead, the two main pillars of our economy will continue to be as a major financial centre and as a commercial and service hub. Much of recent emphasis has been on our importance and potential as a world financial centre but this alone cannot, and never will be the primary pillar providing stability and employment across our economy.
7. In this project, we have undertaken a comprehensive study of the financial sector while key opportunities and priorities for our non-financial sector have been highlighted in the work of our task forces. We conclude that the key issue in driving our financial sector forward lies in strengthening the government's leadership and market development capabilities, whilst the key driver for the non-financial sector is a strengthening of our capacity as a commercial and service hub, through increased application of industry R&D and branding, greater access to the Mainland domestic market especially in services, and deepened integration with the PRD and the rest of the Mainland.

The Non Financial Sector

8. This brief discussion of our non-financial economy is not meant to be comprehensive. In fact its scope is necessarily limited because we are covering specific areas where there is a role for supportive government policy. The industry areas we address include new promising areas of opportunities and "old" areas critical to our GDP and employment. All of the targeted areas could potentially be incorporated into an overall government policy to serve the following strategic objectives:
 - i) To maintain Hong Kong as a business and service hub.
 - ii) To maintain Hong Kong as a skills centre.
 - iii) To maintain employment, especially for our large pool of low-skilled workers.
9. Many of the initiatives suggested in this chapter also dovetail with the six new economic pillars proposed by the government, namely testing and certification, medical services, innovation and technology, cultural and creative industries, environmental industry and educational services.

Manufacturing and Industry R&D

10. Hong Kong is, first and foremost, a free trading port. That is as true today as it was historically. Our trading activity is built around manufacturing, trading, logistics, and exhibition, and this sector also supports other industries such as banking, insurance, professional services, retail, and so on.
11. The importance of manufacturing in Hong Kong's economy has long been understated because it accounts for less than 5% of our GDP. But manufacturing's importance is far greater than its

direct share of local GDP, because Hong Kong remains a very important nerve centre of manufacturing activity even if most of our factories are located across the border in the PRD, and this activity is intricately intertwined with the trading and logistics industries. Indeed, manufacturing, trading, and logistics are more properly viewed as a single integrated sector accounting for over 25% of our GDP and a major source of employment. This sector is also well established as a key supply centre of consumer goods to the world. In recent years, our manufacturing industry has been undergoing structural consolidation and it could come out of the process strengthened and not diminished, but supportive policy is needed. While some of the PRD manufacturers have gone out of business in the ongoing shakeout, the majority will survive and even thrive, especially if they are given help to move up the value chain through innovative product development, design, and branding. Industry R&D is critical to this effort. To date, government's initiatives to spawn R&D have met with encouraging results, most notably the Science & Technology Parks and supportive programmes, but their scale must be expanded. After all, the share of R&D in the GDP in Hong Kong is lowest among developed economies. That situation may have been tolerable in the past three decades when the move to low-cost manufacturing locales just across the border was sufficient to sustain and even grow our industry, but that model is now completely obsolete. Going forward, applied technology which is central to product development, and innovation in our manufacturing sector with its heavy consumer goods focus will become the key to its survival.

12. In addition, to a ready market for applied technology due to its large manufacturing and service base in the combined Hong Kong/PRD region, Hong Kong has very good potential to become a vibrant R&D centre for its strong Intellectual Property (IP) protection. Other than the injection of more public funds for R&D, tax incentives for R&D spending are also required. Specifically, bonus tax deductions for R&D expenditures at a rate of 150% - 200% should be provided.
13. Brand building is the other key driver to move our manufacturing industry up the value chain. As the great majority of the companies in this area are Small and Medium Enterprises (SMEs), greater government support is needed. This could be achieved through support for existing institutions such as the Hong Kong Brand Development Council. Also, the range of purchased IP eligible for tax deductions should be extended to include trademarks, brand names, designs, etc.
14. Of course, the benefits of developing Hong Kong as a R&D centre are not limited to manufacturing. It would also keep our economy diversified and reinforce Hong Kong's status as a higher education centre with a strong skills cluster.

