

TASK FORCE ON ECONOMIC CHALLENGES

Patrick Wang: Some Preliminary Thoughts for SMEs

A. Short and medium-term initiatives to support Hong Kong's small and medium-sized manufacturing enterprises

1. Explore ways to mitigate the impact of huge financial and operating uncertainties that are threatening to force many Hong Kong-owned SMEs to close their operations
 - Among the key variables that the PRC / HK governments could seek to provide a degree of stability around (for a temporary period at least) are:
 - *Minimum wages and social insurance costs in the Pearl River Delta area (freeze for 12 months?)*
 - *A practical, speedy system of credit rating/approval to enable viable SMEs with orders to receive credit*
 - *Exchange rates (curtail/freeze RMB appreciation for the time being?)*
 - *Interest rates (cap/freeze for a period?)*
 - Other actions / initiatives that the PRC government should pursue to support HK businesses include:
 - *Ensure that exported goods received full VAT refunds*
 - *Shorten/simplify the process of changing business licenses into WOFEs*
 - *Establish a PRC version of HK's Protection of Wages on Insolvency Fund*
 - Actions to stimulate manufacturers to invest-in/bring-back certain higher-value manufacturing/engineering jobs to Hong Kong:
 - *HK Government to provide tax incentives based on the number of workers employed/jobs created*

A specific idea:

2. Reduce the barrier to business and economic development caused by Individual Income Tax (IIT) differences between Hong Kong and the PRC
 - The materially higher rates of IIT and complex tax code in the PRC acts as an impediment to the efficient movement of talent between Hong Kong and the mainland; and indirectly discourage business initiative and development on both sides of the border.

- Could the two governmental authorities eliminate/suspend the IIT differential in some manner for, say, 10 years?
 - *For example, Hong Kong residents who are employed by Hong Kong companies but who work in the mainland for more 183 days per year would be subject to Hong Kong IIT rates instead of PRC IIT rates for their entire year's income.*

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Patrick Wang: A Couple of Initial Thoughts

1. **Reduce the barrier to business and economic development caused by Individual Income Tax (IIT) differences between Hong Kong and the PRC**
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2. **Link the needs of Hong Kong and the mainland through a joint legislative effort to radically accelerate efforts to solve the region's environmental problems**
 - Clean air, clean water and cleaner energy are critical to the long term competitiveness of the Hong Kong SAR and the Pearl River Delta.
 - Move beyond piece meal initiatives and general policies of 'cross-border cooperation'. What is needed is a ground-breaking joint *legislative* effort involving *both* the mainland and Hong Kong government authorities to establish sufficiently bold, aggressive directives to impel action and change.
 - With the appropriate level of 'pull' from such joint legislation, Hong Kong is well placed to be the science, technology and commercial hub for a host of activities that will be required to solve the region's environmental problems – including research and development, education, investment and financing.
 - *A model / case study of this type of Government inspired development is the impact of establishing NASA as a government agency in 1958, followed by President J.F. Kennedy setting the goal of manned moon landings in 1961. The Apollo program in fact*

spurred major advances in many areas of technology quite peripheral to manned spaceflight and rocketry, including:

- Integrated circuits / semiconductors; fuel cells; in-flight computers/autopilots; kidney dialysis machines; CAT scanners; cordless power tools and appliances; various coatings and lubricants; water purification technology; and computer-controlled machining.