

# **THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG**

## **Public Policy Paper**

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### **Rebuilding confidence as China's pre-eminent city for international business – an Amcham contribution to Hong Kong policy**

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The American Chamber of Commerce in Hong Kong has been requested to submit its views on appropriate directions for the development of policy in Hong Kong. There are a number of issues of specific concern to our members but beyond this we believe there are also some issues of broad policy which can guide the SAR's development in the coming years.

It is now a little over five years since Hong Kong's reversion to Chinese sovereignty. During this period the world has watched carefully the process by which One Country, Two Systems has been implemented. As the Hong Kong-based international business community had anticipated, and as borne out by regular reports from several branches of the US Government, the implementation has been generally smooth and we look forward to the maintenance of Hong Kong's special status with confidence.

Over this same period, however, Hong Kong has been beaten down by back-to-back economic downturns. We have all seen a serious decline in public and business confidence in Hong Kong's capacity to retain its leading role in the economies of China and the Asia-Pacific region. The sense of gloom has been exacerbated by a serious correction in the value of property and rising unemployment. This downturn in public confidence has manifested itself in weak consumer spending and a resort to occasional calls for special treatment in Hong Kong and the rest of China for Hong Kong business.

The American Chamber of Commerce believes it is time to affirm Hong Kong's role as the key regional and international business centre for China. Our historical separation from the mainland has led to the development of policies and a mindset which still places greater value on our separateness than on the potential which can be generated by integration. If we look at ourselves from the perspective of a separate entity, the competition from across the border looks overwhelming.

This integration must not, of course, undermine the SAR's special status as a separate legal and customs territory. Both Hong Kong and the rest of China depend on this for much of what Hong Kong can contribute to the region. We must not forget, however, the regional and international role that Hong Kong plays. The world continues to come to Hong Kong to do China business with the full benefit and protection of an established and secure legal and commercial system and, increasingly importantly, the rest of China comes to the SAR to conduct its international business.

Deng Xiaoping's vision of One country, Two systems was indeed farsighted, but we need to see greater conviction in Hong Kong that there are great benefits to be gained from our role in the Chinese economy and less fear about the risks of being seen as "just another city in China".

### **Promote better flows**

If the Government is to make a significant contribution to this improvement, there are a number of ways in which we believe it can promote more effective integration. These can be summarized in terms of promoting better flows of people, goods, services and information. Underpinning these flows will be transparency, tolerance and a rigid adherence to world class standards of governance in the private and public sectors.

#### Cross-boundary flows

There has been much debate concerning improvements to the physical boundary separating Hong Kong from the rest of China. AmCham supports improved cross-boundary flows on the following basis:

- All efforts must be applied to improving cross-boundary infrastructure planning processes so that new developments are well coordinated at the Provincial, Municipal and SAR level. New infrastructure will be continually required over the next 20 years. This may take the form of a bridge or bridges which we would support if appropriately funded. It will certainly take the form of an increased capacity at existing boundary crossings and the addition of new crossings.
- Processes at the boundary also need further improvement. Although efforts have been made in this area, we continue to call for better co-ordination, avoidance of duplication and a general modernization of the procedures used.
- At the same time as cross boundary infrastructure improves and processes are smoothed, the Government must continue to maintain its high standards of customs integrity so that Hong Kong can continue to enjoy access to the highest levels of technology and retain the confidence of international authorities regarding the security of its ports and airports.
- AmCham believes that adherence to improved security standards such as those contained within the Container Security Initiative could actually contribute to a new competitive advantage for Hong Kong's logistics industry.

#### Free flow of information

One of Hong Kong's greatest strengths against all its competitors within China and the rest of the region is the free flow of information. Transparency and the free flow of information are core values of the Chamber. It is essential that the Government continues to set a leading example in this area. Areas of specific concern include:

