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By post

Economic Development Branch (Division A)
Economic Development and Labour Bureau
2/F., Main Wing, Central Government Offices
Lower Albert Road
Central, Hong Kong

Dear Sirs,

**A Public Discussion Document on the Way Forward for
Competition Policy in Hong Kong**

We write to provide our comments in response to the above document published by the Economic Development and Labour Bureau in November 2006.

Overall we support that efficient competition is important to promote economic efficiency and provide a level playing field for all businesses, thereby ensuring best use of resources for the economy. Throughout the years, the Hong Kong SAR Government has been successful in liberalising individual industries / sectors and fostering an overall competitive environment. These continued efforts have enabled Hong Kong, consecutively for the 13th year, to be ranked the world's freest economy by the Heritage Foundation. As a result, we note that most sectors in Hong Kong, including the banking sector, is already highly competitive and market forces have been serving consumers' interests sufficiently well in most cases. For example, in the banking sector, residential mortgage borrowers have benefited from intense competition which has driven the average effective mortgage rate from around Best Lending Rate plus 1% in mid-1998 to the present minus 3% level. The average net interest margins of banks in Hong Kong also contracted further down from above 3% before the liberalisation of interest rates in 2001 to 1.8% in 2006, a level below 2.2%¹ of Australia and 3.4%² in the US.

The above success underlines not only that we should continue to strive to promote free competition to enhance Hong Kong's economic well being but also that we should use the

¹ Q2 2006 data for Australia

² Q3 2006 data for the US

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Vice Chairmen Bank of China (Hong Kong) Ltd
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Secretary Florence Hui

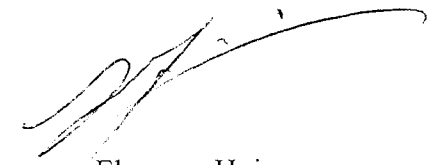
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most simple and efficient means to achieve this goal. From this perspective, we consider that it would be appropriate for the Hong Kong SAR Government to continue its current regime in ensuring a level playing field and a high level of competition to maintain Hong Kong's leading position as an international business and financial centre, attracting overseas investors as well as maintaining investor interest. The introduction of a formal framework to implement competition policy therefore may not necessarily be most beneficial. Alternative measures could be considered to finetune the market structure of certain sectors if necessary to facilitate competition in specific markets and address the issues with anti-competitive behaviours more fundamentally.

We hope the above input would be useful for your consultation. We welcome further opportunities to share our views with the Government and look forward to continuing to work closely together for the future development of Hong Kong.

Yours faithfully



Florence Hui
Secretary