Trade Fair and Exhibition

15. Trade fair and exhibition is another critical part of the industry cluster that makes Hong Kong a vibrant trading hub. The trade fair and exhibition industry in Hong Kong is an established world leader and contributes very significantly to our GDP and employment. Other than the direct revenue it generates, the hosting of trade fairs and exhibitions also brings customers and business orders directly to the doorsteps of our manufacturers and traders. As well, it brings

serious buyers and other companies from overseas to Hong Kong where they could meet and potentially create new business ventures, which is exactly the function that Hong Kong should serve as the region's business hub. While neighbouring cities have built very large convention and exhibition facilities to compete for this business, Hong Kong can retain its niche by competing on quality and not size, by leveraging its free port status and its established corporate base. As an example, book fair is one niche that Hong Kong could retain indefinitely. Still, by 2015 the requirements of large trade fairs will have outgrown Hong Kong's capacity to host them. Timely construction of Phase Three of the Hong Kong Convention and Exhibition Centre is the obvious and urgent solution.

Aviation Hub and PRD Connectivity

16. The maintenance and strengthening of our role as a cargo and passenger international airport are crucial to our status as a leading business hub. In particular, air cargo unlike marine cargo is one area of the logistics industry where Hong Kong is seen to be able to retain its competitive advantage into the future. While cooperation between the Hong Kong International Airport and neighbouring airports should be encouraged, it also has serious limitations that must be clearly recognised. The airport is one area where Hong Kong could not rely on capacity in neighbouring cities to satisfy our needs as a business hub. In fact, one is hard pressed to come up with examples of important business hubs in the world without major airports. We strongly support pressing ahead with reclamation work necessary to enable the construction of the third runway.
17. But to maintain Hong Kong as an aviation hub would require more than expansion of our airport. It also requires better land connections with the PRD, especially rail links and more convenient border checks so that Hong Kong could readily draw on the air passenger traffic from Shenzhen, Dongguan and other nearby PRD cities.
18. Improved connectivity with the PRD is also important for our economy in many other aspects, not least of which is greater retail spending by PRD residents in Hong Kong, which in turn would create employment especially for our lower skilled workers. For too long the flow of retail business between the PRD and Hong Kong has been heavily skewed towards Hong Kong people spending in the PRD. Better rail links and faster immigration procedures at the border check points, especially for Shenzhen residents, are important to bring that about.

Maritime Industry

19. At a time when the dramatic drop in export trade of the past six months and the competition from neighbouring ports sees our port lying idle, the future of our container port, until recently one of the largest in the world, remains clouded in uncertainty. But the slip in regional ranking of our container port does not imply that Hong Kong cannot remain an important centre of the maritime industry.

20. Hong Kong is already one of a small number of leading world maritime centres with a successful quality Ship Register (the world's sixth largest) and a Shipowners Association whose membership represents some 9% of world tonnage (93 million deadweight tonnes). Hong Kong is one of the world's most proactive maritime centres, recognised as the voice of Asia. As well as ship owning and management, the maritime cluster includes ships agents, classification societies, equipment suppliers, insurance, finance, broking, law and arbitration, technical services, training and education and the ship register.
21. We recommend that Government revisit the 2003 report of Maunsell Consultants, commissioned by Government to study the strengthening of Hong Kong's role as a Maritime Centre.
22. In particular, we propose that Government gives more financial support to the international promotion of Hong Kong as a Maritime and Arbitration Centre and that it cooperates with the industry to establish a Maritime Education Board to coordinate the planning for the manpower needs in the industry and the various involved bodies, the Sea School, the Maritime Services Training Board, the Hong Kong Polytechnic University, City University and others. The industry should also be supported in its leading coordinating role in China through its organisation of the Marine and Education Training Network (MET's Network).

