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10 January 2013

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The Hon C Y Leung GBM GBS JP  
Chief Executive  
Office of the Chief Executive  
Hong Kong

Dear Chief Executive

**HKIoD's Submission on the 2013 Policy Address**

The Hong Kong Institute of Directors ("HKIoD") is pleased to forward our views for your consideration in preparing the 2013 Policy Address.

HKIoD is Hong Kong's premier body representing professional directors working together to promote good corporate governance. We are committed to promoting director professionalism and good corporate governance, as well as contributing towards the formulation of public policies that are conducive to the advancement of Hong Kong's international status.

In relation to the 2013 Policy Address, we have conducted focused review by our Economics & Public Affairs Committee under the chairmanship of Prof Christopher To.

Thank you very much for your kind attention. Should you have any enquiries about our submission, we will be pleased to discuss with you.

With best regards

Yours sincerely  
THE HONG KONG INSTITUTE OF DIRECTORS

Dr Carlye Tsui

Enc

cc: Dr Kelvin Wong, Chairman, HKIoD  
Prof Christopher To, Deputy Chairman, HKIoD &  
Chairman, Economics and Public Affairs Committee

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Issued on: 10 January 2013

**HKIoD's recommendations  
for  
the Chief Executive's Policy Address  
scheduled to be delivered on 16 January 2013**

Plenty of unfinished business awaits the Chief Executive and his new Government. Challenges continue to mount ahead. But we at The Hong Kong Institute of Directors ("HKIoD") remain convinced Hong Kong has the potential and the wherewithal to fulfill its many ambitions and aspirations.

Much of the content of what we have recommended for the Policy Address and for the Budget in recent years remains timely and appropriate for the issues facing Hong Kong. The more difficult task it has become is to slot the priorities that will set us on course for growth, for development and for prosperity.

Hong Kong needs new leadership to not just steady the ship, but to move forward.

**The macro environment, the context in which policies are to be made**

We are with the Chief Executive, that the ways to solve our local issues facing Hong Kong must require a careful consideration of the macro environment. External factors, notably a weak global economy, necessarily affect the economic and social development of Hong Kong.

Few can dispute the intricate linkage between the local Hong Kong and the Mainland national economy. We are confident the majority people will be grateful for the kind support the Central Government afforded to Hong Kong. And if anyone suspects it is an undeserved "preferential treatment", Hong Kong as a community has that much more reason to step up and justify its worth to the China national economy and a place in the global market. Hong Kong can surely play an active role in the further development of our country, keep its claim to be an international metropolis, and in doing so foster its own development that will offer prospects and opportunities for generations of people who call Hong Kong home.

The Chief Executive has called none of livelihood issues a small matter. The new Government will not treat livelihood issues as any small matter. Livelihood issues, we surmise, cannot be solved without economic strength.

We have a dulling competitive edge. To fall off the pace in economic development is to concede the race. With an ageing population, fewer people are working to support the elder retirees in society. We therefore need more diverse an economy that yields ever higher value from our workforce. But if we are to develop our economy, 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 livable place.

At the moment, we have a mismatch in the labour market, with many people looking for work while many job vacancies are on the market waiting to be filled. The structure of our workforce it now stands require prompt actions to redress, else our productivity sinks further. The structure of our workforce over time will determine how competitive we can become in the race for economic development, and ultimately how successful we can be at keeping

Hong Kong a pleasant livable place. We need a policy to shape the workforce for the future economy.

Hong Kong demographics as they are now and how they are to change must also necessarily define how housing, transport, education, welfare, healthcare and social policies will have to respond. All this will in turn define how public monies ought to be spent. It is natural that we take a serious look at our demographics, what they are at the moment and what the trends look like, and be ready with specific measures to meet the problems in the near term and for the long haul.

### **Role of the government**

Much of the problems facing Hong Kong are beyond the self-correcting forces of the market. There is a much needed pro-active role for Government to channel market forces towards economic development, and to step in to tackle social issues.

Hong Kong has fallen off its pace in the race for economic development. We expect the new Government to take concrete steps to support entrepreneurs who will spark new industries, create good jobs and keep us in the race.

