# Cementing Hong Kong's competitive edge for a better tomorrow

PwC's Recommendations for the Chief Executive's 2022 Policy Address

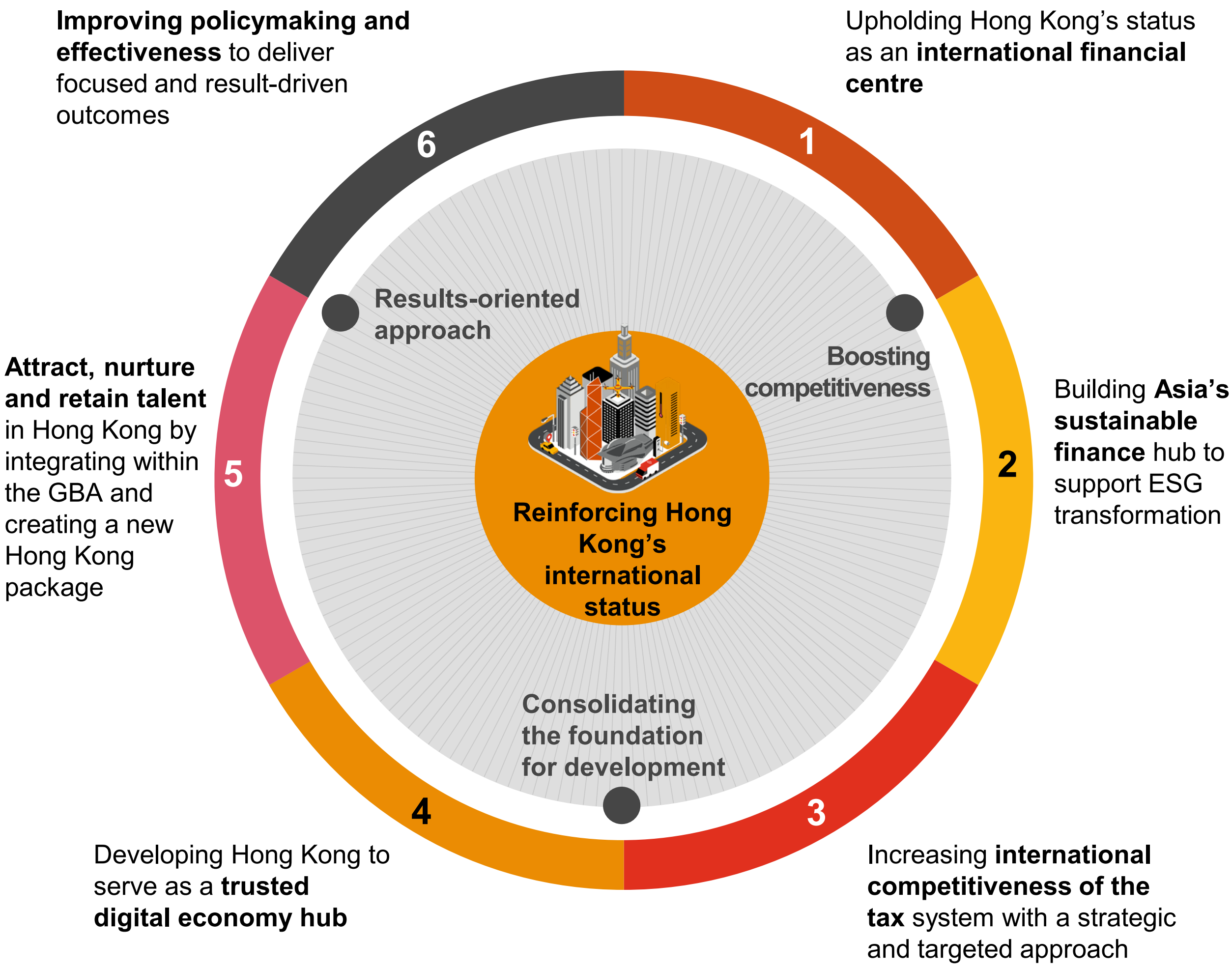
羅兵咸永道

# Content

Hong Kong’s wide range of competitive advantages have long established the city as one of the world’s most attractive destinations for investments and doing business. However, with the rising tide of uncertainties in the global economy, brought by COVID-19, the US-China tensions and geopolitical conflicts, among other shake-ups, coupled with internal constraints, such as land shortage and brain drain, have sapped economic growth. We believe it is time for the Government to take bold and decisive action to address these challenges and drive growth while exploring new sources of revenue. The Government needs to map out a set of clear strategies to attract investors, businesses and talent to the city, with the Chief Executive paving the way as a visionary leader.

PwC’s recommendations are aligned with the current administration’s three-pronged framework, namely, a results-oriented approach, boosting competitiveness, and consolidating the foundation for development. Ultimately, these recommendations will help reinforce Hong Kong’s status as an international hub in all areas.

**Figure 1. Reinforcing Hong Kong’s international status**



# 1 Upholding Hong Kong's status as an international financial centre

Home to many financial institutions, Hong Kong has long been one of the leading international financial centres. The city has thrived with its close economic integration with Mainland China, extensive networks with the rest of the world, a sound legal system, a low and simple tax regime, free flow of capital, access to a full range of financial products and a large pool of talent. While these advantages remain the source of the city's strengths, volatility stemming from heightened geopolitical tensions continue to affect Hong Kong's financial development. With this, we make the following suggestions to help the city enhance its competitiveness in the financial sector.

## Diversify Hong Kong's capital market by (i) accelerating the development of a tailored listing regime for advanced technology companies; and (ii) re-engineering the GEM to attract SMEs or start-ups

(i) The introduction of new listing regimes can promote the diversification of companies in the local market. Three years after the introduction of HKEX's listing regime for biotech companies in 2018, biotech became one of the fastest growing sectors in Hong Kong, representing 7% of total IPO funds raised [1]. As such, a revised listing regime can act as a driver for advanced technology companies.

Regulators are urged to accelerate the introduction of a tailored listing regime for advanced technology companies in high-growth sectors. While such companies tend to be younger, their prospects are promising and stand to benefit from the fast-growing demand from institutional investors. To facilitate their listing, the regulator should consider the unique characteristics of these companies and develop a new listing regime that allows the listing of advanced technology companies who cannot otherwise meet the prevailing listing requirements without compromising shareholder protection.

(ii) Currently, many SMEs or start-ups that drive the Hong Kong economy do not meet the listing requirements of the Main Board or the GEM, while the latter has been a largely inactive channel for raising new capital. Therefore, we urge the regulators to review and reposition the GEM to attract the listing of SMEs or start-ups by relaxing some of the existing listing requirements, such as minimum market capitalisation, public float value of securities, cash flow and 'track record period'.

