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**HKIoD's recommendations
for
the Chief Executive's Policy Address
scheduled to be delivered on 13 January 2016**

We do not see much change in the longer-run governance challenge. The difficult task remains: put ourselves back on course for growth, for development and for prosperity.

With an ageing population, fewer people will be working to support a growing number of elder retirees. We therefore need more diverse an economy that yields ever higher value from a shrinking workforce. But if we are to develop our economy, to be and to remain competitive, we need to nurture homegrown talents as well as to attract expertise from abroad. If our talents are to stay, we need to keep up a pleasant environment.

The Government has been pushed and swayed into coming up with some kind of youth policy. The younger generation deserves help where due, but in our mind, the bulk of thoughts and energy should be put to effectuate structural growth and development that will arrest the loss and further loss of Hong Kong's ability to perform and compete in the long run. The best surrogate to arrive at any good youth policy outcome is an effective economic development strategy. A more diversified economy will create more opportunities for them to construct their future. Economic strength is the surest guarantee of sustained firepower to tackle the many livelihood issues confronting us.

In a Creative Economy, companies old and new can make good use of design to come up with innovative products and services that win customers. In a Creative Society, design is deployed to address societal challenges and to instigate positive changes. Businesses can transform society with their successful commercial products. Many of us will also want to see our Government display more courage and determination to innovate and to create positive changes to redress the many livelihood issues facing us.

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Amidst the longer-term governance challenge, there is the not unfounded worry about whether Hong Kong is still capable of governing itself to overcome those challenges. The Government is not seen as effective or efficient as it once was. It looks to have sunk into a cycle of dragging on decisions and then, when things are finally put into motion, they are slow to complete, prone to errors and end up costing a lot more.

Many blame the so-called "filibustering" in the legislature, and many blame the rules of order in the legislature for enabling that to happen. Perhaps, but it may also be that many legislators, for how they want to please their supporters or how they know they can gain seats, have their heads too much into discrediting the Government and not about governing. If political animals behave according to the rules of the political game, we probably need the political rules to be better able to align interests towards sensible governance.

Company directors know well that, when a company is not able to steer its course, its business could easily get over-taken, or the company itself could even be taken over. Citizens of Hong Kong may need to take heed.

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Managing the economy

The macro-environment

Consumer spending dropped. The Fed raised interest rates. There could be ill effects on the local economy. Breakneck growth is a thing of the past for the Mainland economy. Emerging markets may have political and governance issues that hamper their ability to deliver on growth. On top of that, security threats and conflicts can send tremors across the global economy. The Government will have to assure Hong Kong people that it is prepared and ready to meet the challenge.

Free market competition

The Government will have to give assurance that the implementation of competition law will not become ill-conceived regulatory excess that works to disparage practices actually good for both competition and innovation, and ultimately good for consumers.

Refresh our tax system to keep us competitive

The availability of tax incentives and concessions has the effect of lowering the effective tax rates for businesses. This is an important factor for investment decisions. Our neighbouring jurisdictions are all competing with Hong Kong for investments, and they offer tax incentives and concessions in many forms and shapes to do so. This has dulled so much the Hong Kong tax system's competitive edge. We repeat our call on the Government to review the tax regime and to add or augment tax incentives to better match business needs, to spur development, to spice up the economy.

We ought to consider the case for a two-tier profits tax regime. That will benefit SMEs, some of them the would-be startups pursuing growth through innovation.

The case for a tax policy unit

Demands of global economy and new realities stemming from evolving accounting standards should warrant not expedient and patchwork fixes but strategic and holistic look at the tax rules to be sure they keep pace with developments and are attuned to how business is conducted in practice. There is a strong argument for and a practical need to have a high-level tax policy unit outside of the Inland Revenue Department to formulate tax policy that makes us competitive. Separate the role of tax collector and tax policy-maker.

A more rounded financial centre

To play its proper part as a major international financial centre, Hong Kong must keep up with the other major financial markets at efforts to improve banking and financial regulations. Nonetheless, the strife for market stability should not stifle quick response and action to hasten the pace at which new features or products are brought to the market. Hong Kong will be a more rounded financial center if investors have the choice of a wider variety of investment tools and platforms, such as commodities, bonds and other debt instruments, venture capital, private equity and hedge funds.

