CONTENT

21st April, 2012

How to Transform Hong Kong into a World City

HK'S DEVELOPMENTAL BOTTLENECKS

HK$100 Billion Investments

Hong Kong the World City

HK's Developmental Bottlenecks	HK$100 Billion Investments	Hong Kong the World City
SHORTAGE OF LIVING SPACE	Develop **Tung Chung** into the most desirable (**green** & **high growth**) **New Town** in the world	Greenest World City
SHORTAGE OF COMMERCIAL SPACE	Build "**Gateway to the World**", an **11m sf** service complex at Hong Kong International Airport	No. 1 IFC - Vibrant Economy
	Build "**Sub-Culture**", a **2m sf** underground mall at the 8m sf West Kowloon Cultural District	Cultural & Value Exporter
IMPENDING LABOUR SHORTAGE & RETIREMENT BOOM	Add **10,000** publicly-subsidised **University Places**	Service Paradise
	Expand **VTC & ERB Retraining Capacity** to accommodate **40,000** more trainees per year	Prosperity for All
	Attract **200,000 Global Talents** over the next 10-15 years	Compassionate & Harmonious Society
AGEING POPULATION & MEDICAL CRISIS	Hire **4,000 New Doctors** over the next 10-15 years	
	Build **New Hospitals** to add **7,000 New Beds** to the medical system	
POOR AIR QUALITY	Replace **4,000 Euro-I & II old Buses** by cleaner new models	
CULTURAL DESERT	Kick-start construction of **West Kowloon Cultural District** and Open **25%** of the area by 2018	

HKGolden 50

How to Invest HK$100bn for Our Future

Hong Kong is a small city with big energy, colours and imagination. Our short history is marked by dramatic disruptions and challenges that could have easily sidelined Hong Kong. What has enabled Hong Kong to defy that fate and bounce back stronger is the abundance of good sense, dare, hard work and the big heart of our people. There were moments of weakness but there was never danger of a "death of Hong Kong".

When hubris has turned into humility 15 years after the return to motherland, we are ready to take our first step forward, to writing the first page of what history will describe as Hong Kong's Golden 50 Years. Success is all the sweeter and more meaningful after painful struggle, wracking of brains, self-doubt, toil and sweat, agony, debate and introspection transform into a community consensus to reach up, invest and re-invent Hong Kong into a World City alongside London and New York.

This is not a stating of vision but reporting of facts and trends that were conclusions from our previous two reports. In stepping up to this new future, we should not repeat the "tinkering" approach of the past, adding a bit here, taking a bit off there. The starting point should be, after establishing what The World City of Hong Kong requires in functionality and in spirit, we will proceed to procure using the many policy tools at hand, including fiscal incentives and immigration measures or to build them ourselves, removing bottlenecks in our current unhappy system along the way.

The designing of the end-product to this transformation, the World City of Hong Kong, must fully reflect the value system and soaring aspirations of our community which often requires best-in-class performance, and the potential of our economy. And all the three pre-conditions for this take-off are already present and in abundance, except the heart to make that change: (1) the demand / market – the need for commercial and community spaces are clearly present, as reflected by high rents and prices (2) capital – there is abundant cash in private and public sectors to finance the upgrade in capacity and capabilities (3) value system – the imperatives for green living and a compassionate and harmonious society are clearly understood. As the material aspects of transformation are already present, the change can be made in a proverbial heartbeat, as and when our community delivers the greenlight by forming the consensus to move forward.

The diagram on the previous spread outlines this process and the table below summarises the investments we must start to make.

Proposed Investment

HK$ bn	HK$ bn	Proposed Investment
22		Destination Commercial Complex "Gateway to the World" (GTTW) • 4m sf mall, 10,000 car park slots, 6-8 hotels with GFA 3m sf (3,000 rooms) & 1m sf office for credibility industries & NGOs; Community New Town "Flying Dragon" for 700,000 people in 20-30 years
10		WKCD Underground Mall "Sub-Culture" • 2m sf shopping space
	32	**Sub-total: Hardware**
6		Replace all old buses (70% of bus fleet) by incentivising bus companies to reduce roadside emission by 40%
3		Expanding current retraining facilities by 20% to help alleviate annual 0.4-0.8% drop in workforce
0		Adopt accretive population policy to attract talents and entrepreneurs that can improve Hong Kong business connectivity with China and the world - these will create jobs and income opportunities to Hong Kong. Target some 200,000 overseas and mainland talents over 10-15 years
40		Build more hospitals to expand capacity of public medical system by one-third
15		Add 10,000 (67%) university places to seed quality workforce we will need and to export values of this World City
4		Adequate funding to open 25% of WKCD by 2018 and supporting local art and culture institutions
	68	**Sub-total: Software**
100	**100**	

Source: Government Budget 2011/12, HKGolden50

1: Summary: Hong Kong has a destiny to fulfil – to become a World City. It is high time our whole community awoke our "can-do" spirit and started building that future by investing our private and public capital from today

(1) Opportunities in the "Golden 5 Years" of 2010-14 will likely "Gift" us more than HK$350bn in Fiscal Surpluses[1]

"How to Invest HK$100bn for Our Future" aims to provide concrete proposals on what investments our community and government should make in order to direct Hong Kong from the decade of 2000-2009 which was "lost" to anaemic growth, self-doubt, own-goals, missed-opportunities and self-pity back to its "natural" destiny of becoming a World City alongside London and New York City[2].

Our second report has already outlined the essential initiatives that Hong Kong urgently needs to take, and now this report transforms those initiatives into actionable public investments and policies to enhance the capacity and capabilities of our world-class service sector which provides over 90% of our jobs and incomes.

We have clear and present need for a bigger, better and more compassionate Hong Kong

Inflow of plentiful opportunities, talents and capital in the immediate few years have blessed us with windfall fiscal surpluses that set records - more than enough to make good deficiencies and mistakes of the past decade and re-equip Hong Kong for a far brighter future

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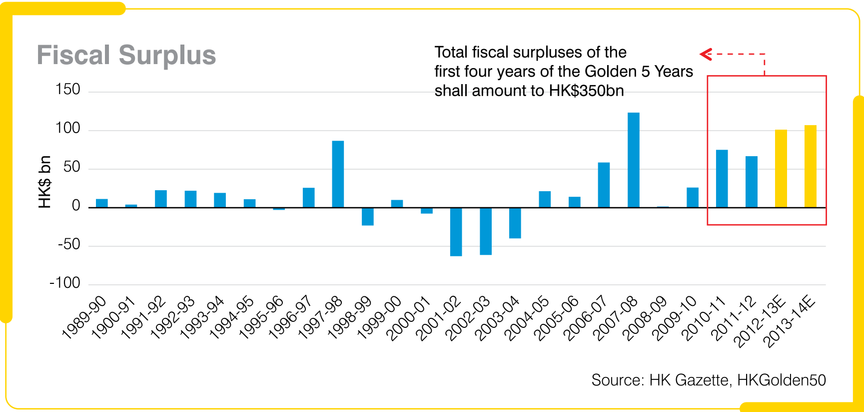
1 Please refer to our first report, "Hong Kong - The Golden 5 Years (2010-2014) and the Decline that may follow...?", Sep 2011
2 Please refer to our second report, "How to become a World City: Lessons from London", P. 8-84, Dec 2011

HKGolden50 is an independent, non-political and non-profit research organization whose mission is to illustrate through hard facts and figures the significant tasks the community and the government must undertake in order to convert the tremendous inflows of business opportunities, talents and capital during 2010 to 2014, “the Golden 5 Years” as we term it, into foundation for a more prosperous, vibrant and compassionate society for the next generation. HKGolden50 has two core beliefs: (1) the best 50 years of Hong Kong are ahead of us, and not behind us (2) taking over the baton to make Hong Kong a better place is the responsibility of the post-80’s, our best-educated generation.



The report starts with illustrating our fiscal health. We estimate that following the large surpluses already recorded during the previous two fiscal years (2010/11 and 2011/12), Hong Kong will continue to enjoy remarkable surpluses of more than HK$100bn, or 4-5% of the territory’s GDP, in the coming two fiscal years (2012/13 and 2013/14). The recurrence of significant fiscal surpluses is a direct product of strong structural demand for Hong Kong services during the Golden 5 Years and these provide the wherewithal to support our proposal to invest HK$100bn in Hong Kong.

Public capital is abundant for Hong Kong – amounting to 4-5% of GDP each year and an estimated HK$350bn in the first four years of the Golden 5 Years

This sum is transformative in scale, enough to make good a significant part of our previous underinvestment in hard and soft infrastructure of this service capital of the world. For instance, HK$100bn can fund the construction of more than ten Hong Kong University of Science and Technology (HKUST). Yet this sum represents only slightly over one year's expected fiscal surplus or 28% of our forecast fiscal surpluses over the first four of the Golden 5 Years totalling HK$350bn.

HK$100bn public sector investment plan will transform Hong Kong but is highly affordable as it represents only 28% of forecast fiscal surpluses (HK$350bn) over the first four of the Golden 5 Years

Furthermore, the HK$350bn surplus will come on top of the HK$600bn already held in reserves that academics have argued to be deployable by the government without impairing the health of our currency peg system. While we must never be complacent about our privileged fiscal fortunes, and indeed the ill winds from the European debt crisis may blow over our shores and sap our economic vigour, we are nevertheless well fortified to exploit any softness in prices of building materials and labour market to execute our investment plans. This will not only safeguard our jobs but also enable us to lock in building costs at cyclical low levels.

The HK$350bn forecast surplus will add to the HK$600bn deployable fiscal reserves. Total thus accumulated of HK$950bn amounts to some 50% of GDP and three years of public expenditure – more than enough to fund new infrastructure for Hong Kong and (1) insulate our jobs against any threats from crises overseas while (2) enabling us to bargain hunt for low building costs

For a fuller context of what size of a shock our forecast cumulated fiscal reserve of HK$950bn can buffer our economy against, we can refer to the HK$165bn total fiscal deficit from 2001/02 to 2003/04. This was the biggest deficit period in our history and represents the biggest stress-test to our system, brought on by a collapse in home prices (70% down from 1997 peak), an over-leveraged private sector, discontent over a number of public policies, deflation of 6%, unemployment at 8% and SARS. It is absolutely necessary for us to prepare for rainy days, but we should question the need to stock up for a biblical flood.

"Stress test", anyone? Forecast cumulated surplus of HK$950bn is almost six times the cumulated deficits of 2001/04, the most stressed period of our recent financial history

We highlighted in our first report[3] why the good fortunes during the Golden 5 Years may not run any longer. Though demand for services in Hong Kong should be robust over the five years, the growth in our ability to keep the quality of our services at high levels will be choked off by the twin shortages of hardware (hotels, shopping centres, offices, housing, hospitals, universities etc) and software (the expected retirement of some 300,000 workers, or over 8% of total, from our workforce in the coming decade).