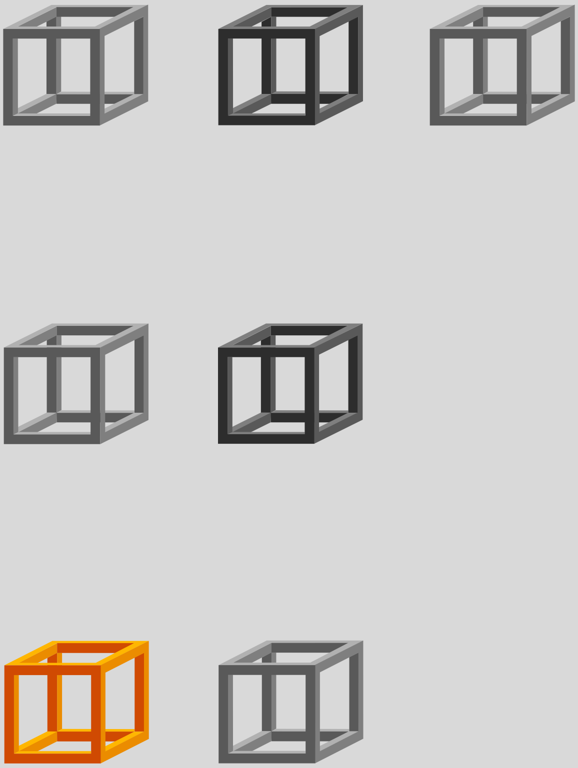
## Develop Hong Kong as a regional infrastructure financing hub within the BRI

Hong Kong has both the geographic and the strategic advantages that allow it to not only be a gateway to Mainland China but also a regional connector for access to infrastructure finance. With this, Hong Kong has the potential to develop as a leading infrastructure financing centre and assist in raising investment capital for the city's substantial infrastructure requirements.

Currently, bonds and bank loans are among the most common financing tools for infrastructure projects. There are untapped opportunities for public and private infrastructure investment funds including the use of infrastructure real estate investment trusts (REITs) as a fundraising channel for various development projects in Hong Kong, such as the Northern Metropolis and the Lantau Tomorrow. The Government should lead the launch of infrastructure investment funds and encourage key players with relevant expertise and capabilities to collaborate and invest in local, Mainland Chinese, including the Greater Bay Area (GBA), and international projects.

While the term 'infrastructure' as defined in Hong Kong's tax law is brief and focused on conventional infrastructures, we recommend the Government to update and expand such definition to include New Infrastructure, Green Infrastructure, etc., while making reference to the scope set out in the Fast-Infra Sustainable Infrastructure Framework as well as the various frameworks adopted in the Mainland.

Over a longer term, to reinforce Hong Kong's position as a premier overseas financing platform under the Belt and Road Initiative (BRI), the city should further promote cross-border infrastructure financing securitisation products and loans, and drive green and sustainable infrastructure finance. This will enable a more vibrant and diverse international infrastructure financing market and facilitate the inflow of market capital to relevant projects.



Therefore, we welcomed the recent introduction of the ‘18 measures for Supporting the Linked Development of Shenzhen and Hong Kong Venture Capital Investments in Qianhai’, jointly promulgated by the Financial Services and the Treasury Bureau (FSTB) and the Qianhai Authority, which includes preferential policies for cross-border REITs.

For more immediate results over the short term, there are various existing infrastructure projects, e.g., tunnels and bridge owned by the Hong Kong Government, that can be securitised and injected into infrastructure REITs, revitalising the infrastructure financing market and closing the large funding gap for the two proposed mega infrastructure projects, Lantau Tomorrow and the Northern Metropolis. This would also pave the path to promote and broaden fund raising via infrastructure REITs for the two projects in the long term.

On the other hand, as the local infrastructure landscape evolves, further considerations can be given as to how insurers’ investments in infrastructure projects should be reflected in the new insurance Risk-based Capital Regime (RBC), set to launch by Insurance Authority in 2024. The considerations need to strike the right balance between the need for prudent insurance measures and funding infrastructure projects.

To optimise the use of infrastructure REITs, Hong Kong can look to its application in the Mainland and countries across the world, like India (InvIT) and the US.

**Figure 2. Examples of infrastructure REITs**

| Jurisdictions | Infrastructure REIT |
|---|---|
| **Mainland China** | Fullgoal Beijing Capital Water Utilities Closed-end Infrastructure Securities Investment Fund |
| **US** | CorEnergy Infrastructure Trust, Inc |
| **Japan** | Industrial & Infrastructure Fund Investment Corporation |
| **Singapore** | Keppel Infrastructure Trust |
| **Australia** | Arena |
| **India** | IRB InvIT Fund |

## Support RMB internationalisation by rebooting RMB IPOs and introducing more RMB-denominated investment products

With the world's largest RMB liquidity pool outside Mainland China, over RMB800bn, Hong Kong can further strengthen its role as the leading offshore RMB centre. In 2021, RMB trade settlement handled by banks in Hong Kong reached RMB7.1tn[2], compared to RMB6.3tn in 2020[3] and RMB5.38tn in 2019[4], respectively.

The city has the opportunity to develop RMB-related assets and tools; regulators should consider rebooting RMB IPOs to invigorate its RMB pool and promote the internationalisation of RMB. To expand on RMB-denominated investment opportunities in the city, Hong Kong can build on the existing cross-border investment channels. In particular, the China Securities Regulatory Commission (CSRC) will support Hong Kong in introducing yuan-denominated stock trading desks and will study their inclusion in the southbound Stock Connect, while pushing for the opening up of the domestic treasury futures market[5]. The establishment of a working group by the Hong Kong Government to introduce a bill to waive stamp duty for market makers trading yuan-denominated products has been an encouraging move.

However, the daily trading volume of the Wealth Management Connect ('WMC') has been low since the pilot launched last year. There is potential for the pilot WMC to further expand the range of cross-border services that could be provided. This will enhance the foundation for financial connectivity between Hong Kong and the Mainland, especially in the GBA region, and the day-to-day behavior of retail and private banking customers regarding their financial planning and investment decisions.

The banking industry is looking forward to the current 'execution only' restrictions being relaxed further under the WMC 2.0. There could be either a special relaxation of local regulations or a dual licensing requirement for qualified financial advisors. With this, licensed individuals could be allowed to solicit business and to provide recommendations to Mainland investors subject to local requirements and may eventually be allowed to provide cross-border in-person services.

## Develop and implement digital reporting for greater transparency in listed companies' disclosure

Digital reporting is becoming the norm in capital markets globally. It drives greater transparency in the financial disclosure of listed companies' and beyond. A robust digital infrastructure is needed to enable the adoption of digital reporting and data sharing. Regulations should be revised to enable integrated digital reporting so data acquisition and sharing through appropriate standards can drive collaboration and enhance regulatory efficiency.

