eJournal of Tax Research

Volume 11, Number 3 December 2013
Special Edition: 10th Anniversary Edition

CONTENTS

ISSN 1448-2398

eJournal of Tax Research (2013) vol. 11, no. 3, pp. 342 - 374

Far east tax policy lessons: good and bad stories from Hong Kong

Richard Cullen[1]

Abstract

Some claim that Hong Kong is a remarkable tax policy museum while others say it is a centre of tax policy innovation ± who is right? In fact, both views are credible. In both cases, these outcomes are the product of a near continuous economic dia - and happenstance - set within a particularly relevant culture. Textbook policy planning has provided after-the-fact rationales far more than it has generated future policy blueprints.

This article explains why the Hong Kong Revenue Regime (RR) has such a museum feel. And also how this 'museum' development has produced an 'innovative system'. The innovation is unorthodox but real enough. Compared to most other developed jurisdictions, it has involved, above all, applying an instinctive version of µ2FFDP¶V 5D]RU¶ to system review and development: reform has been kept to the bare minimum. Hong Kong thus retains an RR which is (formally) low tax, clearly simple (with low compliance costs) and it has generated revenues sufficient to build excellent infrastructure, to provide oft first rate government services, to enable Hong Kong to stay virtually debt free and to amass huge Fiscal Reserves. All of these DFKLHYHPHQWV SLYRW IXQGDPHQWDO long-term (and continuing) reliance on significant, land based funding of public revenue. It also offers potentially important revenue policy lessons for application beyond Hong Kong ± at least, where this may still be politically possible.

But how about the bad stories? First, the cost of doing anything in Hong Kong is notably inflated by the very high cost of land ± ultimately provided by a de facto monopoly supplier: the Hong Kong Government. Further examples: the poverty gap is far wider than it should be; and planning to cope with the onset of major demographic changes is poor. This paper will clarify how the success of the RR, together with other important factors, continues to underpin unacceptable policy inflexibility.

1. INTRODUCTION

One can reasonably claim that Hong Kong is a remarkable tax policy museum and also

attempting to impose long-distance, London-devised costs and taxes in the British American Colonies in the second half of the 18th century.[7]

From a London point of view, these long-distance imposts were originally seen to be necessary to help cover local colonial expenditure in America on, for example, notably impressive. As in the case of another key East Asian, British Empire City-State,

The War Revenue Ordinance (1941) replaced its predecessor and introduced small changes, including the introduction of an additional Interest Tax and an increase in the maximum rate of taxation.[37] The new Ordinance, however, was short-lived. In December 1941, six months after its adoption, Hong Kong was occupied by the Japanese.

The new, post-war, 1947 tax legislation passed by LegCo, the Inland Revenue Ordinance (IRO), retained the basic schedular structure and the restricted territorial ambit of the War Revenue Ordinance of 1941. There were separate schedules for salaries, profits and interest originating in Hong Kong (with low tax rates). Since 1947, the IRO has been formally re-examined on three occasions, in 1954, 1968, and 1976, by Review Committees. No major alterations have been made to the IRO, however.

The 1976 review committee made the most significant recommendation for reform when it suggested that Income Tax should be assessed on total income, eliminating the separated schedular system of assessment. In 1978, the Government was still considering this recommendation but, by the following year, the authorities had decided QRW WR SXUVXH VXFK D UHIRUP 7KH *RYHUQPHQW¶V influenced by the business communit\¶V firm and vociferous opposition to tax reform.

- Until recently almost no use of Double Taxation Treaties (DTTs);[42]
- Comparatively constrained government spending;
- Very little government borrowing;
- Infrequent deficit budgeting; and
- Massive accumulated Fiscal Reserves.

The main taxes imposed (using separate schedules) by the IRO are:

- Profits Tax;
- Salaries Tax; and
- Property Tax.

