



Legal, Political & Economic of Business in HK & PRC

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Introduction

The project aims to explore the external business environment in Hong Kong and mainland China. We focus on legal, political and economic aspect. For the analysis, we have chosen three industries to work out, namely, tourism, real estate and film industries. Since these industries are interesting and discussible, our study can have specific analysis and examples in two places.

General Environment in Hong Kong

Legal environment

Hong Kong is famous for its simple tax system. The tax rate in Hong Kong is relatively low. It does not only apply to local companies, but also foreign companies. Besides, the legal system in Hong Kong is transparent and effective. It enhances the general investing atmosphere in Hong Kong. Also, some studies found that Hong Kong has a good record in adhering to some employment ordinance, showing that the law protects employees in Hong Kong.

Political environment

Since 1997, Hong Kong has been adopting the “One country, two system” policy. Hong Kong remains the authority of administration, legislation and judiciary. Under this policy, the political stability in Hong Kong is relatively high. Also, Hong Kong does not levy import duties or tariffs like China does. The capital movement in Hong Kong is free. Following the establishment of ICAC, the level of corruption in Hong Kong remained low for the past 30 years.

Economic environment

As a global financial and foreign trade centre, Hong Kong carries out a large amount of businesses with other countries, especially China. China is the number one business partner in Hong Kong for the past several years. Since late 2008, after the financial tsunami, the GDP and price level in Hong Kong has been growing in a steady rate while the unemployment rate remained at a fair rate of 4.0%.

General Environment in PRC

Legal environment

As for PRC, a high and progressive tax rate¹ is applied. And furthermore, a rather complex tax system is used. Her regulatory system is well known for being not transparent enough. And usually laws are not consistently enforced maybe due to Confucianism culture. PRC has ratified 25 International Labor Organization conventions. Lastly, PRC government has been reducing intervention on the market.

Political environment

In the past, PRC government has exerted great influence on business operation. More than half of the investment is investment from government. The government only allowed foreign investment in some specific sectors and practiced protectionist industrial policy. Until recently, PRC government is more willing to free up business activities from wider policies objectives. However, foreign investors are still limited to participate in the capital markets. Furthermore, PRC has been banning the import of a long list of items.

Economic environment

Wages in PRC are relatively low, which means costs of manufacturing in PRC are low too. Therefore more and more companies invest in PRC. As more companies invested in PRC, GDP of PRC grew rapidly² and also the income of the people. As a result, RMB has been appreciating³ for the last few years.

¹ Appendix I

² Appendix II

³ Appendix III

Tourism Industry in Hong Kong

Background

In the first half year of 2010, the number of visitors has increased by 23.1%⁴, breaking the highest half-year record. In addition, Mainland visitors shared the largest part of visitor source (10.5 million of 16.9 million). This indicates that Hong Kong Tourism rely on mainland heavily.

Legal environment

Due to several scandals of tour guide, an additional regulation of one tour guide in one tour with the aims to improve the performance of tour guide has been recommended. Other policies to increase the confidence and number of tourists include setting up a statutory and independent body to supervise tourism industry, releasing the visa requirements and waving the Hotel Accommodation Tax, etc.

Political environment

In order to attract more visitors to Hong Kong, Individual Visit Scheme (IVS) has been introduced in 2002 to allow Mainland tourists to visit Hong Kong as a free and independent traveler. Unfortunately, the demand for local flight industry may decrease due to the direct flight between China and Taiwan. This loss may be set-off against attracting more Taiwanese to travel Hong Kong at lower cost. In addition, the government continuous to give several support to the projects of Hong Kong Tourism Board.

⁴ Appendix IV

Economic environment

The performance of local tourism is easily affected by the global economy. Recently, the increase in worldwide GPA has stimulated the spending of foreign tourism in Hong Kong and thus improving the tourism industry. Also, numerous high-end hotels opened in Hong Kong are competitive advantages for the local tourism.

Tourism Industry in PRC

Background

Tourism in China was regarded by the World Tourism Organization as one of the most rapidly developing countries⁵. And China's revenue from tourism, which is \$499 billion, is the second-most in the world. However, PRC has a bad reputation for her customer service and the lack of politeness from her civilians.