Indeed, there are plenty of reasons to introduce open-ended fund companies to the market. The availability of this new form of investment could help more retail investors achieve diversification of portfolio while reaping considerable gains. It will also help Hong Kong grow its own capacity to fashion financial products and not just a destination for products from elsewhere.

The local bond market can take a shot in the arm for some real development. Worthy local infrastructure projects can conceivably be supported by bonds listing on the local market. Belt-Road projects are another plausible source of bonds (and equity) wanting a market to list. The prospect for these finance deals to be denominated in RMB can further shore up the foundation as the leading offshore RMB business center.

With Shanghai-Hong Kong connect and the Shenzhen-Hong Kong connect that is expected to come, investors from both markets will not only be wanting more investment choices, but also timely and useful information on which they can base their decisions.

As Hong Kong continues to develop the financial sector, the question is always whether investors, especially retail investors, are protected. But as investors become more educated and sophisticated, they should be getting more and more able to fend for themselves. For them to really do so, one essential element will be the availability of corporate information in digestible form to assess and make investment decisions accordingly. A disclosure regime is only effective when it provides investors with the information they need to make informed investment and voting decisions, but does not overwhelm them with either extraneous information or with a form of presentation that obscures and detracts investors from what is material.

The Chief Executive can do well to better understand changes to the investor demographics, and to consider what changes, if any, needs to be made to our disclosure regime to help investors (particularly retail investors) understand the investment decisions that they are making, so that they can make the right choices according to their appetite from among more complex offerings that may become available.

Spicing up the economy: Hong Kong as Super-connector

Keep visitors coming

A vibrant hospitality industry, can't-miss conventions and events, far-ranging offerings for a true culinary experience and a full menu for leisure options to go along with leisurely shopping are the near term measures needed to resurrect tourism performance. For what Hong Kong can offer already from its creative industry (music, animation, film/tv and performing arts in general), there could be more efforts to fashion from such tourist attractions.

But as potential visitors are being pulled to other destinations for what they can offer and how they welcome visitors, Hong Kong's claim to being Asia's World City will be weaker if it cannot keep up. It is time for some long-term planning towards a rejuvenated tourism and hospitality industry that would help draw visitors from all over, keep them here longer, and connect them to local businesses.

The super-connector has to be connected

The hospitality industry and the larger economy will suffer if there is no hope of a third airport runway in operation in soon enough time. An airport with however many runways will, however, still not be helpful if it is not accessible. The location of our airport does require alternate ground transportation routes to connect to the city areas.

The High Speed Rail link is to connect Hong Kong with the network on the Mainland. With air travel to major China cities often hampered with delays due to air traffic control, riding the HSR could be a very viable, time efficient alternative even to cities up north. That efficiency cannot be fully utilised if there is no sensible mechanism to make border entry and

exit simple and convenient. The Chief Executive and his ministers will have to arrive at a sensible solution and to have the conviction to state the proper basis for that solution.

A Smart City is a city well-connected. Hong Kong has made an attempt to offer free public WiFi, but it is not regarded a success whether for connection speed or for the hiccups when switching locations. We need to get that service quality and performance right and do that soon, before we can truly exploit the benefits of a better spatial data infrastructure that we must also develop.

The springboard for business coming into and going outside China

Hong Kong would also be an ideal place for setting up regional headquarters or holding companies of business enterprises. If Hong Kong can reinforce itself as the choice location of regional headquarters or holding companies, it will draw and retain a strong pool of talents with responsibility to manage and direct company affairs. It will also attract experienced personnel from various professional services to Hong Kong. We again ask the Government to introduce “group loss relief” and other tax incentives and exemptions to support this development.

Hong Kong has been a major center for professional services involving cross-border matters. It has much to offer to China enterprises seeking to expand business reach around the globe. With the China-led AIIB getting into action, and with Belt-Road projects coming into play, there should be opportunities for Hong Kong’s service sectors to prove their value and worth. As the global economy shifts to Asia and as China plays more a leading role, Hong Kong must seize the opportunities and be at the thick of it.