There may not be a Golden 6th Year as acute shortage of most types of property and workers will send inflation and costs beyond the acceptance of Hong Kong's customers, our citizens and businesses

The unprecedented strength of demand in the first two years of the Golden 5 Years (2010 and 2011) has already completely removed any slack in our service capacity so much so that rentals and wages stood at or very near their all-time-highs at the end of 2011, triggering core inflation of 6.4% as compared to the average CPI of 0% in the first 14 years of the handover. We expect inflation to stay in the 5-8% range for the remainder of these five years which will undermine our cost competitiveness and chase customers away from Hong Kong, potentially bringing about a "growth recession" beyond this period.

3 Please refer to our first report, "Hong Kong - The Golden 5 Years (2010-2014) and the Decline that may follow...?", P.8-11, Sep 2011

(2) Four important Considerations behind our Call to Invest HK$100bn and Build a Bigger, Better and more Compassionate Hong Kong:

Before delving into the details of our forecast fiscal windfall, it is important to appreciate the context of the Hong Kong economy in the Golden 5 Years which forms the basis of our call to tackle our two growth bottlenecks.

(2.1) A "Demand Surplus" Hong Kong stands out in a sickly "Demand Deficit" World in which Governments are Willing but financially Unable to help; but is an Able but Unwilling Hong Kong Community better off?

Debt/deflation spiral has incapacitated most western government's wish to create more demand and jobs

While much of the western world is struggling to create demand and employment growth, most governments have found it uphill struggle to help in the healing process against a mountain of private and public sector debts and an de-leveraging/asset deflation spiral. Extreme measure after extreme measures have been administered but there does not seem to be any end to QE's and similar stimulative programmes.

Uniquely, Hong Kong should be snug as a bug but instead it feels stuck in a hole

On the diametrically opposite end of the misery scale sits fortunate Hong Kong which uniquely faces a "demand surplus" problem. In a normal situation, this is a "happy" problem as excess demand means more profits to be made which in turn incentivise the investment in more supply capacity to the point that this excess demand is met. Yet, this problem is not a happy one in the case of Hong Kong as the limiting factors to meeting excess demand are more land and labour – both of these cannot be "created" by the private sector. However, our government does hold sway in both. Unlike most western governments that have their fiscal hands tied, ours is brimming with surpluses and more than able to create needed hardware and productive workers to hold down the incoming opportunities for our current and next generations. It is high time Hong Kong summonsed our legendary "can-do" spirit to re-invigorate our entire society and take our city to a much higher level.

Abundant fiscal surpluses in the Golden 5 Years to fund "remedial & essential" investments to secure Hong Kong's future as a World City

We believe it is the responsibility of both the private and the public sectors to face up to the potential to our community and make up for the underinvestment in our city over the past decade. We already have the means, all we need is the will. A surplus of HK$75bn was registered in the 2010/11, marking the start of the Golden 5 Years, which has continued to bless us with another HK$67bn recorded last fiscal year (2011/12). Taking the forecast surpluses for the next two fiscal years together with the previous two, the first four year of the Golden 5 Years should see cumulated surplus of HK$350bn and set new record for serial surpluses in Hong Kong:

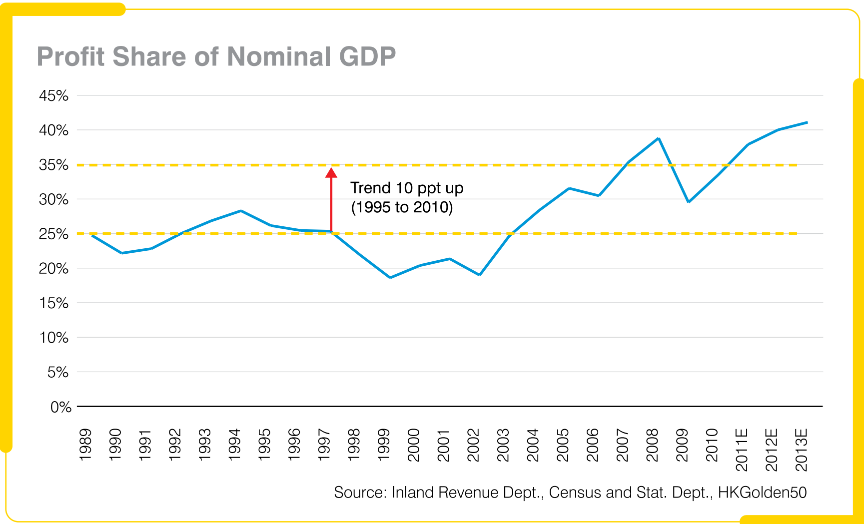
Fiscal Surpluses and Projections

(HK$ bn)	2010/11	2011/12	2012/13E	2013/14E	First 4 years of the Golden 5 Years
Profits Tax	93	119	133	148	493
Salaries Tax	47	56	63	68	234
Stamp Duties	51	43	51	57	202
Investment and others	125	132	162	186	605
Revenue before land	316	350	409	459	1,534
Expenditure	(303)	(366)	(398)	(442)	(1,509)
Surplus/(Deficit) before land	13	(16)	11	17	25
Land Premium	62	83	90	90	325
Surplus	**75**	**67**	**101**	**107**	**350**
Nominal GDP	1,742	1,894	2,099	2,338	8,074
Surplus % of GDP	**4.3%**	**3.5%**	**4.8%**	**4.6%**	**4.3%**

Source: Government Budget, HKGolden50

We expect profits to increase at a double-digit rate and above the rate of GDP growth. This reflects the strength of business opportunities in the Golden 5 Years. In 2007/08, profit share of nominal GDP reached 38% which is 10 percentage points higher than the previous peak over 1994/97. The ratio dipped to c.30% after the 2008 global financial turmoil, but quickly returned to the higher trend level of 34-38% after just one year. We expect this ratio to continue climbing as demand conditions remain robust which will drive up profit tax revenues in the next few years until surging business costs of rents and wages have started to scare customers away, causing revenues to slow and margins to erode towards 2015.

Strong influx of business opportunities likely to re-set records for profit and salary taxes



That said, one man's poison is another man's meat – while a business moans about exorbitant rents and wages, the landlord books obscene revenue and the workers pocket fatter pay cheques – contributing higher profit and salary taxes to the Inland Revenue just the same. Hence, insofar as Hong Kong receives more payment for our services, the taxman will always take a higher toll even though the taxpayer may vary along the value-adding chain.

As documented in the latest Hudson Report which studies the employment expectations of firms, hiring intentions of the economy have remained robust despite a crippled external goods trading sector, with the bright spots being consumer goods, IT, manufacturing/industrial and media – all having 20%+ net increase in hirings and next to zero intentions to retrench in the second quarter of 2012. When people employed are standing at an all-time-high, companies will have to pay up to retain talents in 2012.

Contrary to general belief, hiring intentions and by implication, expectations to make more profit with additional staffing, have remained robust despite more troubles on the western front

Permanent Hiring Expectations 2012Q2

	Increase	Steady	Decrease	Net Increase
Banking and Financial Services	38%	52%	10%	28%
Consumer	48%	51%	1%	47%
IT & T	49%	48%	3%	46%
Manufacturing & Industrial	44%	55%	1%	43%
Media/PR/Advertising	26%	74%	0%	26%
All Industries	41%	53%	6%	35%

Source: Hudson Report

Stamp duties for 2011/12 have fallen to HK$43bn. Reflecting lower property transactions after the imposition of tougher stamp duty rules and tighter mortgage criteria the previous year. “Investment and other income” of the government was affected by volatile capital markets and has therefore only managed to register modest increase compared with 2010/11. Looking to 2012/13, we expect a more favourable market consequent to a strong job market and prospect of a prolonged period of negative real interest rates and a more favourable domestic investment environment to benefit both stamp duties and investment income to benefit both stamp duties and investment income and this source of income should increase to HK$162bn this year.

The highest land premium in the history is recorded in 2011/12

Land premium has contributed HK$83bn to the coffers in 2011/12. We expect to see higher levels of land premium in the coming fiscal year as developers may well react to surprisingly strong space demand and re-stock buildable sites after achieving healthy sales in 2011.

On the expenditure side, total government expenditure was HK$366bn in 2011/12, up 21% yoy. We project this to grow 9% to HK$398bn in 2012/13. Taking expenditure against revenues, fiscal surpluses of HK$67bn resulted last year and HK$101bn should arise for 2012/13, representing 3.5% and 4.8% of GDP in their respective years

(2.2) Retail/tourism - the First in a Stream of Opportunities that will arrive in Hong Kong when "One country, one market"[4] unfurls in the Golden 5 Years and which has clearly Demonstrated its potency in Creating job/income/fiscal receipts

When man-made barriers in the mainland to the natural flow of customers, talents and capital are lowered, Hong Kong services will enjoy a long period of structural growth

Retail and hospitality sectors provide some 30% of our jobs. These sectors are critical to the new economy Hong Kong is building in this coming decade for two reasons.

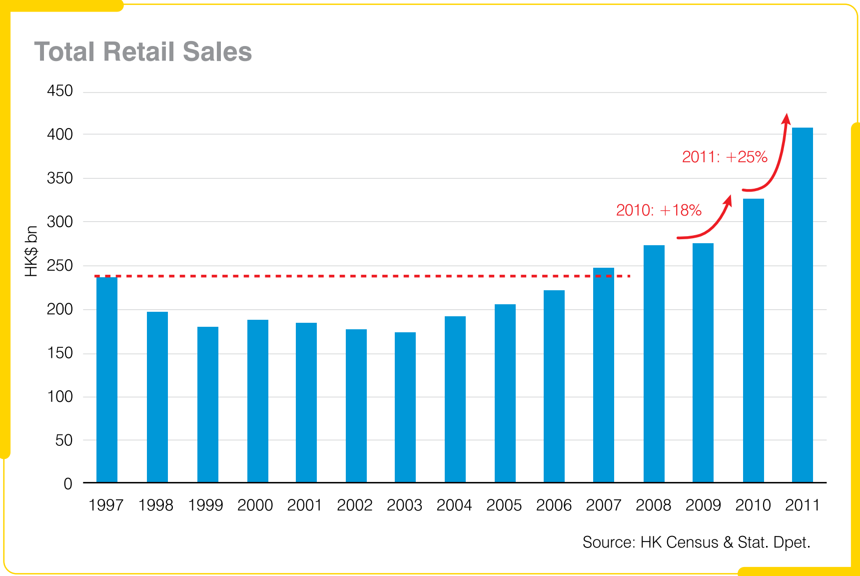
Firstly, they are amongst the first in a stream of service industries in Hong Kong to benefit from the growing opportunities of "One country, one market" when man-made administrative barriers that have hindered the voluntary movement of capital, talents and customers to come to Hong Kong are gradually lowered.

This process will create a rapid rise in customers across a range of industries ("J-Curves"[5], as we described this phenomenon in our first report), quickly straining capacity and clipping our ability to serve. The timing of the arrival of such demand will differ from industry to industry. Retail and hotel sectors are at the forefront of this structural increase in demand for Hong Kong services.