We expect the new Government to support industries, by way of financial assistance and tax incentives to facilitate business, and by way of G2G external relations and internal diplomacy to remove obstacles to market access.

We also expect the new Government to invest into our infrastructure to make headways for development.

### **Economic development – the Mainland as hinterland**

The Hong Kong and Mainland economies are ever more integrated. For more and more people, career prospects and business opportunities lie in the Mainland. We are glad to see and hear the Chief Executive is committed to helping Hong Kong people and Hong Kong business explore and enter the Mainland market.

#### ➤ *The role of the ETOs*

HKIoD welcome suggestions to open new HKSAR economic & trade offices (or ETOs) in cities in Central China or in other areas not currently served by a dedicated office. The Chief Executive also suggested closer cooperation among the SAR government offices and the Hong Kong Trade Development Council, Hong Kong Tourism Board and Invest Hong Kong. We agree. We can include other entities such as the Productivity Council, the Design Centre, and the likes.

These governmental units can come together to better support Hong Kong businesses operating in or accessing the Mainland market. They can serve a stronger function; for example, in helping Hong Kong businesses understand the changing policy and regulatory environment, gain access to the domestic market, up their knowledge and strategy in managing their business and their brand, or to obtain needed credits and financing to support their operations. They can be anchor points for mutual support among Hong Kong businesses doing business in various parts on the Mainland, and coordinators of efforts or resources from various other business chambers, trade associations and governmental and non-governmental organisations to support Hong Kong businesses across China.

➤ *Untie the helping hands*

Many industry organisations supported by public funding provide valuable assistance to Hong Kong businesses within Hong Kong but their hands are often tied when it comes to extending support across the border. Remove those prohibitions. Many Hong Kong businesses now take on a model that sees substantial part of their activities occurring across the border, but there remains a strong tie with home. Supporting these businesses will see benefits flow back to our local economy, and good value for the support given.

**Economic development – Hong Kong as springboard**

Hong Kong is still the most internationalised city on China soil, and can still make a credible claim as the best entry point to the Mainland market.

Hong Kong is 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.

The professional services capability can also breathe new life into some traditional pillar industries, such as shipping and logistics. Our strengths at being a legal and financial centre with expertise also in management and insurance fields, and the possibility for our schools to provide educational and vocational training to match, can combine towards making us a hub for a modern, integrated logistics industry.

**Economic development - the choice location for setting up shop**

Hong Kong is also 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 principal offices for multinational 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. In support, we again ask the Government to introduce “group loss relief” and other tax incentives and exemptions and to conclude more number of double tax agreements. More and better infrastructure for data services and cloud-end computing will also be a plus.

**Economic development - the financial sector**

We welcome the idea of a Financial Services Development Council. We agree it can help shape the long view towards further development of the financial sector. Hong Kong can rightly aspire to be the nation’s financial centre, and a more rounded financial centre along the way.

➤ *A more rounded financial centre*

The Hong Kong financial market will have more depth if more investors have the choice of a wider variety of investment tools and platforms, such as bonds and other debt instruments, venture capital, private equity and hedge funds. These developments in the financial sector can in turn support other industries which need greater wider sources of funds for growth and expansion.

We expect the Government to have further initiatives and measures to further develop Hong Kong as the choice domicile for asset management. We also expect the Government to have further measures to develop commodities trading in Hong Kong,

and to push further Hong Kong's ability and attractiveness to be the domicile for captive insurance management.

- *RMB business*  
We expect the Government to have further initiatives and measures to facilitate the launch of a wider variety of RMB denominated products, not just the straightly financial product types but also insurance or other types to complement business and trade.
- *Attracting issuers from all over*  
We support further moves to attract issuers from the emerging markets as well as from the developed economies to raise capital and list in Hong Kong.
- *Hong Kong Stock Exchange and the Mainland exchanges*  
We are open to the idea of further, closer cooperation between the Hong Kong Stock Exchange and the Mainland exchanges. Where appropriate, we will be delighted to work with appropriate parties and the community at large towards that end.
- *Financial market regulations and corporate governance*  
To play its proper part as a major international financial centre, Hong Kong must keep up with other major financial markets at efforts to improve banking and financial regulations, and to raise corporate governance of public companies.