Legal environment

To further facilitate the rapid growth of tourism in PRC, the government is investigating the feasibility of a tax rebate in Shanghai, in which tourists from overseas can get corresponding tax rebate when they depart from China.

Political environment

PRC government is very supportive on the development of tourism. Part of the PRC 12th 5-year plan is to make Shanghai become a worldwide city of tourism and investing more than \$40 billion into 13 major tourism projects. And PRC government is planning to invest more than \$100 billion into Disneyland. To attract more tourists, the government also invested \$400 billion into World Expo.

Economic environment

RMB had been appreciating and is leveling off recently. The appreciation of RMB discouraged people to visit PRC. In the contrary, GDP of other countries is also

⁵ Appendix V

increasing⁶, which make their citizens more willing to travel abroad. And PRC can benefit from this increase in GDP.

⁶ Appendix VI

Real Estate Industry in Hong Kong

Background

Since late 2008, the property price in Hong Kong has been rising continuously. Until March 2011, the property price is 147% of 2008 price, approaching 1997 level. Also, as the usable area of Hong Kong flats is relatively low, the property price in Hong Kong in terms of usable area is high among the world.

Legal environment

Recently, Hong Kong government has a few policies⁷ to handle the rise in property prices. These include increasing the land supply, regulating the amount of mortgage, suppressing speculation of real estates and regulating the selling of incomplete property development.

Political environment

To minimize the intervention in the private property market by providing or subsidizing housing only to the low-income families is the main policy objective⁸ of Hong Kong government in addressing housing issues. It has two main types of housing schemes: the Public Rental Housing and the Subsidized Home Ownership Schemes.

Economic environment

Property transactions increased drastically in both the first-hand and second-hand market recently. The main reason is that there is large capital inflow from mainland.

⁷ Appendix VII

⁸ Appendix VIII

Increasing income of mainland residents and the appreciation of RMB boost the property transactions in Hong Kong.

Real Estate Industry in PRC

Background

In early 2009, China suffered from sluggish sales of property. Central government wanted to keep the GDP growth rate not lower than 8%, so it carried out the following policies.

1. Ease restrictions on purchases of second homes
2. Expand funding channels for property developers and a further cut in taxes and fees associated with property purchases

In 2010, world economy boost, thus property demand increased rapidly and it was already too difficult to stop property price from rising. In 2011, government aims to use proactive fiscal policy and stable monetary policy.

Legal environment

The government has set these rules and regulations.

1. Prohibit new home purchases by Beijing families who own 2 or more apartments and non-Beijing families who own at least 1 apartment
2. Raise minimum down-payment for second home purchases from 50 to 60% of the price
3. Allow banks to raise interest rates on mortgage
4. Launch property tax in Shanghai and Chongqing

Political environment

In order to slow down the price increase, government has done the following.

1. Tighten monetary policy

2. Provide at least 100,000 affordable apartments
3. Give housing subsidies to 20,000 low-income families

Economic environment

GDP growth in 2010 is 10.3% compared with 9.2% in 2009. Population of PRC further increases by 0.49% to 1,334,718,015. These factors cause demand for property to increase further and thus the price.

Result

The transacted area of property significantly fell⁹. We can say it's due to government's tightened measures. Nevertheless, property price increase did not slow down. Home price in 70 major Chinese cities rose 6.4 percent in 2010. In conclusion, government's measure is not effective enough.

⁹ Appendix IX

Film Industry in Hong Kong

Background

In the early 21st century, the film industry encountered a slump in ticket box.

Fortunately, in 2010, the good news in film industry is that the ticket box is increased by 30%. It had \$1.54 billion turnover in 2010. Though so, a large proportion of the ticket box is attributed to foreign movies.¹⁰

Legal environment

The HK's film classification system is well-established and clear, which has level I, IIA, IIB and III¹¹. It facilitates the creativity of producers. Besides, the regulation of illegal downloading is weak that it obstructs the development of film industry.

