

# Summary of Hong Kong Visit

## Background

The British left Hong Kong (HK) in 1997. Just a few years before, they embarked on introducing a semblance of democracy. But it was too little and too late. As a result an agreement to move forward without any timeline could only be reached. The Hong Kong Special Administrative Region (HKSAR) has doggedly pursued the path. It already has an indirectly elected CEO as head of the Government, a President of the Legislative Council and a Supreme Court and all the three function independent of each other.

HK treasures its rule of law and yet judgments have to be referred to People's Republic of China (PRC); HK emphasize this is for information only and no decision has ever been vetoed. Similarly the CEO after election, has to be confirmed by PRC.

On the other hand, HK wants to run its administration the way it suits its citizen. For example, there was a big hue and cry right now due to shortage of milk powder for babies due to its sudden pilferage to mainland as mothers in China find the milk powder in HK better and reliable. The HK government has imposed various types of restrictions on tourists from China taking back milk powder with them.

In another example, in order to cool the rising prices of properties various types of taxes have been imposed which include taxes on buyers from outside HK (including China). This shows their eagerness to be apart from main land China.

No doubt the two cultures in one country must be co-existing with tacit approval of China but then it is the alertness, constant endeavor and deftness in dealing on part of HK that has to be appreciated much.

HK not only has special ties with China an agreement called CEPA but with PANPRD and Guangdong regions. HK has separate seat in WTO, separate customs, taxation, basic law but in the UN its representative accompanies Chinese delegation to meetings. Except for Defense and Foreign Affairs HK, enjoys freedom in all other areas.

This program of HKSAR is meant to be a window to Hong Kong for the people of different countries. Essentially, various aspects of HK are highlighted through meetings with select departments that emphasize it as a natural destination for business.

## ***Observations and Highlights of a few Meetings***

1. Business & Investment climate:

- a. HK is particularly proud of its rule of law, reign of free market economy and it's almost corruption free society.
  - b. India is 6th largest trading partner of HK.
  - c. There is total capital convertibility. No capital controls exist making High Net- worth Individuals/ investors very comfortable in parking their money in HK. It is one of the largest centers of Asset Management Companies. Double Taxation Avoidance Treaties (DTAs) with 26 countries. (India yet to sign the DTA with HK).
  - d. It is almost transaction tax free economy: there is no import tariff or of a sales tax in any form – VAT or GST; Estate Duty etc. HK has very low rate of personal and corporate tax.
  - e. HK had no minimum wages on the premise that HK is a capitalist country and the market should only decide the wages. In the functional system, the labour representatives got the minimum wages fixed at \$ 30/hr. The new demand is to fix maximum working hours per week.
  - f. Over 300,000 SMEs in Hong Kong, 98% of all businesses (SMEs with less than 100 persons). Support to businesses is provided up to \$2 m through associations for various schemes. Loan Guarantee Scheme is operated covering individual enterprise. Cash Assistance of up to \$0.5m is provided to businesses wanting to upgrade, develop domestic sales (to China); proposals undergo strict scrutiny. SME Financial Guarantee Scheme – launched by HKSAR in Jan 2011 Credit reference agencies help in flow of credit. Mortgage Corporation provides bridging loan.
  - g. Though due to acute scarcity of land supply, manufacturing is shifting to nearby areas in the mainland China, it remains hub of trading activity. Its infrastructure is world class. Its air cargo shipments are highest in the world and its sea ports too are one of the largest.
  - h. HK has a very big financial sector and is attracting hoard of money from all over the world. At the same time equally large sums of money is flowing out regularly. HK is 2<sup>nd</sup> largest center for Venture Capital (VC) activity after the US. However, regulations of Financial Markets remain stringent
  - i. HK arbitration has been ratified by India. HK can be a preferred jurisdiction for arbitration in international contracts due to expertise available in HK at reasonable costs.
  - j. Rule of Law is the cornerstone of HK. With Independent Judiciary, it has helped make HK Asia's financial center. Chinese companies are listed in HK exchange in largest number.
  - k. Visa is on arrival to citizen of well over 100 countries; without waiting for reciprocity from many.
  - l. People in HK are very network minded; deals are struck in get-togethers.
2. Ease of Doing Business: Measures against corruption  
Independent Commission Against Corruption consisting of three departments – Operations, Corruption Prevention and Community. Up to 1970s, bribery was rampant in Civil Services. Some events brought the people together and under intense public

