



23 September 2020

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The Australian Chamber of Commerce in Hong Kong
2020 Policy Address Submission

The Australian Chamber of Commerce Hong Kong welcomes the opportunity to make the following submission. This policy address takes place at an unprecedented time of months of economic downturn and the ongoing uncertainty of COVID-19. The impact on the business sector has been significant with the tourism, retail and hospitality sector hardest hit.

In response, we propose the following which takes into account the immediate challenges facing Hong Kong but also proposals which take a longer-term view. As one of the largest chambers of commerce in Hong Kong, we share in the long-term prosperity of the city and it is in our shared interest to ensure that the city remains one of the world's great cities. This is reliant upon the maintenance of core attributes which underpin Hong Kong's global success: the rule of law, and free flow of information, people and capital.

Resilience and recovery are key themes we hear from members as together we work to address the public health challenges, the recession and lay the foundation for recovery. Across the board Hong Kong must fully embrace innovation as a matter of urgency.

Resilience:

The Employment Support Scheme a (ESS) and similar relief measures have been nothing short of a lifeline for many businesses large and small. We acknowledge the speed with which these were rolled out and welcome the ease of this platform. When businesses are focused on survival, the simpler the solution, the more successful the outcome.

However, other measures such as Distance Business Program (DBiz) have proven to be problematic and have been reported as clunky and unwieldy for applicants. This have proven to act as a deterrent and has reflected on the take-up of this program.

Just as many of our chamber members have pivoted to embrace new technology in record time as a result of the crisis, we would encourage the administration to similarly adopt an increasingly agile and flexible way of operating which would enable Hong Kong to realise its innovation ambitions. In every crisis there is an opportunity and we would encourage the bureaucracy to adapt as business has adapted, to this changed environment.

Innovation is critical to Hong Kong maintaining its international competitiveness. This must include a faster adoption of ecommerce ranging from point of sale (POS) and particularly to its use in taxis which are often the first experience international business visitors have in Hong Kong.

An innovative approach would also embrace the benefits of Uber in Hong Kong in which about a quarter of Hong Kongers use their services, powered by 14,000 driver partners, 6,400 restaurant partners and 19,000 delivery partners who rely on the Uber platform for earning opportunities. This service has been critical during the recent social distancing restrictions which have limited Hong Kong residents to take away only.

Further investment in fostering leading technologies in the fields of biotech would underpin a global leading edge Hong Kong has in this field. We endorse a recent focus on the development of the bio-economy and AI. Fintech is also clearly a sector in which Hong Kong should have an automatic advantage as a leading global financial sector. More must be done with a sense of urgency if the city is to maintain its lead in this field.

Policy recommendations

Uphold Hong Kong's unique position and international reputation

In the longer term, a boost to funding to the Hong Kong Tourism Promotion Board (HKTPB) to promote Hong Kong's tourist attractions and unique character to a more diverse international marketplace, growing the source markets and ensuring a sustainable and robust flow of visitors to sustain downturns from discrete markets will benefit the economy's recovery.

- a. We have been heartened by the closer engagement with the hotel and business sector by the HKTPB and we would hope this the level of engagement continues beyond the current sector crisis.

- b. Brand Hong Kong has suffered significantly in the past 18 months internationally and requires an entirely fresh – and authentic – approach. This positioning must be tailored to diverse international audiences ensuring that the visitor experience invites greater engagement beyond the shallow shopping focus, one which does little to encourage visitors to extend their stay. The authentic East meets West positioning and the natural attractions highlighted in the current domestic campaign should be considered for targeted international markets to add depth and diversity to the tourism offering. This would also benefit the return of the MICE sector and offer greater authentic cultural experiences.

Towards a sustainable future

As one of the most densely built global cities, Hong Kong has a unique opportunity to demonstrate the long-term sustainable impacts of investment in Smart City infrastructure. The increased efficiency, connectivity and transportation outcomes would underpin Hong Kong's desire to be an innovation hub while creating opportunities for Hong Kong's younger generation to contribute to shaping the future of their home.

We welcomed the Long-Term Decarbonisation Strategy initiative by the Council for Sustainable Development. Hong Kong's vulnerability geographically makes addressing the concerns of global warming critical with the city experiencing climate-related threats including super typhoons and rising temperatures, with increases in frequency and intensity.

