

Hong Kong, China

1. In which areas of structural reforms have the most significant progress been made in your economy in the past five years? Please describe in what way you think the progress has been significant? Any structural reform activity can be included here, and does not necessarily need to be restricted to the five LAISR themes.

Among the five themes of LAISR structural reform, HKC has made the most significant progress in regulatory reform. Over the years, the government put in substantial efforts to cut red tape, simplify regulations, eliminate outdated or unnecessary regulatory requirements, and reduce compliance cost and administrative burden to business so as to facilitate their operation and development. HKC has moved up four places from 7th to 3rd in the World Bank's Doing Business 2010 Report. HKC was complimented by the World Bank as one of the "most consistent reformers".

A Business Facilitation Advisory Committee (BFAC) has been established to advise and report the development and implementation of programmes and measures to facilitate business, and review government regulations and procedures impacting on business. With the support of the BFAC, the government has been conducting sector-specific regulatory reviews in the real estate development, retail, food business and entertainment sectors. Through these regulatory reviews, the government has come up with various measures to streamline licensing processes and remove unnecessary regulatory controls. The BFAC has also provided an effective forum for the government to consult the business sector on regulatory proposals and thrash out their implementation details with a view to minimizing the regulatory impact on business.

As a new government regulatory reform initiative, the government has also been taking forward the "Be the Smart Regulator" Programme since early 2007 to further enhance HKC's business environment and competitiveness. The Programme aimed at improving efficiency, transparency and customer-friendliness of our business regulatory and licensing arrangements while safeguarding public interest. Through introduction of new measures such as business liaison groups, business impact assessment, business consultation e-platform, business process re-engineering and wider use of IT and e-Government, good progress has been made to improve the overall licensing environment for doing business in Hong Kong, China particularly the food business and the hospitality business.

Besides regulatory reforms, notable progress has also been made in the area of corporate governance. Since 2003, the government, together with the relevant financial regulators, has implemented a number of corporate governance initiatives. They include –

- rolled out the Securities and Futures Ordinance in 2003, modernising the regulatory regime for listed companies and the securities and futures markets and providing for effective enforcement against market misconduct;
- introduced statutory derivative actions in 2004 to enhance protection of minority shareholders' interests;
- amended the Listing Rules to require listed companies to have a minimum of three independent non-executive directors from 2004;

- upgraded the regulatory system of intermediaries (including sponsors) in initial public offerings;
- promulgated the Code on Corporate Governance Practices for listed corporations in January 2005; and
- established a new independent statutory body, the Financial Reporting Council, to investigate accounting and auditing irregularities of listed companies. The Council came into full operation in 2007.

For corporate governance of SMEs, the recent development in HKC include the issuance of the *Guidelines on Corporate Governance for SMEs in Hong Kong (2nd edition)* (<http://www.hkiod.com/sme-guidelines.html>).

For competition policy, HKC is on the way of putting in place a cross-sector competition law. In order to ensure that our competition policy keeps pace with times and continues both to serve the public interest and to facilitate a business-friendly environment, the Competition Policy Advisory Group (COMPAG) appointed the Competition Policy Review Committee (CPRC) in 2005 to review and to make recommendations on the future direction for competition policy in Hong Kong, China. The CPRC recommended the government to introduce a cross-sector competition law to be enforced by an independent Competition Commission. Since 2006, two rounds of extensive public consultation about the direction and detailed proposals for the competition law have been launched. On 14 July 2010, the government introduced a draft law (the Competition Bill), which takes into account the circumstances of HKC, into the Legislative Council for scrutiny.

2. Describe examples of successful reforms and lessons learned in your economy in implementing structural reforms in the five LAISR areas. Please indicate relevant websites or other reference material, preferably those written in English.

Regarding corporate governance, the launch of the Code on Corporate Governance Practices (Code) and the Corporate Governance Report in 2005 represented a significant move towards adoption of international benchmarks of corporate governance, best practice and disclosure. The Code sets out the Hong Kong Exchanges and Clearing Limited (HKEx)'s views on the principles of good corporate governance and two levels of recommendations, namely Code Provisions and Recommended Best Practices. The Code required issuers to include a Corporate Governance Report in their annual reports containing prescribed information on their corporate governance practices. In the review conducted by HKEx on corporate governance practices disclosures in listed companies' annual reports for 2005, 2006 and 2007, a high level of compliance was noted in general. (for details of the 2007 review, please refer to the following link: http://www.hkexnews.hk/reports/corpgovpract/rpt_cgpd.htm)

HKEx is currently reviewing whether to update the Code, and is also considering how to introduce a Corporate Social Responsibility (CSR) Code for Hong Kong listed companies. It is aiming to publish consultation papers on these proposals by the end of 2010.

