

**For information on  
12 July 2004**

## **Legislative Council Panel on Commerce and Industry**

### **Proposal for a Border Industrial Zone**

#### **Purpose**

This paper outlines the Administration's preliminary views on the proposal of developing an industrial zone in the Lok Ma Chau (LMC) Loop.

#### **Background**

2. There have been some discussions in the community about the development of the LMC Loop. Various views and proposals have been expressed through different forums and channels. In the context of the public consultation for the "Hong Kong 2030: Planning Vision and Strategy" Study, we have also received many views on the subject. Feedback from the consultation shows that there is a lack of consensus on how the LMC Loop should be developed. The majority of the views received during the consultation are in favour of maintaining the status quo in view of the environmental issues and the hefty site formation costs involved in development. In particular, the green groups have expressed serious reservation on the proposed development of the Loop given the existence of some four million cubic meters of mud of which one million cubic metres are contaminated, the lack of infrastructure to support development and the environmental and ecological impacts of development on the ecological balance in the Loop and its neighboring areas.

3. Those who support the development of the Loop have diverse views on the usage. Suggestions include turning the Loop into -

- a university town;
- a research and development base (subject to Mainland experts and labour being allowed to be imported to run the base);
- a bonded area;

- a recycling plant;
- a logistics park;
- community facilities;
- golf course;
- a commercial and tourism node;
- a trade expo;
- an area for expansion and co-location of boundary control facilities; or
- a manufacturing base.

4. Of the above, the suggestion of developing the Loop into a manufacturing base comes mainly from some industrialists who at the same time have requested that the land should be made available free or at very low cost with the rider that there must be free import of Mainland labour. However, many other industrialists hold a different view. They maintain that since most of Hong Kong's industrialists have already relocated their manufacturing activities to the Pearl River Delta region where they have firmly established their business, it would be difficult for them to move back to the LMC Loop in view of the high wages and high cost of utilities services in Hong Kong.

5. There are also views that the Government should seriously reconsider the cost-effectiveness of developing the LMC Loop, given the hefty costs related to the treatment of contaminated mud and the construction of infrastructural facilities there. Since there are formed and serviced sites in the urban areas of Hong Kong, including the under-utilized industrial districts, and in the New Territories, the Government should give priority to exploring the development potentials of these sites.

#### **Administration's preliminary views on developing an industrial zone in the LMC Loop**

6. The Legislative Council passed a motion on 11 February 2004 urging the Government to expeditiously formulate planning and support measures which are conducive to the development of a border industrial zone, take the initiative to consult the relevant Mainland authorities, and discuss with the Shenzhen Municipal Government to explore the setting up of a Hong Kong-Shenzhen river-loop area development company to jointly

develop a border river-loop industrial zone.

7. The Administration's preliminary views on developing an industrial zone in the LMC Loop, as expressed at the motion debate in the Legislative Council on 11 February 2004, are as follows:

- (a) The import of labour from the Mainland to the proposed industrial zone in the LMC Loop is a very controversial issue. The industrial and business sectors must first reach a consensus with the labour sector before the proposal of developing an industrial zone could be further considered;
- (b) Since the mid-1980s when labour-intensive manufacturing activities began to move to the Mainland on a notable scale, a large amount of industrial premises (distributed mainly in Kwun Tong, Kwai Chung, Chai Wan, San Po Kong and Wong Chuk Hang) have become surplus and not put to full use. The impact of a border industrial zone on the occupancy rate of existing industrial premises calls for careful assessment;
- (c) Under the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA), Hong Kong products, irrespective of where in Hong Kong they are manufactured, can enjoy the zero-tariff benefit when exported to the Mainland as long as the CEPA-origin requirements are met;
- (d) The cost of developing the LMC Loop area is not low. It requires site formation and basic facilities such as roads, water, electricity and gas will have to be supplied. Another major problem is the handling of the contaminated mud deposited in the area. We need to carefully consider the environmental implications of the development against the associated economic benefits;
- (e) The cost structure in Hong Kong, particularly labour and land costs, is not conducive to the development of labour-intensive industries or to attracting the return of those labour-intensive manufacturing operations that have migrated to the Mainland. We should encourage high value-added and high-tech industries with substantial creativity and intellectual

property input to develop in Hong Kong. It would not be pragmatic to rely on the establishment of a border industrial zone focusing on labour-intensive processes to resolve the unemployment of low-skilled workers in Hong Kong; and

- (f) Given its unique location, discussion with the Mainland authorities is conducive to the future development of the LMC Loop. We need to engage the Shenzhen side to jointly explore feasible ways to address various problems associated with its development and come up with desirable uses that will bring benefits to both Hong Kong and Shenzhen.

### **Way Forward**

8. At the meeting with the Shenzhen officials led by Mayor Li Hongzhong on 17 June 2004, the Chief Secretary for Administration and Mayor Li exchanged preliminary views on the development of the LMC Loop. As the development of the Loop would involve a number of issues, including land use rights, treatment of contaminated mud, environmental concerns, provision of supporting infrastructure and transport network as well as development costs, both sides agreed that further discussion and study need to be conducted.

**Commerce, Industry and Technology Bureau**  
**Housing, Planning and Lands Bureau**  
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