We urge Hong Kong to prioritise driving waste reduction and to make a serious and urgent commitment to accelerating and promoting critical recycling initiatives which the international community has been urging for some time. It is essential that Hong Kong addresses its excessively high landfill waste. Austcham believes one immediate and material impact would be achieved by ending the landlords' practice of requiring tenants to restore properties to a shell at the end of a lease, thereby unnecessarily removing ceilings and other fittings which would readily be used by incoming tenants.

Such initiatives when combined with promotion of electric vehicles, and a range of carbon-reduction moves would lead the city to a low-carbon resilient and sustainable future.

Gateway to the Greater Bay Area

AustCham believes that Hong Kong's role as the international gateway to the Greater Bay Area will provide significant opportunities for Hong Kong and offshore companies which can bring global best practice and innovative solutions in the rapidly growing middle-class within the GBA.

The Chamber and our members are keen to support and promote the advantages to Hong Kong of the GBA and of the vital role Hong Kong plays in being the international gateway.

Ongoing strength of Hong Kong as an International Financial Centre

Whilst these are challenging times, it is also a time of great opportunity for Hong Kong. It retains significant advantage on both the regional and global stage in the combination of its geographic and cultural proximity to China, not least within the Greater Bay Area, and its world class ecosystem of financial services, regulation and infrastructure. It is this combination that will allow Hong Kong to rebuild and to thrive. To this end, that ecosystem must be preserved and strengthened.

Tax Competitiveness

Global tax developments are likely to have an impact directly or indirectly on Hong Kong. We recommend review of the current regime in light of these developments and consideration be given to further reform to ensure the integrity and future competitiveness of the Hong Kong regime. We strongly advocate the introduction of group loss relief which we see as fundamentally important to groups operating in Hong Kong. Hong Kong is currently the only financial centre that does not provide for this, creating a critical disadvantage.

- **Increasing Tax Revenue**

It is widely acknowledged that Hong Kong's narrow tax base is overly reliant on a small number of taxes, premiums and duties as sources of fiscal revenue, so it is critically important that Hong Kong continues to review the appropriateness of its taxation code to ensure it is able to withstand the impact of global volatility. Reviewing immediate measures to broaden Hong Kong's tax base include reclaiming duty revenue on heated tobacco products currently forgone to the illicit trade. This would require no new legislation and could generate an estimated \$600m in tax revenue a year for the Government.

Another area for focus is the potential impact of the impending OECD's BEPS 2.0 developments, which in the absence of any changes in tax legislation by the Hong Kong government, could have an adverse impact on the revenue base in Hong Kong. However, we would encourage the Government to consult widely with the industry and the international business community on the changes being considered and their impact on economic growth.

Greater Bay Area

We strongly support the Hong Kong Government's vision for Hong Kong's position in the Greater Bay Area and welcome the recent announcement of the launch of Wealth Connect. We encourage focus on further reforms to promote cross border transactions within the GBA, facilitating establishment of bank accounts, fund flows, distribution of financial products and client servicing. We also advocate for stronger effort to accelerate innovation in the local financial services industry. This would include importing progress achieved in other parts of the GBA into Hong Kong, for example in the area of mobile payments. Notwithstanding good progress in recent times, there is still an over dependency in the local economy on physical cash.

Asset Management Hub

The stronger our domestic position, the greater the potential role to be played both within the GBA and beyond. Our strength as an asset management hub will be retained through continuing to attract necessary talent and investors to locally managed investment firms, both in terms of quality and diversity. Continuing refinement is also required to provide internationally competitive investment vehicle regimes, including tax considerations. This promotes an evolved and globally attractive offering of products, which in turn improves capital flows and retirement funding. It also underpins growth in the size and talent of an expansive services sector.

Depth in Local Markets

Ongoing development of equity and debt markets will further enhance international capital flows, as well as the growth in the asset management sector. The HKEX continues to demonstrate its attractiveness as a listing centre at this opportune time, particularly for Chinese corporates. We encourage the ongoing efforts of the HKEX to promote international standards of corporate governance and disclosure, in concert with global trends in ESG, as well as further reforms required to promote secondary liquidity and efficient price discovery. Equally welcomed are the new initiatives to promote green finance, however for real growth in domestic debt markets considerably more reform is required, particularly with respect to tax and stamp duty regimes.

A Regional Hub - Headquarters, Data Centres and Arbitration

Beyond this, we see ongoing opportunity for Hong Kong to further establish itself as a regional corporate headquarter hub and encourage the Government to consider incentives, such as subsidies and concessionary tax rates.

Clarity on framework for the handling of data has also become increasingly important, particularly if Hong Kong wishes to capitalise on the growth in demand for data centres and pursue its ambition to become a regional hub in this area also.