Growth through innovation

Innovation for productivity gain is not a new feature in China’s developmental policy, and this will continue in the Thirteenth Five Year Plan. Closer to home, innovation can potentially bring wider impact to the economy than One Belt, One Road. The Chief Executive needs to have the resolve to create and maintain an ecosystem for a culture of innovation to take hold. R&D must count for more weight in the GDP. Businesses ought to be given more incentives to invest in R&D. Universities may be producing impressive academic research achievements upstream, but we need them to redouble the efforts downstream to turn more research into products that have larger societal impact.

High-skilled manufacturing

We see value in bringing back high-skilled manufacturing as part of a more diverse economy. There are obstacles to overcome (e.g., land costs) and the Government will need to devise plans to lead the way. We know of a manufacturer of pre-fabricated components for building construction wanting to establish an additional manufacturing facility locally but eventually have to do it across the border because there is no land available. Jobs are lost.

A workforce for the economy

Better incentives to unleash the latent workforce

To entice the homemakers, we will need flexible work hours and better availability of high quality child care facilities near the workplace as an attractive alternative to hiring domestic helpers.

Some tweaking of social policy to delay the retirement age and some tweaking of business practices to result in more widespread adoption of flexible work arrangements may wrestle more workers out of retirement and attract some more to join or rejoin the workforce.

For the many workers now having to work longer hours, handle more tasks, and risk more mistakes and injury as a result of fatigue, we can give better incentives to businesses, especially the SMEs, to upgrade and improve work environment and equipment so we get better efficiency and improve safety.

Flexibility to agree upon work arrangements

The civilised and open society that Hong Kong is, we as a community will not tolerate cruel and inhumane work arrangements. Some workers for what they do will probably need some protection in terms of work hours. For other workers in many other jobs, employers and employees should have as much freedom and flexibility to agree upon work arrangements such as work hours and pay/benefits, according to the nature of the jobs involved, and to clearly specify such arrangements in contracts. Give demand and supply a chance to work itself out in a tight labour market.

Recognise talents from abroad

Hong Kong may have the desire to attract talents from abroad. We need to avoid the situation where true experts are actually turned away just because of some narrowly guarded sectoral interest.

Education and vocational training to serve the economy

When our education system churns out graduates that are not suited for the job market, it will put a big dent in our hope to be competitive. Our schools must produce the workforce for current needs as well as future development.

Apart from work qualification and accreditation schemes, it may be that we need to better instill and cultivate an innovation culture. To that end, education and continuous professional development need to be creative and adaptive to help develop new skill sets as we embrace design, innovation and technology in a digital and connected economy.

In order to have a workforce that thrives on creativity and innovation, curriculum development must also be accompanied by efforts to enhance teachers' quality and ability to enable students to have a fruitful learning experience in collaborating and co-creating solutions to problems.

Make local schools as good an option as international schools

Our schools should be churning out graduates who can make up the workforce for current needs as well as future development. Substantive work skills from vocational training are important. But those in management, especially those in human resources, often lament that the new entrants do not seem to even have the basic ability to communicate with co-workers (whether in English or punts, whether writing or oral).

And for new entrants to be better in tune with a Creative Economy to really perform, they will also have to have nurtured a collaborative mindset, developed the ability to write codes for digital devices and acquired a sensibility to art, design and culture, all from the time they are in school.

The Government should want to re-instill confidence among parents in our primary and secondary schools with some firm plans to retune the curriculum.

While we need international schools for the children of talents we attract from abroad, we will never have enough if local kids are flocking to international schools to soak up the new seats.

Education funding

Hong Kong ought to invest in education. Make 15-year free education happen. Keep growing the number of subsidised seats in universities. Lower the bar for students to apply for financial assistance to go to universities. And for those who are already at work, make bigger allowance for them to pursue continuing education.

Corporate governance training

HKIoD believes lifelong training for directors in corporate governance knowledge and skills is an important yet often neglected segment when it comes to nurturing talents for the economic development of Hong Kong. HKIoD has long supported the promotion of corporate governance training, which is crucial to the long-term survival of their businesses and also the health and growth of the economy.