### **Economic development – we need new strengths**

To free itself from too much reliance on the financial sector, Hong Kong needs to develop new strengths. Hong Kong also needs new strengths to compete and not fall further off the pace in the race for economic development. As we have said many times, and we know the Chief Executive is with us, that we need growth engines to fire us back on track towards prosperity for all.

#### *Towards a creative economy*

The 2012 Hong Kong Design Year may have come to an end. The initiative and the series of programmes during the year must only be the start towards an enduring culture of innovation to support a creative economy. Enterprises embracing a culture of innovation will see as an important part of their strategy the wider use of design to add value to businesses and services they provide, and in turn adding value to the creative economy as a whole.

A community that supports entrepreneurship will be a community that supports a creative economy. We again ask the Government to put forth strong measures to make Hong Kong an idea factory for innovators to turn creative thoughts into sought-after products and services.

- *Hong Kong the hub of creativity and innovation*  
Hong Kong can combine the research capabilities of the Mainland and Hong Kong universities and R&D centres, link up the manufacturing capacities on the Mainland or elsewhere, and draw on its capital market to provide access to investments and venture capital.

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 required by innovative designs. Great things can still be Made in Hong Kong with pride. Manufacturing of a different, higher-end kind can still happen here. If only Hong Kong can truly support entrepreneurship.

Stronger incubation programmes and more channels and platforms for active design knowledge exchange networking will bring designers closer to manufacturers and investors. More generous tax incentives will encourage new entrepreneurs to put efforts into developing high value-added products and services. Further supporting measures will entice existing manufacturing enterprises, many of them SMEs, to put efforts into upgrading products and services through design and innovation.

An environment that supports entrepreneurship will not only foster the growth and development of home-grown talents. It will also attract talents to move to the territory.

➤ *Creative clusters*

A community of people who show a sophisticated appreciation of arts and culture and who have access to wide ranging forms of performances or exhibitions are likely those who have the better seeds to innovative design and creativity. The West Kowloon Cultural District shall be one key hub of arts and culture. We need, and we can spring other venues in parallel for arts, design and creative activities to form creative clusters around the territory. The former Central Police Station, former Police Married Quarters and other heritage sites are all possibilities.

➤ *Patent examination system and patent professionals*

Hong Kong should have its own original patent examination system, and a class of patent and intellectual property professionals who can help inventors and entrepreneurs, first to protect their creative inventions and other intangible assets from infringement, and also to raise monies for their further development and to turn them into products for the market. They will also be instrumental in facilitating the trading of intellectual property assets. When combined with our strengths in the financial services, Hong Kong being an intellectual property trading centre will add claim to it being a more rounded business and financial centre.

➤ *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.

The power of better design does not just spark newer innovative products fetching more profits. The power of better 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 design in finding new and better ways to deliver services.

## **Economic development - infrastructure to make the headway**

### *Air transport*

We recognize there is wide support for a third runway at the Hong Kong International Airport, but we think there are other infrastructural development initiatives that must be considered together with the third runway proposal:

➤ *Inter-airport rail link*

We ask the Government to work with Mainland authorities towards a firm timetable for the rail link between the Shenzhen Airport and the Hong Kong International Airport. This should include a stop in Qianhai district with connections to the larger Shenzhen area.

➤ *Air corridors to China cities*

A third runway will increase the volume that can be handled at take-off and landing, but air traffic is also constrained by other factors. To facilitate air travel between Hong Kong and Mainland cities, we ask the Government to work with Mainland authorities to smooth out traffic over the Pearl River Delta airspace and possibly open up additional air corridors for flights.

### *Tourism and convention business*

➤ *Keep tourists coming*

We will need a vibrant hospitality industry. Additional scenic spots, year-round programme of arts exhibition and cultural performances anchored by major events, and more choices of arena for exhibition and conventions are the first things to come by. Far-ranging offerings for a true culinary experience and a full menu of leisure options beyond shopping will help attract tourists and keep them here longer. We also ask the Government to have in place further measures to support the opening of the new ocean terminal.