Profits Tax, the most important tax in terms of revenue raised, is imposed by Part IV of the IRO. The crucial practical and legal issue is source: only profits which can be shown to have (or which, in a few limited cases, are deemed to have) a source in Hong Kong are subject to profits tax. The adherence to this source rule has been driven, to a large extent, by the desire of businesses, at all levels, to use Hong Kong as a base from which to operate without incurring tax on any offshore operations.[43] The operation of the source principle in Hong Kong has been the subject of much litigation. Overall, its application has, historically, worked fairly well, however.[44] Hong Kong remains, in practice, the last remaining first-world jurisdiction to rely so heavily on a rule which excludes from the tax net all profits which can be shown to have arisen outside of the jurisdiction.[45]

Salaries Tax, which is imposed by Part III of the IRO, is also an important funding source. Salaries Tax applies at progressive rates but it is subject to fixed percentage ‘maximum’ or ‘standard’ rate on total taxable income.[46] The Salaries Tax system is also source-based but the specified source rules in Part III (backed by case law and

---

[42] +RQJ .RQJ¶V DSSURDFK WR '77V KDV EHHQ FKDQJLQJ VLQFH K
and international campaigns against Tax Havens, the HKSAR has now signed up to over 20 DTTs. See further, Liu, Irene Jay, ‘HK Seeking Tax Treaties to Silence Tax Haven Claims’ South China Morning Post, March 31, 2012.

[43] The motivation for retaining a source-EDVHG WD[DWLRQ V\VWHP GDWHV EDFN WR + as a Free Port. This status meant that Hong Kong was a place where trading business could be done, in the 19th century, without need to be concerned about taxation, either through Customs Duties or Income Tax. As the need for some sort of Income Tax was grudgingly conceded just prior to and after World War 2 (see discussion above) the impact of the new Tax Regime was restricted from the outset by the incorporation of a source rule restricting the application of Profits Tax to profits arising within Hong Kong. This source-based taxation regime has remained highly attractive to business as Hong Kong has, since the 19th century, made the transition from trading port, to manufacturing centre to, nowadays, a sophisticated, mostly service-based economy. See, further, Cullen and Wong, op. cit note 3.

[44] Halkyard, Andrew, ‘The Hong Kong Tax Paradox’ (1998) 8 Revenue Law Journal 1, 20. This article contains a useful summary of the key cases on source.

[45] Cullen and Wong, op. cit. note 3. See, also, Major Sources of [HKSAR] Government Revenue (June 2011) at http://www.legco.gov.hk/yr10-11/english/sec/library/1011fs05_20110621-e.pdf (Profits Tax generated 29.6% of Government Revenue in 2009-2010).

[46] The term ‘flat tax’ is often used as a (rather inaccurate) short hand term in place of the more correct ‘maximum’ or ‘standard’ tax rate. See also, Major Sources of [HKSAR] Government Revenue (June 2011) at http://www.legco.gov.hk/yr10-11/english/sec/library/1011fs05_20110621-e.pdf (Salaries Tax generated 16.3% of Government Revenue in 2009-2010).

Departmental Interpretation and Practice Notes) have meant that source is less of an issue than with Profits Tax.[47]

The final schedular tax imposed by the IRO is Property Tax, which applies at a flat rate on rent received, less a statutory allowance of 20% for repairs and maintenance. Corporations owning property are exempt from property tax: they pay Profits Tax on rents received instead.

Betting Duty (on horserace, lottery and football betting) imposed by the Betting Duty Ordinance (1950), normally raise less than 10% of total revenue. Estate and Gift Duties used to be imposed by the Estate Duties Ordinance (1950) but these duties ceased to operate in 2006.[48] The yield from these duties had been quite low for some time.[49] Other comparatively minor sources of revenue include: property rates, various fees and duties (such as Excise Duties on tobacco, alcohol and petroleum products) utility charges and vehicle-related imposts. More significant, non-taxation sources of revenue include: investment and interest income (on Fiscal Reserves and direct land transaction revenues (already noted in Part 2 and discussed, further, below).

Despite this low tax regime, Hong Kong has still managed to provide public housing on a massive scale, to finance excellent transport and communications systems and comparatively sound education and health systems.[50] At the same time, it has managed to amass public foreign currency reserves of over $US300 billion.[51]

---

[47] Cullen and Wong, op. cit. note 3. See too, DIPN 10 The Charge to Salaries Tax at: http://www.ird.gov.hk/eng/pdf/e_dipn10.pdf

