

**Position Paper**

**From the International Business Community**

**Concerning**

**“Protecting Hong Kong’s Competitive Advantage over its Regional Competitors”**

Introduction: The international business community remains committed to working with the Government of the Hong Kong Special Administrative Region to improve Hong Kong’s hitherto enviable reputation as a competitive place to do business. We work best when working together as in the recent exchange of views and action on international schools places. It is in this light of continued commitment and in line with the role of the IBC meeting to provide a platform for the international business community to communicate with the Hong Kong government on a high level and to use this platform as an opportunity to address issues of concern relevant to their businesses that we offer the following points:

1. There is a growing sense of unease among both international; and major local business leaders in the IBC that Hong Kong is in danger of losing its competitive advantage over other major regional centres. It is also held that the government of Hong Kong has become complacent, this complacency is driven by the way that the Central Government has sought to help Hong Kong through proactive measures such as the CEPA, allowing individual tourist visas for a broad swathe of Chinese citizens and encouraging the launching of major IPOs on the Hong Kong Stock Exchange. Now it would be fair for us to respond to this criticism by pointing out that similar comparisons have been made in the past with other cities in the region and that Hong Kong has continued to prosper whereas these cities have uncovered shortcomings that were not evident at the time.
2. It is true that viewed today Hong Kong has returned to a state of almost unparalleled economic success and the business community would wish this state of affairs to continue. The purpose of this note is to identify the reasons for the unease referred to earlier and to suggest that as a first step the government should consider conducting a completely independent study that benchmarks Hong Kong against other comparators as global business centres. It will also set the scene for the development of sectoral strategies that will offer creative solutions that will place Hong Kong well beyond the reach of any of its comparators.
3. The importance of being seen to be “business friendly” in all of its aspects including all layers of government is clearly understood by our major regional competitors. The result is that all of the points where government interacts with business are designed to minimize its bureaucratic footprint on the business environment without abandoning its regulatory responsibilities to ensure a fair and level playing field that meets international norms. In addition

competitors have recognized the potential impact of its declining demographic situation on the business environment and taken a creative proactive approach to immigration encouraging a broad swathe of young well qualified people to enter their territories.

4. Then there is the question of whether or not tax incentives should be used to encourage foreign companies to establish their headquarters regional or local in Hong Kong. Many other jurisdictions use this device as a means of attracting investors. Historically there has been fierce resistance to this and it has been possible for Hong Kong to maintain its 'laissez faire' approach simply because the rate of both corporate and individual taxation was so low. However many jurisdictions have brought their corporate and individual levels of taxation either close or more or less in line with Hong Kong. This has eroded the Hong Kong advantage to the point that investors ask themselves now if the proximity of Hong Kong, low taxation and its historical China links are enough when faced with very high costs, the difficulty of engaging suitably educated and qualified staff and the fact that they can obtain tax incentives, lower costs, qualified and motivated staff and comparatively low levels of taxation.
5. Finally there is the question of the environment which some in government refuse to recognise as a disincentive to business location. Like it or not Hong Kong has sadly earned the reputation of being a city where the air pollution has reached the stage where it has a serious impact on children, the elderly and those with less than robust health. It is accepted that the government over time has taken steps to improve the situation but it needs to recognise that it has a serious public relations problem on its hands that this is a problem that must be dealt with holistically across the entire PRD and that it is not in denial.

The above may seem to the reader to postulate a very negative view of Hong Kong however this would miss the point; the government must not be deceived by current statistics it must face up to the fact that Hong Kong faces stiff competition not only from its regional rivals but from a portfolio of centres all of which are able to offer a range of opportunities to international business that are very attractive and at the same time in business friendly environments.