

Economy + Finance

HK moves closer to OECD benchmark on tax agreements: Tax authorities from Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria, Britain, Ireland and the mainland can seek information on local taxpayers under a growing network of bilateral tax treaties that aims to bring the city in line with international standards. The treaties must adopt the latest OECD standards on the exchange of information. With similar tax agreements expected to be signed with Japan in the coming one or two weeks and with France very soon, HK could grow its network of tax treaties to about 20 this year. But this is a relatively small number, considering the mainland has about 90 such agreements while Singapore, Japan and Thailand have more than 50 each. Negotiations are under way to upgrade existing treaties with Vietnam, Belgium, Luxembourg and Thailand to the newest standards while local tax authorities have reached agreement on CDTAs with Japan, Switzerland and Liechtenstein. Talks commence this year on tax treaties with Malaysia, Spain, United Arab Emirates and Saudi Arabia.

Beijing expected to expand types of yuan services HK can offer: Beijing is expected next month to expand the types of yuan-based services HK financial institutions can offer, Norman Chan, chief executive of the city's monetary authority, said. Chan said the People's Bank of China was likely to lift some restrictions on yuan products, a move that could further HK's development as an offshore centre for the yuan and to help it become an international currency. Currently, banks can only handle simple yuan transactions for customers, such as deposits, remittances and trade settlements. But under the proposed relaxation of restrictions, companies could launch initial public offerings in yuan, fund houses could sell yuan funds, brokers could trade yuan shares or yuan bonds for investors and insurance companies could handle yuan settlements.

Europe debt woes risk to HK, Financial Secretary says: HK's economy faces risks from the fallout from Europe's debt woes and uncertainty about the flow of capital, the financial secretary John Tsang told lawmakers. With 12 per cent of goods and 19 per cent of services exported from HK destined for Europe, the city is highly vulnerable to external economic shocks. Tsang said the government was wary of the European crisis. He said troubled European countries faced austerity measures and spending cuts in the short term, which could lead to budget deficits and hamper efforts by the global economy to emerge from last year's recession.

Business conditions continue to improve in May, PMI shows: Business conditions in the city continued to improve in May due to the extended growth of the Chinese economy, latest data from the HK Purchasing Managers' Index for May showed. New business orders from the mainland slowed notably since April, although the latest increase remained sharp on a historical basis. May was the 11th consecutive month of purchase price increases, although the rate has slowed marginally since April.

Jobless rate rise signals end of the rebound: The jobless rate has worsened for the first time this year, signalling the end of a labour market rebound. Economists say the future remains unclear because of the euro-zone debt crisis and tightening monetary policy on the mainland. The unemployment rate increased to 4.6 per cent in the three months to May after hitting 4.4 per cent in February-April. The government said the increases were mainly in real estate, professional and business services, arts, entertainment and recreation, import-export and retail sectors.

Domestic politics

Lawmakers pass political reform package: HK lawmakers passed two resolutions of the government's controversial 2012 political reform package. Lawmakers voted 46 to 12 to support the expansion of the Legislative Council by 10 seats - from the present 60 to 70. They also voted 46 to 13 on the first resolution that increased the 2010 chief executive's election committee from 800 to 1,200 members. The government had originally proposed that five of the new Legco seats represent geographical constituencies and be directly elected by the public, and five represent the district council functional constituencies and be elected by approximately 400 district councillors. The Democratic Party suggested an amendment to the package that would allow the five seats in the district council sector to instead be elected by the public from a list of candidates nominated by district councillors. Chief Executive Donald Tsang announced that the government had agreed to amend its proposals to include the Democratic Party's suggestion in exchange for its support on the package. Eight of nine Democratic Party legislators voted for the package, with only Andrew Cheng not following the party line. In addition to Democrat Party lawmakers, those from the Democratic Alliance for the Betterment and Progress of HK (DAB) and other pro-government parties voted in favour of the package. Lawmakers from the Civic Party and the League of Social Democrats voted against it. The debate on the controversial political reform package lasted for three days. It prompted tight police security around the Legco building and the gathering of many pro- and anti-reform package protesters.