[48] See, Revenue (Abolition of Estate Duty) Ordinance 2005, at: http://www.ird.gov.hk/eng/tax/edu.htm See, also, Hong Kong - Abolition of Estate Duty, at: http://www.bakernet.com/NR/rdonlyres/383490-9F DAF6-403E-B6E9-ED3DC84F088A/38385/HKAbolitionofEstateDuty.pdf The argument is that, by becoming one of the first jurisdictions in East Asia to remove Death/Estate/Gift Duties, Hong Kong will: help small Hong Kong businesses with cash flow problems; encourage increased location of assets in +RQJ .RQJ DQG VWUHQJWKHQ WKH +.6$5¶V SRVLWLRQ DV D OR Abolition of estate duty helps promote HK's asset management business, at: http://www.fstb.gov.hk/eng/sfst/fstb19.htm)

[49] The Hong Kong Institute of Certified Public Accountants estimated that the EDO typically generated less than 1% of total government revenues (see, Estate Duty Review Consultation Document, at: http://www.hkicpa.org.hk/professionaltechnical/taxation/submissions/submission_201004.pdf)

[50] Cullen and Wong, op. cit. note 3.

[51]

3.3 The Fiscal Firewall

The crucial role of the Basic Law (see note 3) is to provide for a high degree of separation of the HKSAR from the Mainland (Two Systems) within the PRC (One Country). Particular effort has been put into drafting provisions in the Basic Law which are designed to install a constitutional 'fiscal firewall' between the two Tax Systems.

Article 106 of the Basic Law provides that Hong Kong is to have its own independent finances and prohibits the PRC from raising taxes in Hong Kong or sharing the +.6$5¶V WD[UHYHQXH $UWLFOH IXUWKHU SURYLG

> The Hong Kong Special Administrative Region shall practise an independent taxation system.
>
> The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.

The Preamble of the Basic Law also stresses the need to preserve the prospee eea1e6(y)11(

economies) e w eea1e6(hi)-4(n)-6ea1e-4(he)-77(co)9(nt)-4(e)9(xt)-4( )-75(o)11(f)-3( )-75(t)- recognized, too, in the Double Tax Arrangement in place which applies to the two Tax Systems. This separation is well recognized outside of he PRC and the HKSAR, for example, by 1e-4(he Aus)12(t)-4(r)7(al)-8(eeaan)9(Taxat)5(i)-4(on O)15(f)-3(f)7(i)-4(ce)-2(.)]

4.1 Introduction

I believe there ae two primary (interlocked) positive lessons to be drawn from the Hong Kong Revenue Policy experience. The paramount, evolved-innovative, policy idea is the continuing use of land, to this day, as a fundamental public e enue source.

Central Bank, in certain respects - by regulating the banking and financial systems. See, further: An Introduction to the Hong Kong Monetary Authority, at: http://www.info.gov.hk/hkma/ar2004/english/summary/summary_eng.htm; Lo, Chi, The Demise of the Hong Kong Dollar, at: http://www.chinabusinessreview.com/public/0303/commentary.html; and Greenwood, John, +RQJ .RQJ¶V /LQN WR WKH 86 'ROODU (Hong Kong University Press, Hong Kong, 2008).

The unprecedented heavy reliance by the HKSAR Government over several consecutive years following the Asian Financial Crisis, which commenced in mid- ZDV SDLG IRU RXW RI WKH *RYHU Reserves in the Exchange Fund. No borrowing was needed to fund deficits which exceeded 20% of Government expenditure in some years. This deficit financing ran for 5-6 years. Within a further 5 years, the Fiscal Reserves were fully replenished and stronger than ever (see, too, note 22). Unlike in the case of accessing add fn <s n (f)-(en-US)>> BDC BT 1 0 0/F2 12 Tf 1 0 0 1 141.86 271.25 Tm [(501.34 229.01 Tm

By conventional modern measures, Hong Kong is frequently said to have a narrow tax base.[53] We can see from the outline in Section 3.2 why this claim is made and why it is cogent. If, however, we consider the full revenue base of the HKSAR, the picture changes markedly. When land-related revenues are factored in to the public revenue calculation, it turns out that Hong Kong has, in one important way, a far more broad revenue base than probably any other (non-oil-based) developed jurisdiction. Thus, in the Forward Estimates for 2013-2014, land revenue is estimated to be 16% of total Government revenues.[54] Such revenues have exceeded 20% of total revenues in the relatively recent past.[55] This is essentially just the sum for land sales and lease modification premiums. It does not include Stamp Duties and the IRO taxes arising from income directly related to the real estate sector.