Medical Services

23. Medical services are one of the new economic pillars proposed by the government. There are four distinct avenues for building Hong Kong's medical services industry.
 - i) As a centre of excellence for providing high level care to patients from the Mainland and overseas.
 - ii) As a centre for professional training/education and research.
 - iii) As industry specialising in medical informatics and IT services.
 - iv) As a manufacturer of medical supplies.
24. Our public health system is a world leader in the public sector in health electronic record systems and health related IT services. It is essential that we leverage this leadership while it still prevails. Both in IT, as an innovator, and in medical supplies, as a major user, we have a strong platform on which to build a major industry for Hong Kong, serving the Mainland and global markets as well as our own domestic market. We urge the spinning off of these skills through corporatisation and eventual privatisation to create a medical informatics and medical supplies industry, following broadly on the patterns of the MTR and the Airport and tapping the resources of the Science Park and Cyber Port.
25. Traditional Chinese medicine has gained widespread acceptance and due recognition but the task remains to standardise and systematise its use and practice. Many, if not most, people in

Hong Kong do not view western medicine and Chinese medicine as mutually exclusive, and in fact rely on both albeit not in a manner that is scientifically-proven, which is of course unsatisfactory. The market demand for the co-usage if not integration of Chinese and western medicine is there and is not going away, the only question is whether that demand will be filled. With an advanced western hospital system combined with expertise in Chinese medicine, Hong Kong is a natural candidate for establishing a Chinese medicine hospital and it is an idea worth pursuing.

26. One of the core themes of this report is the imperative to build Hong Kong as a centre for skills and to promote the free flow of skills and people. Our future role as a centre for specialist skills is central to this, and health care management, medical treatment, nursing and other health care disciplines should be a high priority. For this to be effective, we must throw open our doors to equivalent skills from other jurisdictions. There can be no place for domestic cartels in this context.

Educational Services

27. To become a higher education hub would fit the long term economic development of Hong Kong perfectly. The lifeblood of our economy is business and professional services, and its future depends on Hong Kong being an established skills centre.
28. Hong Kong has fallen behind in terms of its ability to attract talents, especially vis-à-vis the Mainland. It has been estimated that over 350,000 people from Hong Kong already work in the Mainland, and these are mainly skilled professionals and managers. Yet, the number of professionals working in Hong Kong who arrived from the Mainland remains small by comparison, especially in the private sector. An important way to attract more Mainland talents is to bring them to attend university and even secondary school in Hong Kong and stay after graduation.
29. The key to establishing Hong Kong as a higher education hub is to consolidate our fragmented public university system. Resources for the universities should be consolidated to avoid duplication and enhance effectiveness. Our universities should be directed to pool their different areas of research expertise and cooperate in their research and teaching programmes.
30. The government has expressed support for the development of private universities, but it will take many years for private universities to establish a significant presence in our university system on their own. A quicker and more effective option is for the government to encourage the voluntary privatisation of one of the existing public universities.
31. Establishing Hong Kong as a higher education hub does not entail simply by putting more money directly into our universities. There are other ways, like developing industry R&D and medical services that would directly spur industry growth while bringing funding and other resources to our universities. In general, the encouragement of high-end industry development would itself be conducive to our bid to become a higher education hub.

32. A severe constraint to the growth of our universities is the lack of land. This problem has been known for years and must be addressed immediately.

The Financial Sector

33. Our study on the financial services published separately (Hong Kong 2020 - the Big Picture: Financial Services) outlines the unique opportunity for Hong Kong to develop into China's international financial centre to meet her enormous demand for efficient financial services of international standard as she develops into a medium income economy.
34. Shanghai's rise does not mean Hong Kong's downfall. It does however, re-emphasise the importance of our advocacy with the key decision makers in Central Government to highlight our comparative strengths.
35. A major finding of the report is the necessity to strengthen the professional and market expertise in Government and in the various regulatory agencies. The traditional system of generalist Administrative Officers rotating through different jobs every two or three years should be supplemented by a system of streaming and by attracting to Government more professionals with financial market knowledge and experience.
36. Given the vital importance of "selling" Hong Kong as a financial centre, it is recommended that an Ambassador be appointed to promote Hong Kong's financial services overseas and to China, also to advise the Financial Secretary on ways to develop Hong Kong as a financial centre.
37. In strengthening the regulatory framework and improving communication between regulators it is important that a distinction be made between the prudential regulation of institutions by knowledgeable professionals, whose role must encompass both market development and supervision, and the regulation of products and marketing to protect consumers. This may require a separation or reallocation of existing roles.
38. We recommend an improvement to settlement and shareholder registration arrangements and improved coordination between settlement systems, broadening the range of products they cover. Listing arrangements need to be streamlined to facilitate listing by companies from a wider range of jurisdictions and assist secondary listing in Hong Kong.