# 2 Building Asia's sustainable finance hub to support ESG transformation

Hong Kong has untapped potential to develop itself as Asia's green and sustainable finance hub by expanding its financial offerings and capabilities to draw in global businesses and investors. There are several ways the Government can accelerate this.

## Establish ESG leadership by broadening the scope of ESG-linked financial instruments

In the face of climate change and the need to finance Hong Kong's transition to a 'low carbon' economy, the 'Environmental' part of the ESG criteria has become a key consideration for investors. The Government and industry professionals should work closer together to support the integration of ESG. With Hong Kong as an international financial hub, the city is well positioned to leverage its strengths in the financial sector to enable and accelerate its transition to a low-carbon and more climate-resilient economy. With conducive public policies, the city can expand the spectrum of ESG-linked investment and financing products and emulate the success it had with the green bond market. The private sector has earned experience in launching other ESG-linked financial instruments such as sustainability-linked loans, energy transition bonds, ESG-themed ETFs and green infrastructure funds, to name a few. Now is a good time for the Government to work closely with the private sector to support the development of a wider range of ESG-related financial products, thereby unlocking the market potential in the ESG space.

Government incentives, innovation, talent development, and collaboration between the public and private sector are essential to elevating Hong Kong's role as an international financial centre by enabling ESG and green transformation.

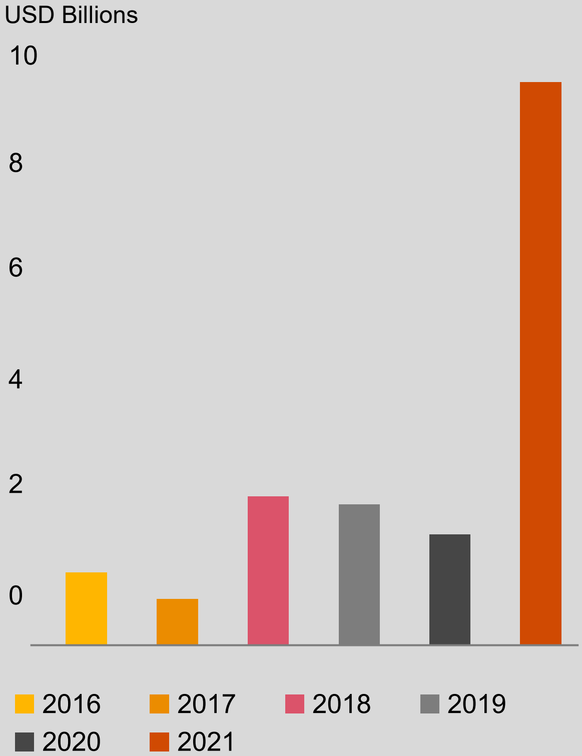
## Encourage the adoption of localised ISSB standards for public and private entities

The lack of a homogenous framework or standardised guideline for measuring ESG factors has been identified by 53% of market participants as the biggest challenge in implementing ESG practices and measures in organisations, according to a joint report by HKTDC and PwC - ESG Investing: Challenges and Opportunities for Hong Kong[6].

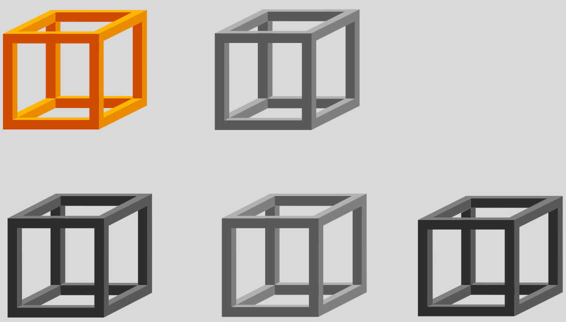
To drive the development of green and sustainable finance, we encourage the Government to align with the global sustainability standards proposed by the International Sustainability Standards Board (ISSB) – *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 – Climate-related Disclosures.* A phased approach is advised from a practical standpoint and Hong Kong should focus on addressing investor needs. To that end, we recommend placing a higher emphasis on the disclosure of climate-related information and urging listed companies to adopt these standards first, followed by the private entities at a later stage.

The adoption of these standards should account for the complexity of existing ESG regulatory frameworks in the city, ensuring they are applicable for local business and political environment while preventing 'greenwashing'. Industry-specific guidance should help create synergy with international standards or mandatory disclosure in related sectors.

**Figure 3. Size of the green bond market in Hong Kong**




Source: Climate Bonds Initiative



## Accelerate the development of Hong Kong's carbon market via 'CarbonConnect' with Mainland China and in the region

With its leading financial and professional services sector, Hong Kong has the potential to become a regional or even global hub for carbon trading. Carbon trading is not a brand new concept to Hong Kong – HKEX conducted a consultation in 2009 on the topic of certified emission reduction futures in 2009.

The carbon market is at its nascent stage and its development will involve navigating international standards, application of methodologies in emerging markets where most of the carbon projects originate, and finally demonstrating the credibility of carbon projects to international private capital. Hong Kong should focus on upskilling its finance professionals through cross-sector collaboration and subsidised talent development programmes.

Hong Kong's geographic proximity with Mainland China has given it a unique advantage. Since 2011, the regional pilots implemented in the Mainland have proven success, with the country's carbon market growing three times that of the EU's[7]. Hong Kong can leverage the expertise developed in the seven pilot zones – Beijing, Chongqing, Guangdong, Hubei, Shanghai, Shenzhen and Tianjin. With this, Hong Kong can serve as a testing ground to pilot potential cross-border carbon trading between Mainland China and the international market.

There are tremendous opportunities for Hong Kong to take a proactive approach in serving as a centralised platform that enables efficient, standardised and credible transaction of carbon credits.