There is evidence of an ever stronger appreciation that company directors must have and must continue to improve on their skills, knowledge and qualities required to meet the corporate governance demands of today. All company directors, when they first assume their posts, should have a firm measure of competence to perform. Over time, they should strive to remain up-to-date with best corporate governance practices.

But if we want more from directors, then give them tools to perform and shields to protect. Hong Kong company directors will have widely-recognised references and practice notes to guide their conduct and behavior, but there should still be complementary measures. Directors ought to be protected in legal proceedings for good faith business judgment and decisions they made. They also need adequate indemnification, insurance or other risk coverage to shield their exposure.

Corporate governance is not just for listed companies

The benefit of proper initial training and continuous professional development for directors will flow not only for big corporations but also small companies. SME owners will benefit from corporate governance training. Many SMEs still find it difficult to take full advantage of loan schemes of one kind or another. There are a number of reasons for this, but one common impediment is that many SMEs could not demonstrate proper internal control and are ill-prepared to submit sound loan proposals. A better corporate governance scorecard will make it more likely for a business to obtain credit and financing. The Government will serve the economy well to roll out measures to help owners and directors of SMEs to obtain training to enhance their corporate governance practices.

The benefit of proper initial training and continuous professional development for directors will flow not only for business corporations but also social enterprises and charitable organisations. While the Government considers the recommendations in the Law Reform Commission's report on Charities, it would not go wrong to require charitable organisation directors to raise their game and be even better at corporate governance.

An attractive home for its denizens

Housing and land supply

The foremost livelihood issue on people's mind is the situation of housing. That was the main focus of this Government. For us, the overall long term goal has not changed. We need to re-

establish a flight of steps for younger persons and families to improve on their housing condition and quality of living in realistically reachable climbs.

As we seek to increase the number of units available, we should not forget about the other long-term goal. The living area per person is a statistical measure where Hong Kong ranks rather low at the moment.

There are also promises to be kept: the three-year waiting time for public rental housing

To meet these goals and promises will require ample supply of land, and there are already plenty of objections or oppositions to the Government's proposals to make land available. At the same time, the frantic search for housing sites cannot be at the expense of land needs for education, healthcare, recreation and other public amenities. We will also need sites for industry and commerce. The Government will need to demonstrate its ability to reconcile land needs and to re-capture brown sites and other underutilised lots into the land supply, all toward making adequate land available for various purposes.

Cityscape and community spirit

With many old districts undergoing redevelopment, neighborhood shops disappear, in come chain stores. Many are feeling that our street economy is fading away. The street economy is a cityscape to be cherished. The possibility of living on the town along street fronts darts with shops of all kinds is a character of living in Hong Kong and a source of the Hong Kong community spirit. As we build more housing and as we redevelop old districts, we have to keep that cityscape and community spirit. Could we put in more thoughts to fashion alternative market clusters for displaced businesses to continue their business?

Healthcare

An ageing population will demand more health services and the Government needs to prepare for it. The projected need for more hospital beds over time needs to be met. Hospitals specializing in Chinese medicine deserve their place in their own right. Geriatric hospitals combining Chinese and Western medicine will be welcome alternatives for many of our ageing population.

We recommend the Government to enhance services at outpatient clinics to reduce queuing time.

To permit tax deduction on the purchase of health insurance will probably help many middle-class families cope with health care costs amidst many other expenses. We would also recommend the Government to permit tax deduction on broader categories of healthcare-related expenses. The extent to which the ageing population can provide for their own medical care (and long-term care at old age) can influence how much retirement savings they should need and, if savings are not sufficient, how much retirement protection society should afford them.

Live their golden years – and die – with dignity

Aging at home and a home care service industry

If we were to effectuate the avowed policy of aging at home, we need far more resources allocated and much more resolute support to service providers to cut the waiting time for home care services.

Home care service provision must shed its image of being just social welfare. Home care service provision has all the potential to evolve into an industry of good business prospect with professionalised operations. We need more people with the right training and the commitment to work in this industry. The Government can come up with stronger plans to channel some of our labour force, younger workers included, into home care services and to spark the local home care service industry.