We applaud the Government's aspiration to become a leading international legal and dispute resolution centre in Asia Pacific, a strong complement to Hong Kong's position as an international financial centre. We believe promotion and demonstration of Hong Kong's well-established legal system, with its foundations in common law and independent judiciary will be welcomed by the international business community.

Public health

AustCham Hong Kong believes the current public health crisis underpins the importance of embracing innovation across the board and we reiterate our belief that investment in bio-tech research and development is essential. We believe a long-term investment in digitalising the public health system is long overdue and recommend that moving from paper-based medical record-keeping and management be prioritised.

Australia has a track record in introducing innovation to the aged care sector, particularly from an ageing at home perspective. AustCham would be pleased to make connections with global best practice initiatives and platforms in operation in Australia, Hong Kong and beyond, in the GBA, faces its ageing demographic challenge.

Talent attraction

Critical to Hong Kong's ongoing position as a global centre is the city's ability to continue to attract and to retain some of the world's top talent. Central to this is providing a welcoming environment for international families. Extended negative international publicity regarding Hong Kong since last year's protests has combined with the economic downturn and COVID flight restrictions to make it more difficult to attract the best talent to Hong Kong.

While the closure of schools was prudent, the length and comprehensive nature of that closure has also acted as a disincentive for families considering moving to Hong Kong or those here whose children have faced significant disruption to their schooling – possibly amongst the longest school closures in the world. We encourage the EDB to adopt a more flexible approach to phased school-based learning as schools begin to return to classroom teaching. We urge the EDB to take into account the negative impact on students undertaking international qualifications who have been significantly impacted by these lengthy closures when benchmarked against other global jurisdictions which did not close schools for the same extended length of time.

The importance of affordable international English language education has therefore never been more important. The decision to phase out the English Schools Foundation (ESF) subvention was made at a different time and we now urge the Hong Kong Government to reconsider this policy. As the only alternative to international schools for English speakers and to those Hong

Kong families who wish to give their children a global education, ESF plays a critical role in attracting international talent to Hong Kong. The rising fees combined with stagnant wage growth are increasingly ruling Hong Kong out as a global destination for business people with families. This can only harm Hong Kong over the long-term.

CONSTRUCTION SECTOR:

Digitisation & Innovation

To be a world leader in the global infrastructure market, Hong Kong needs to transform our relatively manual and traditional approaches towards infrastructure planning, development and operation and fully embrace innovation and digitisation through a comprehensive end to end infrastructure innovation lifecycle policy programme. Examples of initiatives to take forward include:

Design: Greater mandating and encouragement of BIM-based design across all public works departments projects and the elimination of 2D paper and all other outdated design submission methodologies. Support this by establishing a common and open data platform for gathering design level data across all projects that can be used to develop co-created solutions across public sector bodies. These initiatives will require regulatory and departmental support to ensure the right processes, governance, resources, training, certification and standards are adopted that work for industry and public sector stakeholders.

Construction: The digital site supervision technical works circular released this year was a step in the right direction. Take this further by setting a strategy towards the full digitisation of construction activity information flows. This includes digital project management, payment flows, milestone approvals, communication platforms, performance updates and various others. Supporting this with a centralised data gathering and sharing platform will provide significant opportunities for lessons learned on successful and unsuccessful projects. In addition, Government's drive for more Modular Integrated Construction (MiC) will assist in uplifting industry productivity. We encourage Government to implement more MiC related initiatives and mandates to grow Hong Kong's positioning as a market leader in off-site construction.

Site safety: We have genuine concerns about Hong Kong's high construction industry fatality rate which is on average (over the past five years) five times higher than Australia and four times that of Singapore. Even more alarming is that incidents in Hong Kong are generally under-reported. This issue needs to be addressed as a matter of urgency and lessons can be drawn from the Australian experience.

Operation: Greater take-up of advanced digital technologies across our built assets. This should include technologies that enable “data driven” asset management and decision making in public infrastructure such as Internet of things (IoT) based sensor technologies to support asset operation, maintenance, replacement and upgrades. We also note the recent concerning incidence of accidents and fatalities which could, in part, be addressed by adopting such measures.

Whilst the above initiatives will require investment and resources, they represent examples that have the potential to lead to reduced “whole of life costs” for our infrastructure, improve construction safety, increase collaboration across the public sector, make the industry more appealing to the next generation of talent and drive Hong Kong closer towards its vision of becoming a leading international Smart City.