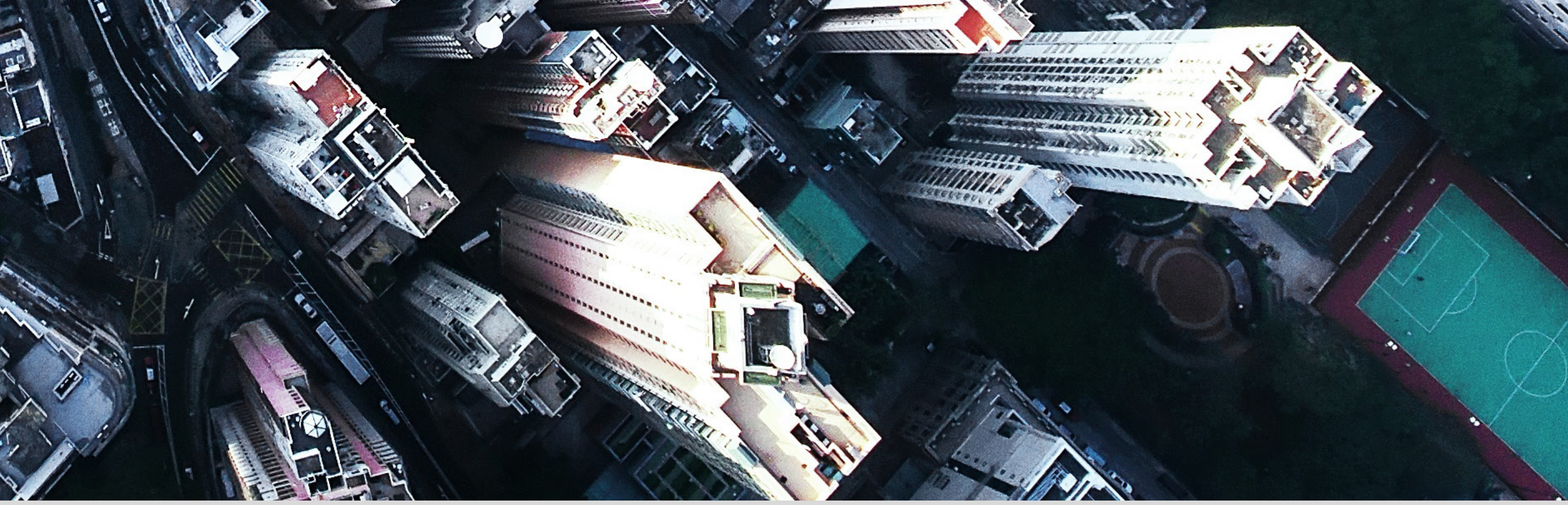
# 3 Increasing international competitiveness of the tax system with a strategic and targeted approach

Hong Kong’s competitive advantage of its low and simple tax system has been challenged by the rising tide of trade protectionism, growing competition from neighbouring markets and the need to align with the international tax rules lead by the OECD and EU. This includes BEPS 2.0, particularly the ‘global effective minimum tax’ requirement and recent refinements to Hong Kong's Foreign Source Income Exemption Regime for Passive Income. In the face of these challenges, Hong Kong should reinforce a business-friendly and competitive tax environment by instituting strategic and targeted tax policies to capture new opportunities arising from industries with high growth potential and create economic synergy with cities in the GBA, as well as to prevent businesses from moving away from Hong Kong. With a fundamental shift in the way modern business is conducted and a fast-changing international tax landscape, there is also an urgent need for the Government to conduct a comprehensive review of the Hong Kong tax system, which has not been done in decades. The central theme of our recommendations for the Government’s policy is to move beyond its established role as a facilitator and promoter, and evolve into an active driver of business opportunities.

## Ensure tax incentives are business-friendly, commercially viable and actively promoted

We are pleased to see that in recent years the Government has introduced a number of tax incentives to promote the development of specific industries with high growth potential, such as concessionary tax regimes for Corporate Treasury Centres (CTC), aircraft leasing, ship leasing; enhanced tax deduction for qualified R&D expenditure; and concessionary tax regimes for Family Offices, investment funds and general insurance, among others. However, these regimes have imposed conditions that are difficult to fulfil from a commercial perspective and contain anti-avoidance provisions that make them less business-friendly. As a result, the rollout of some of these incentive policies has had minimal impact for businesses and the economy.

There are better ways to improve the execution and promotion of the tax incentives. The Government should conduct regular reviews to enhance the effectiveness of incentive policies and relieve certain anti-avoidance conditions to remove the practical hurdles for taxpayers. For example, we suggest the qualified R&D expenditure for super tax deduction should cover outsourced R&D activities conducted in the GBA, while taking into account the deepening co-operation of the I&T and biotech industries in Hong Kong and GBA cities.



## Enhance Hong Kong’s role as the international investment hub by expanding the international treaty and trade agreement networks

Hong Kong is an export-oriented economy and a renowned international platform for cross-border investments – both for Mainland enterprises going abroad via Hong Kong and for overseas enterprises investing in the Mainland via Hong Kong with regional headquarters. Comprehensive Double Taxation Agreements/ Arrangements (CDTAs) will provide investors with certainty on the taxing rights of both their home jurisdiction and the overseas jurisdiction where they plan to trade or to invest. CDTAs will also help investors better assess their potential tax liabilities for cross-border economic activities. Currently Hong Kong has CDTAs with 45 jurisdictions and is in negotiations with 14 jurisdictions. This number is far behind that of neighboring jurisdictions. Notably, Hong Kong does not have CDTAs with some of our key trading partners, such as Australia, Brazil, Germany and the United States. The Government should expedite the expansion of the CDTAs network.

The treatment of foreign tax paid by Hong Kong resident businesses under the local tax system is vital for multinational enterprises to decide whether they will set up a business, such as regional headquarters, or an intellectual property hub in the city. Currently, the Hong Kong foreign tax credit system only allows credit for foreign tax paid in a jurisdiction with which Hong Kong has a CDTA. Extending tax credit for tax paid in non-CDTA jurisdictions should meet the increasing demand from businesses in addressing the double taxation issue arising from their activities in these jurisdictions.

As Hong Kong has applied for accession to the Regional Comprehensive Economic Partnership (RCEP) agreement, the Government should form a task force to study the potential challenges and competition from RCEP members; identify new opportunities to individual industries; design practical facilitation measures that can further drive Hong Kong's I&T development and re-industrialisation; and strengthen collaboration with trade partners in Southeast Asia.

## New tax and fiscal measures to facilitate Hong Kong’s ability to capture opportunities

PwC puts forward the following proposals to help maintain the city’s attractiveness as a global financial and business centre and to enhance the city’s competitiveness:

- Provide tax incentives to attract foreign and Chinese multinational corporations to set up regional headquarters in Hong Kong.
- Strengthen and extend the tax policies related to financial services to consolidate Hong Kong as the international financial centre.
- Explore more tax incentives for R&D and technology activities in Hong Kong and the GBA to establish Hong Kong as the preferred IP hub location.
- Allow tax exemptions and other fiscal measures to encourage more investments in ESG and green projects.
- Explore new tax policies and incentives to address emerging industries such as crypto assets, the metaverse and Web 3.0.
- Provide non-tax measures, such as government grants and subsidies, to attract investments and talent.

# 4 Developing Hong Kong as a trusted digital economy hub

The 14th Five-Year Plan supports Hong Kong's development into an international I&T hub, and puts forth the nurturing and building up of emerging digital industries. As such, there is clearly an opportunity to establish the city as a digital economy hub that generates significant economic contribution. We recommend the following actions to accelerate progress in this area.