➤ *Leave a good impression*

But if Hong Kong has to have a vibrant tourism and convention industry and ring true to its claim to be an international metropolis, it has to welcome visitors from all over and leave them with a good impression. We can start with keeping public facilities and other amenities clean, comfortable and more convenient to tourists (as well as our own citizens). We can also help our service industry front-line workers be more courteous and knowledgeable.

➤ *Shoppers' paradise?*

Hong Kong has made its name as one shoppers' paradise. This recognition can only be maintained if we are determined to rein in questionable sales practices. Make Hong Kong a place for worry-free shopping.

### *Infrastructure for the new economy*

➤ *Data services*

We expect measures to put in place new and additional data centres and other infrastructural amenities to facilitate mobile communications and cloud-end computing.

➤ *Testing and certification*

We expect further measures to solidify the progress made towards establishing world-wide trust and recognition of Hong Kong's testing and certification credentials.

**Economic development - the right talents for success**

It is important to support the nurturing and development of our workforce since they are the human capital important to the success of Hong Kong's future. A suitable immigration policy can also attract more talents with the wanted skill sets to benefit Hong Kong.

*Corporate governance training*

**Rewriting Hong Kong's company law lends a perfect opportunity to enhance corporate governance. Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance.**

**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. HKIoD has long supported the promotion of corporate governance training. 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.**

**It is right to require:-**

- **all new appointees to the boards of listed companies to attend one or more mandatory initial training courses of specified length and content;**
- **by a certain date to be determined, all directors of all Hong Kong companies and all listed companies to have gone through mandatory initial training courses of specified length and content; and**
- **all directors of all Hong Kong companies and all listed companies to fulfill certain specified number of accredited hours in continuing professional development training over annual or other appropriate periodic cycles.**

**The new Company Law is the right place to embody such requirements.**

**HKIoD has a continuing professional development requirement for its members, and we believe in allowing a broad range of learning activities to qualify as accredited training activities. HKIoD offers its members a variety of training courses and events with opportunities for learning. HKIoD also recognizes self-directed learning. We also grant reciprocal credits to appropriate course offerings or learning activities organized or offered by other institutions or professional bodies. We submit that the mandatory initial training and continuing professional development requirements are not onerous on company directors.**

**If we want more from directors, then give them tools to perform and shields to protect. Hong Kong company directors will have widely-recognized 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, and not only for profit-making ventures but also social enterprises and charitable organisations. SME owners will benefit from corporate governance training. We support the Chief Executive's ideas to support our SMEs, financial assistance being one. But many SMEs may 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.**

**Nor should we forget the public bodies and public corporations. The Government has over the years appointed many able persons, whether public figures ex-officio or private citizens on merit, to sit on many governing boards. Much like their counterparts in commercial enterprises, they are ultimately responsible for the governance of their respective organisations, to steer their organisations towards fulfilling their mission. They have as much reason as their commercial counterparts to be ready and prepared when they first assume their posts, and to keep up-to-date with the best governance practices over time. The Government can take the lead to require and entice them to firm up their initial preparation and to pursue continuing training over time.**

*Nurture the would-be entrepreneurs*

The desire might be there, but more and more Hong Kong people balk at the idea of starting their own ventures. High rent and high start-up costs are among the reasons. But one often overlooked reason is not having the corporate governance know-how. We can give them some more help, by rallying the talents we have in society to give business advisory to would-be entrepreneurs. We often think of social enterprises offering services and products directly to customers in need. We can conceivably also have social enterprises providing advisory and consultancy services to would-be entrepreneurs wanting to start a business or to fledging social enterprises wanting to upgrade and expand. Retired but still energetic business professionals may be the ideal candidates to lead and operate such advisory consultancy services.

*Education and vocational training*

Education is not expenditure but an investment. We agree. Education ought not to degenerate into just an "industry" driven solely by profit motives.

To earn a university degree is a venerable aspiration. We will need more people among our workforce to have an advanced education as we move further towards a knowledge-based economy. But let's not overlook the very real prospect of a satisfying career and meaningful life through well-structured vocational training. If we have a more diverse economy and work qualification and accreditation schemes to match, what might be a "negative" for not having a university degree to start out can be more than made up by specialty training and certification that leads to jobs in demand now, real career advancement over time and recognition and respect later on.