4 Please refer to our first report, "Hong Kong - The Golden 5 Years (2010-2014) and the Decline that may follow...?", P.8-12, Sep 2011
5 Please refer to our first report, "Hong Kong - The Golden 5 Years (2010-2014) and the Decline that may follow...?", P.16-21, Sep 2011

Retail takes the lion's share of our family purse, thus forms one of the biggest sectors in our economy. This sector took a hit from the Asian financial crisis in 1998 which also brought on a collapse in our home prices. It was not until 2007 that retail spending recaptured its 1997 level. There was some growth in 2008 and 2009 but in 2010, retail took off, rising 18% and marking the start of the Golden 5 Years. The next year, when global demand sagged which brought our export sector down with it and when the Hang Seng Index fell through the 20% correction territory, officially marking a "bear market" for out stocks, a defying retail sector accelerated, and posted a 25% rise. It does seem, therefore, that a strong structural uptrend in demand is happening in Hong Kong which has more than offset global cyclical recessive factors.

Retail sales defied weakness in exports and a bear market in stocks to surge a further 25% in 2011, marking a c.50% growth in just two years – evidencing the arrival of the Golden 5 Years



We have argued that the most important economic policy for Hong Kong for the next decade should not be the dollar-peg, Rmb policy or global financial performance, but rather, how to promote the freedom for mainland customers, talents and capital to choose and use Hong Kong services. The irony is that while Hong Kong enjoys almost complete porosity of two-way movement in these categories with most of our trading partners, it is with our motherland that two-way porosity, in particular, the inflow to Hong Kong, that has been obstructed for well over a decade.

With familiarity, comes fondness. The more times a person visits Hong Kong the more knowledge the person will know about our city. Some may acquire a liking to our system of values, efficiency, openness, soft infrastructure etc and may want to work or live in Hong Kong. Hence, a jump in visitor numbers presages inflow of talents and residents and at some stage perhaps, the setting up of businesses in Hong Kong for the efficiency of Hong Kong to conduct "head office" functions including treasury operations.

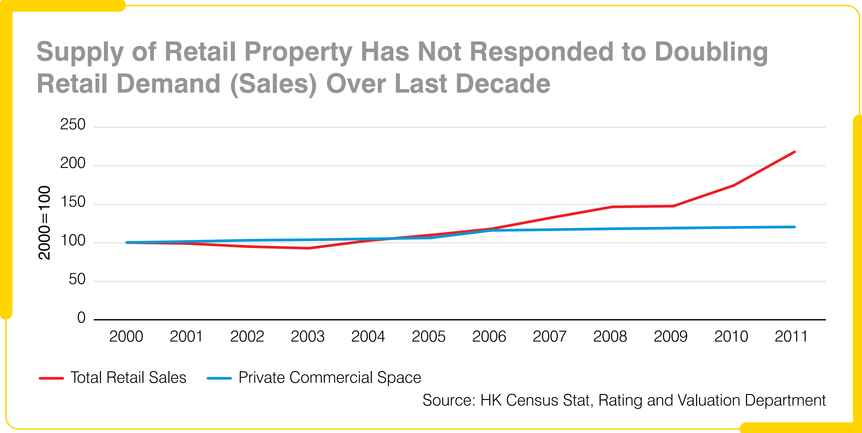
Some visitors may get to know and like Hong Kong, and may stay or even bring their businesses to be managed from this city

Thus, demand for retail spaces should, in time, lead to demand in office/hospitals and housing spaces. It is logical that, with the structural uplift of demand for our services, starting from hotels/retail, and migrating to financial/professional/administrative and educational/medical offerings, more opportunities for income growth will open to our people. The proviso is that more property to cater for this inflow, across retail/hotel/office and hospitals/universities/schools etc have to be produced in order to house these opportunities.

As a sequence of demand types arrive at Hong Kong, a sequence of worker and property shortages will appear, starting with hotels and retail

We have argued that in the past decade or so, our competitors north and south of Hong Kong may have taken over 300,000 finance and business service jobs (half the current size of this sector) from us as we simply have not produced enough hardware and skilled talents to capture these opportunities. Just as before, opportunities wait for no one – if we want our post-80's generation to have a wide and varied jobs platform to parade their skills, we must seize these few years to build it.

We may have already lost over 300,000 high-pay, high-skilled jobs (half the current size of this sector) to competitors in the past decade, and will lose more if we do nothing to lock these opportunities down today



"Too much of a good thing" can be a very good thing if we build more shopping centres and hotels; otherwise (1) surging retail rents will pass on to local customers, entrenching inflation while (2) visitors will be appalled by long lines, packed shops and tiny but expensive hotel rooms and stop coming to Hong Kong

The way Hong Kong has reacted to the surge in demand for retail and hospitality services is worrying – in response to the 48% jump in retail sales over 2010 and 2011, for instance, the increase in retail spaces was only 1%, and with no noticeable pick up in supply in the pipeline. Similar situation is observed in the hotel sector. While government should shoulder some of the blame for not providing enough land for such projects or not inducing their production through faster premium negotiations and redevelopment approvals, it must take the bulk of the blame for putting society's priorities wrong.

Faced with a rising wall of demand, government and developers have somehow failed to react with new supply

For instance, an objective measure of relative shortages of types of property is the extent to which rents have risen and independently produced data show that hotel rates rose some 40% in 2011, retail spaces 20-35%, office spaces around 20% and residential homes 6%. Indeed, measuring such rises from the previous peak of the property market, office and retail rents are more than twice their levels in 1997 while hotel rates have risen even more than that, with residential rents barely reaching their old highs. Yet, the October 2011 Policy Address did not mention the need for more hotels and retail spaces. There was some focus on producing more office in Kowloon East but these initiatives will not yield new spaces in another five to eight years and should have been undertaken a few years ago to allow for the delivery lag but the bulk of the policy limelight was put on producing Home Ownership Scheme units.

The government and developers must get the priorities right – more hotels, shopping centres, offices, homes, in that order please?

When occupancy of all types of commercial spaces is at or near all-time-high and supply is near all-time-low, our community should equate lack of new spaces with loss of job/income opportunities. When there are no new hotels, there is no point for graduating in hotel management. When there are no new office spaces for top quality asset management firms, there is no prospect for an MBA finance student in considering a career in fund management. When there are no new hospitals, there are no spaces for doctors and nurses to practise their skills.

Efforts to produce our best-educated generation are in vain, when graduates of hotel management cannot find a hotel to manage, fund managers cannot find an office to work from and doctors fail to find new hospitals to join

Perhaps epitomising the underinvestment in hardware, Hong Kong built no new hospitals in the past ten years when eight were completed a decade before that. Does it make sense that while we had 11% more people and we had older people compared with the previous decade, our hospital needs should be less?

Secondly, the retail and hospitality industry provides a lot of jobs for low- and semi-skilled workers.

This is especially important for us because we have received some 700,000 migrants under the 150-a-day quota from the mainland who added 11% to our population at handover. Only 8% of them had received post-secondary education and significantly below the average level for Hong Kong. Of late there has been a lot of public discussion about income inequality (Gini Coefficient), social mobility and the plight of the 1m people (14% of our population) below the poverty line.

In our second report we pointed out that the income disparity that we face has a successful side with Hong Kong managing to increase the number of people in high income brackets significantly over the past decade. What makes our inequality unusual in a global context, is that few countries, if any, would at the same time admit immigration with significantly less skill. It does not require much imagination to link the 700,000 new immigrants with our 1m poor people. Adding to the rich and the poor at the same time does not make for a pretty Gini Coefficient.

Perhaps unique in the world, Hong Kong has added to the rich and the poor at the same time – thus inducing our own inequality discontent

We also argued in our second report that there is no point in discussing income equalisation since our nominal per capita income had only moved at an adjusted rate of around 1% per annum for the past decade, despite our having the fortune of having a fast-growing (10% per annum) China as parent. Our "pie" so to speak has hardly grown so, if a person wants a bigger share, it will have to be taken from another person and society will not be happier for it. Priority for our community therefore, is to shun this futile zero-sum game and be proactive in seizing the opportunities we can all enjoy as "One country, one market" unfurls further, and grow our service income pie and create real growth in incomes for ourselves.

Income-equalisation debate is futile as someone's gain is another's loss - our nominal per capital income hardly grew in the past ten years, making it a zero-sum pie to divide; a practical way to help the poor is to grow the Hong Kong service income pie – not difficult when "One country, one market" is happening

We have only one class of Hong Kong citizens and we must do our utmost and take affirmative action to help the low-skilled. While office work generally requires computer literacy, most retail and hotel jobs have much lower demands. Thus, the current boom in tourism trade offers a golden opportunity for us to add significantly to hotels and shopping spaces and create tens of thousands of jobs and income opportunities for the new members of our society.

We have only one class of citizenship in Hong Kong and we must empower our new members with the opportunities to better themselves – retail and hotel sector is one golden opportunity

Having taken into consideration the following, we propose two complementing sets of commercial and community hardware for immediate implementation:

(1) acute undersupply situation in retail, hotel, hospital and office spaces and the lack of any meaningful relief in the next six to eight years

(2) the structural nature of demand growth in this sector (discussed under the concept "One-Country, One-Market" in our previous reports)

16+ reasons to invest HK$22bn to build a 11m sf multi-use commercial complex to showcase our services at the airport for first-phase completion in 2016, in time for the opening of the Hong Kong-Zhuhai-Macau Bridge the same year which will bring us many visitors. We will build the most environmentally friendly new town in the world where Tung Chung is, enabling its future residents to leave behind zero carbon footprint when they go to work, a stone's throw away

(3) the potency of these opportunities in helping our new citizens by (a) creating new jobs and (b) retaining existing jobs within Hong Kong. We estimate 162,000 jobs can arise in the new Tung Chung which will comprise an 11m sf commercial complex (temporarily called "Gateway to the World" or "GTTW" for short) to offer the best services of Hong Kong (medical, retail, finance, NGO, education, credibility services, art and culture, galleries, hotels, offices etc) at the point of arrival of our customers either by air or by land. This will mark a first in the world whereby customers are served "at the gate", dispensing with the trouble with spending more time and cost to travel to urban areas in order to receive Hong Kong's world-class services. These opportunities and the new runway plus the extension of Tung Chung towns can support a population of over 486,000. GTTW is approximately twice the size of Harbour City and will be a "destination facility" (ie worthy of making a special trip to see and use) by virtue of its scale and diversity of offerings.

(4) the importance of creating new "content" in Hong Kong in order to attract more visitors to use our airport, especially when we are about to commit HK$86bn present value or HK$136bn (money of the day) to add a third runway.

(5) the need to transform the "forgotten" under-sized backwater Tung Chung into a purposeful community and an desirable place to live. As things stand, the 82,000 residents fall well short of the 200,000 threshold for a public library and the 240,000 for a general hospital and other public amenities. Private facilities and job offerings for its residents are also few

(6) Government forecasts that the Hong Kong population will grow 1.9m, or 27%, from the current level to 8.9m by 2039.