- *Article 23:* We recognize that the SAR Government has an obligation under the terms of the Basic Law to enact legislation in accordance with Article 23 of the Basic Law. The effective handling of this obligation is of critical importance to Hong Kong's international reputation and will be viewed by many as a key test of the viability of One Country, Two Systems. In order to ensure that this process does not undermine already fragile public confidence, we call on the SAR Government to ensure that it goes out of its way to ensure that all views are considered at each step of the process. The government has argued that the citizens of Hong Kong have nothing to fear, and that the full protection of Hong Kong law is maintained in conformity with all relevant international standards. That being the case, full consideration and debate of the specific wording in a White Bill would be a prudent and necessary step to allay concerns in the local and international communities. We would also recommend that the need to enact legislation in accordance with Article 23 be limited to what is necessary. The Chamber will be making further submissions to the Government on this issue in more detail.
- *Transparency in public policy development:* Hong Kong is in a position to take a lead in China and in the region in developing world class standards of public policy development. We continue to call upon the Senior Policy Secretaries to make a high priority of improving the transparency and effectiveness of the policy-making process. Better co-ordination of this is still required along with a greater confidence in the capacity of people in Hong Kong – inside and outside the Government – to contribute to the process.
- *Media:* Hong Kong continues to be an important centre for international media. We welcome recent efforts by the SAR Government in response to calls from the foreign media to help improve their access to the rest of China. We call on the Government to ensure that the unfettered independence of the media is maintained, and is seen to be maintained, particularly in the context of Article 23.

### **Human resources**

Hong Kong people remain the territory's greatest natural resource. Their capacity to operate flexibly across borders gives the SAR its special position in China as the country's key international business centre. Yet, the combination of economic downturn with the increased demands being placed on the workforce is causing a loss of confidence which combined with record levels of unemployment sees Hong Kong workers placing themselves in the uncharacteristic – and incorrect – role of underdog.

The business community and the Government both have a role to play in helping to rebuild confidence. At the top of the priority list must be a renewed commitment to education reform. The priorities are clearly well understood by the new Secretary for Education. All sectors of the community must combine efforts so that we can see real progress on these priorities, many of which have been clearly understood for more than a decade but have been stifled by community misunderstandings and bureaucratic inertia.

As promoters of free trade, we would invite the Government to consider greater promotion of private initiatives and competition in the education sector. A system in which Government dictates all details of education from building design to curriculum design is never likely to be responsive enough to the great demands placed on it by the challenges of Hong Kong's role as China's international business services centre.

As an international chamber of commerce, we remain concerned about levels of English language proficiency. Dramatically increased demands have been placed on the language skills of the Hong Kong workforce as the SAR's economy has transformed over the past 20 years to one of the most service-oriented in the world. This problem is not easily resolved and we recognize that the challenges of generating a widely tri-lingual and bi-literate workforce are manifold. In spite of the strong pedagogical arguments for mother tongue instruction, Hong Kong needs to address the difficult transition to a focus on Mandarin and English instruction starting in primary school to prepare our students to compete in a global economy.

There are some critical steps that will underpin the Government's commitment to English. We encourage a solid commitment to the future of English language television in the SAR. This both supports its role as the most comfortable environment in China and the region for international business people and provides an invaluable exposure for local learners to colloquial English. It is essential, however, that the standards of this domestic English language television be higher as they are universally accepted to be poor. The time may now be with us to review whether imposing a requirement on commercial television companies to produce English language programming is the most effective way to fulfill this objective. Alternatives such as a levy on domestic license holders to fund a not-for-profit English-language television service may be a more effective approach.

#### Free flow of labor

If Hong Kong is truly to take its place as the international business city for China, more enlightened immigration policies will be required. Companies need to be able to choose the best staff from anywhere in the world including the rest of China. Hong Kong must be an attractive place for people to settle for work from around the world, from the rest of Asia and from the rest of China. Immigration policies must reflect more closely the demanding needs of the emerging services economy in Hong Kong. We would support the SAR Government in pressing China for greater choice over those people from the rest of the country chosen to settle here.

At the same time as promoting greater choice, Hong Kong should show itself to be adhering to world class employment practices. We do not accept that racial discrimination is not a problem in Hong Kong and strongly support initiatives to introduce appropriate race discrimination legislation in the SAR to sit appropriately alongside the Government's commendable initiatives related to gender, age and disability.

#### Business environment

In promoting Hong Kong as the key international and regional business centre in China, the Government must continue to pay great attention to the business environment. Despite several years of deflation, the cost of doing business remains a concern for our members.

### Property

Property remains over-valued and we urge great caution in the recently announced initiatives to 'prop up' the property market. There are many risks in this approach, namely;

- Market forces will be the most effective determinant of property values. Distortions in land supply caused by the special conditions in the pre-1997 period were a key-contributing factor to the bubble in property prices, which created an illusion of prosperity among both developers and property owners. New Government intervention will cause new distortions which will undermine Hong Kong's competitiveness and may create a new bubble.
- This may also be an appropriate time to question the Government's role in the property market. In the medium to long term, we would question the appropriateness of continued involvement in extensive public housing, private home ownership schemes and office developments such as the Cyberport and Science Parks. The historical rationale for Government's widespread involvement in housing provision is long past. In a modern, international, services-based economy the Government needs to focus on improved construction standards, the provision of appropriate supporting infrastructure and a safety net for the most needy in society. It should not be the largest landlord in what is supposed to be a centre for free enterprise nor is it appropriate for Government to be a developer of property for sale.