Political environment

Recently, the government has supported the film industry very much. It has set up a fund called Film Development Fund, which supports the projects conducive to the development of the film industry. The government has injected about \$300 million into it. Other supporting activities include Asia Film Financing Forum, HK Film Awards, etc.

Economic environment

Due to the recovery, the investment in film is increasing. Also, there are increasing trend in crews from different places in one movie.¹² Besides, the consumption pattern

¹⁰ Appendix X.

¹¹ Appendix XI.

¹² Appendix XII.

of Hong Kong people remains that they prefer foreign movies instead of Chinese movies.

Film Industry in PRC

Background

To Film Industry in PRC, 2010 is an unprecedented year. A lot of local film has broken the record of box office. Mainland has at least 10 local film received more than 1,000 million RMB.

Legal environment

There is no film classification system in PRC and the rules of examining film are very restrictive¹³. This has impeded the freedom and creativity of the producers. In addition, the government restricts the film content to moral standard; e.g, no bad guys could escape from legal sanction.

Political environment

Government has great intervention on show performance. Several famous actresses were forbidden on perform in Mainland due to political reason¹⁴. Also, the attitude on film production in Mainland is to focus on civil education rather than earning money. As a result, the choice of movie is limited in PRC.

Economic environment

In recent years, the increasing income in Mainland has led to huge investment in film industry. Thus, the number of local film production has risen. Unfortunately, the

¹³ Appendix XIII

¹⁴ Appendix XIV

consumers in Mainland are less preferable to Chinese film due to boring content. As a result, some Chinese films are not profitable.

Conclusion

We can see that Hong Kong develops a sound environment to different business. However, different challenges, such as competitors in other cities, become serious nowadays.

On the other hand, the business in China grew fast in these decades. It is foreseeable that China will become a competitive country in different aspects of business.

Methodology

We focus on the recent and updated information and news, and our major source of information is the Internet. So when we searched in the Net, we rested on the most updated news and data. Besides, we did not conduct any survey in this study because the information and analysis in our study is factual enough, so it may not be useful to conduct a survey to gather information.

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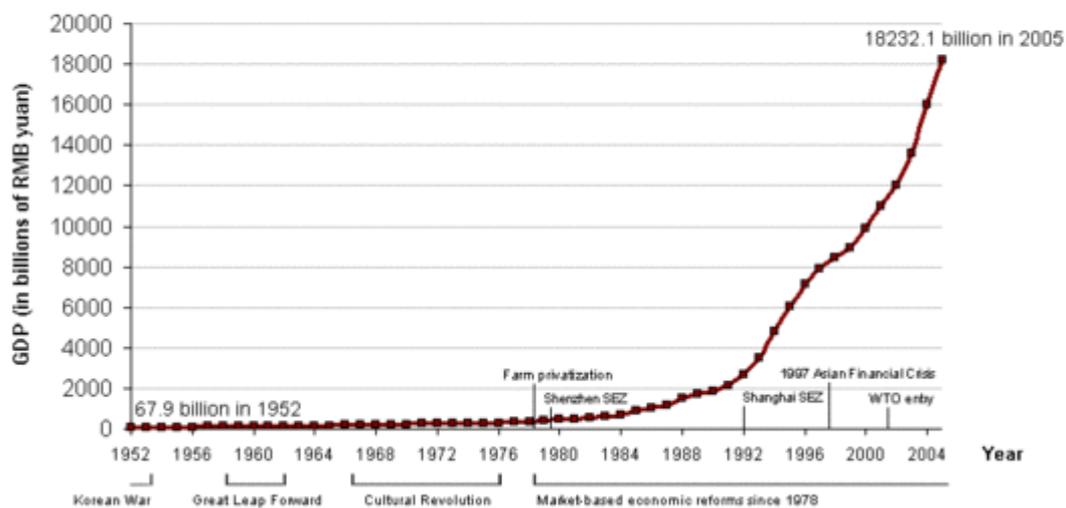
Appendix

Appendix I:

Annual Taxable Income	Tax rate (%)
0 – 5,000	5
5,001 – 10,000	10
10,001 – 30,000	20
30,001 – 50,000	30
50,001 or above	35

Appendix II:

People's Republic of China's Nominal Gross Domestic Product (GDP) Between 1952 to 2005



Appendix III:

CHINESE YUAN TO U.S. DOLLAR EXCHANGE RATE



Appendix IV:

HK tourism performance in the first half of 2010 & 2009

	Jan - June 2010	Jan - June 2009
Total Visitor Arrivals	16,856,000	+23.1%
Average hotel occupancy rate	84%	+10% points
average achieved hotel room rate	HK\$1,105	+7.7%

Appendix V:

2009

Rank	Country	International tourist arrivals
1	France	74.2 million
2	United States	54.9 million
3	Spain	52.2 million
4	China	50.9 million

2010

Rank	Country	International tourist arrivals
1	France	78.95 million
2	United States	60.88 million
3	China	55.98 million
4	Spain	53.00 million

Appendix VI:

2010 nominal GDP

	World	61,963,429
1	 United States	14,624,184
2	 People's Republic of China	5,745,133
3	 Japan	5,390,897
4	 Germany	3,305,898
5	 France	2,555,439
6	 United Kingdom	2,258,565

2009 nominal GDP

	World	58,892,848
1	 United States	14,119,000
2	 Japan	5,068,996
3	 People's Republic of China	4,985,461
4	 Germany	3,330,032
5	 France	2,649,390
6	 United Kingdom	2,174,530

Appendix VII:

《港府樓市新政四大方向》

措施：壓制投機 suppress speculation

內容：若炒風熾熱，可能調高 2,000萬元以下住宅印花稅。另準備多項如禁摩貨或規限樓花銷售對象等措施隨時出台

措施：規管樓花銷售 regulate selling of incomplete property development

內容：推出曾九招，若成效不彰，不排除會立法

措施：防止過度借貸 prevent too much mortgage

內容：考慮推出正面按揭信貸資料庫，金融機構批核樓按前可掌握買家更多信貸資料

措施：增加供應 increase supply

內容：6月及7月主動推出兩地皮拍賣，港鐵推出南昌站上蓋項目招發展意向，合共可提供 4,521伙

Appendix VIII:

Policy objectives of public housing:

The focus of the Government's subsidised housing policy should be on the provision of assistance to low-income families who cannot afford private rental accommodation
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The Government should minimise its intervention in the private property market
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The Government should maintain a fair and stable operating environment for the private property market by ensuring adequate land supply and the provision of an efficient supporting infrastructure

Appendix IX:**Result**

City	Growth rate in transacted area (Nov 2010)
Guangzhou	-64.6%
Shenzhen	-50.5%
Chongqing	-36.8%
Shanghai	-28.2%
Shenyang	-24.4%
Beijing	-0.1%
Tianjin	+0.2%
Wuhan	+15.9%
Chengdu	+31.6%

Appendix X:

The highest ticket box in 2010 in Hong Kong:

	(\$ million)
Toy Story 3	89.36
Inception	58.38
Alice in Wonderland	44.11
Ip Man 2 (葉問2)	43.31
Harry Potter and the Deathly Hallows Part1	39.28

Appendix XI:
Film Classification

級別	Symbol	Definition	Description of Symbol
Category I		Suitable for All Ages	White I in a black circle
Category IIA		Not Suitable for Children	White IIA in a black circle
Category IIB		Not Suitable for Young Persons and Children	White IIB in a black circle
Category III		Persons Aged 18 and Above Only	White III in a black or red triangle

Classified by Television and Entertainment Licensing Authority

Appendix XII:

Crews from different places in 1 movie (e.g. Hong Kong, mainland and Taiwan):

1. Shaolin(新少林寺)

Director: Benny Chan (陳木勝) (HK)

Action Director: Corey Yuen (元奎) (HK)

Producer: Han Sanping (韓三平) (Mainland)

Actors: Andy Lau (劉德華), Nicholas Tse (謝霆鋒), Jackie Chan (成龍) (HK), Fan Bingbing (范冰冰), Wu Jin (吳京) (Mainland)