(7) our citizens aspire to building a most environmentally friendly town that befits the World City of Hong Kong. We have the population and commercial needs for a new town and the means to create a most desirable environment to live, work and play in. The new and significantly enlarged Tung Chung (temporarily called "Flying Dragon") gives us the opportunity to focus our development experience over the past decades and the latest technology and design considerations to craft a new town that fully reflects our aspiration to be the greenest World City. Hence, we should insist that the best applicable green standards are adopted. In future, when residents of Flying Dragon go to work, they will leave zero carbon footprint and can just walk across to GTTW.

(8) the general public's desire for a home located alongside existing arteries of public transport. For instance, few would want to live in a district when rail links are pending or bus services infrequent.

(9) the completion of the Hong Kong-Zhuhai-Macau Bridge 2016 which enters our territory near the airport, will put Tung Chung within the direct reach of 70m people who live in the affluent Pearl River Delta. GTTW will provide parking facilities initially for 10,000 vehicles (five times the capacity of that at Harbour City) to allow visitors to “park and shop/bank/get surgical help/get educated/watch a show or see an exhibition at AsiaWorld-Expo etc”, “park and ride to urban areas”, “park and fly”.

(10) the fact that the site has received town planning and other land use approvals means that construction can start once the go ahead is given to GTTW.

(11) there is no need for land premium payment – thus the only new investment required for GTTW is planning and construction. In a city where 70-80% of total development cost is often attributable to land, GTTW is a very rare opportunity - effectively having done without the cost of land means a low investment hurdle. With total cost at around HK$1,600psf, even renting of its 1m sf office spaces at HK$10psf a month will yield a 7.5% on investment.

(12) liberate the full potential of AsiaWorld-Expo by providing fully-fledged service and accommodation facilities to attract more usage of the exhibition site.

Being our second convention centre, the government-owned AsiaWorld-Expo suffers from a low utilisation as users complain there is little for them, and their families if they come along, to do and nowhere to go after attending a conference or an exhibition.

(13) our public funds have tended to earn low and unstable returns and investments in US 10-year treasuries can only produce c.2% incomes, which will likely undershoot Hong Kong inflation. Against the trending demand for services and spaces in Hong Kong, and the HK$160bn investment by the government in new infrastructure around GTTW, the project will likely generate a risk-adjusted return far superior than that of the traditional public portfolio. We estimate that GTTW should fully pay off its cost in around six years and carry an ultra-high ungeared Internal Rate of Return (IRR) of 13.8%.

(14) GTTW provides huge scope for externalities. Further to the highly attractive financial returns, including a positive Net Present Value of an estimated HK$41bn, which can cover almost half the negative present value arising from the third runway, the commercial complex should promise substantial externalities, including morale of our citizens, and other non-direct benefits to Hong Kong.

(15) GTTW and Flying Dragon have limited downside. Hong Kong has never invested as much in infrastructure in a single location as we are doing in Tung Chung. If GTTW fails totally, the loss of HK$22bn will represent 14% of the other investments of HK$160bn being added to the district and should it fail, more pertinent questions should be raised as to whether the HK$160bn could be justified in the first place. A more reasonable way to look at GTTW should be, since we are committed to some HK$160bn in putting up infrastructure for a better future, we should, using the same positive assumptions about our future, invest a further 14% in new commercial facilities to make it doubly sure that these preceding investments work, by attracting more users and customers to these investments.

(16) importance of re-enforcing Hong Kong's "First mover advantage" in service sector by adding scale and diversity. The robust visitor arrivals and the influx of overseas companies, talents and capital into Hong Kong in the Golden 5 Years clearly evidence the quality and attractiveness of our services. GTTW can be a powerful contributor to building up Hong Kong's first mover advantage.

To reinforce the pre-eminence and enrich the shopping experience of the already overcrowded TST, the top-grossing shopping district of the world, and to cater for the opening of the HK$62bn Guangzhou-Shenzhen-Hong Kong Express Rail Link in early 2016 which will bring another 50,000 visitors into the district each day, we propose the construction of “Sub-culture”. This is a 2m sf shopping centre that parades 600+ shops and ancillary food and beverage points and built underground to the 8m sf West Kowloon Cultural District (WKCD) along the concepts suggested by Professor Kwok-pun Cheung of the University of Hong Kong Faculty of Architecture in his report to the Legislative Council in March 2011. The Express Rail Link will put 30m+ population from the affluent Guangdong cities of Guangzhou, Dongguan and Shenzhen within 48 minutes’ reach of the TST terminus and this extra traffic will likely be the straw that breaks the camel’s back as existing foot traffic through the major malls in the Tsimshatsui (TST) area today is already at or near capacity eg. 150,000 at Harbour City and 100,000 at The Elements. In the next four years, arrivals at TST should grow at a compound rate of 10-15% a year, adding 50-80% to current flows. If nothing is started today, there may be a need to pedestrianize Canton Road before the Link is opened.

Build a 2m sf underground mall (“Sub-Culture”) to reinforce global pre-eminence of TST as the world’s most popular shopping district and stimulate patronage to the 8m sf Cultural District. Net profit of HK$1bn a year will boost annual public art-spend by 35-40% initially, creating huge scope for transformative cultural repertoire including contracting series of world-class performers as regulars and redefine art skyline for World City of Hong Kong

We will apply all the annual net profit from Sub-Culture to augment the government's budget on Arts and Culture. The first full year's contribution of some HK$1bn will add around 35-40% to the government's spending, benefiting all the existing recipients of the subsidies and providing significant upside to improve the range of artistic performance available in Hong Kong. For instance, we can consider contracting Mr Yo-Yo Ma, Mr Lang Lang and other top musicians on a periodic basis so that our citizens and visitors can expect world-class performances as a regular feature of the Hong Kong art scene, just as Celine Dion is a performance fixture of Las Vegas. As the net profits from Sub-Culture will grow with shoppers, it is ultimately the market, which will continue to benefit from the "One-Country, One-Market" dynamics over the long run, that drives public sector art spending. As art and culture offerings increase and improve, more visitors and local users will patron our facilities and generate more revenues for art and culture development, thereby setting about a virtuous cycle. When our general facilities are well used and performances are fully attended, critics may not be able to call Hong Kong a cultural desert anymore.

HK$1bn annual net profit from Sub-Culture will be applied back to art and culture, boosting public spending by 35-40% initially, leaving generous room for major enhancement of our art scene, including contracting world-class performers like Mr Yo-Yo Ma and Mr Lang Lang and more on a periodic basis, to create a permanent repertoire for Hong Kong

(2.3) Masterplan to the Prospect of becoming a World City - we Have the Know-how to do it: (2.3.1) Scale (2.3.2) Build it and they will come (2.3.3) Be friendly to the Environment

In directing the course of the development of Hong Kong back to its original path of becoming a World City, we need a clearly annunciated masterplan. We have argued that since it is a natural development for Hong Kong to be the next World City and already endorsed by Time Magazine and other independent authorities, we only need a detailed game plan to take us there.

Hong Kong should approach this holistically rather than the piecemeal manner in the past. For instance, immigration policies and taxation rules are means to a policy end. Hence, we should provide incentives to businesses that are considered essential to our move to becoming a World City and talents that can catalyse the transformation. Most countries have such schemes and Hong Kong should not lose out in the global fight for entrepreneurship and talents which can bring long-term benefits to our people.

Our community have learned precious lessons from 50 years of building up new towns and world class infrastructure. We should have no problem in putting up efficient and user-friendly new spaces to contain our new businesses and expanded population:

(2.3.1) Scale: One such lesson is the need for scale. A new town needs to have over 240,000 residents to warrant a public hospital and has to enjoy existing link to mass transport in order to attract people to move in.

(2.3.2) Build it, and they will come: A number of initiatives failed initially but they all came right within three to five years as the economy has performed well and more space was demanded. The most recent example of this is Kowloon East. This was started a piecemeal selling of government sites for low rent (started as low as HK$5-8 psf a month) and a rezoning of previous industrial uses into office functions. After a few years, the spillage of high grade tenants from traditional locations has turned this to become one of the two largest office clusters in the territory with spaces almost fully occupied and rents upped to HK$20-30psf, all over a period of three to five years. This lesson, that when we have good growth opportunities, as is the case in these few years, the case for “build it, and they will come” is valid.

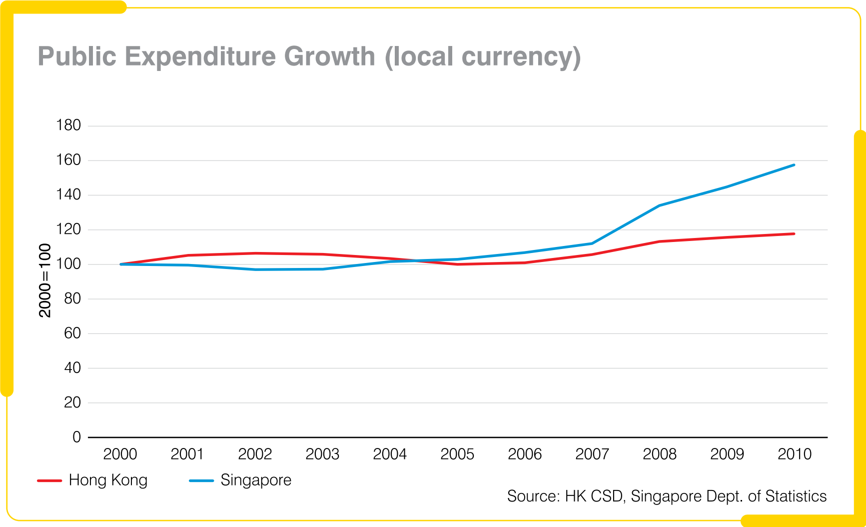
(2.3.3) Be friendly to the Environment: A long-term problem when we developed new towns is that they fail to be self-contained, and most residents will have to travel outside their district to find work. In planning for the better Hong Kong, we should actively consider bringing work to residents and this should reduce carbon emissions. We will apply all these three lessons from the past in the crafting of our proposed investments. Our proposal to build up Tung Chung and creating new commercial spaces at the airport should meet this desirable criterion. For instance, we should consider building new hotels in Tin Shui Wai – an area of low incomes and skills. For packaged tourists, it matters little where the hotel is located as most of the day they will be out sight-seeing or shopping. A bus ride from popular Canton Road to Tin Shui Wai is around half an hour and new hotels there should be attractive proposition in view of the low cost of land there. Such an initiative can create a lot of jobs for residents there.

(2.4) "Big Market, Small Government" philosophy is neither the best nor the only way

An economic performance that has significantly underperformed Hong Kong's potential and our peers' and an unenthusiastic reception of our social policies over the last decade do not support the case for an inflexible fiscal formula

Every now and then, the government emphasises the principle of "Big Market, Small Government" and keeping public expenditure within 20% of GDP. Yet, the anaemic growth we recorded over the past decade and our significant underperformance vis-à-vis our key Asian peers, in particular Singapore, which faces far less favourable circumstances than we do (for instance, we have a fast growing China as our motherland), and a less-than-contented citizenry, do not suggest such a fiscal rule is producing a desirable outcome.