A positive concomitant of the (conventionally) narrow tax base is the clear, relative low rate, operational simplicity of the Hong Kong RR. This is the second key positive lesson which Hong Kong offers: it is possible to maintain, in the modern era, a low rate, highly effective revenue regime which is minimalist, clear and easy to comply with – where you have been able to retain a significant, land-based, revenue source. The system simplifying role of these land-related public revenues commenced in 1842. They FRQWLQXH WR XQGHUSLQ +RQJ .RQJ¶V ORZ UDWH VLP years later.

The success of this evolved-innovation also underpins the primary, bad aspects of the HKSAR RR [illegible] Hong Kong of policy inflexibility and the high on-cost effects of the land-based, revenue system.

4.2 Land-Related Revenues

We need, at this point, to revisit the land-based revenue system to understand its scope and operation in greater depth. As we saw above, from its inception, British Hong Kong did not allow (virtually) any sale of freehold land. All land was made available as leasehold land. Moreover, the practice grew of restricting the availability of land for development. This tended to drive up the price of land (towards the upper limits of what the market would accept) and revenue receipts.

The entire land management system has become self-reinforcing and, arguably,

SROLF\ OHIW WKH JUHDWHU SDUW RI +RQJ .RQJ¶V WR or zoned as public (mostly park) areas.[58]

Government policy has, predictably, had a significant upward impact on the price of land. The Government, historically, could always, it seemed, rely on accessing additional revenue by leasing land long-term (as the sole supplier) into a market with ever rising prices. The Government also takes a large fiscal bite from many secondary market transactions. Strict usage conditions are stipulated in each government lease. If a developer purchases an old building wishing to rebuild at say five times the height of the building to be replaced, the developer needs to obtain a variation to the purchased lease. To get this, the developer has to pay a substantial lease modification premium¶ to the Government.

A good way to get a feel for just how financially significant this system is, in operation, is to look at an example. In 1995, the Hong Kong Government put a parcel of land (Lot 129) of around 180,000 square feet up for sale on Ap Lei Chau, which is an island located to the south of Hong Kong island. Ap Lei Chau is connected by a causeway bridge to neighbouring Aberdeen on Hong Kong island. The whole area is densely populated. As is the case across much of Hong Kong, this high density urban areas is surrounded by wooded mountains and hills and the sea.

Lot 129 is located along the Ap Lei Chau waterfront, across a road from numerous smaller scale shipyards which service the local fishing fleet and the many pleasure junks and luxury yachts moored in the large Aberdeen Typhoon Shelter. The Government sold the Lot 129 lease±for industrial use±for just under US$30 million in 1995 to a secondary commercial-industrial developer. By 2005, two primary residential property developers had acquired a significant interest in Lot 129 (by now valued at about US$74 million). The two property developers needed to have the lease modified to allow a major, high-end residential development in several modern high-rise tower blocks. The lease modification premium±paid to the Government±to convert the lease from the original-sale industrial use to the high-end residential use was approximately US$504 million. The Hong Kong Government thus derived around US$534 million within around 10 years, from the two Lot 129 transactions.[59]

There are, of course, market limitations on just how high land eGoverK11(h l)-ong, t and s a 1

Asian Financial Crisis in mid-1997 the Government found it difficult to sell plots for residential development. Moreover, between mid-1997 and 2003, residential property values dropped by around 70%. Today those values are back at, or higher than the 1997 levels. Subject to these fundamental constraints, successive Hong Kong Governments have played a significant role in creating conditions which have typically put upward pressure on land values.[61]

In theory, one might aim to replicate this Hong Kong model of accessing land-related revenues by: (a) introducing a very high rate, annual land tax system, combined with (b) greatly increased charges for zoning changes and planning/building permits. In some jurisdictions with Bills of Rights, for example the USA, constitutional protection of (real and other) property rights presents immediate and complex challenges for any such plan.[62] Even where such constraints do not apply, such a scheme would be far less effective in terms of scope – or political feasibility – than a scheme such as that applying in the HKSAR which pivots around the core proprietorial interest retained by the Government in virtually all land. A measure of the accuracy of this view is the lack of evidence any operational example of such an alternative model capable of producing revenues at the levels enjoyed in Hong Kong, now, for around 170 years.[63]

4.3 Simple, Low Rate Tax System

The 'system simplifying role' of land-related public revenues commenced in 1842. These rather special revenue foundations depended for their success, prior to World War 1, on the then substantial legal international trade in opium and the way in which that trade consolidated the role of British Hong Kong as a major trading port and entrepot to Imperial China.