Private Finance for Infrastructure

Funding for public infrastructure in Hong Kong almost entirely relies on the Capital Works Funding Programme. This places considerable pressure on the public budget, inhibits growth and opportunities for Hong Kong’s financial services community to participate in the construction & infrastructure sector and creates risks to future projects proceeding due to potential blockages in the Finance Committee of the Legislative Council.

The adoption of private finance for applicable public infrastructure projects could help alleviate these challenges. Importantly, this is not a novel concept for the delivery and operation of infrastructure as there are many global markets that have embraced this model with strong results – including Australia, France, the UK, Singapore and many others.

Looking to the future, Hong Kong is facing an enormous pipeline of construction works – from hospital projects to the Lok Ma Chau Loop through to the Lantau Vision Tomorrow Project. These projects alone are expected to cost in the order of 1 Trillion Hong Kong dollars to construct. Before these projects are shovel ready and the funding demand becomes real, we encourage Government to explore smaller more manageable pilot projects in which private finance models and procurement are implemented, such that these mega projects, the public sector and the industry are fully mobilised to implement private finance and procurement in an effective manner at scale.

Enhanced Consultant and Construction Contractor Procurement

Government agencies have a high tendency to adopt “fixed price lump-sum contracts” for the procurement of design consultants and construction contractors for public works projects. This model is suitable for straightforward, uncomplicated and low risk projects as these parties can put forward fee and delivery proposals that are achievable and manageable.

However, in recent years Hong Kong public works projects have witnessed a continuous increase in scale, complexity and risk – meaning this model is placing considerable pressure on the industry because consultants and contractors are being tasked with bidding competitively for opportunities they cannot foreseeably plan and budget for at the tender stage. This is having negative consequences for all industry stakeholders, including Government:

- partial contributor to some of the project failures we have witnessed in recent years;
- inhibiting the level of design and construction innovation and R&D investment by the private sector; and
- contributing to increasing challenges in retaining high performing talent due to growing competitive pressures.

Medium-term solution

To address this dynamic, we encourage Government to explore increased use of more dynamic procurement models for both design and contractor procurement, such as NEC and other collaborative contracting forms.

In terms of overall approach, we recommend that more flexible approaches be taken in choosing contract structures and procurement models for each project – this involves a shift to more bespoke approaches, in preference to a “one size fits all” model. Related to this, we encourage Government to consider a broad policy approach towards procurement based on the concept of “procuring for value” (a model that looks at overall “whole of life” outcomes from a project, without over-emphasis on front-end cost) and transition away from the more traditional approach of procuring for “price” (lowest or near lowest cost wins).

This transformation is expected to require a redesign and reimagination of procurement. This includes a deep assessment of the underlying long-term objectives of Government for Hong Kong’s infrastructure, incentives to project stakeholders to deliver on these objectives, mechanisms that allow for collaboration and collective problem-solving when risks become real and evaluation criteria that deliver on these elements.

Priority Opportunities

In the current challenging economic climate, a shift in faster payment terms to consultants would be well received by the industry and help alleviate cash flow challenges and risks for many groups. Potential approaches to consider:

- ensuring timely payment upon completion of agreed deliverables;
- structuring payment arrangements based on sub-task milestones being reached (rather than finalisation of deliverables); and
- removing payment milestones that are linked to events that are only or largely controllable by the public sector rather than consultancy firms.

For the latter, this would include making partial or full payment on the basis of receipt of draft deliverables, rather than waiting for full-feedback loops from multiple public stakeholder groups to be finalised, or waiting for the public launch of project tenders or other such similar events. In many cases this could reduce the gap in payments being received by months, providing a significant cash flow boost to the industry.

Capital Works Programme

To assist in stabilising the construction and infrastructure industry and providing baseline support to the Hong Kong economy in these challenging times, we recommend Government adopt a more presumptive approach towards Parallel Tendering for the Capital Works Programme, and also look to expedite as many “shovel ready” projects to market as possible.

Parallel Tendering

The current approach towards tendering for Capital Works Projects involved waiting for funding to be approved in the Finance Committee of the Legislative Council before proceeding to launch tenders to market. By exception, the relevant Bureau Secretary can approve tenders being released “in parallel” with the funding approval process.

Whilst this exception is utilised from time-to-time, it would be beneficial to shift to a model where the presumption is that all projects will be released to market in “in parallel” with the funding approval process and only by exception should these projects wait for funding to be forthcoming.