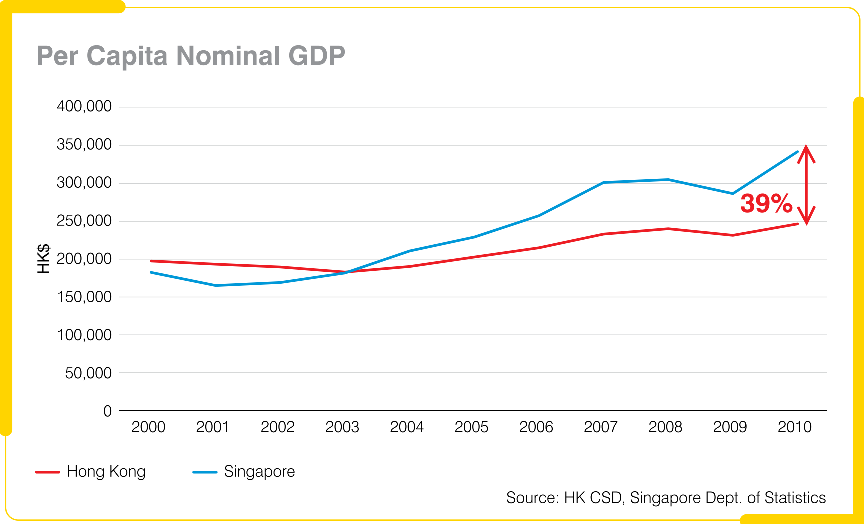
In this respect, we agree with Professor Wilson Wong (Government and Public Administration, Chinese University of Hong Kong), a veteran scholar in public finance. He remarked in a public forum a few months ago that there was no proven rule that determines the optimal size of government spending and that public expenditure should adjust according to the development needs of the economy.



We show above, the movement of fiscal outlays of Hong Kong and Singapore over 2000-2010, referenced to their 2000 levels. When our economy flat-lined this period, our fiscal expenditure followed the same pattern. However, Singapore's public spending rocketed from 2006 and recorded a 57% rise over the same period. We should put our focus on 2002-2003 when Singapore's public expenditure and GDP reached their troughs in the decade. What indeed did the Singapore government see at that time that warranted a drastic "spending spree" from 2007? The answer is "Remaking Singapore" – an initiative that was announced in February 2003 after a fundamental re-examination of the country's situation. Singapore saw lots of challenges but devised decisive strategies, fiscal spending included, to execute a comprehensive "remaking" of the country.

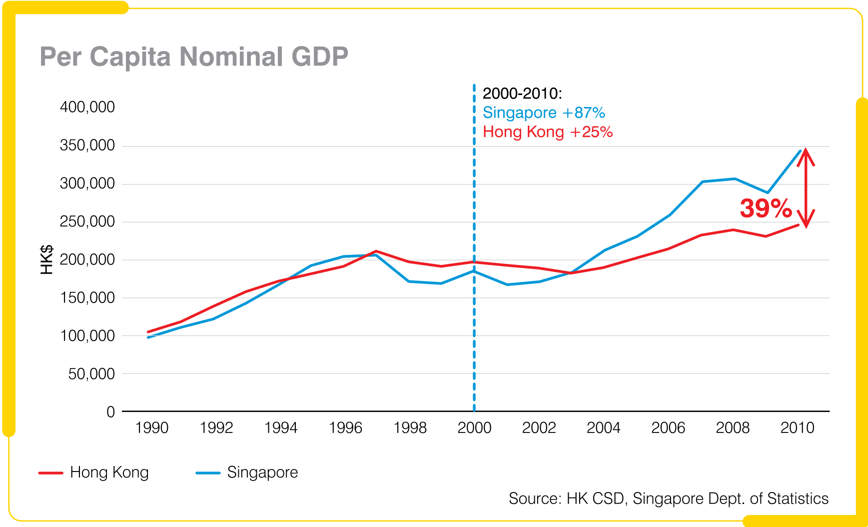
Spending when it is appropriate – tried and tested by Singapore

Below, we show the performance of the movement of nominal per capita income of the two cities. While Hong Kong's posted little uptick over this period, Singapore's raced ahead, pulling further and further away from Hong Kong's in 2010.



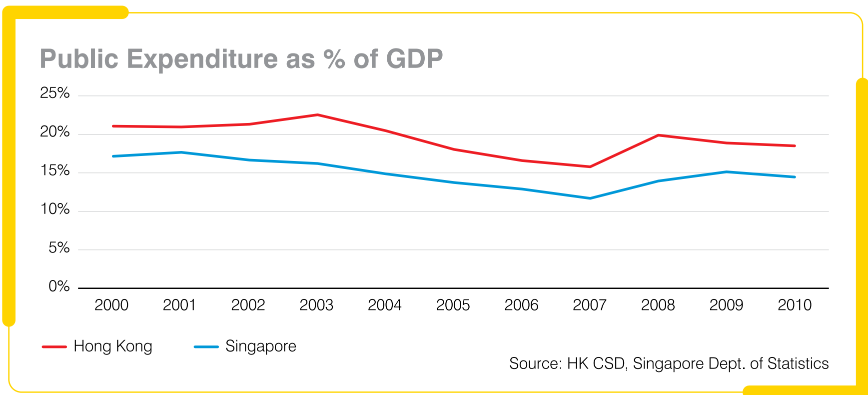
There is a very important lesson for us here. Over this decade, Hong Kong's nominal income per capita grew only tepid 25%, against London's 53% (as a peer IFC to Hong Kong), Singapore's 87% and China's 278%.

Extending our comparison with Singapore back another ten years shows that Hong Kong had outperformed almost the entire period from 1990 to 2003, but has lagged behind ever since. A pro-change fiscal policy that complements the structural changes in the economy has clearly worked in Singapore's favour.



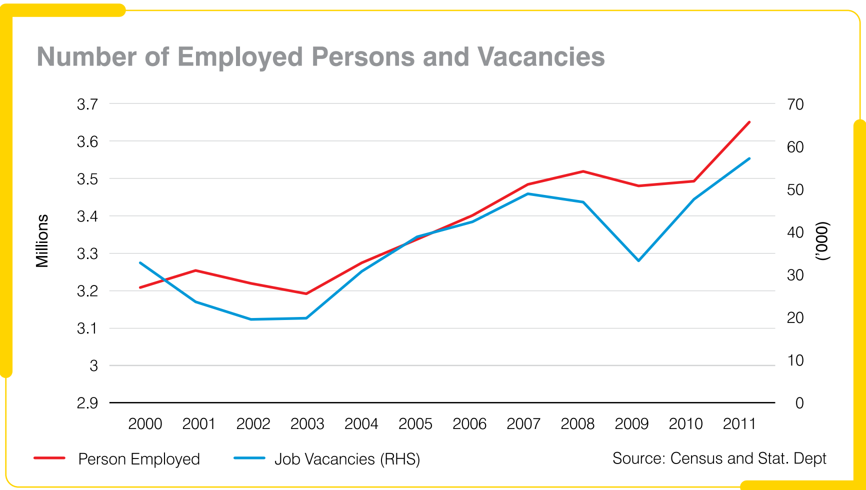
An honest level of foresight attained after a thorough collective introspection has produced a result the small country should be proud of and which offers us a precedence for a more proactive approach to managing our citizens' money. As to the worry that the surge in public expenditure might have blown a hole in Singapore's GDP, our last chart on this subject is highly assuring – despite the sharp rise in public spending from 2001, Singapore's GDP has risen more than the pick-up in government expenditure, and the public sector's share of GDP has not risen but has indeed fallen, over this period. It seems that a fiscal strategy to spend when appropriate has worked out well. One may say that Hong Kong's ratio has not moved much either, but this could not be something that comforts us – our incomes have stagnated.

"To Spend when Appropriate" has resulted in a shrinkage of Singapore's public sector as a percentage of GDP, even though the city-state pumped up its fiscal spending by c.60% from 2004 to 2010



Since all the evidence (record employment, inflation, record arrivals of overseas talents and customers, fiscal surpluses etc) for the two structural trends of (1) a West-to-East shift of economic momentum which will continue to usher into Asia more investments and inflow of overseas companies and talents and (2) "One country, one market" are present, we should not hesitate and start reacting to these opportunities with "Investing HK$100bn for Our Future".

While it may have become customary for the government to devise a tax/rate rebate or a cash hand out to the public, we question the logic for doing this again this or next year. A tax refund and similar schemes represent a stimulus to the economy to (1) encourage employment and (2) prevent deflation of general prices. We face the opposite to both today. Latest official figures show that total employment stand at record high and even job vacancies, or positions waiting for job applicants to fill, are also at their pinnacle. Income security is anything but frail and deflation risks are remote.

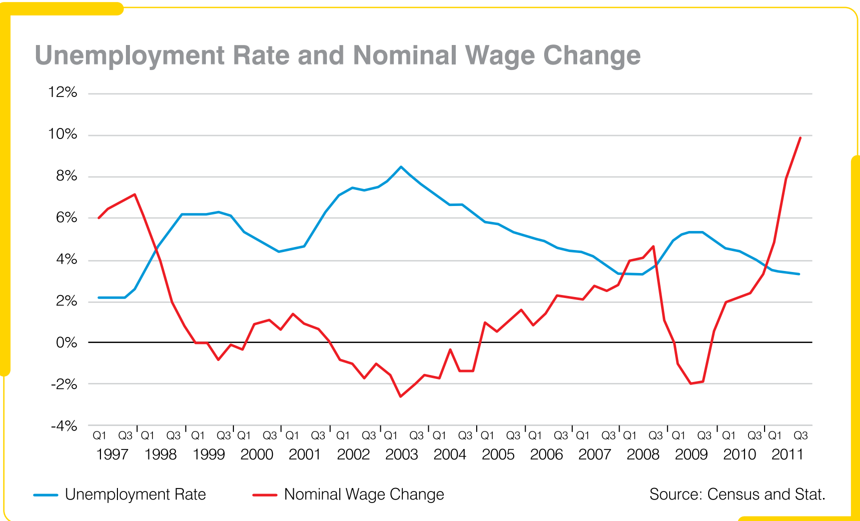


Faced with effective full employment and an average wage growth of 9.9%, the highest in 17 years, individuals and businesses are doing very well and do not need relief from the government. What they should require, we argue, is to trade whatever refunds for a commitment from government to invest in more public goods – those infrastructure items including university places, more border crossing staff (to help reduce long queues of visitors), training programmes, medical care, more new land etc. - facilities that private individuals cannot procure themselves but require the government to produce. Shortages in these will aggravate inflation and the government is at the centre of its resolution.