On the side of regulatory reform, significant progress has been made through the government and business partnership model. Some notable achievements include:

- the replacement of multiple licensing requirements for different types of ready-to-eat food with a composite food shop licence that will provide more flexibility to the food retail trade and reduce the processing time;
- the shortening of application time for cinema licences by 50 percent;
- the decrease in registration time for new drugs by 35 percent;
- the reduction in processing time of straight-forward liquor licence applications by 50 percent;
- the simplification of lease conditions and streamlining of lease modification procedures to facilitate earlier commencement of real estate development and reduce the cost of development; and
- the relaxation of food room requirements for licensed restaurants and factory canteens to keep up with the changes in the operation of food business.

Under the “Be the Smart Regulator” programme, we have enhanced business licensing efficiency and communication with business and devised measures to simplify regulations. For example:

- Nine Business Liaison Groups (BLGs) for major business sectors to facilitate communication and resolution of regulatory and licensing issues between the business sectors and government bureaux/departments have been established. So far, over 400 issues raised at the BLG meetings have been clarified or resolved.
- A Business Impact Assessment (BIA) framework has been developed to help bureaux and departments assess the implications of their regulatory proposals and explore ways to minimise the regulatory impact on business. Through conducting BIAs, unreasonable regulatory or licensing requirements can be avoided and the compliance costs and administrative burden to business can be minimised.
- A business consultation e-platform (<http://www.gov.hk/en/theme/bf/consultation/calendar.htm>) has been established under the GovHK portal to provide an additional channel for the business community to access to relevant business consultation information on new regulations, administrative measures and procedures that would impact on business and to provide their comments on the proposals direct to the government bureaux/departments concerned.
- The government has set up application tracking systems in three licensing authorities to facilitate the applicants in tracking their application status and provide useful management information for process reviews. The government will continue to improve regulatory efficiency through wider use of IT and e-Government.
- The government has stepped up efforts to promote business facilitation and customer-centric culture within the civil service.
- Details of the work of the BFAC and its Task Force and the “Be the Smart Regulator” Programme can be accessed through the following links –
<http://www.gov.hk/en/business/supportenterprises/bf/advisory/index.htm>
<http://www.gov.hk/en/theme/bf/smart/>

3. What in your economy's experience are the keys to the success of reform? (e.g. leadership, institutional framework, communication strategy, consultation process) What are the factors, if any, that impeded reform? What lessons can we learn from your experience?

Political will, high level involvement and effective communication with the business sectors are the major factors for the success of regulatory reform. Our business facilitation and regulatory review programmes under the leadership of the Financial Secretary helps to coordinate the business facilitation efforts of all government bureaux and departments. Our Chief Executive has also given his support to our business facilitation work. In particular, he steers the "Be the Smart Regulator" Programme. The government has proactively reached out and worked in partnership with the business community in resolving regulatory and licensing issues through the BFAC, its Task Forces and the BLGs.

For policy with wider impact on the society as a whole, like competition policy, public engagement and public consensus for reform are essential for its successful implementation. The government launched two public consultations in 2006 and 2008 with the objective of gauging the views of the community. The government conducted briefings for the Legislative Council Panel on Economic Development, political parties, chambers of commerce and other interested parties, and took part in public forums and programmes organised by the electronic media to explain the proposed competition law framework and to listen to the views of stakeholders.

On the other hand, the process of regulatory and legislative changes is complex and time-consuming. Building public consensus for reform is essential for its successful implementation. The general public tends to be less receptive to legislative changes that have an impact on their level of economic well-being and issues related to public health and safety. The government also has to either wait for a right climate to implement changes or proactively engage the public to formulate the reform programmes.

4. What are the impacts, both positive and negative, of the reform on the economy and the flow of trade and investment? Please provide data or statistics where available.

The introduction of a cross-sector competition law will establish a statutory framework for regulating anti-competitive conduct, with the objective of promoting free and healthy competition to the benefit of the economy and consumers, and enhance HKC's overall economic efficiency. Experience from other jurisdictions suggests that small businesses would not face a significant increase in compliance costs, given that they would unlikely be targeted by competition regulation. Large businesses might look to engage additional resources to help ensure compliance, especially at the initial stage. Multi-nationals, which already have to comply with competition regulatory regime elsewhere, should be able to adapt to the new legal regime. For the economy as a whole, any additional cost to businesses should be more than offset by the longer-term benefits of a more effective and credible competition regime.

As for regulatory reforms, improvement in licensing efficiency would also save time and money, and facilitate the flow of trade and investment.

The strengthening of corporate governance would, on the other hand, have underpinned Hong Kong's position as an international financial centre. Such impact is demonstrated by the recognition of HKC as a regional leader in corporate governance by Asian Corporate

Governance Association (Hong Kong ranked first in the 2007 Survey of Corporate Governance in Asia conducted by the Association in conjunction with the CLSA).

5. In what ways can APEC better promote structural reform in the region? What would be some possible next steps beyond 2010 based on the achievement of the LAISR process?

Given the diversity of growth among APEC economies, there is no single correct strategy for all the economies concerned. Member economies are encouraged to work together and share experience with each other, which facilitates each economy to develop its policy framework.

It is also proposed to further explore collaboration opportunities with the World Bank and deploy the World Bank's Doing Business indicators to further assess the impact of regulatory reforms.