

**BPF's Views and Recommendations on Priority Issues
for the 2010/11 Government Budget
Business & Professionals Federation of Hong Kong
December 30, 2009**

Steady as She Goes

1. While the global economy has stabilised after the financial tsunami of 2008/09, the sustainability of a steady recovery is still subject to many risks. In many developed economies, unemployment remains high and rising while household balance sheets have been weakened. Conditions in global financial markets have improved but are still far from normal, with credit losses still continuing to be a concern. Business investments remain weak in most developed economies. Unprecedented fiscal and monetary support has underpinned the current recovery. But increasing concerns about fiscal deficits and the consequences of extremely loose monetary policies are putting pressure on governments to plan their “exit” strategies.
2. The strong fiscal and monetary stimulus in the Mainland has also helped to engineer a strong economic rebound in 2009, despite the continued weakness in the export sector. While the authorities have pledged to continue with an appropriately loose monetary policy, steps taken to prevent asset price and consumer price inflation, to rationalise the economic structure, and to improve income distribution, are likely to have an impact on Hong Kong going forward.
3. In the midst of these changes and uncertainties, Hong Kong will have to manage carefully the timing and the way fiscal and monetary support for the economy and for financial sector should be withdrawn. Similar to many other economies, the government’s macroeconomic policy challenge is to manage the risk of inflation and asset price inflation on the one hand while supporting the current economic recovery on the other. Although stock markets have performed well, much of this activity has been driven by capital flows and extremely low interest rates. Investor confidence and enthusiasm about rapid economic growth, high rates of growth in money supply and asset price increases in China have also been a major factor supporting the strengthen of local asset prices, but this factor could become a negative going forward. While it is necessary to take measures to cool property prices, we would not support the withdrawal of business support measures, such as the SME loan scheme. Another proposal for consideration is assistance to manufacturing SMEs through abatement of provisional tax.

Fiscal Policy

R&D Investment

4. With PRD manufacturing changing to a more domestic market, import processing should be granted similar tax treatment to that applied to contract processing. Other areas where tax treatment is critical include R & D investment, for which we recommend tax deductions at a rate of 150% - 200%.

Captive Insurance & Offshore Investment Fund

5. Captive Insurance and offshore investment funds not targeted for local distribution are business opportunities for Hong Kong where we cannot compete unless our tax regime is competitive.

Maritime Industry

6. Double tax agreements are a major factor in developing our maritime industry and positioning Hong Kong as a business centre for regional head quarters, particularly for Mainland companies.
7. These are policies in the growing economic integration with the Mainland, rather than interpretation of existing tax regulations. There is a serious need to seek solutions, especially for areas of new and growth economic activity, compatible with Hong Kong's basic policy of a low and relatively simple tax structure.

Bond Markets

8. In our budget submission last year we emphasised the importance of a 'sovereign' bond market both as a tool of fiscal policy management and as medium for safety and balance of savings.
9. A major issue for the immediate future must be the strengthening of retirement provision in Hong Kong in the context of our ageing population, including the annualising of benefits. Building a stronger bond market is an essential element in achieving this.

Housing Affordability

10. The plight of the many thousands of lower middle income families within the gap between the cut off rate for rental housing and the cut off rate for home ownership and the lowest priced flats for sale is a cause for serious public concern and anger. A return to housing

programmes would be received with great acclaim, and should have no real effect on the overall market since these families have no hope in a lifetime of entering the market.

Health Care

Financing

11. In the debate on supplementary health care financing we are concerned that measures introduced should be part of a long term plan to achieve a better and affordable balance between public and private care, rather than just to relieve the burden on our public hospitals.
12. We suggest you should reiterate in your Budget that you have put aside \$50 billion specifically to support the introduction of universal health care financing and that Government is committed to making further progress on this in the coming months.

Samaritan Fund

13. We wish to repeat our call of last year for a more permanent and predictable funding source for the Samaritan Fund. That, at the current rate, the relatively strongly resources of this fund will be exhausted within three to four years. This is a serious deterrent to any commitment to expand access to expensive life saving treatment.

Care for Elderly

14. Associated with overall health care are residential care services for the elderly. Our current services are grossly inadequate both in terms of rehabilitation care and infrastructure and often of a poor quality. We urge a level of funding support commensurate with the scale of the problem.

Education

Student Exchange & Scholarship

15. Much emphasis is now placed on developing Hong Kong as an education hub and internationalising our tertiary education sector in teaching and research. A major element in this is widening the horizons of our own student population through exchange programmes and partnerships. Building exchange partnerships will take time. In the meantime a government fund should be established to provide study scholarships, both overseas and on the mainland, for Hong Kong students. One approach could be a Government matching program for private scholarships.

University Privatisation

16. Support measures for expanding the self financing education sector are a welcome and timely development. It will however take many years for these to establish a significant presence in our university system. In the current circumstances Government should revisit the quicker and more effective option of encouraging the privatisation of one of the existing public universities.

Convention Facilities

17. Whilst there is continuing controversy over the adequacy and of convention facilities, we are in no doubt that Hong Kong's core competitiveness is dependant on meeting demand for major facilities close to the central business district. Our convention capabilities are central to Hong Kong's role as a trading centre and the expansion of the Wanchai Convention and Exhibition Centre is an urgent priority.

Aviation Hub

18. Hong Kong is an international city and gateway to China. Our future success depends on good airlinks with the rest of the world. We have to ensure that HK's international airport will have sufficient capacity for future growth in order to maintain our position as a leading aviation hub.