We do not need tax rebates nor cash hand outs, we need a commitment to help solve our persistent inflation caused by shortages of hardware and software

The question is whether a citizen is willing to pay the government any rebate in return for a commitment from the government to (1) invest that sum in new hospitals so that when that person falls ill, he or she will not sleep in a corridor alongside crying babies and moaning patients, (2) to produce new land so that a private or corporate tenant may not need to get an anxiety attack every two years when the new rent is announced and (3) add more university places and step up on-the-job training so that the imminent shrinkage of our workforce can be countered by a rise in productivity rather than triggering a bun fight for staff and an upward wage spiral. The writing is on the wall and the seeds of discontent are already sown – much that the average inflation in the first 14 years of the handover was 0%, wages did rise at their fastest rate of 11% in 2011.

Will you trade your rebate/ hand out for a commitment by government to step up supply and alleviate shortages?



In 2008, unemployment rate was 3.6% and nominal wage rose 4.5%. When unemployment returned to 3.3% last year after the Global Financial Crisis in 2008/09, nominal wage registered a 11% growth. Considering the 1.8% growth in labour force last year with tens of thousands of middle-aged population re-joining the labour market, it is fair to deduce that we are "emptying" the reserves of our labour force. While more than half of our inflation is driven by residential and commercial rents (i.e. shortage of hardware), the highest average wage growth in 17 years recorded in 2011 is indicative that Hong Kong will likely enter into a wage-price spiral as an ageing population contributes to a shrinking workforce against the expansion of retail, hotel, tourism and catering industries and it will add to inflationary pressure in the Golden 5 Years.

Wage inflation will start to add to rent inflation

One of the most important responsibilities of the government is the provision of "public goods", i.e. goods or services that the private sector does not (or cannot) produce on its own yet are beneficial to the society as a whole, e.g. free education, public medical services and other infrastructures. This is precisely the case of Hong Kong: our university places are insufficient, hospitals are packed and land is scarce. But the general public cannot raise funds on their own and build hospitals and universities, nor can they alter the population policy of Hong Kong. We are not advocating planned economy or extravagant public spending, but are only calling for the government to fulfil its basic responsibility to supply the public goods that it has been underinvesting in the past decade.

The government must fulfil its basic responsibility to supply public goods

Hong Kong does not only benefit from the eastward shift of economic centre of gravity, but it also enjoys the countless opportunities brought by "One Country, One Market" – an advantage that Singapore can only dream about. If Hong Kong still loses out in the critical battle for the emergence of the next World City, there is truly no one else to blame but ourselves.

We have no one to blame but ourselves if Hong Kong fails to fulfil its destiny of becoming a World City

In summary, here are the remedial and essential investments for Hong Kong that we propose:

Proposed Investment

HK$ bn	HK$ bn	Proposed Investment
22		Destination Commercial Complex "Gateway to the World" (GTTW) • 4m sf mall, 10,000 car park slots, 6-8 hotels with GFA 3m sf (3,000 rooms) & 1m sf office for credibility industries & NGOs; Community New Town "Flying Dragon" for 700,000 people in 20-30 years
10		WKCD Underground Mall "Sub-Culture" • 2m sf shopping space
	32	**Sub-total: Hardware**
6		Replace all old buses (70% of bus fleet) by incentivising bus companies to reduce roadside emission by 40%
3		Expanding current retraining facilities by 20% to help alleviate annual 0.4-0.8% drop in workforce
0		Adopt accretive population policy to attract talents and entrepreneurs that can improve Hong Kong business connectivity with China and the world - these will create jobs and income opportunities to Hong Kong. Target some 200,000 overseas and mainland talents over 10-15 years
40		Build more hospitals to expand capacity of public medical system by one-third
15		Add 10,000 (67%) university places to seed quality workforce we will need and to export values of this World City
4		Adequate funding to open 25% of WKCD by 2018 and supporting local art and culture institutions
	68	**Sub-total: Software**
100	**100**	

Source: Government Budget 2011/12, HKGolden50

(3) Invest to Improve in our Service Capacity and Capabilities - Build World-class Hardware:

Please refer to Section 2 for full details on

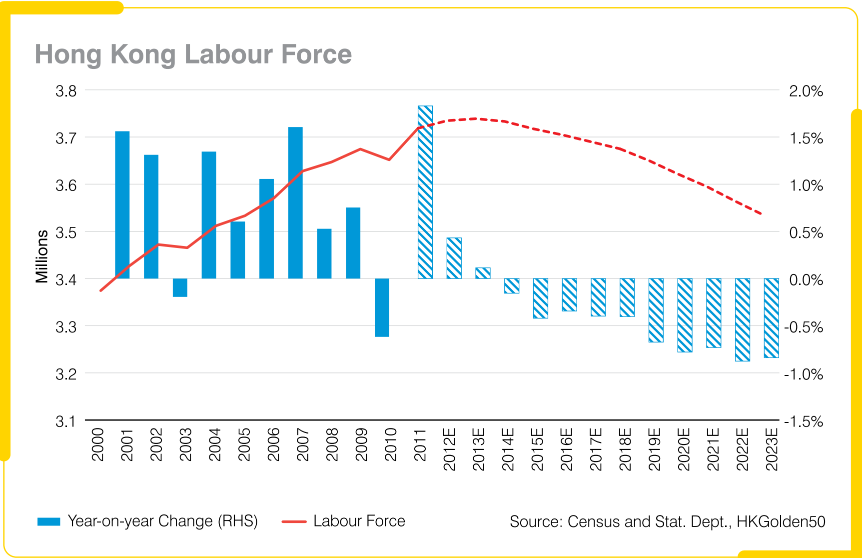
(3.1) "Gateway to the World" HK$22bn

(3.2) "Sub-Culture" HK$10bn

(4) Invest to Improve in our Service Capacity and Capabilities – Build World-class Software:

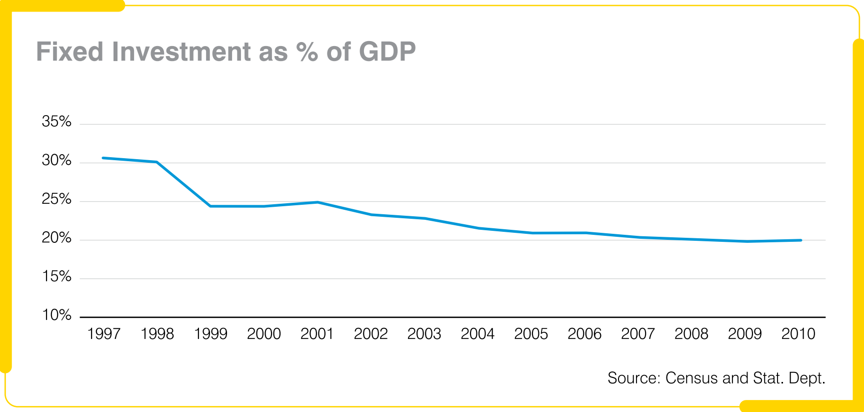
The provision of world-class services does not only need hardware (hotels, shops, offices, hospitals, schools etc.) but also software (professionals, salespersons, teachers, doctors etc.). In addition to sufficient commercial spaces, Hong Kong also needs a high quality workforce to ensure the city can maintain the quality of services that it provides.

Besides increasing supply of commercial spaces, Hong Kong also needs a high quality workforce to maintain our service quality



Unfortunately, shortage of labour as a result of ageing population and a prolonged period of low birth rates will likely curb Hong Kong's potential to sustain growth. Hong Kong is going to lose 20,000 to 40,000 workers, or 0.4-0.8% of our workforce, every year starting around 2012. Given the shrinking pool of labour, it takes an average of some 6% increase in labour productivity per annum when demand for our service is expected to grow at 5-6% per year – which is virtually impossible when we consider the fixed investment as % of GDP in Hong Kong has been falling for more than a decade.

Reversing the gain of some 400,000 workers in the past decade, we will lose 300,000 pairs of hands from our workforce in the coming 10 years. This decline will severely undermine the quality of our services unless productivity picks up rapidly



(4.1) HK$6bn to Freshen our Air

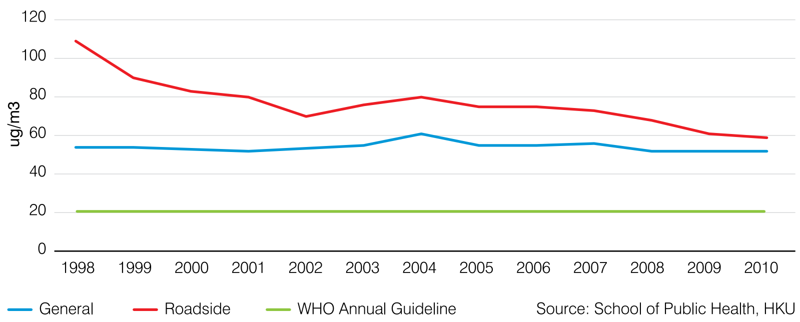
Air quality is often a critical factor for multinationals and expatriates when they make decisions of where to locate their regional offices/headquarters and which city to work in. Hong Kong must add to the positive momentum it has built up in environmental issues. We propose the government should set aside HK$10bn to subsidise bus companies to replace their old buses to improve air quality. The government also needs to update its Air Quality Objectives (AQO) to completely meet the standards set by World Health Organization (WHO).

Businesses and investors, local and overseas talents, are often driven away by poor air quality

According to the revised (Jan 2011) Hedley Environmental Index compiled by the School of Public Health of HKU, over the last five years Hong Kong has incurred an average HK$8bn of tangible economic loss and more than 600 premature deaths per year due to air pollution.

On average, Hong Kong has incurred tangible economic loss of HK$8bn and 600 premature deaths per year due to air pollution over the last five years

Concentration of Suspended Particulates



The effort paid by the government in improving air quality is clearly insufficient. Although there has been a decreasing trend in a number of pollutants like nitrogen dioxide (NO2) and respirable suspended particulates (RSP) over the past years, the roadside emission of NO_2 and RSP still exceed the WHO guideline by 195%.

Roadside emission of NO_2 and RSP still exceed the WHO guideline by 195%

Concentration of PM2.5 Suspended Particulates Among Various Cities

Ranking	City	Annual Mean Concentration (ug/m3)
92	Sydney	7.0
447	New York	12.7
461	London	13.5
520	Singapore	19
541	Paris	22.9
559	**Hong Kong**	**36.0**

Note: Data for China and Taiwan not available
Source: Friends of the Earth, WHO

The poor air quality in Hong Kong is driving foreign enterprises and expatriates away. A recent survey conducted by Regus indicates that 75% of corporate leaders believe air quality is hindering Hong Kong's ability to attract and retain talents.

Poor air in Hong Kong is driving foreign companies and expatriates away

Sources of Pollutants

Pollutant Source Categories (2007)	NOx	RSP	CO	SO2
Road Transport	22%	30%	82%	1%
Public Electricity Generation	46%	28%	5%	89%
Navigation	16%	7%	3%	5%
Civil Aviation	6%	0.4%	3%	0.5%
Other Fuel Combustion	11%	21%	7%	5%
Non-combustion	NA	13%	NA	NA
Total	100%	100%	100%	100%

Source: HKEPD

Figures from the Hong Kong Environmental Protection Department (HKEPD) show that road transport is the most important source of RSP and carbon monoxide, and the second most important source of nitrogen oxides. By vehicle types, franchised buses account for 40% of the total roadside emission. It is therefore of paramount importance to reduce the emission from franchised buses in order to mprove effectively the air quality of Hong Kong.