Apart from the opium-related revenues (which took decades to become significant) these land-related revenues were fundamental in allowing the colony to thrive without need to resort to any sort of direct income taxation for around 100 years. When such taxes came they were kept low and simple.

[61] 'Bubble-economy' real property values became established during the final years of British rule. Property priceSyst2(a)4(b)-6hGwrs of British .a-42(a)0(e)4(a)4(rs)32(t)-4(he)9(9681 301.4e7(8(m,5(4B-3t)9680(t)13o14(e)

it has escaped falling prey to the 'million monkeys' syndrome.

,QVWLQFWLYHO\ LI QRW DOZD\V H[SOLFLWO\ WKH PD
professional elite groups likely feel that this almost studied avoidance of detailed Revenue Policy planning is a good thing¶ with such planning comes greater understanding ± and with that, enhanced (and informed) demands for provision of particular (usually publicly-financed) services.[78]

4.4.2 The On-Cost Impact

The broad outlines of the way in which the land-related revenue system has evolved and now operates have already been set out. We need, now, to consider some more of the relevant detail, though, due to limitations of space, in a rather simplified form.[79]

It has become attractive for both the Government and major developers for (new leasehold) land for sale to be released in large very expensive lots. For developers, it means only the major members of their group (there are around 20 large-scale developers) can readily come to the market in many cases. For the Government these, usually very highly cashed-up, developers are able to pay the huge up-front lease premiums swiftly. Government rental payments on the purchased leases are minimal compared to the premiums. In a way, the Government has a limited patch¶ of highly solvent taxpayers¶ who pay vast land taxes¶ almost completely in advance.

For a range of reasons, it would make good sense to move away from the current format to one where Land Premiums were significantly reduced and, in tandem, Government Rents on those leases were lifted. This would lower the initial cost of land (and Government income) whilst providing a much fattened long-term flow of enhanced primary rental payments.[80]

For different range of reasons this is a most difficult politico-economic task. One can rely almost certainly, once more, on many of the usual the SQWs to take a stand against any such move. Moreover, both Government and big developers are accustomed to and comfortable with the current system in many embedded ways.

The consequences of the current regime, in the way in which it has developed in modern Hong Kong, however, can be highly disruptive for doing business. Sub-leases for all forms of businesses, large and small, are made more expensive by the up-front costs associated with the underlying lease. This encourages short-term leasing (to lower immediate risk), which, especially in a market of rising rents, is a key source of instability, particularly for smaller businesses.[81]

---

exchange.org/en/live/upload/files/200902_budget.pdf, where the author suggests that some may derive a certain fiscal virility ¶ satisfaction from this striking savings success.

[78] Goodstadt has noted the way in which British administration in Hong Kong maintained an active hostility to collecting economic statistics after the last War for just such reasons, see note 28 and accompanying text. Once more one can see how the roots of these Tax Lessons, good and bad, are essentially British.

[79])RU D ILUVW FODVV UHYLHZ RI WKH KLVWRU\ RI WKH land-related revenue system and its development, complete with systematic reform proposals, see: Webb, David, Hong Kong Land Lease Reform Part 1 (October 7, 2010) at: http://webb-site.com/articles/leases1.asp, and Hong Kong Land Lease Reform Part 2 (November 1, 2010) at: http://webb-site.com/articles/leases2.asp

[80] Webb (Part 2), Ibid.

[81] Ibid.

