

Task Force on Economic Challenges

Government's Preliminary Response to Proposals received by TFEC Secretariat

1. Financial services	Remarks ^(Note)
1.1 <i>Promote Hong Kong as a global financial centre including the development of RMB business in Hong Kong.</i>	<i>Agreed. On-going effort.</i>
1.2 <i>Utilise expertise in financial risk management, mid- and back-office technology.</i> This would provide a platform where Hong Kong's expertise can be utilised to help mainland enterprises (corporate or financial institutions included), thereby creating opportunities for Hong Kong people.	<i>Agreed. On-going effort.</i>
1.3 <i>Utilise RMB deposits in Hong Kong.</i> Banks to directly lend to Hong Kong enterprises in China (limit trial scheme to Guangdong Province) or Hong Kong which have RMB obligations to provide better liquidity.	<i>Agreed. Being pursued.</i>
1.4 <i>Relax Mortgage Insurance Programme (MIP).</i> The Hong Kong Mortgage Corporation should raise insurance coverage from 25% to 30% to facilitate property buyers to obtain mortgage loans in the midst of the financial turmoil.	<i>Agreed. Being pursued.</i>
1.5 <i>Facilitate mortgaging/re-mortgaging.</i> The Government should encourage banks to work out longer repayment period and revised monthly mortgage payment with borrowers to help them tide over the difficult period.	<i>Agreed. Being pursued.</i>

^(Note) Unless otherwise stated, all proposals are under consideration.

- 1.6** *Attract more Taiwanese companies to set up regional headquarter/regional office in Hong Kong and to identify opportunities in the financial services sector to serve the cross-strait trade.* Government to adopt more facilitating measures to attract Taiwanese companies to invest and manage their regional economic activities in Hong Kong. **Agreed. On-going.**
- 1.7** *Hong Kong to adopt international standard on exchange of tax information.* This will enable Hong Kong to build a double tax treatment network with other countries and facilitate two-way investment with our trading partners.
- 1.8** *Offer tax loss relief.* Government to allow tax losses to be carried back to offset against profits taxed in prior years (i.e. loss carry-back) and allow tax losses to be shared/transferred between group companies (i.e. group loss relief).
- 1.9** *Review extent to which regulators use fair value financial statements for prudential supervision.* It is believed that the requirement for certain assets to be “marked to market” (i.e. fair value) tends to exacerbate the plight of financial institutions as they are forced to sell assets at low market prices to meet capital requirements.
- 1.10** *Asia Fund - coordinated external support.* IMF has just established a new facility to help economies with sound fundamentals but pressing liquidity needs. Chiang Mai Initiative is another example. Government to consider pursuing participation in these initiatives to address short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.
- 1.11** *Hong Kong Government to set up investment funds similar to the Temasek.*

2. Trade and logistics

- 2.1** *Make better use of CEPA; quicken the pace of integration with the PRD.* **Agreed. On-going.**

2.2 *Step up regional trade cooperation with neighbouring countries and regions.* Government to – **Agreed. On-going.**

- actively forge bilateral or multilateral trade relationships with neighbouring economies; and
- make better use of ties with China's south-western provinces given their natural geographical advantages in the China-ASEAN cooperation.

2.3 *Strengthen trade relations with BRIC countries.* Government to enter into trade agreements similar to CEPA with India, Russia and Brazil and develop strategic cooperation with these economies in the areas of energy, telecommunication, biotechnology, etc.

2.4 *Facilitate development of Hong Kong brands.* Government to provide land at lower rents for a specialised market or sales outlet in Hong Kong and / or the Mainland for Hong Kong brands and products.

2.5 *Expand order catchment area for Hong Kong manufacturers.* For those who cannot or will not develop their own retail brands, Government can encourage manufacturers to take orders from Mainland producers or brand names, to reduce their reliance on overseas markets.

2.6 *Facilitate flow of talents to the Mainland through more favourable tax arrangements.* Government should encourage Hong Kong talents to work and stay in the Mainland by allowing those staying longer than 183 days in the Mainland to pay Hong Kong Individual Income tax (IIT) instead of the higher Mainland IIT. Hong Kong Government can collect the tax and share with the Mainland on pro-rata basis according to the length of stay in the Mainland.

3. Tourism & consumption-related sectors

3.1 *Expand the Individual Visit Scheme (IVS) and promote Hong Kong tourism in China.* As the Mainland is relatively less affected by the global financial turmoil, Mainlanders encouraged by the strength of RMB are likely to travel more. Government should open more tourism promotion offices in China and deploy more resources into developing the Mainland market by promoting Hong Kong as a quality tourist centre and organise theme-based shopping or food festivals. **Agreed. Being pursued.**

- 3.2** *Relax entry requirements for Taiwan visitors to Hong Kong.* With the steady improvement in cross-strait relations, there will be rise in demand for cross-strait travels and Hong Kong, by loosening entry requirements, may be able to attract more Taiwan visitors to come through HK given our better connectivity with the Mainland cities. **Agreed.** The Government will enhance immigration facilitation for Taiwan residents, as from 1 January 2009, by lifting the restriction that only two *iPermits* can be applied within 30 days, and extending the period of stay for *iPermit* and multiple entry permit holders from 14 to 30 days.
- 3.3** *Publicise the East Asian Games and 60th Anniversary of the Founding of the PRC.* Launch more sporting and cultural events in the second half of 2009. **Agreed. Being pursued.**
- 3.4** *Develop a new premium outlet center in Hong Kong* similar to those in New York, Tokyo, Palm Springs, Las Vegas, etc. **Agreed. Being pursued.**