Reducing emission of public buses is essential to improving air quality of Hong Kong

Composition of Buses by European Emission Standards

	Hong Kong		Singapore	
	# of Buses	Expected Year of Retirement	# of Buses	Replacement Deadline
Pre-Euro	456	2012	0	
Euro I	1338	2015	2700	2011
Euro II	2688	2019	586	
Euro III	1233	2026	207	
Euro IV	53		506	
Euro V			357	
Total	5768		4353	

Source: Civic Exchange

Compared to Singapore, Hong Kong lags behind in upgrading franchised buses. As at 2009, almost 80% of Hong Kong's public buses are of Euro II standards or below, while Singapore has already upgraded its Euro I public buses to Euro V. Also, only 0.9% of public buses are equipped with engines that meet Euro IV standards, while in Singapore, 20% of public buses have met standards of Euro IV or above.

As at 2009, almost 80% of Hong Kong's public buses are of Euro II standards or below, whereas Singapore has upgraded all Euro I buses to Euro V

A comparison of buses of different generations shows that upgrading public buses can drastically reduce emission of pollutants. For example, by upgrading from Euro II to Euro IV, emission of nitrogen oxides and particulate matters are cut down by 50% and 92% respectively.

	Capital Expenditure HK$bn	Return
Incentivise franchised bus companies to replace all Euro I and II public buses to Euro IV standards	6	Avoid 200 premature deaths per year Avoid tangible economic loss of HK$2bn per year

We propose the government to set aside HK$6bn as to incentivise franchised bus companies to replace all Euro I and II public buses (70% of our bus fleet) to Euro IV or higher standard models. Special preference is for electric buses when technology has become effective.

We propose the government to set aside HK$6bn to incentivise franchised bus companies to replace all Euro I and II public buses to Euro IV and higher standards, including electric buses

While the exact amount of subsidies and the details mechanism (e.g. linking the amount of subsidies with the net book value of the replaced buses) should be subject to further public discussion, we believe earmarking HK$6bn (which is enough to cover up to 60% of the total cost of replacement) is sufficient to provide enough incentives for franchised bus companies to replace their buses under the current profit control scheme in which profits of bus companies are based on average fixed assets value.

In fact, providing subsidies with a view to improving air quality is not unprecedented. For example, the Hong Kong government has been providing subsidies (a total subsidies of HK$4bn has been provided by now) to encourage replacement of old diesel commercial vehicles. From an international perspective, Seoul, for example, has provided subsidies of HK$1bn (25% of cost) to bus operators to replace diesel buses to compressed natural gas (CNG) buses.

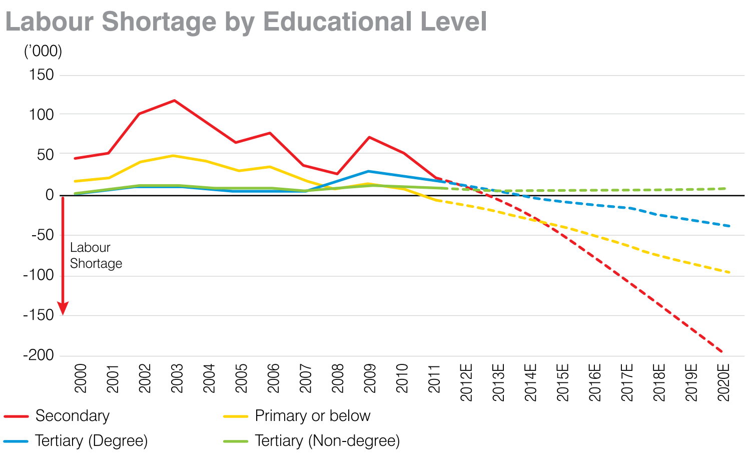
Most importantly, with reference to the model developed by the School of Public Health of HKU, our conservative estimate is that by replacing these old buses we can reduce overall roadside emission of NO_2 and particulate matters by 25%, and thus avoiding air pollution-related premature deaths by 200 per year, and tangible economic loss of HK$2bn per year.

Replacing old buses can reduce emission of NO_2 and particulate matters by 25%, and thus avoiding air-pollution-related premature deaths by 200 per year, and tangible economic loss of HK$2bn per year

(4.2) HK$3bn to Train and Increase Productivity of our Workers to ensure we Improve the Quality of our Services and Global Competitiveness despite the Rapid Shrinkage of our Workforce

We expect that by 2014, Hong Kong will be lacking workers in almost every level of education with the sharpest shortage in workers without tertiary education (red and yellow lines in chart), with the deficiency up to 70,000, roughly 3% shortfall in labour in this category. And this situation will get worse with every passing year adding some 1.5% to the shortage.

By 2014, there will be shortage of labour in almost every level of education, with the sharpest shortage in workers without tertiary education



Source: Census and Stat. Dept., HK Universities Grants Committee, HKGolden50

When our present education system mandated attendance up to secondary school diploma, the supply of workers with sub-secondary schooling (yellow line) will dwindle with the retirement of the existing workforce. Shifting up one rung of education, those with secondary schooling (red line) will experience an even sharper fall off of workers. This reflects the significant stepping up of tertiary education in the past two decades which has equipped a high proportion of secondary school leavers with further qualifications leaving not so many students with only their secondary diplomas. The retirement of this latter group will quickly create shortages.

Demand for sub-tertiary workers, on the other hand, is expected to rise as service sector will grow at 5-6% p.a., spurred by opportunities entering Hong Kong during the Golden 5 Years. Hot spots in the job market should include shop assistants, waiters and tour guides - often positions that do not require a high level of formal education.

The Golden 5 Years bring tremendous demand for all kinds of services, which derives demand for labour with relatively lower educational level

	Capital expenditure to increase training capacity HK$bn	Operating cost to train 40,000 extra workers per year HK$bn	Return per year (Income loss avoided by having more productive staff working for 10 years) HK$bn
Increase the current retraining capacity by 20%	3	1.2	1.8 (18)

To counter the effect of the looming labour shortage, we call for a 20% increase in the capacity of the current retraining programmes (mainly offered by the Vocational Training Council (VTC) and the Employees Retraining Bureau (ERB)). Re-training programmes of this nature (lasting six to nine months) are effective in raising labour productivity. We expect HK$3bn is required to expand and upgrade the current facilities for 40,000 more trainees each year and an extra operating cost of HK$1.2bn will be needed every year. This is small cost when compared with the income loss of HK$18bn that can be avoided by having properly trained, productive staff working for ten years.

To cope with the problem of labour shortage, we propose to expand the current retraining programmes by 20%

Long-series academic studies in Europe have reported that for every 1% of workforce receiving retraining, labour productivity can be increased by 0.4%, with minor limitations. Taking a “deprival” approach to work out the potential loss of earned income as businesses fail to fill vacancies, we have computed that without such an expansion in retraining programmes, Hong Kong will lose HK$1.8bn each year, or a total of HK$18bn over a course of ten years.

Without such an expansion, Hong Kong will lose HK$1.8bn per year, or HK$180bn over a course of ten years

Our economy is undergoing another major “restructuring”: “One-Country, One-Market” has led to boom in “credibility services”, e.g. retail, restaurants, tourism, MICE, finance and other personal services including beauty care and medical services. On the contrary, some large industries like import/export may be stagnant or even on the decline. We believe such an expansion in retraining programmes can help those who are structurally unemployed or who are currently out of the labour force (e.g. 54% of the new immigrants are economically inactive) by equipping them with skills that our economy currently needs.

Expansion of retraining programmes can help the structurally unemployed or who are currently out of the labour force

(4.3) Adopt an Accretive Population Policy to attract Global Talents and the Well-to-do's & improve Capabilities, Connectivity & Diversity of this World City

Most countries actively partake in immigration policies to attract talents and well-to-dos, yet Hong Kong's case is exceptionally rare. Our current intake of global talents is heavily biased towards admitting mainland talents in non-business related disciplines: 55% work visas granted through the Admission Scheme for Mainland Talents and Professionals (ASMTP) are issued by the academia and the arts and culture sector. While these talents are important in adding diversity and knowledge to their fields, over 53% of all admittances earn less than HK$20,000. These talents are clearly not the crème de la crème when it comes to adding value to our economy and creating jobs for our people.

Hong Kong does not seem to realise there are many, many policy schemes and instruments for the crafting of public policies to facilitate the attainment of social and economically desirable goals, including the making of a World City. Our policy to attract global talents appears stark naked when compared against Singapore's, for instance

In contrast, Singapore's accretive immigration policy not only attracts more talents with sharp business acumen to compound their economic growth, the government's competence in retaining these talents makes us pale in comparison. Each year, Singapore successfully channels 75,000 foreign talents to become permanent residents (PRs) and equivalent each year by granting instant permanent residencies to targeted talents, whereas our ineffective population policy only manages to retain a couple thousand.

We have clearly lost out in the fight to attract global talents – this must change

In the face of an increasingly competitive quest to attract global talents and the, we propose to (1) embark on a talent and connection accretive population policy that attracts some 200,000 talented individuals of all sectors who can prosper from Hong Kong's global service platform and bring connectivity, jobs, and business opportunities over the next ten to 15 years; (2) loosen the PR requirement by shortening the minimum period of stay from seven years to two years for selected applicants considering that many countries do grant PRs outright or within two years; and (3) Create a panel of business representatives from relevant sectors to help civil servants exercise discretion in granting PR to talented applicants who may otherwise be overlooked on the count of low education attainment. All of the above measures can attract talents who can fill the places of the 300,000 decline of workforce in the upcoming decade when baby boomers retire.

(4.4) HK$40bn in Expanding Medical Capacity and Capability to keep our People Healthy & Active

Hong Kong's medical system has been one of the world's best with one of the lowest infant mortality rates and remarkably higher cancer survival rates than the West, but the quality is unlikely to sustain as both hardware (e.g. hospitals and equipment) and software (e.g. doctors and nurses) of the medical system is severely stressed.

Both hardware and software in our medical system are heavily stressed

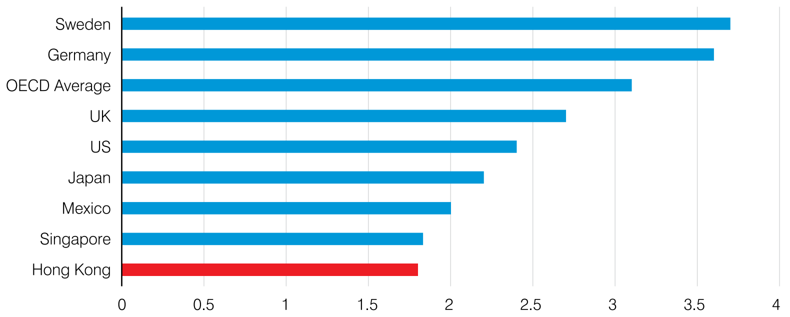
We have characterised, in our previous report, the last ten years of Hong Kong as the "Lost Decade": although our population has been growing and ageing, in the 2000s, not even one new hospital was established and operational, whereas eight hospitals were constructed during the 1990s.