Asset Management

39. Hong Kong should develop into the Centre of Asset Management in Asia. Regulations governing offshore funds with global distribution should be upgraded in line with international development while new regulations should be drawn up to facilitate the setting up of domestic open ended funds.

Insurance

40. Hong Kong has a well established insurance industry but its growth has been constrained by the small size of its domestic market. Our objective should be to promote Hong Kong to Mainland China as a base for the future internationalisation of its own insurance industry particularly in reinsurance. The establishment of Hong Kong as a captive insurance centre serving Mainland multinational corporations is recommended as an important first step in this direction. This requires policy support and specific fiscal treatment.
41. Measures to widen the footprint of domestic insurers by facilitating their involvement in the Mainland market are also important to strengthen our insurance industry.

A Base for Mainland Companies

42. To attract Mainland Chinese companies to adopt Hong Kong as the first base for their international expansion, it is essential that Hong Kong enters into more double taxation agreements with other jurisdictions.

Conclusion

43. This brief review of the financial and non-financial sectors of our economy shows that Hong Kong does not lack growth opportunities. Our challenges are to establish the priorities and to build the partnerships between our Government, our private sector and our counterparts on the Mainland.

TASK FORCE FINDINGS AND KEY RECOMMENDATIONS

SECTION IV

1. We established task forces to examine five core areas which constitute the infrastructure of our society. It is in these areas, together with the major topics we have discussed, where Hong Kong must get it right. We give an overview of the findings of each of the task forces and their key recommendations. These provide a link to the accompanying full reports.
2. The areas are:-
 - Human Capital
 - Infrastructure
 - International
 - Hong Kong Mainland Integration
 - Social Issues

I

Human Capital

1. The report on human capital highlights that people are Hong Kong's only natural resource and that we cannot achieve our potential without adopting a far more coordinated and dynamic approach to develop our human capital.
2. It analyses the role of human capital in contributing to past successes and examines our current policies and advocates measures to raise the quality of our human resources.
3. Three major areas are addressed:
 - i) Human capital leadership – designating a single body to oversee human capital strategies and their positive implementation.
 - ii) Emphasising the need to address the population's culture and mindset, reform our education system for better soft skills development, international exposure and diversity in the offering of tertiary education, foster public and private partnership in vocational training, as part of an integrated cohesive life-long learning strategy.
 - iii) Immigration policies – adopt open and dynamic policies to attract global talent, businessmen and entrepreneurs. Relax immigration policies to allow academics and professionals to enter Hong Kong in accordance with a one-country principle.

Key Recommendations

Leadership of Human Capital Development

4. Define Hong Kong's human capital beyond current permanent residents and include new and potential migrants, expatriates and visitors.
5. Appoint a Minister for Human Capital of seniority to champion and lead the development and implementation of comprehensive human capital strategies.

People Development Strategies

6. Encourage soft skills development such as communication skills, interpersonal relationships, international adaptation, character building and values formation.
7. Give students more international exposure through more foreign students studying in Hong Kong's universities, exchange programmes with Mainland students and subsidised study abroad for selected local students.
8. Essential English and Putonghua capabilities must be continually and persistently promoted with increased funding.

9. Introduce more diversity in the offering of tertiary education, specifically by private universities. Privatised a university with a sufficient endowment freely to pursue the highest levels of academic attainment.
10. Collaboration between private sectors and providers of vocational training is necessary to close the competency gap and make such training more attractive.
11. Stimulate more training investment, introduce territory-wide vocational training undertaking agreements.

Culture and Mindset

12. Renew and strengthen the “Hong Kong spirit” by promoting the values of the five C’s – Commitment, Community, Contribution, Confidence and Creativity.
13. Identify role models among businesses, public administration, and community leaders to exemplify Hong Kong’s successful virtues. Set up a channel to promote these virtues.
14. Elevate the media industry with strategies for achieving and promoting long-term sustainable professionalism of the media as an important pillar to promote Hong Kong’s virtues.

