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### HKIoD's recommendations for Government Budget 2016-17

The Hong Kong Institute of Directors issued the following statement ahead of the Budget Speech scheduled to be delivered on 24 February 2016.

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 Budget Speech.

#### **Mind the gap**

The Policy Address delivered in January is a good showing that this Administration is pressing on with promoting economic development and improving people's livelihood. But there are gaps to fill if we are to be competitive again in the economy and to keep Hong Kong a City of Opportunity. We expect the Financial Secretary to deliver another Budget to closely match the Chief Executive's policy direction.

We do not think money can necessarily buy peace. Keep it through strength and determination. Dosing out candies may get some people instant gratification, but the more needed is an investment into 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. A City of Opportunity, one that promises not paucity of hope but an abundance of opportunities for everyone to construct their future, is going to bring back the spirit of optimism that made Hong Kong prosper in the past.

#### **Between Policy Address and Budget Speech**

Will the Financial Secretary recommend to the Chief Executive to move the Policy Address back to when it was, near the opening of the legislative year? A new Legislative Council will return after the September elections, and we fear the new legislature will still be inclined to drag its feet in getting on with government business while its member factions go at each other seeking to influence the tone and the outcome of the next Chief Executive election. Mandates they have, they will claim.

Re-election or not, the Chief Executive must still have a legislative programme that Hong Kong People will support and will want to see completed in a full legislative year leading up to July 2017. Another Policy Address delivery in the middle of a legislative year could just be an open invitation to haggling over what to be included, and then a leap into election mode posturing for whomever is the favourite candidate soon after. That may turn out to be the surer recipe for the loss of a legislative year amidst politicking and bickering.

#### **“Where is the money?”**

Economic strength will remain our best friend for new monies to tackle the many deep-seated livelihood issues. A slower economy will, however, constrain our ability to pay for recurring expenditures and invest for the future. 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 our economic development.

## **Spicing up the economy**

### *Hong Kong as Super-connector*

The Institute holds the view that Hong Kong industries, whether those pillar industries such as finance services, shipping, logistics, trading, tourism and professional services, or those emerging industries, all share one common advantage: that of being the link between the Mainland and the rest of the world.

We expect the Financial Secretary to give further details on incentives and support to help Hong Kong businesses grasp the opportunities that would come with the Belt & Road Initiative and the demand for project financing when the China-led AIIB gets into action. Alongside these developments, an upgrade of the China-ASEAN Free Trade Agreement is also to come. Hong Kong will do well to catch the ride. We believe there would be opportunities for shoring up the foundation for Hong Kong to be the leading offshore RMB business center. Some projects can conceivably be backed by bonds to be listed on the Hong Kong market to give the local bond market a real shot in the arm.

### *A more rounded financial centre*

One way to make the financial market of ours more rounded is to have better variety of investment products and investment targets for investors to choose from. The Government can do well to help the investor population better understand what are, and what could be on offer. 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 Government can do well to better understand changes to the investor demographics, and to consider what changes, if any, could 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 offerings that could become available.

### *Refresh our tax system to keep us competitive*

Appropriate incentives and concessions have the effect of channeling investments into areas of the economy we want to develop. We should end the wait for a comprehensive review of tax regime that will make it more competitive and which will reinstitute the notion of fairness and refresh its compatibility with business reality.

We appreciate that the Administration has introduced a Bill to revise certain tax rules with the aim to make it more attractive to corporations to pick Hong Kong as the location to operate their corporate treasury centres, or CTCs, to handle intra company group financing activities. To make the legislative proposal most able to achieve its policy purpose, however, we would not want the incentives meant to be given to be so diluted and vitiated with unnecessary restrictions.

To reinforce Hong Kong as the choice location of CTCs will translate into many benefits for the economy. It will attract experienced personnel from various professional services to Hong Kong. And since the setting up of CTCs in a particular place would often be accompanied by the setting up of regional (even global) headquarters in the same place, it could also draw and retain a strong pool of talents with responsibility to manage and direct company affairs. We again ask the Government to introduce “group loss relief” and other tax incentives and exemptions to support this development.

*Help SMEs with cash flow, help them cope with the cost of doing business*

We can help small businesses cope with the cost of doing business. These could include profits tax concessions, additional deduction allowances on business costs that smaller businesses routinely and legitimately incur, longer time window for them to pay taxes, and simpler paperwork associated with tax returns. The ability to carry losses back to more profitable years could also help more SMEs weather economic storms.

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.

Loan guarantee schemes have been put in place. Some would-be participants lament that they don't help and may in fact be not affordable (e.g., interest rates too high). The Government may be offering SMEs better help by re-tuning those schemes or to offer alternatives.

In sports, even an already good player can become legendary with the right coaching. Likewise, an already daring entrepreneur can become a well-seasoned business master with the right help. The Government can perhaps direct resources and funding to entrepreneurship coaching. Grants could be given to Universities and/or business associations to develop training materials. Business match-making can help entrepreneurs find business partners with complementary strengths in marketing, design, production, distribution & sales. Success stories can be advertised in sharing sessions and workshops, to breed more success.

*A gaping hole in disease control, an opportunity for high-skilled manufacturing*

We see value in bringing back high-skilled manufacturing as part of a more diverse Creative Economy. We had suffered from flu vaccine shortage, and we are probably going to face a battle with the Zika virus. Some people have asked whether we can fashion a capability to develop and to produce vaccines locally, for one disease or another. We do not think it is a simple task and it will not come about overnight. There are obstacles to overcome. For certain, it will require a heavier investment in research and development.