Eight new hospitals were opened in the 90's yet zero hospital was established in 2000s, despite a growing and ageing population

In addition, old equipment may jeopardise our ability to respond effectively in case of an epidemic like SARS.

As Dr. Ho Pak-leung, President of the Centre for Infection of HKU, pointed out in September last year, 90% of the apparatus at the Centre for Infection are at least 20 years old, he described the current situation as "driving an antique car and you never know when it will break down" and Hong Kong will be under great threat in the case of an outbreak of infectious diseases.

Physicians per 1000 Population (2011 or latest year)



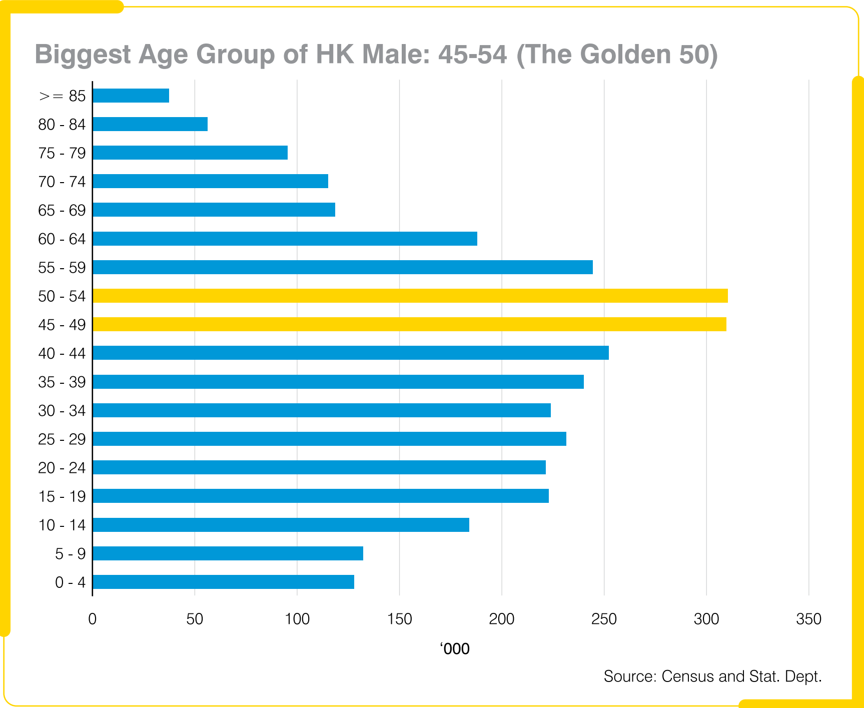
Source: OECD Health Data, WHO World Health

As far as software is concerned, the number of doctors per 1,000 population is 1.8 in Hong Kong, far lower than the average of 3.1 in OECD countries. Insufficient supply of medical staff has led to a significant one-third jump in number of reported medical negligence in hospitals. In fact, as Dr. W.L. Cheung, Director of Cluster Service Division of HKHA has remarked that the public medical system is in acute shortage of doctors and importing overseas doctors would certainly help alleviate the problem.

Number of doctors per 1,000 population is 1.8 in Hong Kong, shortage of medical staff has caused the number of medical negligence to increase by one-third

To make matters worse, the current age distribution of the Hong Kong population brings two important implications: (1) demand for medical services, especially geriatric medical services, will at least triple in 15 years' time and (2) supply of medical staffs will contract significantly as a result of the waves of retirement of baby-boomers in the coming decade.

(1) Demand for medical services will triple in 20 years; (2) supply of medical staff will contract as baby boomers retire



The current age distribution suggests that existing capacity of the medical system caters for about 200,000 men aged 65-74 (similar pattern for women), but 20 years from now when the two yellow bars in the population pyramid shift up, the medical system has to support over 600,000 men in the same age group. On the other hand, our medical system will lose a large number of veteran doctors and nurses as the baby-boomers retire in the coming decade. Given an already overstretched medical system, an expected jump in demand and drop in supply of medical manpower, we must take action now to invest in increasing medical capacity by at least one-third.

We have to act now: invest to expand our medical system by one-third

	Capital expenditure HK$bn	Operating cost per year HK$bn
Increase hospital capacity by one-third • Expansion of 6,600 hospital beds • Replace and upgrade old equipment for hospitals and research centres • Corresponding increase in operating expenses (staff, drugs, medical supplies etc.)	40	13

We call for an expansion of hospital capacity of 6,600 beds and funding hospitals and research centres (e.g. Centre for Infection) to replace and upgrade their equipment. This involves capital expenditure of HK$40bn and a recurrent expenditure of HK$13bn per year for the cost of additional medical staff, drug and other medical supplies for operation.

Here we highlight two points in carrying out such an expansion: (1) The expansion should correspond to the relative shortage of medical services across districts. For example, the Kowloon East Cluster should be considered first, given the highest proportion of population aged 65+ and only three public hospitals in the area. (2) There are actually potential land resources that we may utilise for hospital expansion in the urban area. Just to give an example, relocating the barracks near the Baptist Hospital can vacate a site that measures up to 10 ha (c.1m sf). While this is just one of the many suggestions to consider, the general direction is that we need to have more proactive and creative ways to find land for expansion of medical facilities.

To alleviate the acute shortage in medical staffs, we believe the strategy should include importing overseas doctors to meet immediate demand and expanding medical schools to increase supply in the longer term as the current rate of expansion of medical schools is too slow compared to the increase in medical demand. We certainly need some more radical reform if we do not want to fall even more behind our peers.

We shall address these issues in greater details in our fourth report, “How to Build a World-class Medical System”, coming out in May.

(4.5) HK$15bn to Expand our Universities and Improve Quality of our Economy's New Blood

	Capital expenditure HK$ bn	Operating subsidy per year (per 4-year degree for 10,000 students) HK$ bnHK$ bn	Return per year (extra income of 10,000 students earned over 35-year work life) HK$ bn
Add 10,000 university places	15	2 (8)	3.2 (112)

We propose to invest HK$15bn to add 10,000 university places and admitting more non-local students

We therefore propose to invest HK$15bn in expanding our universities by 10,000 places, or 67%, and admitting more non-local students, due to the following three reasons:

(1) To produce more university graduates to meet labour demand;

(2) To attract more talented students from the mainland and the rest of the world to establish Hong Kong as a regional education hub;

(3) To extend the channels through which the value system and excellence of this World City can be exported to the world, increasing its global influence. London universities do not cater only for students in London or the United Kingdom, but the world. By absorbing such a wide range of talents, the perspectives of both local and overseas student are greatly shared and extended.

The total extra income gained by 10,000 students completing a four-year degree programme amounts to HK$3.2bn per year, and is significantly higher than the additional operating subsidy of HK$2bn per year.

Prof. Francis Lui of the Hong Kong University of Science and Technology has calculated that one year of university education could increase income by 15-18%. We estimate that aggregating the extra income gained by the 10,000 students after completing a four-year degree programme would amount to some HK$3.2bn per year, or HK$112bn over the course of a 35-year working life. This income gain represents the gain by society and which significantly exceeds the additional education subsidy to run such a course of HK$2bn a year, or HK$8bn over the four-year programme.

Hong Kong has all the makings of a recognised regional education hub and the quality of our universities reflects well in global rankings: four out of the eight UGC-funded institutions in Hong Kong are ranked top 20 in Asia while only three mainland universities are so ranked despite the vastly bigger student catchment.

"Hong Kong has all the makings of a recognised regional education hub: four of our UGC-funded universities are ranked top 20 in Asia"

Global Ranking of Universities

Rankings	Asia	Worldwide
University of Hong Kong	**2**	**34**
Peking University	4	49
Hong Kong University of Science and Technology	**7**	**62**
Tsinghua University	8	71
The Chinese University of Hong Kong	**15**	**151**
University of Science and Technology of China	19	192
City University of Hong Kong	**20**	**193**

Source: Times Higher Education 2011-2012

In other words, students from the mainland and the rest of Asia find universities in Hong Kong desirable institutions for their education. This is especially true for students in southern China due to geographical proximity. The first survey on mainland graduates at the University of Hong Kong (HKU) conducted by HKGolden50 has confirmed this view, with 88% of the respondents saying their education at HKU had given them an advantage over mainland degrees.

Students from the mainland and the whole of Asia would find Hong Kong attractive as a place to pursue university education

We have identified three possible methods to accommodate the HK$15bn expansion of universities: (1) reclamation for universities with a water frontage (2) a re-configuration of land usage and density to make for more buildable space for campuses which are located in urban areas and (3) making use of the Lok Ma Chau (LMC) Loop to develop "second campus" and new high technology research centres.

(1) Reclamation for universities with a water frontage, (2) Re-zoning and changing density for universities in the urban area and (3)development of the LMC Loop are possible options to accommodate expansion of universities

(4.6) HK$4bn to Promote and Enrich Art & Culture for a Vibrant, Upbeat & Cultural World City

Hong Kong has to foster its art and culture sector through more active government support. A World City manifests its influence in the international arena not just through its "hard competence" like economic and brain power, but also its "soft competence", in its appreciation of the human experience and artistic expression. A hardworking population needs a good dose of art and culture to refresh the spirit and unwind stressed minds.

Hong Kong has to foster its art and culture sector through more active government support

We propose two policies: (1) allocating the extra HK$4bn necessary to start constructing the West Kowloon Cultural District (WKCD) immediately and (2) re-work the delivery programme so that facilities will not be opened until 2018 when 25% of the entire project is complete, as opposed to the current plan of opening in 2015 with phase 1 which involves only 9% of the complex and measures a Lilliputian 700,000 sf. The size of phase 1 is not enough to justify a special trip (not a destination) and in its attempt to suit many tastes and biases, it contains too many of everything. Hence, it runs a real danger, in our view, of pleasing no one. Public interests in the project will quickly wane and support to finish the remaining 91% will be jeopardised.

(1) Allocate an extra HK$4bn to start construction of WKCD immediately; (2) re-work the district's delivery programme

We sincerely hope that you find this report informative and useful and has helped you to understand better both the huge potential open to Hong Kong in the coming 50 years and the challenges and opportunities that we face, as a community, in these pivotal Golden 5 Years. We are eager to know any comments or suggestions that you may have about our report. Please let us know your thoughts by emailing friends@hkgolden50.org and please stay in touch through our website www.hkgolden50.org.

There is a lot about Hong Kong's future that all of our citizens should understand, reflect on and take positive action about. HKGolden50 encourages discussion and ownership of these immediate issues