With many infrastructural projects still in the pipeline and more homebuilding to begin over the coming years, we ought to encourage more youngsters to become a new generation of builders with modern construction skills.

With hospitals short-staffed, we cannot wait longer to train new classes of nursing professionals. If we are to effectuate the avowed policy of aging at home, we would want more people with the right training and the commitment to work in the home care industry that will evolve.

*Continuing education has got more expensive!*

The restrictions and conditions for the current \$10,000, once a lifetime, maximum subsidy for continuing education deserve to be re-examined. For instance, the lifetime cap should be increased, or a rolling cap be introduced. The scope of coverage also deserves to be broadened to match development needs.

### **Economic development, wealth disparity and livelihood**

The issues of livelihood are entangled with, and defined by, a growing internal rift in our Society. We have a growing gap between the rich and the poor.

*Help people construct their future*

No doubt, “poverty in wealth” is a predicament. But if there are opportunities, if there are ways and means to get out of poverty, there is hope. In the past one would have good prospect for better lives by getting an education and by hard work. But now the opportunities seem dwindling.

Where there is “paucity in hope”, frustration simmers. Social harmony is threatened.

The HKIoD has long held the belief that we must rely less on welfare but more on giving people the ability and means to construct their future. To afford people with more and better opportunities, we need new strengths and real development in our economy.

The new Government is to set a “poverty line”. The elderly and the frail who are not able to earn an income and who have little else to support a living are easy cases to spot. But to just draw a line at some percentage of median monthly income is to ignore reality for simplicity. For many families, the actual out of pocket expense one has to pay out of ostensibly decent monthly income in order to find a roof determines whether the family is in real struggling in poverty.

High cost of land has also suppressed the desire for businesses to invest and expand. It has dampened the spirit for many would-be entrepreneurs to even start. The result could only be fewer job opportunities and lesser prospect for prosperity.

### **Livelihood - land resources and housing**

*There is still land to develop, put land to better use*

Land may be a precious commodity in Hong Kong, but developable land in Hong Kong has surely not been exhausted. Land supply should not just be a matter of revenue generation. The decisions to put Hong Kong’s land resources to various use must comport with strategic developmental goals.

Hong Kong can already expect the resident population to continue to grow. Integration with the Pearl River Delta and the rest of the Mainland will mean Hong Kong also has to host a growing floating population. All these trends in demographics call for a rethink of how to utilize Hong Kong land resources to keep Hong Kong an international metropolis yet a pleasant place to live.

We support the move to re-think the pace for new land development and for urban renewal, and for the suitability of reclamation at select sites along the coastline.

#### *Public rental housing*

Low income families certainly deserve our help to provide them with public rental housing. We ask the Government to make good on the promise of the three year waiting time.

#### *Homeownership scheme*

A stock of homeownership scheme housing units can give qualifying buyers alternatives to the costlier private housing market. We support a new supply of homeownership scheme units.

While we wait for them to come into the market, we ask the Government to design better incentives to make for the quicker turnover of existing homeownership scheme housing units in the secondary market. Whether for the existing stock or the new supply, whether the first sale or in the secondary market, we strongly believe homeownership scheme units should only be for qualifying buyers to buy, thus enforcing a segregation of public housing market from the private market.

#### *Supply of private housing*

We agree the fundamental solution to the housing problem, and to satisfy the many people's aspiration to own their own home, is a stable continuous supply of new private housing units where Hong Kong people have priority. We can also do some more to make it easier for buyers to secure a mortgage on the purchase of older properties.

#### *Home for the elderly*

With a growing elderly population, we need to do more to make sure the old age can find housing units that are suitable for their living needs. We ask for more retirement communities with integrated medical and social amenities designed for old age residents.

Retiring to the Mainland is a real trend. It has some practical advantages. People should be given the real option of retiring to the Mainland. As part of a broader strategy to tackle the housing problem, the Government should support investments to build retirement residence communities on the Mainland, with integrated medical facilities, for Hong Kong retirees to retire on the Mainland.