Attract Talent Flow to Hong Kong

15. Develop Hong Kong as an education hub to attract constant flows of talent to Hong Kong.
16. Rebalance family-dependent migrants from the Mainland with a significant expansion of the quality migrant programmes to attract top talent and overhaul the economic immigration policies to attract businessmen and entrepreneurs.
17. Meet the current challenge to promote Hong Kong and attract quality migrants, assign the administration of immigration policies to the Commerce and Economic Development Bureau.

II

Infrastructure

1. We support the ongoing hard and soft infrastructure programmes. By 2020, Hong Kong will be well positioned to leverage our location, as the road, rail, air and water links with the Mainland continually improve. A start should be made on implementing the planned economic growth areas in Northern New Territories, including the northern link rail connection to complete the railway network. Thus enhancing the areas' overall development potential, which can be linked with new technology centres identified in the PRD and the one hour living zone concept.
2. Hong Kong must look outwards. Individual contacts and collaboration will be the essential element in building closer relationships with Mainland provinces and cities. Within the PRD the improved infrastructure will expedite travel and business activities. Express rail travel times of only five hours to central Mainland cities, eight hours to Beijing and Shanghai, less than an hour to Guangzhou and minutes to Shenzhen will transform Hong Kong's ability to work and invest on the Mainland.
3. In the context of the National Development and Reform Commission (NDRC) Outline Plan the group agrees with its message that Hong Kong can spearhead economic and trade cooperation for the PRD not only with Taiwan but also for example with Vietnam as well as ASEAN and other international regions. Subject to retaining our free port status and relative handling efficiency, the group believes Hong Kong will remain the dominant air cargo hub in the South and that our container hub can find new opportunities as the Mainland moves towards balancing an export led economy with increasing domestic growth.
4. Although good hard infrastructure will substantially be in place by 2020, the group identifies a weakness when Hong Kong people work in a Mainland environment when adapting to an unfamiliar administrative and technical environment, and lack confidence in spoken and written skills. There is an evident need for more effective training and preparation for working on the Mainland.
5. With our reliable and cost effective global communication network and our investment in hard infrastructure at Cyber Port, Hong Kong Science & Technology Parks and the technology departments of our universities, backed by a strong legal platform to protect intellectual property, the group sees opportunities to position Hong Kong as a springboard to market and add value to global Research and Development projects which would spearhead development into the Mainland.
6. The group also identifies urban planning and infrastructure in the smaller developing cities on the Mainland, still large by Hong Kong standards and where Hong Kong has much to contribute. In particular the lessons learnt from planning green living concepts, and the efficient use of energy and transport resources, with an imperative on the reduction of carbon emission.

7. On the domestic front, a major concern of the group is the ability of our Administration to keep pace with equivalent Mainland officials, both technically and in the speed of implementation of key projects. The group considers that a Development Technology Champion is necessary, leading and supporting as well as motivating Government Departments in reaching out to their Mainland counterparts.
8. It also identifies the need to build up the planned new population centres for Northern New Territories, so as to strike out into new technology areas within the PRD together with neighbouring Shenzhen. The transport links in place by 2020 will enable a northern district to better balance the financial and services business areas alongside the harbour. Using the Lok Ma Chau Loop for advanced R&D commercial/academic activities, a free zone between the Hong Kong Special Administrative Region (HKSAR), the Shenzhen Special Economic Zone and Guangdong, will complement this re-balancing of Hong Kong's capital resources.
9. The need exists to undertake a root and branch review of Hong Kong building regulations, and to make better coordinated use of its transport operating infrastructure, and especially to achieve measurable and sustainable reductions in emission and energy use. These are of the utmost urgency, for good economic reasons, but recognising that failure to address the emerging global climate change catastrophe is now the responsibility of everyone no matter where on the planet.

Key Recommendations

10. Ensure timely completion of the cross-boundary related transport projects, particularly linking with the rail/road network throughout the Mainland.
11. Actively develop R&D facilities in collaboration with Shenzhen, the PRD and Guangdong as a whole; consider an air and water quality centre located in a visa free Lok Ma Chau Loop accessible to HKSAR and Mainland experts as well as others from around the world.
12. Implement planned new growth areas in the northern New Territories and the new technology zones in the PRD linking with the one hour living sphere concept to promote employment opportunities.
13. Revisit the strategic planning targets and develop greater New Territories, work and leisure activity to counter-balance traditional harbour related dependence.
14. Root and branch review of design manuals and building codes, to achieve a greener city with enhanced air-ventilation and low emission characteristics at street level.
15. Construct the airport to airport rail link and connect with the new Shenzhen west development area, thus promoting efficient use of air travel alongside express rail throughout the Mainland.
16. Maintain and strengthen Hong Kong's free-port status.