## Strengthen the digital infrastructure and ensure all new development areas are 'digital ready', establishing Hong Kong as a smart city

Hong Kong can strengthen its digital infrastructure in order to support the development of its digital economy, as it aspires to become a 'digital ready, mobile first' city. With leading economies generating 5-10% of their local GDPs from digital-related activities, Hong Kong can use it as a benchmark to gauge the city's performance for its digital initiatives.

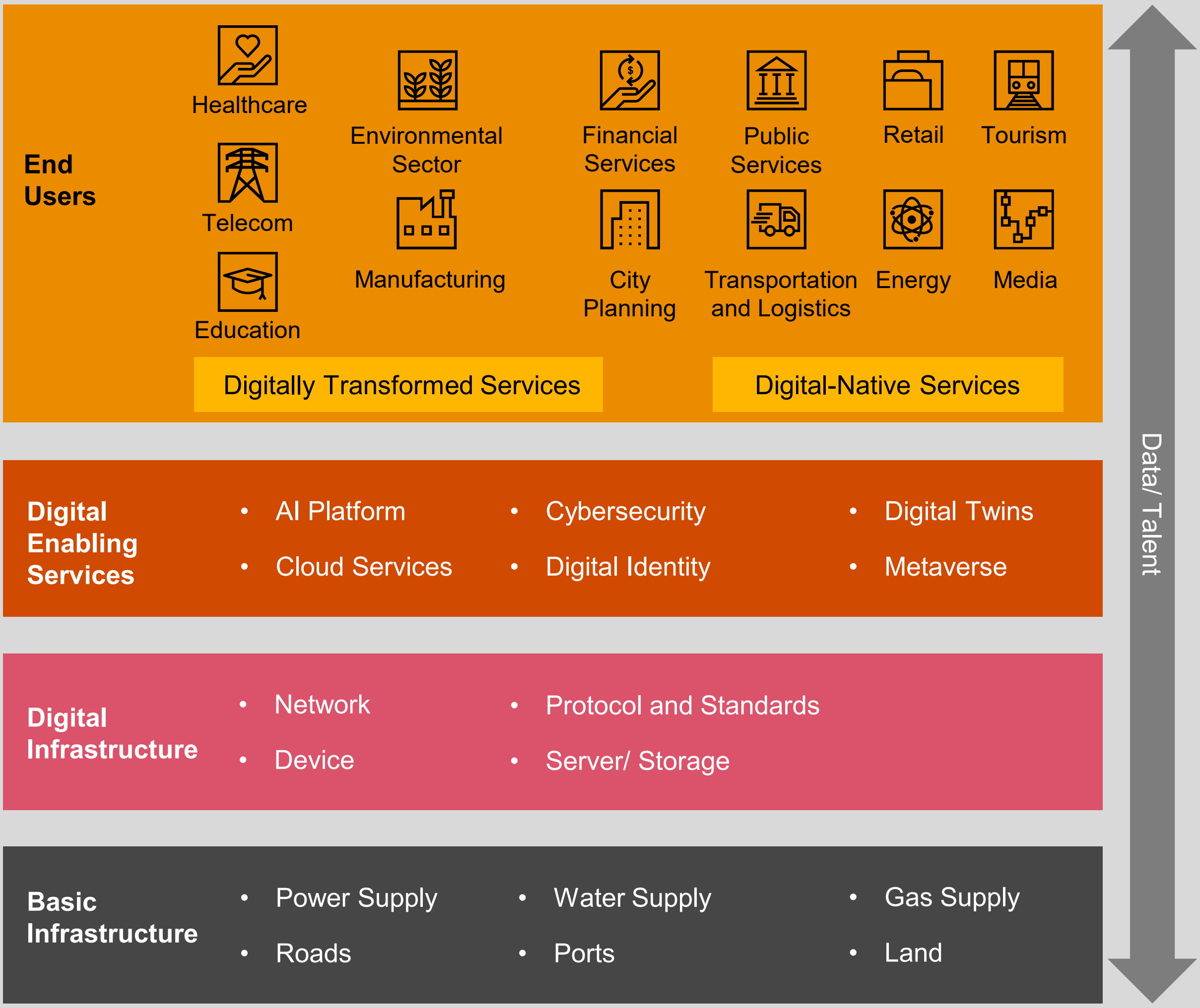
The Government should focus on facilitating the development of standards and related operational protocols, as well as governance arrangements amongst stakeholders to enable the effective development, and sharing of digital resources, like data and processing capabilities, and services, such as digital identities for both corporations and individuals. The Government can't afford to ignore AI and the metaverse in its development plans either. Hong Kong will need a strategic plan for their adoption that is based on use cases, benefits and challenges, implementation considerations and timeline, as well as the associated societal implications.

Considering the need for ubiquitous connectivity, the Government can facilitate the installation and provision of 5G cell towers or cell sites in new buildings and in rural areas to provide reliable, uninterrupted coverage of 5G signal to the population. This will further strengthen the city's real time management capabilities, and accelerate the adoption of autonomous vehicles, drones and robots.

At a time when the world is grappling with cybersecurity issues daily, such as data breaches, ransomware and more, the Government should strive to establish and promote a trusted environment for the digital economy to flourish. To this end, a forward-looking approach to assess the opportunities and risks associated with emerging technology has to be adopted. For instance, with the current encryption technology, quantum computing may pose a significant threat to the digital infrastructure as we know it. It is essential for the Government to facilitate a collective, informed response to this threat, especially for key at-risk industry sectors and critical infrastructure.

Last but not least, Hong Kong needs to continue conducting pilots to validate the feasibility of new innovative and digital solutions for a smart city, while formalising a framework to evaluate the impact and scalability of these solutions.