### Environmental Pollution

We commend the efforts made by the Hong Kong Government to date on many of the local issues of the environment. We also recognize that many of the most complex issues are now cross-boundary issues. In this area more than any other, the need for improved effectiveness of cross-boundary collaboration mechanisms is crucial. The results will inevitably take time but we need to see more evidence of concrete progress in cross-boundary initiatives to give companies choosing Hong Kong as their regional home some assurance that quality of life in terms of environmental pollution will be improved in the next five years. Current perceptions are that it has declined markedly in the past five years.

### Competition

Hong Kong is now primarily a services economy. While great competition has always existed between manufacturers and trading companies, the same cannot be said in the

services sector where cartel-like structures continue to exist in a variety of business sectors in spite of Hong Kong's reputation as a bastion of free enterprise. We do not believe that there is community support for anti-trust legislation. We do, however, believe that the success of Hong Kong's telecommunications liberalization should be seen as a model for promoting greater competition across the services sector.

Recent indications for example that the Government is moving away from its traditional one route, one airline policy are welcome. We also welcome the recent conclusion of a more liberal air services agreement between Hong Kong and the United States. If Hong Kong is to take its rightful position as the air services hub for the region and the most important aviation centre in China – and that position is not yet assured – further opening of the market and the encouragement of more vigorous competition between airlines is likely to benefit the SAR.

### Anti-Corruption

Hong Kong continues to stand as an example to much of the region and indeed the world in its 30 year-long effort to promote clean Government and business. The integrity of the ICAC should remain a key objective as it applies to all parts of the SAR Government. The ICAC should continue to operate under the highest standards of conduct. No department of Government should be exempt or protected from its attention where justified.

### Technology

We continue to believe that Hong Kong can play an important role as a technology centre for China and the region. That role should, however, be empowered and not led by the Government. The Government should also stimulate innovation by fostering effective technology partnerships across all sectors to make IT resources become a fundamental infrastructure that Hong Kong can offer to businesses, creating a competitive advantage for Hong Kong ahead of what other cities in the region can offer.

The introduction of new technologies, particularly in communications should be led by Government investments in its own infrastructure and technology services, the promotion of open competition in all spheres of business activity and the development of the highest standards of technical education. Collaborations between the academic and private sectors should be encouraged. Early IT education should also be taken as a priority for the nurturing of a pool of technical talents to meet the future needs of Hong Kong.

### Government finances

The Hong Kong SAR Government is mandated by the Basic Law to maintain a balanced budget. We remain concerned by the level of the Government's budget deficit and encourage the Financial Secretary and his team to consider more aggressive strategies to

address this issue. This should include a focus on restructuring and, where possible, reducing Government spending.

If it becomes impossible to avoid new taxes, these should be designed to be as broadly-based as possible while having minimal impact on the poorer elements of society. We welcome the Financial Secretary's recent reassertion that he opposes the introduction of a sales tax, as we believe this would be a poor option for Hong Kong.

### **Communications**

Finally, we would suggest that a renewed and reinvigorated communications program by the HKSAR Government is crucial to reviving Hong Kong people's confidence in their future , as well as other constituencies' confidence in Hong Kong's recovery .

Hong Kong people are not afraid of change. They are afraid of "the unknown." Whether in a company facing great uncertainty and adjustment, or an economic territory like Hong Kong, leadership must quadruple efforts to communicate a clear vision in times like these, and reassure people that the critical core assets such as rule of Law, vigilant and effective anti-corruption efforts, and the honoring of contracts are intact and a recovery program underway.

If the program is not on schedule or meets unexpected speed bumps, we must be confident enough to admit that, and say that further fine-tuning is planned. Transparency buys credibility.

### **Conclusions**

With consistently-communicated initiatives to improve infrastructure, competition, the business environment and flows of people, capital, information, goods and services, the Hong Kong SAR Government is in a position to cement our position as the key regional and international business centre in China. As the largest and most important commercial centre in China, we have a marvelous story to tell. The American Chamber of Commerce in Hong Kong will continue to tell that story and looks forward to working as closely as ever with the second Administration of the SAR to develop policies which will enhance the story and continue to strengthen Hong Kong's position.

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