4. Real estate and construction

- 4.1** *Expedite infrastructure projects.* Government to speed up various infrastructure projects to boost public confidence in Government's determination to develop Hong Kong into a regional transport and logistic hub, and create more jobs in the construction and related sectors. **Agreed. Being pursued.**
- 4.2** *More cross-border infrastructure projects.* Government to engage in more joint infrastructure projects with the Mainland to strengthen further the Mainland-Hong Kong links. **Agreed. Being pursued.**
- 4.3** *Streamline procedures for lease modification.* Government to streamline the procedures for lease modification so as to lower land cost, stimulate investment in real estate development and create jobs.
- 4.4** *Allow land-premium arbitration* to speed up negotiation between Government and developers on land modification premium to facilitate the commencement of more construction projects.

4.5 *Subsidise building renovation.* Government to launch a voluntary scheme to provide 100% subsidy to renovate old buildings above a certain age. In return, property owners would be required to sign an undertaking agreeing to reimburse the cost of renovation at a percentage of the sales proceed (1-5%) when they sell their properties.

5. SME-related

5.1 *Avert credit crunch on SMEs.* Government to -

- encourage banks to facilitate SME financing and to help SMEs overcome liquidity problems.
- facilitate agency lending by depositing funds with banks for lending to SMEs; and
- create an SME policy bank to provide better longer term support.

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Agreed. Being pursued.

5.2 *Assist SMEs with operations in the Mainland.* Government to explore with the Mainland authorities (at the national, provincial and local levels) pragmatic measures to help SMEs including the following - **Agreed. Being pursued with the Mainland authorities.**

- Explore sales opportunities in the Mainland and help SMEs access the massive local Mainland consumer markets.
- Help Hong Kong companies to obtain export credit insurance cover for their exports when the sale contracts are signed by their Mainland operations.
- Discuss with banks to allow land in PRD Region bought by Hong Kong manufacturers, but without proper titles due to historical reasons, to be used as collateral for loans.
- Secure term lending for equipment, as traditional leasing companies (e.g. Orix Asia Ltd) have turned away from these businesses.
- Exempt export duty when moulds of diecast products are relocated and centrally stored in Hong Kong.
- Set up a platform to facilitate exchange of information, networking, order sharing and sales lead referral etc. among Hong Kong manufacturers operating in the PRD Region.
- Set up a dedicated unit to mobilise surplus labour to meet demand in other locations in the region through information dissemination and provision of free transportation and re-settlement services.

5.3 *Help SMEs to attract customers from outside Hong Kong.* Government to consider relaxing entry requirements for visitors from Russia and other CIS countries. **Agreed. On-going efforts.**

- 5.4 *Provide rent relief to SMEs.*** Government to persuade the Link and Housing Authority to avoid increases in rentals. Housing Authority will offer a two-month concession in rental, at 50% of the net rent excluding rates and air-conditioning charges, to retail and factory tenants from January 2009.
- 5.5 *Provide tax relief to SMEs.***
- waive provisional tax for SMEs for 2009-2010; and
 - reduce profits tax rate for SMEs to 10%.
- 5.6 *Expand the coverage of Commercial Credit Reference Agency.*** Government to help SMEs obtain loans from banks by extending CCRA's coverage to enterprises with up to HK\$100 million annual sales volume, and shortening the period of overdue in the definition of "material default" from 60 to 30 days, to provide better credit reference to banks.
- 5.7 *Introduce a statutory "corporate rescue" or "provisional supervision" regime or re-consider the introduction of Chapter 11-type of Insolvency Legislation.*** The relief measure is intended to provide a breathing-space to businesses which are fundamentally sound but which are experiencing short-term financial difficulties.

6. Employment-related

- 6.1 *Job creation.*** Government to consider measures for creating employment opportunities. *Agreed. Being pursued.*
- 6.2 *Employment protection.*** Government to remind enterprises to refrain from cutting jobs or reducing staff salaries unless strictly necessary, provide more comprehensive and timely employment and retraining services to employees made redundant in bankruptcy/winding up/downsizing exercises, and strengthen employment support services for job seekers. *Agreed.*
- 6.3 *Employee Retraining.*** Government to maintain its expenditure on training and retraining programmes to better equip job seekers and enhance their employment prospect in the economy downturn. *Agreed. On-going efforts.*

6.4 *Promote job sharing.* Apart from improving employment rate, this may boost the morale of the unemployed and reduce the burden on Comprehensive Social Security Assistance.

7. Other Areas

7.1 *Environmental Industry.* Government to provide various measures to facilitate the development of environmental industry such as the recycling trade.

7.2 *Creative Industry.* Government to make available old/vacant industrial buildings for use by young local creative talents.

7.3 *Develop Hong Kong into centres of food testing, traditional Chinese medicine, health food, etc.* This will enhance Hong Kong's overall competitiveness in the individual industries for the longer term development of the economy.

7.4 *Develop Hong Kong as a platform for Mainland enterprises going out.*

Agreed. Need to step up.

7.5 *Tap into talents among new arrivals from the Mainland.* Government to –

Agreed. To be pursued.

- tap into the human resources of new arrivals from the Mainland by helping them to integrate into the society; and
- enable academic or professional qualifications obtained in the Mainland to bridge over to the corresponding system in Hong Kong.