**Figure 4. Key components of a digital economy**



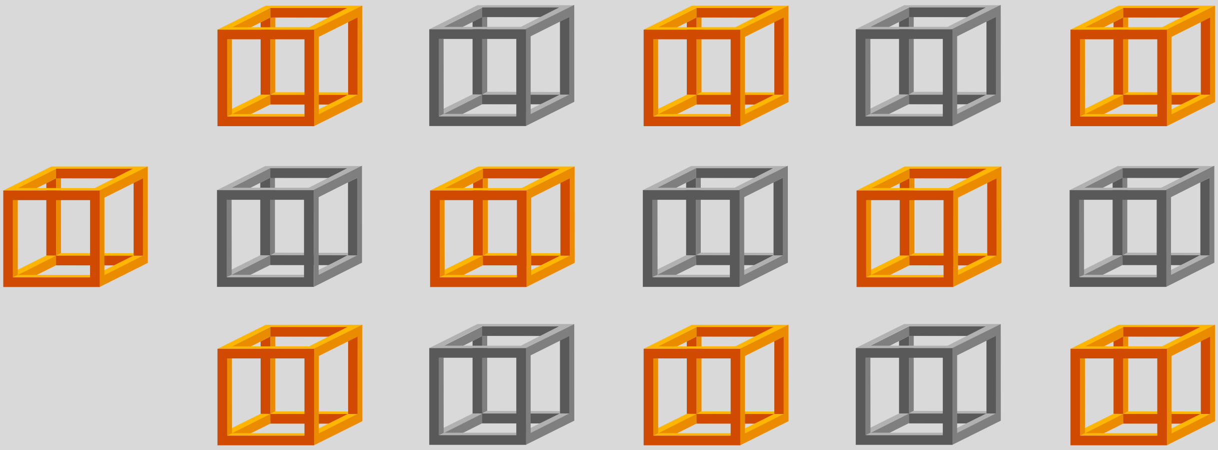

Source: PwC

## Enable secure cross-border data flow through infrastructure, regulations and policies

The very nature of a digital economy is centred on connectivity, both within an economy and between economies. To ensure an effective flow of people, goods and money, the economy needs to be underpinned by effective data flow. As such, cross-border data flow is becoming a critical challenge that warrants the attention of policy makers globally. Hong Kong is uniquely positioned to serve as a trusted data hub, not only on a technical level but also on a governance and business level by leveraging the city's advantage of being a part of China but as a different jurisdiction, as well as its strategic geographical location and sophisticated technology infrastructure.

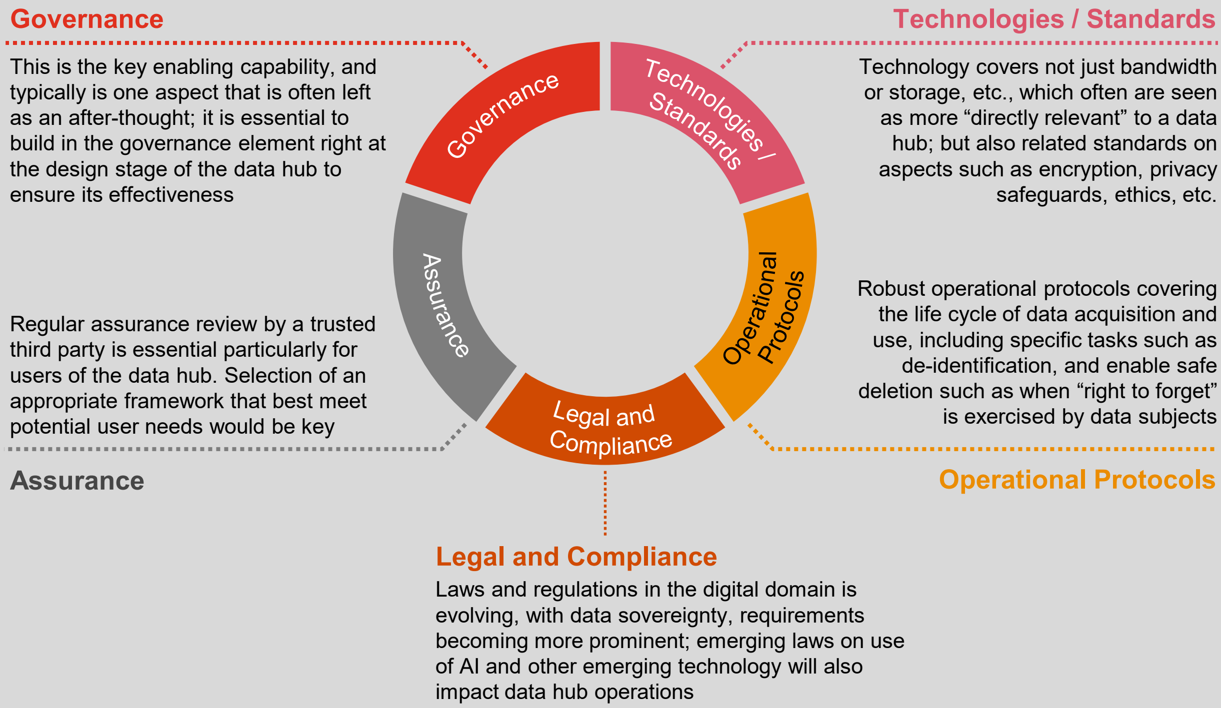
To establish its position as a data hub in the region, the city needs to further strengthen its infrastructure, including regulations and policies, to facilitate data flow between Mainland China and other parts of the world.

Conformance to the legal and operational principles set out under the respective laws and regulations of Mainland China and Hong Kong is essential, as is the need for a robust governance framework covering the standards and processes to safeguard the security, integrity and legality of the data hub's operations. Relevant regulations and policies should be updated or introduced, and collaboration with Mainland China should be strengthened to enable data flow between the two territories and eventually facilitate Hong Kong's development into a data-driven economy.



By establishing Hong Kong as a regional data hub, a wide range of stakeholders, such as those involved in AI, data trading, big data analytics as well as academics participating in cross-border research projects, will benefit from this initiative. Another key beneficiary is consumer business. As the current administration aims to ramp up measures to aid economic recovery and financial market stability, it stands to reason that more digital channels of consumption need to open up to encourage economic growth. While insights from our 2022 Global Consumer Insights Survey China report indicate a growing trend of brand experiences expanding into the metaverse – a segment that represents an opportunity of between USD8tn and USD13tn through to 2030 – it's important to have a conducive digital and regulatory environment to materialise this economic opportunity[8]. Therefore, having an extensive plan that covers data transfer in the metaverse is crucial.

**Figure 5. Essential attributes of a Trusted Data Hub**




Source: PwC's Enhancing Hong Kong's Digital Infrastructure

# 5 Attract, nurture and retain talent in Hong Kong by integrating within the GBA and creating a new Hong Kong package

Over the years, Hong Kong has established itself as the city to be in, with talent from all corners of the world flocking to the city. With recent market headwinds and restrictive measures protecting the city against the COVID-19 pandemic, Hong Kong's status as a talent hub is on shaky ground with talent eyeing other locations. However, Hong Kong with all its unique advantages, can reclaim its position by attracting talent, not only from overseas countries, but also from Mainland China, specifically GBA cities. Encouraging top-tier and more diverse talent to move to and remain in the city, enhancing the overall 'Hong Kong' package is critical.

Hong Kong should take lead in integrating talent policies within the GBA to collectively attract a bigger talent pool from the international market, making the GBA truly an 'international, market-oriented, highly-diversified and most open' talent hub of the future.