Fiscal Reserves, by the Hong Kong Monetary Authority (HKMA).[108] Notwithstanding this relocation, Land Fund Reserves are earmarked for capital works. They are transferred, for spending, in accordance with long-standing policy, into the *RYHUQPHQW¶V &DSLWDO :RUNV 5HVHUYH)XQG[109] (the HKMA manages this fund) along with all Government reserve funds (eight in total) in the Exchange Fund).[110]

Another notable feature of the land-based revenue system is the way in which it has operated in an open way, largely free of serious corruption. Given the immense sums involved, this is an important achievement. The predominantly ¶clean¶ market-driven operation of the system has been another key to its success. A combination of factors explains this outcome. There is no space here to detail them. In summary, the role of +RQJ .RQJ¶V ,QGHSHQGHQW &RPPLVVLRQ $JDLQVW ... has been significant. It is also the case that the system has been built so that most all stakeholders have developed a vested (financial) interest in maintaining its basic integrity.

The ICAC was established in 1974 as a very well resourced, fully independent anti corruption authority. As the ICAC explains:

> Hong Kong was in a state of rapid change in the sixties and seventies. The massive growth in population and the fast expansion of the manufacturing industry accelerated the pace of social and economic development. The Government, while maintaining social order and delivering the bare essentials in housing and other services, was unable to satisfy the insatiable needs of the exploding population. This provided a fertile environment for the unscrupulous. In order to earn a living and secure the services which they needed, the public was forced to adopt the backdoor route¶. Tea money¶, black money¶, hell money¶ whatever the phrase – became not only well known to many Hong Kong people, but accepted with resignation as a necessary evil.

This comparatively low corruption environment has been very good both for doing business and living life, for ordinary residents. Business and ordinary residents are both firm supporters of the HKSAR's low rate, minimalist income Tax system.[113] The second significant positive lesson which Hong Kong offers is, thus, that it is possible to maintain, in the modern era, a highly effective revenue regime which is minimalist, clear and easy to comply with. This second positive example depends greatly on the first policy innovation (although other factors also are important).

The success of this evolved-innovation also underpins the primary, bad aspects of the HKSAR RR, however. Two examples stand out: notable, extreme policy inflexibility; and the high on-cost effects of the land-based, revenue system.

Briefly, habits of wariness about long-term Revenue Policy planning shared over many decades by both Government and, especially, big business and its advisers are well entrenched in the HKSAR.[114] On the positive side, many argue with some cogency, that the long-term, 'keep it simple' approach has worked so remarkably well, there is no need for complex forward planning in this area. This perspective is reinforced by the view that the time-proved, preeminent mode of planning for the future is to save with gold medal vigour, which is just what Hong Kong has always done. Less positively, such planning is seen as a trigger for enhanced public expenditure designed to shift Hong Kong away from its residual welfare state model.

The land-based revenue system means that the effective monopoly supplier of land, the Government, has a powerful vested interest in maintaining high land prices. Two of the most clear adverse, on-cost consequences of this are: high (often very high) entry prices to achieve any sort of home ownership; and an inflation impact on the provision of most goods and services due to the high costs of renting or buying business premises.

A major housing crisis has been avoided, though, above all by the Government building Public Rental Housing (PRH) and subsidized owner occupied housing[115] on a massive scale. This programme began in earnest in the 1950s after a major fire in a squatter settlement in Shek Kip Mei left some 50,000 people homeless in December, 1953. It

Once the Government had settled on this policy, it was able to provide all the necessary land for building without any direct acquisition costs. Moreover, the land-based revenue system was a major factor in helping to fund this massive new building programme.

The Hong Kong Housing Authority, created in 1972, remains the primary body responsible for running this system and for building new public housing. The Housing Authority estimated total capital expenditure for the 2013-14 financial year at US$1.5 billion approximately. Total cash and investment reserves for the Housing Authority at the close of the same year are estimated at US$8 billion.[117] Annual production of new Housing Authority rental flats ranges from 13 000 to 20 000 over the four year period from 2012.[118] The total stock of existing PRH flats is over 760 000.[119]

The very high densities of residential accommodation in Hong Kong (public and private) have been fostered significantly by the land-based revenue system. By restricting land supply, the Government has husbanded its 'land bank' and helped ensure the best price for all released land (and high redevelopment premiums). This system has also ensured that residents enjoy one of the very best, low cost public transit systems in the world. Moreover, communications systems are first rate and access to health, hospital, educational, recreational and shopping etc facilities are also highly regarded. A further advantage is that almost all Hong Kong residents live within a relatively short, regular-service bus ride to hillside country parks. Beaches are readily accessible, too.

