

Task Force on Economic Challenges

Government's Preliminary Response to Proposals received by TFEC Secretariat (Updated as at 21 January 2009)

| 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. Completed.</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. [New or updated proposals are highlighted in blue.](#)

- 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 *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.
- 1.8 *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.
- 1.9 *Hong Kong Government to set up investment funds similar to the Temasek.*
- 1.10 *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. **Agreed. Being pursued.**
- 1.11 *Introduce an H-shares ETF (exchange traded fund) denominated in RMB on the Hong Kong Stock Exchange.* This will facilitate the development of new RMB-denominated products in Hong Kong and attract more Mainland investors to the Hong Kong market.
- 1.12 *Establish Hong Kong as a centre for captive insurance (where a subsidiary company insuring the risk of its parent) targeting Mainland-based international corporations.* Government to provide policy support and seek Mainland authorities’ support to strengthen Hong Kong’s status as a Mainland’s financial centre and regional reinsurance and risk management hub.

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 facilitate the promoting and development of Hong Kong brands locally and on the Mainland. ***Agreed. On-going efforts.***
- 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.
- 2.7 ***Pursue further measures for closer trade relationships with Taiwan in light of direct links between Taiwan and the Mainland.*** ***Agreed. On-going efforts.***

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 has enhanced 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** *Mega events to stimulate the economy.* Publicise the East Asian Games and 60th Anniversary of the Founding of the PRC and organise mega events to stimulate consumption and promote Hong Kong's image as the "Events Capital" (盛事之都). **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 and improvement works.* Government to launch a voluntary scheme to provide 100% subsidy to renovate old buildings above a certain age and carry out improvement works on existing buildings.
- 4.6** *Utilise vacant Government properties or sites to stimulate the economy.* Government to make available vacant sites/properties for alternative purposes such as the creative industry or the green industries.
- 4.7** *Expedite urban renewal.* Government should expedite LegCo's approval of the proposal to lower the compulsory sale threshold under the Land (Compulsory Sale for Redevelopment) Ordinance from 90% to 80%. This will facilitate the redevelopment of old buildings and create employment opportunities.
- 4.8** *Promote affordable owner-occupied housing for individuals and SMEs by introducing -*
- longer-term (35 years) and fixed interest rate mortgage loans available to average income citizens with a steady job (subject to ceiling restrictions to cost and size); and
 - longer-term mortgage loans for owner-used properties for SMEs to enhance their viability and insulate them to certain extent from volatility in rents.

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. **Agreed. Being pursued.**

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

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 has offered 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 *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.
- 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 and strengthen employment support services for job seekers. *Agreed. Being pursued.*
- 6.3 *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.
- 6.4 *Employee retraining.* Subsidise hiring of new entrants into the labour force on a trial basis or through internship schemes to better equip job seekers and enhance their employment prospect when the economy picks up again. *Agreed. Being pursued.*
- 6.5 *Upgrading and retaining existing talent.* Higher institutions to provide programmes targeting professionals who might have been made redundant due to the financial tsunami to upgrade their skills. *Agreed. Being pursued.*

6.6 *Subsidise re-training of employees within a company.* Employees who would otherwise be made redundant by a company due to skills mismatch may be retained by a company and subject to on-the-job re-training, so they can be redeployed to another position within the same company or group. This would help reduce unemployment and provide more effective re-training opportunities to the employees concerned.

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.

7.6 *Tax-related proposals*

- 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.
- 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).
- Provide tax relief to SMEs such as a lower tax rate for SMEs.
- Review tax practice and legislation to assist Hong Kong manufacturers in the Mainland, by aligning treatment of offshore profit apportionment and deductions for plant and machinery for manufacturers engaging in contract processing arrangements (來料加工) and import processing arrangements (進口加工).