## Higher education integration – enhancing collaboration within the GBA to build a diverse talent pool

Many universities and educational institutions in Hong Kong are setting up new campuses across the GBA and are running joint educational programs, research institutions and business schools, etc., with Mainland partners. As such, more young elite students, researchers, scientists and professors are expected to move to the GBA for educational, career or entrepreneurial purposes. With this, there will be more opportunities for cross-border collaboration and joint projects which leverage the talents and facilities of both sides. The Government should develop a strategy to build a talent pool with next generation enjoying the advantages of the GBA's development as higher education hub and can consider the following suggestions to enhance collaboration with other GBA cities.

- Encourage universities and education institutions to account for the industry needs of both Hong Kong and the Mainland while developing their educational programmes and curriculums to familiarise students with the business environment in the GBA and encourage them to stay in the city and region after graduation.
- Enhance the mutual recognition and cross-border applicability of standards for education and training programmes and relevant qualifications, for example, enabling the transfer of credits and the awarding of diplomas across the border.
- Provide more support and incentives for students applying for internships in the GBA while also encouraging companies to provide on-the-job training.
- Establish more cross-border exchange opportunities and competitions for students, teaching staff and supporting staff in the GBA.
- Establish cross-border scholarships, especially in the areas of R&D, Vocational and Professional Education and Training (VPET) and postgraduate education.
- Participate in the operation of entrepreneurship and innovation parks in the GBA to promote the beneficial landscape for start-ups to set-up in Hong Kong and to leverage the city's advantages in securing financing and going for IPO.
- Collaborate with Mainland tax authorities to ensure the tax exemption provision for teachers and researchers under the Mainland China-Hong Kong Double Taxation Arrangement is effectively implemented in order to reduce the cross-border personal tax burden and make tax reporting less cumbersome.

## Developing aligned standards for professional industries in the GBA and encourage mutual recognition of qualifications

Business opportunities and good career prospects attract talent. Innovation policies, especially in modern service industries, are critical in achieving this beneficial environment, and are being introduced and gradually rolled out in several Mainland cities, including the Guangzhou Nansha District, Shenzhen

Qianhai District and Zhuhai Hengqin District. The policies include the mutual recognition of qualifications in certain professions and exam exemptions or relaxed requirements to practice in the Mainland. It is important for the local governments in Hong Kong, Macao and GBA municipalities to work together to expedite the mutual, cross-border recognition of qualifications. Mutual recognition can facilitate the transfer of talent from the Mainland to Hong Kong, and vice versa, without the need to undergo a lengthy accreditation process.

In addition, Hong Kong should initiate and encourage GBA cities to adopt internationally recognised professional standards and those recognised by Hong Kong, as well as recognise the credentials obtained in Hong Kong. This programme can start in pilot cities and in pilot industries, such as construction and engineering, medical services, education services, and legal, finance, accounting and tax services. Talent from all over the world will then find Hong Kong an attractive place for their career and a right choice to enter the Mainland market via the city.

## Upskilling the local workforce to meet new demands of the job market

Based on our study of Hong Kong's workforce, 62% of Hong Kong employees believe they need more professional and continuous training[9]. By establishing training programmes in new and emerging sectors that are vital for the growth of Hong Kong – such as information technology, AI, big data and industrialisation 4.0 – which are open to the workforce, Hong Kong can satisfy the demand of employees by upskilling them and the demand of employers by creating a talented workforce. With this, employees will not only have the opportunity to upskill, but also secure a growth path within their company and local job market, encouraging them to remain in Hong Kong.

Hong Kong can collaborate with other GBA cities to conduct professional training or continuing education programmes that account for regional characteristics in various fields, for example, law, surveying, accounting, inspection and testing. Following the completion of these professional training programmes, graduates should be allowed to practice in specific areas within the GBA. This will strengthen the exchange and co-operation among professionals in the region and allow them to capitalise on a wider range of opportunities.

The Government may also set aside funds to provide training grants to employees for their needs to upskill or acquire new skills in the workplace and to employers who sponsor the training costs for their employees.

## Offer an internationally competitive holistic package attract talent

The Government should develop a more systematic and sustainable talent policy, and conduct regular reviews and adjustments to remain competitive in its ability to attract and retain talent. By benchmarking the city's policies with those of Mainland cities and surrounding Southeast Asian countries while considering the unique geographic and global position of Hong Kong, the city should consider the following measures:

- Introduce friendlier immigration rules and visa application procedures for talent and explore GBA-integrated policies to facilitate higher mobility for talent working across the border.
- Offer awards and expedite the entry approval procedures for admitted talent to refer new incoming talent; and for entrepreneurs to bring in a group of talent.
- Provide low-rent hostels or rental subsidies for incoming talent.
- Offer low-interest rate loans for talent to buy residential property or continue their education.
- Provide one-stop shop services to help talents register their self-developed IP and start their entrepreneurship journey in Hong Kong.
- Work with universities, associations and recruitment agencies to strategically solicit and hire talents from across the globe, especially in the I&T, fintech, biotech, new materials, computer graphics, STEM and ESG-related industries.
- Provide VIP services to meet the hiring needs of regional headquarters in Hong Kong.
- Jointly conduct regular evaluations of the effectiveness of talent policies in Hong Kong and GBA pilot areas.

# 6 Improving policymaking and effectiveness to deliver focused and result-driven outcomes

Improving local governance is a priority on the new administration's policy agenda, and rightfully so. The governing capability can be enhanced through better policymaking and effective execution. As such, we have outlined a number of practical measures that can enhance the effectiveness of policy making and governance.