2. Shinjuku Incident(新宿事件)

Director: Derek Tung-Sing Yee (爾冬陞) (HK)

Actor: Jackie Chan (成龍), Daniel Wu (吳彥祖), Chin Kar-lok (錢嘉樂) (HK), Naoto Takenaka (竹中直人) (Japan), Xu Jinglei (徐靜蕾), Fan Bingbing (范冰冰) (Mainland), Jack Kao(高捷) (Taiwan)

Appendix XIII:

Artists	Forbidden Year	Events	Release Year	Length
Chang Hui-mei 張惠妹	2001	Singing the national song of Taiwan in the inauguration ceremony of Chen Shui-bian http://renminbao.com/rmb/articles/2001/4/1/12831b.html	2004	4
Rainnie Yang 楊丞琳	2003	Misleading issue of <<The War Of Resistance Against Japan>>	2010	7

		http://enjoy.eastday.com/e/20070403/u1a2734715.html		
Lin Chi-ling 林志玲	2005	“Green Storm” 綠色風暴 http://www.chinareviewnews.com/doc/1000/2/8/1/100028171.html?coluid=21&kindid=269&docid=100028171&mdate=0911123624	2010	5

Appendix XIV:

Extracted Rules of Film Examination in PRC

第三章 電影片審查

第十二條國家提倡創作思想性、藝術性、觀賞性統一,貼近實際、貼近生活、貼近群眾,有利於保護未成年人健康成長的優秀電影。大力發展先進文化,支持健康有益文化,努力改造落後文化,堅決抵制腐朽文化。

第十三條電影片禁止載有下列內容:

- (一)違反憲法確定的基本原則的;
- (二)危害國家統一、主權和領土完整的;
- (三)洩露國家秘密,危害國家安全,損害國家榮譽和利益的;
- (四)煽動民族仇恨、民族歧視,破壞民族團結,侵害民族風俗、習慣的;
- (五)違背國家宗教政策,宣揚邪教、迷信的;
- (六)擾亂社會秩序,破壞社會穩定的;
- (七)宣揚淫穢、賭博、暴力、教唆犯罪的;
- (八)侮辱或者誹謗他人,侵害他人合法權益的;
- (九)危害社會公德,詆毀民族優秀文化的;
- (十)有國家法律、法規禁止的其他內容的。

第十四條電影片有下列情形,應刪剪修改:

- (一)曲解中華文明和中國歷史,嚴重違背歷史事實;曲解他國歷史,不尊重他國文明和風俗習慣;貶損革命領袖、英雄人物、重要歷史人物形象;篡改中外名著及名著中重要人物形象的;
- (二)惡意貶損人民軍隊、武裝警察、公安和司法形象的;
- (三)夾雜淫穢色情和庸俗低級內容,展現淫亂、強姦、賣淫、嫖娼、性行為、性變態等情節及男女性器官等其他隱秘部位;夾雜骯髒低俗的台詞、歌曲、背景音樂及聲音效果等;
- (四)夾雜兇殺、暴力、恐怖內容,顛倒真假、善惡、美醜的價值取向,混淆正義與非正義的基本性質;刻意表現違法犯罪囂張氣焰,具體展示犯罪行為細節,暴露特殊偵查手段;有強烈刺激性的兇殺、血腥、暴力、吸毒、賭博等情節;有虐待俘虜、刑訊逼供罪犯或犯罪嫌疑人等情節;有過度驚嚇恐怖的畫面、台詞、背景音樂及聲音效果;
- (五)宣揚消極、頹廢的人生觀、世界觀和價值觀,刻意渲染、誇大民族愚昧落後或社會陰暗面的;
- (六)鼓吹宗教極端主義,挑起各宗教、教派之間,信教與不信教群眾之間的矛盾和衝突,傷害群眾感情的;
- (七)宣揚破壞生態環境,虐待動物,捕殺、食用國家保護類動物的;
- (八)過分錶現酗酒、吸煙及其他陋習的;
- (九)違背相關法律、法規精神的。