Retirement communities

Not all families have the wherewithal to live with their aging parents. We believe retirement communities with integrated medical and other social amenities is one sensible way to complement the “aging at home – aging in the community” policy.

Those approaching retirement age, especially the empty nesters, can settle into ordinary flats that are part of the retirement community. When health conditions require them to be taken care of by others, they can receive home care services or move into retirement homes within the community. Younger and still able residents in the community can be organised to volunteer home care services to those older and more in need. Their contribution can be points redeemable for home care service when they in turn need it, or be counted towards priority for moving into nursing homes.

Retirement protection

The pay as you go, universal pension approach has run into difficulties in plenty countries that have tried it, and we doubt the wisdom to dive into the pond now. On the other hand, we can see the rationale for paying a nominal amount universally to all elderly across the board, somewhat similar to the current Old Age Allowance, as a show of respect. However, retirement protection meant for supporting a living should probably only go to those with real need but not the means. When assessing options retirement protection, we need to consider schemes that enable workers of today to have less need to rely on the safety net when they age. This should require an overall assessment of the purpose and effectiveness of the Mandatory Provident Fund and the social security schemes now in operation.

A more pleasant environment

Garbage ... what to do with our garbage?

If we are to institute a levy on garbage disposal that is fair, we must first have in place the infrastructure to segregate waste at the source and to make better use of the recyclables. We need better incentives for residential and commercial buildings to reduce waste and keep recyclable materials off our landfills. We also have to stop discarded electronic products from causing more damage to our land. We should also have plans to introduce advanced incineration and other waste disposal technologies, including those that will turn waste into energy.

Hong Kong seems to be a place that generates an excessive volume of discarded home appliances or furnishings, many of which still very usable. We believe one reason is many new flats are sold with furnishing, but the buyers do not necessarily want them. Is there a possibility for buyers to specify options they want or not want with the flats they are to purchase without diminishing too much the architectural style or theme of the larger estate? For the other home furnishings that may be discarded, those could be good materials for some recycling, even up-cycling. Operators, however, will need affordable space to gather and sort out the materials and also as workshop to fabricate new items out of the materials.

Keeping the streets and public amenities clean and tidy can do wonders in leaving visitors a great first impression and making it more pleasant for our own citizens. The street cleaners do not have an easy job, but there may be opportunities to make their job a bit easier with better tools, better equipment or maybe even better trash cans.

A few other things can also better our city life and truly impress visitors. We can have nicer more level pavements that won't trip people over or sprain their ankles. We can have ramps for wheelchairs at every street corner. We can surely have nicer stylish street name signage, street lights and fences that give the whole of Hong Kong some uniform, distinct character.

Of cars and air quality

When we read and hear about bad air quality in Mainland cities, we should never be complacent and too lenient about that of our own. Air quality in the Pearl River Delta is not going to be a problem solvable by the effort of any one locale acting on its own. Internal diplomacy can be put to work and the progress can be made more transparent to the public.

Too many cars may be the local source of poor roadside air quality, not to say road congestion. The Government is re-introducing road pricing in congested zones, and we welcome the move.

Public transport incentives

We surmise road pricing may be less effective if there are no credible alternative routes for drives to choose. We surmise road pricing will only be less acceptable to those who prefer their cars if they don't have real options to park and ride (or walk) into pricing zones. Conceivably, there are opportunities for the iconic tramway to breed new lives to its existence.

Those who would wish to take a ride rather than drive should be given opportunities to enjoy the convenience that information technology can bring to enhance taxi cabs and car service, but we reckon that there must be proper safeguard for safety and liability.

All travelers will benefit from rationalised bus routes. The Government will also have to ensure service reliability of the rail network. And we believe strategic placement of transfer points, a better transfer fare mechanism and the wider adoption of monthly and weekly travel pass across different public transport service platforms will be an integral part of a larger public transport solution.

Creative Economy, Creative Society

As our neighbouring economies are undergoing design-led transformations, we in Hong Kong must be more able to have a mindset for strategic use of design, to be innovative. Hong Kong must continue to build its innovative ecosystem and foster creativity and cross-disciplinary collaborations.