A changing political landscape: With the passage of the constitutional reform package and a change in the way Beijing and Hong Kong interact, a major realignment is taking place. The dynamics of the city's political scene have already changed since the Democratic Party took the path of no return in deciding to negotiate with Beijing for concessions, short of the introduction of full universal suffrage to elect the chief executive and all members of Legco in 2012. Whether or not this is a divide-and-rule tactic targeting the pan-democratic camp, or a demonstration of resolve in introducing genuine universal suffrage, a precedent has been set that even the all-powerful central government can, as billed by some foreign media, "cave in" before public opinion, fearing the rise of radicals and the demise of moderate democrats would destabilise HK. What is beyond doubt is that despite its promise to maintain HK's autonomy, Beijing has now stepped into the frontline in running HK affairs. This may empower the role of the central government's liaison office as Beijing's more active agent in HK. In terms of party politics, a split can benefit the individual pan-democrats under Legco's proportional representation electoral system, which favours smaller parties. The new relations between Beijing and the Democrats mean the frequent claim that they "oppose for the sake of opposition" no longer applies. This will inevitably become an attraction for conservative voters. The League of Social Democrats, which has all along taken a no-compromise approach, has strengthened its position in taking the moral high ground. The Civic Party, however, is set to lose core middle-class, moderate supporters to the Democratic Party due to its association with the League of Social Democrats. Meanwhile, government allies are harbouring widespread discontent after being forced to swallow the Democratic Party's proposal at the last minute, after Beijing and the government indicated their support.

Chief Executive urges an end to hatred and division: Chief Executive Donald Tsang called for an end to hatred and division as lawmakers endorsed the government's package for the 2012 Legislative Council election. "I hope that from now on divisions, attacks and hatred will become bygones," he said. Describing the 46-12 vote as a historic moment, Tsang said it was the first time since the handover that HK's political system had moved forward. "Disputes and infighting over political reform have plagued society for the past two decades," he said. "It's now clear consensus and reform are possible as long as we stay true to our goal of pursuing democracy and our belief in dialogue and rationalism." The State Council's HK and Macau Affairs Office praised the government, lawmakers and others who contributed to passage of the reform package. "This result complies with the general wish of the HK public, which the central government welcomes," it said. The central government's liaison office said the episode demonstrated the need for pragmatism and rationality in resolving deadlocks.

Relations HK - Mainland China

Beijing's U-turn 'to thwart radicals': Beijing changed its mind on the Democratic Party's reform package - which Chief Executive Donald Tsang endorsed -- because it feared radical forces would gain ground if the political system remained unchanged. According to several people familiar with the dialogue between moderate democrats and Beijing, central government leaders gave the green light on 18 June to the Democratic Party's "one person, two votes" proposal, which would allow the public a vote on five new seats in the Legislative Council's district councils functional constituency in the 2012 election. Beijing's unexpected endorsement of the party's demands, which would ensure passage of the revised reform package by a margin comfortably above the required two-thirds majority of the 60 lawmakers, caught government-friendly groups off guard. Beijing's U-turn came a few days after Hao Tiechuan, director general of the publicity, cultural and sports affairs department of the central government's liaison office, dismissed the Democrats' compromise proposal as an "unnecessary addition" without legal basis.

Beijing offers definition of HK suffrage: Beijing has for the first time offered a definition of what universal suffrage will mean for HK - "the equal right of election of all individuals". It left pan-democrats even more worried than they were already. Qiao Xiaoyang, deputy secretary general of the National People's Congress Standing Committee, said that functional constituencies had existed in HK for many years. Getting rid of them would require a lot of discussion. Qiao also said that every country had its own definition of universal suffrage based on its own unique circumstances. Pan-democrats said Qiao's statement only offered the right to vote rather than to stand and nominate others to stand in an election, and paved the way for keeping Legislative Council functional constituencies indefinitely. It also renewed their fears that a mechanism would be created to weed out, in the name of "democratic procedure", chief executive candidates not favoured by Beijing.