**To better the Creative Economy**

*Must invest in R&D*

There is room for more assistance to encourage R&D, for example, by expanding the Research and Development (R&D) Cash Rebate Scheme and by offering better tax incentives or deductions for R&D expenditure and for owning or licensing intangible property rights. We could also have hurdles appropriately lowered for new startups to qualify for various forms of business support.

We should also want to see further measures to encourage local universities to not just stop with achievements upstream, but to redouble the efforts downstream to turn more research into products that have larger societal impact.

*Innovation through cross-fertilisation*

By connecting things or concepts that are seemingly unrelated, creative design could emerge. By bouncing and rearranging ideas old and new, or from one culture to another, innovative products could result. We ask the Government to explore and experiment further opportunities for industry segments to spark innovation through cross-fertilisation.

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 exploit technological advances, to be innovative. Businesses can of course leverage design and innovation to a competitive edge, but the innovation imperative extends beyond the commercial realm.

#### *Still not quite a Smart City*

Hong Kong is still some distance away from being a real smart, intelligent city that incorporates wider use of design in the delivery of public service. It is perhaps the case that design realises its true value when put into addressing societal challenges and instigating positive changes. Businesses, social enterprises and public agencies can all tap the power of better and smarter design in finding new ways to deliver services that enhance user (citizenry) experience, whether in banking or in healthcare. The Financial Secretary can make that happen by extending the concept of Social Innovation and Entrepreneurship Development Fund to have a scope beyond fighting poverty.

The Policy Address included a plan to install real-time bus arrival information display panels. To do so is to catch up with other major cities which have started to make that happen in the last century, and it can only be good for the passenger population. If such effort can combine with the rather dense mobile communication network and some good apps, perhaps we could turn the game on its head and make ours a showpiece in how innovation and technology can be deployed to enhance user-passenger experience and to better people's lives.

We can understand that our public transport operators need to have some extra revenue to keep fare from rising too high. Video screens were introduced to blast infomercials at a time when iPods were just about to appear, but today most passengers would have a smart phone with good memory capacity or data connection if they want to have entertainment of their choosing (and to be enjoyed with personal earphones, please!). Can we now return some quietness to the carriage cars? Shades were built at many transit stops to give waiting passengers some shelter from the sun and rain. In come huge poster panels straddling over several column posts to the point of obstructing pedestrian traffic. Can we now devise some better more creative way for operators to get extra revenue?

#### **It will get even tougher to make ends meet**

##### *Fight poverty*

HKIoD agrees that public resources should be used in appropriate circumstances to help the disadvantaged. In doing so, we must rely less on handing out welfare but more on giving people the ability and means to construct their future. We are behind the broad policy direction of self-reliance through employment. Strong showing in economic development will only create more opportunities for more people to improve their livelihood and exit the trap of inter-generational poverty.

We appreciate the role of the Community Care Fund in “plugging gaps”, exploring various assistance programmes that might show merit in being eventually incorporated into the Government's regular assistance programmes.

##### *Middle class relief*

The middle income earners contribute much fiscal revenue, but they are also squeezed by high living costs amidst a slowing economy. HKIoD members will support an increase in personal income tax deduction allowances, both as to quantum and to type, to help middle

class families make ends meet. We must also consider appropriate widening of the tax bands in salaries tax assessment, to relieve the tax burden on the middle class.

*Better means to construct their future*

Hong Kong's long-term development will have to be driven by talents. Access to formal education or vocational training, and wider more generous support for continuing education, will only help workers of all ages acquire better knowledge and skills to fill the jobs in demand now and develop careers with rewards and respect over time.

**Between the elders and the young**

*Surrogate for youth policy outcome*

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.

*Got enough to retire?*

The growing contingent of our elder population will deserve an elder policy no less than the younger generation for a youth policy.

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 for 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.

**Better quality directors for better corporate governance**

Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance.

Following a consultation exercise conducted by the Stock Exchange, listed company directors will have heightened responsibilities in risk management and internal control. Heightened demand and expectation on board risk oversight will inevitably mean greater demand in time and effort from listed company directors, especially the NEDs and INEDs. It is essential that we find individuals who have the skills, knowledge and qualities to meet corporate governance demands of today to fill NED and INED positions, not just to make up the numbers. Prospective directors should have conscientiously equipped themselves to become NEDs/INEDs, but they must also be adequately remunerated for their skills and their time and effort.

Corporate governance is not just for big corporations. The passage and implementation of the New Companies Ordinance will require all company directors to be aware of the rising expectation on how they perform their duties. Owners of SMEs and those who are thinking

about starting a business should also pay attention. There have been plenty of cases where SMEs still find it difficult to take full advantage of loan schemes of one kind or another. 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.

Similarly, directors/governors of social enterprises, charitable organisations and statutory bodies should also be ready and prepared to discharge their duties when they start out and to keep up-to-date with best governance practices over time.

We pray for the Government to draw up measures to help directors of business companies or governors of organisations of various kinds, whether those who now are and those who aspire to be, to obtain quality training so as to raise the level of their corporate governance practices.

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### **About The Hong Kong Institute of Directors**

The Hong Kong Institute of Directors is Hong Kong's premier body representing directors to foster the long-term success of companies through advocacy and standards-setting in corporate governance and professional development for directors. A non-profit-distributing organisation with membership consisting of directors from listed and non-listed companies, HKIoD is committed to providing directors with educational programmes and information service and establishing an influential voice in representing directors. With international perspectives and a multi-cultural environment, HKIoD conducts business in biliteracy and trilingualism.

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