The higher costs of service provision noted earlier, arising from the land-based revenue system are also offset in a number of ways. The MTR system subsidizes its transport service through development rights it enjoys which are typically linked to newly built MTR lines and stations. The very high densities (and low car usage due to high garaging costs, inter alia) help build in viability for the extensive bus, mini bus and taxi networks. The Government also subsidises all bus and taxi services through fuel excise relief mechanisms.

The lack of any 7.85 Tm [(Ther)-3(v)11(i)-4(ce)8( )-4MC /P <</ET BTii its lines and ed 0T[(T

to offer a clearly prioritised social-justice platform. This policy agenda is focussed, above all, on issues like basic hous

level, thisis particularly so when the State has retained significant rights over most or all land in a given jurisdiction).[127]

$V WKH GLVFXVVLRQ DERYH KDV VKRZQ PRGLILFDWLR -based revenue system are warranted generally and also because it has produced certain troubling side effects. Notwithstanding these concerns, there remains a strong, in principle argument, that the retention of a core proprietary in all land by Government is (and has proved to be) fundamentally in the public interest; this core interest is retained, ultimately, for the benefit of all Hong Kong residents.

As it happens, Governments in numbers of developed jurisdictions, which have allowed the full or near complete alienation of surface rights of economically valuable ±land supply of low-cost public housing has been vital to the success of the system. It has done this by building (and continuing to build) Public Rental Housing on a vast scale and by subsidizing the means-tested purchase of owner-occupied housing by the less wealthy, accounting (in combination) for around 50% or all housing in Hong Kong, still.

The high density (public and private) housing model has resulted in smaller living spaces – but it has also enabled provision of world-class, low-cost public transport and communication services coupled with, usually, good-excellent access to all services, including schools/education, health care/hospitals, recreational amenities and excellent shopping facilities. This development model also facilitates easy access to extensive country parks and other green areas for residents, which is hard to find in any other city of comparable size.

Next, the model has been developed so that most all the stakeholders have come to see that they have a vested interest in maintaining the governance-integrity of the system. The very effective work of the ICAC, constantly 'riding shotgun' around the system (for around four decades, now) has helped significantly in convincing players and maintaining their perception of this vested interest.[130] This 'must-have-stick' has been deeply supported by the 'carrot' of the low rate, simple Tax System, which has significant roots in the land-based revenue regime. Within this framework, an often pulsating free market normally operates at both wholesale (developer) and retail levels – ensuring market mechanisms largely remain vital in allocating scarce land resources.[131]

That part of the very significant Fiscal Reserves referred to as the Land Fund of the Hong Kong Government, currently suffers from being too restricted in terms of how they may be spent. What is clear, however, is that they have never been allowed to become a general approach served Hong Kong comparatively well from the outset.[132] This strategy for limiting systemic, high level (and later, all level (with the help of the ICAC)) public corruption was maintained and continues to be maintained in Hong Kong ± it is an important component in the achievement of continuing low-corruption scores on international comparative studies.[133]

5.3 State retention of a core proprietary interest in land ± policy possibilities

First, we should note some basic parameters and some clear human development trends. Total World population reach 7 billion in 2011. Although population growth has slowed somewhat, it is still expected to reach 8 billion by 2025 and over 9 billion by 2050.[134] In the early 20th centXU\ RI WKH :RUOG¶V SRSXODWLRQ OLYH the figure was less than 40%. By 2010, it exceeded 50%. By 2050, it is estimated that RI WKH :RUOG¶V SRSXODWLRQ ZLOO EH XUEDQL]HG[135]

This massive shift to urban living, across the World, can clearly only be achieved with some measure of success for those involved if intelligent Government planning and management apply. It equally follows, in the view of many, that these massive changes in the way most people live, will have to rely heavily on high to very high density living, not least to limit the carbon footprint¶ impact of these changes.[136]

I believe that these future urbanisation assumptions are basically sound. The potential

fraud and related hazards such a system generates. But if you can put in place a robust and comprehensive governance and market framework, this sort of system works. It can deliver decent, basic housing, potentially for all, and back that up with significant, long-term public fiscal benefits. It is hard to see an alternative, better, tried and tested model, which could help cope with the consequences of the coming vast, world-wide urbanization in a more practical and humane way. That is, where adopting a Hong Kong style model is still legally and politically possible.