The benefits of this shift in approach are expected to be:

- providing greater certainty to the market as to pipeline of projects and tender timing – allowing for better planning, higher quality tenders and improved proposals to Government;

- generating greater confidence in market participants to invest in resources and new technologies upon receiving contract awards;
- providing greater visibility to international players of the Hong Kong market to consider for market entry.

Expediting Shovel-Ready Projects

The Hong Kong Government is to be congratulated on the recent high volume of funding approvals under the Capital Works Programme. However, as a result of COVID, the volume of construction activity taking place in 2020 has declined relative to the prior year – leading to an increase in construction sector unemployment and broader risks to the stability of the industry. To address these challenges, we urge Government to drive these recently approved projects forward as quickly as possible and prioritise other pipeline projects for funding approval that are “shovel ready”. This approach was recently adopted in the New Zealand construction market with great success and reflects the importance of keeping construction activity high during challenging economic times.

Housing Affordability

Hong Kong’s land and housing affordability challenges are well documented. Key elements of this continue to be limited new supply in the form of land sales from Government as well as opportunities to develop large tracts of undeveloped land parcels held by local owner and developer groups.

Land Sale Program

Whilst demand for Hong Kong residential real estate continues to go from strength to strength, the supply of new land for development remains constrained.

Much of the new supply that comes to market is driven by Government land tenders, with Government gazetting approximately 30 sites per annum - however, the volume that typically ends up being released to market in recent years has been dramatically lower than this figure.

To help alleviate the supply challenge, we encourage Government to bring greater land tender transactions to market in the coming years. Along with the substantial financial and economic contribution these sales will bring to the public budget, material social benefits are expected in the form of greater opportunities for the next generation of the public to realise their goal of “owning their own home”.

New Territories Land Banks

Significant land parcels remain undeveloped in Hong Kong - many of which are concentrated in the New Territories in the form of agricultural land or un-utilised land banks. Much of this land is owned by Hong Kong's large developer groups and other private owners.

Together these parcels represent a major source of potential supply of future land for development and housing that has the potential to make dramatic inroads into Hong Kong's housing availability and real estate affordability challenges.

We encourage Government to explore channels and dialogue with these groups for the sale and/or development of these land parcels, for the long-term benefit of the citizens of Hong Kong.

Site 3 at Central Harbourfront

Site 3 at Central Harbourfront represents arguably the most attractive commercial land site in Hong Kong. It has the potential to become a truly iconic "postcard" asset and a destination for locals and visitors that is renowned for its commercial vibrancy, entertainment, recreation and tourism all wrapped into an exciting destination.

We also understand the land tender for this site is imminent and that Government is considering a two-envelope model based on technical and price proposals.

To ensure this site can realise its full potential and have a truly significant impact on the Hong Kong economy, society and harbourfront we urge Government to take a balanced approach towards tendering and procurement focused on delivering excellence across several areas.

We recommend:

- Weighting the technical envelope as high as possible, so that the importance of price is not over-emphasised. A 70% weighting is recommended;
- Within the technical envelope evaluation criteria, adopting a focus on several important factors crucial to the long-term success of the site that are also aligned with broader public policy for the economy, society and Hong Kong's global reputation. Specifically, we recommend the following elements be incorporated into the technical marking scheme:
- Design: in particular; visual impact, walkability and integration with the rest of Central and Tamar Park;
- Business model: beyond the more commonly expected commercial real estate strategy, a specific focus on the elements of the model that will drive economic impact, tourism, international market entry of businesses and employment;

- Community impact: through recreational, cultural and creative spaces that make the site accessible and engaging to all levels of society;
- Environmental impact: through technologies, building materials and equipment that will mitigate the environmental and carbon emissions from the site to unprecedented levels for a Hong Kong development project of this scale; and
- Technological and digital enablement: to create a showcase project for Hong Kong's positioning as a Smart City.
- Appointing an independent team of consultants experienced with the procurement of complex major projects in Hong Kong across commercial / financial, design and legal to deliver best practice ideas on how to extract maximum value to Hong Kong across these important dimensions.

Conclusion

We care about Hong Kong, about its future, and about its residents.

As members of the international business community, the Australian Chamber of Commerce Hong Kong and on behalf of our members is committed to contributing to a Hong Kong of the future which is thriving, prosperous and continues to act as a major international business centre.

AustCham Hong Kong is pleased to have the opportunity to be part of this discussion and we offer this submission for your consideration.

Yours faithfully,



Jacinta Reddan
Chief Executive
The Australian Chamber of Commerce Hong Kong