Thousands attend June 4 vigil in Victoria Park: Tens of thousands of people marked the June 4, 1989, crackdown on democracy protests in Beijing with a candle-light vigil in Victoria Park, Hong Kong on June 4 evening. The vigil has become a touchstone for a movement calling for democracy in China and for Beijing to reverse its official verdict condemning the demonstrations as a counter-revolutionary uprising.

International affairs

City's fight against money laundering under scrutiny: International watchdogs met to discuss HK's progress report on efforts to strengthen the city's anti-money-laundering and anti-terrorist financing laws. Over the past few months, the government has scrambled to show some measure of progress after nearly two years of inaction. The city's report to the Financial Action Task Force on Money Laundering (FATF), was due this month in advance of the group's June meeting in Amsterdam. The government has made modest

progress over the past few months and hoped that it would address some of the key deficiencies outlined in FATF's 2008 report.

Transborder affairs

Direct political links urged for HK-Taiwan: Tseng Yung-chuan, the vice-chairman of Taiwan's ruling party - the Kuomintang - wants direct political links with HK to take advantage of warming ties between Beijing and Taipei. Tseng Yung-chuan is exploring the possibility of Taiwan setting up an official agency in HK and granting visa-free entry for travellers from both sides. "With the improvement in cross-strait ties, HK's role should go to another level," said Tseng.

Legal affairs and human rights

Minimum wage rate unknown until bill passed: The statutory minimum wage will not be made public until it is passed by lawmakers on the last day of the current legislative session. While unionist lawmakers reluctantly accepted this arrangement, an academic feared it could mean the rate will be lower than anticipated. The bill is due to be tabled in the Legislative Council on July 14. Lawmakers have debated the minimum wage legislation in more than 35 sessions of the Bills Committee on Minimum Wage Bill since July 16 last year. The Provisional Minimum Wage Commission, which was tasked to advise the Chief Executive on the initial statutory minimum wage, will announce the rate only after the bill is passed by legislators, a government official familiar with the issue said.

Lawmakers voice fears over competition law: Some lawmakers fear the government's freedom to decide which of the roughly 500 statutory bodies should be exempt from the provisions of the proposed competition law will render the antitrust legislation ineffective. The competition law, which has been years in the making, is designed to stamp out all economic activities that abuse or distort market competition. But the law is not expected to apply to the majority of statutory bodies, which carry out a wide range of economic activities and include the Airport Authority and the Trade Development Council. The introduction of a competition law is expected to bring certain businesses under the spotlight, including supermarkets and operators of petrol stations.

Health

Epidemic peak to last weeks more: The peak of the hand, foot and mouth epidemic will last a few more weeks and subside over the summer break, with another surge possible in winter, the Centre for Health Protection says. With outbreaks of the disease in 374 institutions up to June, the epidemic was the worst in 10 years. Dr. Tsang of the Centre for Health Protection expected about 10 institutional outbreaks would be reported every day over the coming two weeks, with the epidemic starting to subside when pupils left their classrooms for the summer holidays.

Environment

Daya Bay nuclear leak confirmed: The Daya Bay nuclear plant near Shenzhen recorded a small leak in May, the HK government said. A small rise in radioactivity was observed on May 23 in a reactor cooling unit of the Daya Bay nuclear power station in Shenzhen, which is run by CLP Power, HK's largest electricity supplier. The government said, "Preliminary assessment indicates that there was a very small leakage at a fuel rod. These radio nuclides had been completely quarantined and therefore had no impact on the public." Daya Bay, located about 50 kilometres north of HK, is home to the Ling Ao Nuclear power plant. Legislators and nuclear power opponents called for an independent investigation and greater openness about operations at Daya Bay nuclear plant.

Macau

Macau's 'corruption bridge' too weak for railway: Macau's showcase 7.5 billion pataca light rail project is in trouble again - this time due to a corruption-tainted bridge that may not be able to bear its weight. The problem could lead to further delays and budget overruns. "I guess these problems with the bridge really shouldn't come as a surprise," Macau legislator Jose Coutinho said. "Local people call it the 'corruption bridge' because it was one of [former transport and public works secretary] Ao Man-long's projects."

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