pressure ICAC- a unique body in the world, independent of the government was formed in 1974. Three committees are constituted with citizen to oversee the functioning and to formally and legally report directly to the CEO. Private sector is also covered by the system. ICAC has a strength of 1300 of which 1000 are highly trained investigators. Approximately 4000 complaints were received by ICAC in 2012. 40% related to government officials and 60% of private sector executives. ICAC after investigation sends the cases to the Justice Department which clears these for conviction. Because the investigation is so good and comprehensive that most cases are found fit for prosecution. Conviction rate is about 80%. A major objective is to create level playing field.

Result: systemic corruption stands rooted out. Hong Kong stands 2<sup>nd</sup> in World Bank's Ease of Doing Business Rankings.

3. HK's economy thrives on service sector which constitutes 92% of its economy. Non-Financial services recording healthy growth are Hospitality and medical services. Education is also attracting a large no of foreign students which may increase in future. A lot of government spending goes into social sector by way of housing, electricity transport, education and health. Legal Services in the field of contract law are attractive and may further grow due to presence of high quality professionals and legal system including preferred place for jurisdiction for arbitration purposes in international contracts. Other services offering good scope include asset management, shipping, trading, professional services, logistics, testing & certification, ecology, innovation & technology, cultural and creativity, high-tech and KPO Companies.
4. HK faces following serious problems:
  - Housing and Land in extremely limited supply; the new territory is being developed for new housing but with 46% area reserved for greenery. Its distance from business district is seen as a handicap for the people.
  - Transport and housing subsidy is being provided to eligible low income earners to mitigate their difficulties.
  - Ageing population- against 6 as of now, 2 working persons will have to support one old age, non-working person in next 30 years.
  - 'Money follows the poor' policy is adopted in helping the old and the poor; no poverty line exists, but HK is trying to draw one; interested in knowing the system in India.
  - Energy – high dependence on coal (45%), CNG; nuclear may not be acceptable in future. Guangdong in China- adjacent to HK, too is facing acute power crisis!
5. HSBC considers India is one out of 8 priority markets for commercial banking which in turn is divided into Corporate Banking and Business Banking (for SMEs). HSBC serves 3m SMEs globally. To SMEs it has been doing 'judgmental' as well as score based unsecured lending and providing Treasury Solutions to SMEs. It is also coming out with a new product Trade Credit Insurance for SMEs.
6. Business Associations:

- a. Indian Chamber of Commerce: having over 550 members-mostly small and medium, informs that 'HK culture is - Market leads Government'. There is no Government interference in business whatsoever. Some interesting facts are:
- Over 50,000 Indians reside in HK out of a population of 7.1m. Sindhis, Sikhs, Parsees constitute majority of business owners. New immigrants from India are mostly professionals.
  - 13 Indian banks are present, possibly the highest number in a foreign country\
  - 4000 US Co have presence in HK to cater to China and other regional markets
  - HSBC report says India and Vietnam will be the two big partners for H
  - Large no of diamond traders from India are doing business in H
  - CEPA allows duty free import of goods from HK into China covering 1500 tariff lines
  - Absence of DTA between India and HK is a big deterrent for growth
- b. Federation of Hong Kong Industries (FHKI)
- 27 product groups called councils are structured within the Federation.
  - FHKI assists members in up gradation of technology
  - Every two months CEOs of various association in HK meet on lunch