香港工業總會
FHKI

Press Release

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The FHKI's Response to the *Policy Address* Regarding Re-industrialisation, Innovation and Technology Development and the Abolition of MPF Offsetting Mechanism

Chief Executive C Y Leung announced today (Wednesday) his swansong *Policy Address*. Prof Daniel M Cheng, Chairman of the Federation of Hong Kong Industries (FHKI) agrees with the *Policy Address* that Hong Kong should consolidate its advantages in traditional industries, promote industry diversification, drive re-industrialisation and forge ahead with innovation and technology development. In addition, the FHKI believes that the Government should proactively maintain a stable business environment to boost economic growth and employment.

The *Policy Address* proposes to progressively abolish the Mandatory Provident Fund (MPF) offsetting mechanism under which the accrued benefits from employers' contributions can be used to offset the severance payments (SP) or long service payments (LSP) due an employee. It is proposed that the Government will share part of the expenses on severance or long service payments over a transitional period, but the proposed period is only 10 years after the abolition's implementation date and the ratio is set to be adjusted downwards year by year. The FHKI is disappointed with the proposal that the Government has not made any long-term commitment to contribute to the retirement protection system. The FHKI considers that the retirement protection system should be a tripartite commitment and responsibilities of the general public, the Government and the business sector.

The Government will launch a three-month public consultation. Prof Cheng says that since this important issue will have significant impacts on industry and business sectors as well as Hong Kong's economy at large, the Government should conduct in-depth and quantitative studies to obtain objective data, so that all stakeholders can fully gauge the short, medium and long-term effects of the proposal. This will provide a basis for in-depth thinking and rational discussions to facilitate a decision that is acceptable to all stakeholders.

Before comprehensive sets of data are available, the FHKI's initial view is that the Government's proposal will impose heavy financial burden on businesses, particularly SMEs. Despite the proposed transition period and the provision of government subsidies, businesses will eventually have to pay twice for employees' retirement protection, that is, SP/LSP and then MPF contribution. The profit margin for SMEs in Hong Kong is very modest, generally only around two to three per cent. For those SMEs that are operating under very slim margins, they may be forced to dismiss long-serving employees prior to the "cut-off date" to pre-empt future LSP which may be potentially a huge sum. After the "cut-off date", the hiring of temporary workers could also become the norm.

On retirement protection policy, the FHKI welcomes that the *Policy Address* has pointed out that "there is no one-size-fits-all approach" in retirement protection but the needs of various groups of elderly persons should be taken into account. It says, "A flat-rate payment to all elderly persons irrespective of financial means will only dilute the support available to those in need, and the retirement protection system will be difficult to sustain. The FHKI supports the Government's effort to reinforce the existing multi-pillar system including exploring financial products to help the elderly make good use of their assets to increase the stability of their post-retirement investment income.

In aspects of innovation and technology and re-industrialisation, the FHKI welcomes the Government's continuous effort in infrastructural and financial investment over the past four years. Regarding what Mr Leung mentioned in the *Policy Address*, the FHKI particularly agrees that in order to foster innovation and technology, Hong Kong has to consider ways to enhance its competitiveness, including providing tax and financial incentives to attract local and international enterprises.

Prof Cheng mentions that the FHKI has long been advocating for years to Government to make use of tax incentives, such as granting enterprises tripling tax deduction for research and development (R&D) investment, product design and brand promotion to attract them to invest in these high value-added activities. The Government can set enterprises a certain percentage, say 80 per cent of expenditure to be used in local R&D, design and promotion. They can also increase tax deductions or even implement direct tax rebate measures in enterprise registration patents or in the purchase of environmental protection machinery and equipment. "We hope that the Government will seriously consider our suggestions," he continues.

Prof Cheng says for Hong Kong and Shenzhen to join hands to develop the Hong Kong/Shenzhen Innovation and Technology Park is timely as it will provide space for the Hong Kong innovation and technology sector. This will facilitate the progress of re-industrialisation, development of local innovation and technology and upgrading and transformation of Hong Kong industries. The FHKI urges the Government to continue launching pragmatic policies and measures to boost Hong Kong's industrial resources and rebuild its manufacturing capacity.

"Re-industrialisation has the potential to become a new economic growth point for Hong Kong. A sustainable economic development in Hong Kong is not only a prerequisite for social progress, but also provides lots of quality employment opportunities that help the younger generation to ascend their career ladder," Prof Cheng says.

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