## Adopt a holistic approach to formulating and implementing policies, coupled with a review process

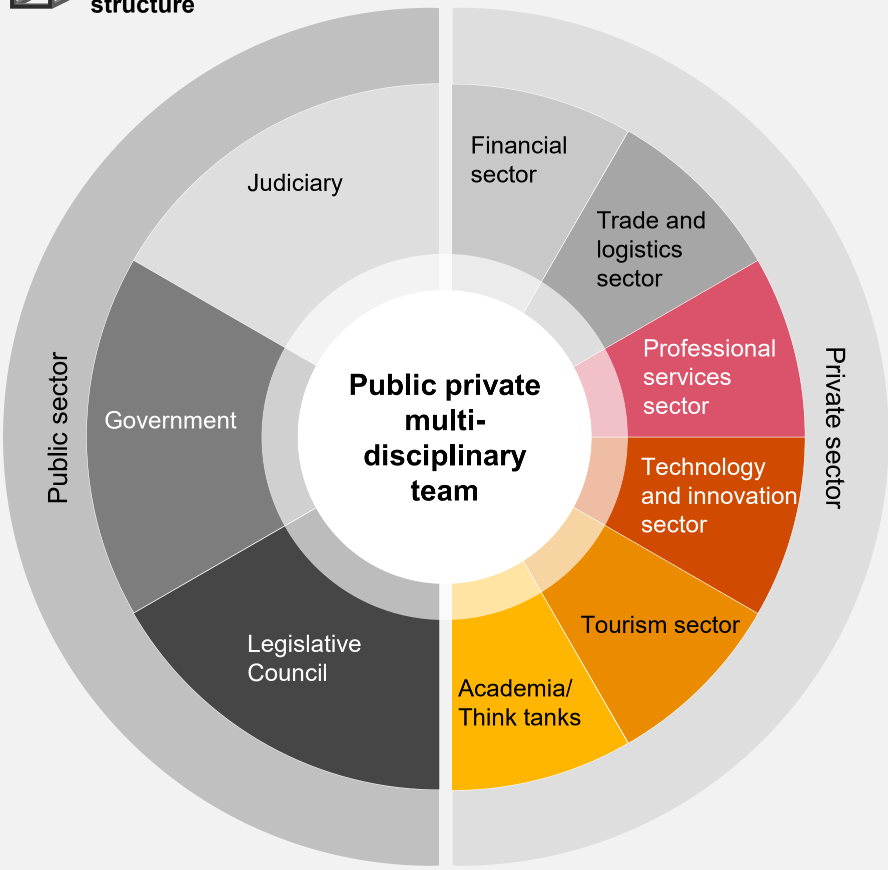
The Government should adopt a holistic, rather than piecemeal, approach to formulating and implementing policies, and set clear roadmaps to meet short-term and long-term goals. Separate performance review processes should be created to assess short-term and long-term initiatives through a tailored set of progressive, result-oriented KPIs. The administration's adoption of KPIs is a good starting point for more effective policy execution.

Key policies, procedures and regulations should also be reviewed regularly to update the administration with latest trends and needs, as well as ensure policy effectiveness and optimisation. They should also be supplemented by impact assessments to ensure that the policy's intended purpose is achieved in a way that does not adversely impact businesses and society as a whole. Where these are found to add costs to businesses, opportunities to streamline them should be considered. With this, businesses and customers can enjoy immediate efficiency savings while the economy grows.

## Form a multi-disciplinary team with members drawn from both the Government and the private sector

To address the increasing complexities of various issues in Hong Kong, such as housing, infrastructure and talent development, the Government can establish a multi-disciplinary team consisting of representatives from different bureaus, departments, academia and the business community. The private sector can provide insights and practical solutions for the government officials to consider. The Government should help this team, from diverse backgrounds, overcome cross-disciplinary distrust and cross-functional conflicts, while giving clear political direction that can be implemented with appropriate, robust, formal or informal co-ordination mechanisms to achieve results. The team should also be empowered to mobilise the necessary resources to implement their initiatives.

**Figure 6. Proposed public private multi-disciplinary team structure**




## Adopt a 'citizen-centric and digital-first' mindset and embrace digital and innovative technologies as the operational backbone to improve policymaking, public administration and public services

The administration should adopt a digital-first mindset in every step of its operation and transformation. Digital should be the operational backbone with technologies used in new and innovative ways for public administration, from setting measurable administrative goals and making data-driven decisions to developing more user-friendly and efficient online services for the public and businesses alike. A purpose-driven AI strategy should also be considered for a better analysis of public service metrics to deliver the right services to the right people at the right time. The synergy of human input and AI can take efficiency and personalisation to a new level.

In summary, our recommendations cover six major areas that align with and support the new administration's governance approach. We believe these measures will help Hong Kong strengthen its overall competitiveness and policy execution as it strives to become an international financial centre, Asia's sustainable finance hub to support ESG transformation, a trusted digital economy hub with a competitive tax system, as well as a vibrant metropolis attracting international talent.

PwC is a champion of Hong Kong and stands alongside the new administration as the city ushers in a new era of growth. We support the increasing level of engagement with various stakeholders and communities, and in light of this, we would be delighted to further discuss and develop the initiatives herein proposed to create a prosperous vision for Hong Kong.

# Contact us

**Raymund Chao**
PwC Asia Pacific and China Chairman
raymund.chao@hk.pwc.com

**Thomas Leung**
Managing Partner – Markets, PwC China
+852 2289 8288
thomas.w.leung@cn.pwc.com

**Albert Wong**
Partner, PwC Hong Kong
+852 2289 1807
albert.wong@hk.pwc.com

**Billy Wong**
Hong Kong Insurance Leader,
PwC Hong Kong
+852 2289 1259
billy.kl.wong@hk.pwc.com

**Brian Choi**
Capital Markets and Accounting
Advisory Services Leader,
PwC China
+852 2289 8800
brian.my.choi@cn.pwc.com

**Charles Lee**
South China (incl. Hong Kong
SAR) Tax Leader, PwC China
+852 2289 8899
charles.lee@cn.pwc.com

**Cindy Ngan**
Partner, PwC Hong Kong
+852 2289 2749
cindy.ky.ngan@hk.pwc.com

**Eddie Wong**
Partner, PwC Hong Kong
+852 2289 2896
eddie.kc.wong@hk.pwc.com

**Florence Yip**
Senior Advisor, PwC Hong Kong
+852 2289 31833
florence.kf.yip@hk.pwc.com

**James Tam**
Banking and Capital Markets
Leader, PwC Hong Kong
+852 2289 2706
james.tam@hk.pwc.com

**Jenny Tsao**
Consumer Markets Tax Leader,
PwC Hong Kong
+852 2289 3617
jenny.np.tsao@hk.pwc.com

**Lit Ping Low**
Partner, PwC Hong Kong
+852 2289 3680
lit.p.low@hk.pwc.com

**Loretta Fong**
GBA and Hong Kong ESG
Services Leader,
PwC Hong Kong
+852 2289 1314
loretta.wh.fong@hk.pwc.com

**Marie-Anne Kong**
Hong Kong Asset and Wealth
Management Leader,
PwC Hong Kong
+852 2289 2707
marie-anne.kong@hk.pwc.com

**Rebecca Wong**
Partner, PwC China
+86 (755) 8261 8267
rebecca.s.wong@cn.pwc.com

**Rex Ho**
Asia Pacific Financial Services
Tax Leader, PwC Hong Kong
+852 2289 3026
rex.ho@hk.pwc.com

**Sammie Leung**
Partner, Climate & Sustainability
Services, PwC Hong Kong
+852 2289 3188
sammie.sw.leung@hk.pwc.com

**Simon Booker**
Partner, PwC Hong Kong
+852 2289 2788
simon.j.booker@hk.pwc.com

**Roy Chan**
Partner, PwC Hong Kong
+852 2289 6756
roy.kf.chan@hk.pwc.com

**William Gee**
Advisor, PwC Hong Kong
+852 2289 2500
william.gee@hk.pwc.com

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