III

International

1. If we are to pursue the World City objective, we should be a city where others want to live. If senior international businessmen do not want to live and work in Hong Kong, they will find reasons to recommend their companies to go elsewhere.
2. Fortunately for Hong Kong, the expatriate community generally loves Hong Kong. Its facilities are good, it is widely known for its buzz and most foreigners adapt easily to the way of life.
3. The combination of its unique location, its excellent infrastructure, the English language and the fact that international business has a significant voice in its affairs are a major strength in favour of its continuing dominance as a leading international city in Asia.
4. This strength has been seriously undermined by the pollution and deterioration of air quality in recent years. This is one issue that will marginalise Hong Kong.
5. The “gifted amateur” approach to regulation must change and be substituted by product driven regulation across industry lines.
6. Hong Kong must reverse the deterioration in the English language ability of the Hong Kong work force. It must increase the funding and improve the quality of English taught in schools. The adequacy of international school places must be given constant attention.
7. Devote more resources to strengthening Hong Kong as an international sporting and recreation centre. Why do nations with much smaller populations do far better?
8. Hong Kong can afford to increase its population significantly over the next 20-30 years. Our immigration policy is restrictive and poorly focused. Professionals and academics from the Mainland should be allowed to come and go in and out of Hong Kong without restriction.
9. Finally, in urging that we continue to upgrade our infrastructure, it is recommended that we aim for a wireless Hong Kong by 2012.

Key Recommendations

10. Make the environment, in particular air quality, an absolute priority and set world beating standards for locally-produced emissions.
11. Ensure that school places are readily available for the children of expatriate business men and women.
12. Develop Hong Kong as a sporting centre. Build a major sports stadium.
13. Move to professional regulators and a super-regulator for financial services products.

14. Have world leading corporate governance including compulsory quarterly reporting for listed companies.
15. Ensure and fund a radical expansion and improvement to English tuition in Hong Kong schools.
16. Grant work visas for well qualified expatriates even without job offers.
17. Increased representation from international business in appropriate government advisory bodies.

IV

Hong Kong Mainland Integration

1. This task force report examines a reality which is still too little understood and certainly not yet adequately reflected in the administration of Hong Kong's affairs or the development of our policies.
2. For over 150 years the entirety of our focus has been on the interests of Hong Kong as a standalone entity and how best we can leverage our unique location and status in the world.
3. The new reality is that we no longer have an independent economy or even social structure. Our future instead rests upon being a part of and integrating our economy with, a much larger economic powerhouse.
4. Many years have passed and we are still learning to live with this relationship, seeking avenues for dialogue and communication and adapting our domestic policies, including our social policies, to incorporate a wider horizon.
5. We have four clear messages:
 - i) Embrace and cooperate closely with Guangzhou and Shenzhen as outlined in the State Council plan for the enhancement of the PRD.
 - ii) Integrate totally with the transport and communication links of the PRD and beyond that with the national transport network of China as a whole.
 - iii) Enhance our relationships and collaboration with prefectural cities in the PRD, and indeed throughout China.
 - iv) Cooperate throughout China in the services sector.

Key Recommendations

6. Consolidate Hong Kong's role as China's international business centre:
 - i) Enlarge Hong Kong's market share in Mainland's trading sector by leveraging CEPA.
 - ii) Serve as the Renminbi offshore clearing centre; take steps to encourage potential Mainland enterprises to consider listing in Hong Kong.
 - iii) Stress our agency function in bridging Mainland China with the rest of the world by high-standard and cost-efficient business services.
 - iv) Strengthen its mediator role in financial services, Integrated Circuit (IC) business operation and tourism between the Mainland and Taiwan.