### **Livelihood – a pleasant livable place with healthy denizens**

#### *Healthcare*

##### ➤ *It is not too much to ask for affordable healthcare*

We are in agreement with the Chief Executive, that no one in Hong Kong should be denied medical attention solely for the lack of ability to pay. There should be affordable healthcare for all, but it is all fair and square for those with better means to pay more.

- *Medical incidents, far too many!*  
We expect the Chief Executive to roll out measures to enhance service quality and prevent medical incidents at our hospitals, public or private.
- *Beyond traditional medicine*  
We ask the new Government to direct additional resources to support research and development in public health issues, biomedicine and pharmaceuticals, and Chinese medicine. 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.
- *A better Hospital Authority for better coordination*  
We expect the Chief Executive to have plans to review the work and function of the Hospital Authority going forward, to be a better coordinator for better, safer medical services.

#### *Garbage ... what to do with our garbage?*

Have plans to introduce advanced incineration and other waste disposal technologies. Roll out further measures to support the recycling businesses. Create incentives for residential and commercial buildings to reduce and to sort waste at the source and keep recyclable materials off our landfills. Stop discarded electronic products from causing more damage to our land.

#### *Public transport and the commute*

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 for those who need to make long commute to get to work.

#### *Of cars and air quality*

If too many cars are the cause of road congestion and poor roadside air quality, introduce road pricing in congested zones.

### **Fiscal policy and budget management to meet Hong Kong needs**

As the new government tackles old and new issues, fiscal policy and budget management will have to suit those needs.

The need for fiscal prudence must be put in the context of our need to invest in Hong Kong's future development and to solve the imminent problems facing us. We will need new and additional infrastructure to make headway for development. We will need to prepare for an ageing population.

Economic growth remains our best friend when it comes to finding new monies for public spending. We need budget measures to make good the commitment to spur the economy. The availability of tax incentives and concessions, which has the effect of lowering the effective tax rates for businesses, is an important factor for investment decisions. Our neighboring 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. It is high time to review the tax regime and to add or augment tax incentives to better match business needs.

Appropriate incentives and concessions have also the effect of channeling investments into areas of the economy we want to develop, and of shaping and changing behavior towards alleviating some of our livelihood, welfare and environmental issues.

Fiscal reserves in vast quantity are a gift to Hong Kong. They can be and should be better deployed, to generate earnings that support our social expenditure now and in future, to invest in infrastructure, and to be seed monies for new industries in our economic development.

*Bond market and investment into the future*

A number of infrastructure projects are now under way or will commence soon. These are important public projects for Hong Kong, keeping it modern and competitive. As the Government undertakes these current projects and plans new ones, we encourage the Government to articulate clearly the purpose of these developments and create opportunities for the private sector to participate.

Government bonds could also be the means to finance high price tag solutions to some of our social problems. Take traffic congestion in cross harbor tunnels as example. We have previously advocated that the Government should present firm plans to even out the traffic among the three cross harbor tunnels. We view this less as an issue of insufficient capacity to meet cross harbor traffic demand, but more an issue of an uneven distribution of traffic due to wrong pricing incentives. It is conceivable that we can sell bonds to raise the war chest required to re-acquire the interests in the tunnels to better manage usage and traffic flow.

It is also conceivable that we sell bonds to finance new infrastructure projects, knowing that (and despite) we have fiscal reserves to fall back on. The reason is, for one, to further develop our bond market. For so long as these projects have the ability to generate toll revenue over an appreciably long service life, there will be a credible ability to meet the obligations on these bonds. Monies will be necessary to redeem the instruments at maturity, but that will only come in tranches, dampening the fear of having to spend too large a sum in one shot.

These bonds should have a variety of tranches, with a significant quantity with tenors 10 years or longer to create market depth. These bonds could also be marketed as income products suitable for retirement savings. Indeed, government bonds could have a place in the MPFs and pension plans for employees, as well as being the nest eggs for retirees who are living longer and spending more years living on their retirement savings.

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Livelihood issues are no small matters. To address them will require ample resources. Economic growth remains our best friend when it comes to finding those resources.

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