Firmer steps led by the Government towards the development of a Hong Kong intellectual property hub, one with well-grounded rules to protect IP and with professional intermediaries to facilitate financing or trading transactions to realise the IP's commercial value, will give designer-founders, local or from abroad, better reason and encouragement to see Hong Kong as fertile ground for innovation and to set up shop here. With the right incentives, existing enterprises will also find new impetus to put efforts into design-led transformations that could take them to new heights.

Hong Kong the hub of creativity and innovation

Hong Kong can leverage the research capabilities of the Mainland and Hong Kong universities and R&D centres, and link up those capabilities with the manufacturing capacities on the Mainland or elsewhere. But there remains a wide gap between academic research and commercialisation of the research output into products and services. So while there are government assistance programs, we ought to consider, one, to increase the amounts funded, and two, to adjust the conditions for grant assistance to encourage more applied research leading to commercialisation of research output. Together with better tax incentives, we can have better chances to turn design into valued product and services for the market.

The Chief Executive can set us on the right track by increasing spending on R&D relative to the size of our economy. Putting more money to support existing or new incubator programmes will give more entrepreneurs an opportunity to succeed. Committing to buy more local innovations in public sector procurement will give them a reason to persevere.

Hong Kong's expertise in asset management can be put to good use if we are to develop a fuller venture capital market. The Government can in fact chip in as passive investor, making available more funds for R&D and for incubator support of early-to-growth companies.

Created in Hong Kong with pride

Though mass production capacities are available on the Mainland or elsewhere, prized skills and craftsmanship that once made Hong Kong proud remain found among some Hong Kong workers. They are raring for renewed opportunities to put their skills to use. They have the ability to fabricate those specialty parts or to accomplish those intricate work steps that go into prototypes of innovative designs. Manufacturing of a different, higher-end kind can still happen here. Great things can still be Made in Hong Kong with pride. Hong Kong has creative talents who are known around the world. Great things can indeed be Created in Hong Kong with pride. If only Hong Kong can truly foster entrepreneurship for a Creative Economy.

An enduring culture of innovation

Corporate governance demands of today will require the ability to understand and identify the risks and rewards that may come from creativity and innovation in creating business value. Directors ultimately have the responsibility in setting organisational strategy that leads to creation of long term value. As corporate leaders, directors have many good reasons to factor the potential of creativity and of innovation into their corporate strategy. As part of the corporate strategy they devise, directors have as good reasons to instill a culture of innovation into their organisations, and to leverage design and innovation to advance competitive advantages and business performance.

There are worrying signs that the financial sector is increasingly being drained of its ability and energy to innovate. Tighter and yet tighter regulatory and compliance requirements would seem to be a main reason for that. The emerging FinTech movement in Asia and around the globe, however, suggests that innovation and creativity can reshape old-fashioned banking and financial services delivery. Regulatory approach, in turn, will need to innovate to embrace the new.

Not just directors, not just corporate leaders or professionals, the citizenry should all develop a heightened sense of wider use of design to create economic value, to enhance competitiveness and to achieve societal progress. As we shape up our workforce, we must not overlook the important element of fostering creativity and a culture of innovation.

Wider use of design in the delivery of public service

The power of better design does not just spark innovations fetching more profits. The power of smarter design, the power to conceive a newer different way of doing things, can be deployed to improve work productivity at the office or at the factory. Not only do business enterprises earning profits want innovation, social enterprises and public agencies should also tap the power of better and smarter design in finding new ways to deliver services that enhance user experience. It is perhaps the case that design realises its true value when put into addressing societal challenges and instigating positive changes.

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Much of the content of what we have recommended in recent years remains timely and appropriate. In this communication, we seek to highlight what we see as over-riding issues that deserve particular mention in the upcoming Policy Address.

The governance challenge for the longer term hasn't really changed. The state of the SAR can go weaker still if do not make Hong Kong able to perform and compete once more. It calls for ever more courage and determination to innovate and to create changes that will bring us onto the path towards fulfilling our ambitions and aspirations.

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