7. Accelerate the strengthening of Hong Kong as the premium location for international conventions and exhibitions in Asia, and extend such services and software to the Mainland market:
 - i) Improve hardware infrastructure and compatible facilities for consolidating Hong Kong's status as the 'Asian exhibition centre'.
 - ii) Leverage the experience, brand name, and business network of the Hong Kong Trade Development Council for expanding new markets and collaborative projects with the Mainland to support trading, logistics and service sectors to continue to grow in Hong Kong.
 - iii) Leverage CEPA for exploring the Mainland market, especially for exploiting Hong Kong's reserve of management experience and capital in Mainland's tertiary sector development.
8. Develop selected new industries which Hong Kong has an obvious edge with an eye on the Mainland market for achieving sustainable development, which include:
 - i) Medical and Health Care Services.
 - ii) Cultural and Creative Industry.
 - iii) Environmental Protection Industry.
 - iv) Testing and Certification Industry.
9. Restructure the service sector's operation model to serve the whole country:
 - i) Hong Kong firms should aim at the entire mainland market rather than confining themselves to Hong Kong and the PRD.
 - ii) The "Individual Travel Scheme" should shift strategically to target China's middle class.
 - iii) Intensify co-operation with the PRD in the service sector, in particular fostering separate collaboration with Shenzhen in air transport, logistics, finance, tourism and high-end commercial activities.
10. Expand dialogues in Hong Kong-PRD subject based co-operation, and proactively initiate these with prefectural cities in the PRD.
11. Enhance the value-added of local manufacturing industry by:
 - i) Co-operating with Mainland enterprises under CEPA and leveraging other existing competitive edges in the Mainland.

V

Social Issues

1. While Hong Kong's economic success post Second World War has been miraculous, our society has also been undergoing fundamentally very important changes.
2. Family, the most important social institution of a Chinese community, has diminished in size because the baby boomers' family typically has no or one to two children. Because of the low birth rate, Hong Kong's population will be ageing rapidly in the next two decades. Together with westernisation of social values held by the younger generation, the reliability of family as a social unit providing support to its members, particularly elderly members, is greatly reduced.
3. Most of our social institutions were designed 30 years ago, which, when introduced, were aimed at a population where millions were living in squatter settlements. The underlying assumption then was that families will provide care and support for their members; and Hong Kong was enjoying full employment.
4. The report makes a compelling case for a fundamental review of the social security network, especially Comprehensive Social Security Assistance (CSSA). It also makes an attempt to explain how the long term care services can be reorganised and streamlined to provide seamless services for our frail older population without calling for much increased public resources.

Key Recommendations

5. The first major theme is long-term care (LTC) for the aged. The task force emphasises the highly unsatisfactory situation in relation to the provision of residential care services for the aged both in terms of deteriorating and unacceptable waiting times at a time of rising demand and the adverse impact of current policy implementation on the quality of subsidised services.
6. The task force makes proposals for the future shape of these services.
7. The second major theme is the issue of financial support for the aged and a range of policy initiatives proposed to build a multi pillar safety net.

Financial Support

8. To give adequate financial support for older people, we recommend that we should build for Hong Kong a five pillar safety net, comprising the following:
 - i) The family, though smaller in future, should be encouraged to continue to shoulder at least partial responsibility for giving financial support to their older members.
 - ii) Older people should be encouraged to remain gainfully active for as long as possible. The official retirement age of 60 for the civil service and the subvented sector should be

extended at least to 65. For those who have retired, opportunities should be made available for those in need to remain gainfully employed.

- iii) The Mandatory Provident Fund should be enhanced in terms of contribution rates and ceiling.
- iv) Individuals should be encouraged to put aside savings for future retirement protection.
- v) A new safety net should be put in place by amalgamating and replacing the existing CSSA and Old Age Allowance.

Long Term Care

9. To provide seamless LTC services for frail older people, the following recommendations are made:
- i) A LTC Agency should be set up to plan and co-ordinate the provision of LTC to older people who need such services.
 - ii) A voluntary co-payment system should be developed based on the market principle of product differentiation.
 - iii) Government expenditure on LTC should be rationalised to make available adequate funding for the LTC Agency to provide comprehensive services for our older people in need.
 - iv) By channelling all public funding through the LTC Agency, a higher standard of service can be required of service operators who are in receipt of public funding.

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