

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Programme Rundown**

Date : 11 September 2006 (Monday)

Time : 08:30 – 19:00

Location : 6/F, Hong Kong Convention and Exhibition Centre (Harbour Road Entrance)

**Plenary Discussion : Challenges and Opportunities Arising from
China’s 11th Five-Year Plan from an Overall Perspective**

08:30 – 12:50

(Room 601)

08:30 – 09:00 Registration

09:00 – 09:10 Opening Remarks by the Chief Executive

09:10 – 09:40 Presentation on the National 11th Five-Year Plan

*(Mr XU Lin, Director General of the Department of Fiscal and
Financial Affairs, National Development and Reform Commission)*

09:40 – 10:10 Presentation on the Guangdong Province’s 11th Five-Year Plan

*(Mr CHEN Shan-ru, Director of the Guangdong Development and
Reform Commission)*

10:10 – 11:10 Plenary Discussion

11:10 – 11:20 Coffee Break

11:20 – 12:50 Plenary Discussion (cont’d)

~ End of the Plenary Discussion Session ~

Photo-taking Session and Lunch

12:50 – 14:00

(Room 608)

12:50 – 13:00 Group Photo

13:00 – 14:00 Lunch

Concurrent Focus Group Discussions, 14:00 – 17:00

◆ **Trade and Business (Room 604)**

◆ **Financial Services (Room 605)**

◆ **Maritime, Logistics and Infrastructure (Room 606)**

◆ **Professional Services, Information & Technology and Tourism (Room 607)**

14:00 – 15:15 Concurrent Focus Group Discussions

15:15 – 15:30 Coffee Break

15:30 – 17:00 Concurrent Focus Group Discussions (cont'd)

~ End of the Concurrent Focus Group Discussion Session ~

Press Conference by the Chief Executive

18:00 – 19:00

(Room 601)

18:00 – 18:05 Opening Remarks by the Chief Executive

18:05 – 18:10 Overview of Focus Group Discussions by the Financial Secretary

18:10 – 18:15 Report by the Convenor of the Focus Group on Trade and Business

18:15 – 18:20 Report by the Convenor of the Focus Group on Financial Services

18:20 – 18:25 Report by the Convenor of the Focus Group on Maritime, Logistics and Infrastructure

18:25 – 18:30 Report by the Convenor of the Focus Group on Professional Services, Information & Technology and Tourism

18:30 – 18:35 Concluding Remarks by the Chief Executive

18:35 – 19:00 Question and Answer Session

~ End of Programme ~

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
The Opportunities and Challenges Presented by the
11th Five-Year Plan and the Outlook for Hong Kong**

Executive Summary

(Translation)

The National 11th Five-Year Plan unequivocally “supports Hong Kong’s development on fronts such as financial services, logistics, tourism and information services, and the maintenance of Hong Kong’s status as an international centre of financial services, trade and shipping”. The HKSAR Government and the various sectors of the HKSAR have to examine seriously the opportunities and challenges arising from the 11th Five-Year Plan and make proactive and concrete response early in order to provide fresh growth impetus to the Hong Kong economy and at the same time contribute to the economic development of our country.

2. Financial services industry is the most important one amongst all major industries for Hong Kong in the future. Although Hong Kong is a major international financial centre in the Asia-Pacific region, it is still a far cry from international financial centres like New York and London. In the past, Hong Kong was restrained by the relatively small scale of our economy. The Central Government’s continuous effort in expanding and reforming the financial services industry during the 11th Five-Year Plan period, however, is providing a broader scope for the development of the financial services industry in Hong Kong. In the face of the rapid expansion of the financial services industry globally and regionally, Hong Kong must substantially raise its position as an international financial centre. Hong Kong has to give full play to its financing role for the

Mainland at the international level, the local level and in respect of gradual internationalisation of the renminbi, strengthen the financial infrastructural linkage between the Mainland and Hong Kong, and enhance Hong Kong's role as an investment and risk management platform. In respect of business expansion, Hong Kong can explore the possibility of further developing the commodity futures market, foreign exchange futures contract market, the insurance industry as well as asset management. It is also necessary for Hong Kong to examine in detail the regulatory standards of other advanced financial centres as well as the practices of promoting market development so as to learn from their experiences. Hong Kong needs to on one hand attract enterprises and capital from the Mainland to use Hong Kong as their financial centre, and on the other maintain our highly internationalised financial services industry.

3. The continuous economic development of China during the 11th Five-Year Plan period will help enhance the status of Hong Kong as the leading international trading centre of China. In the light of China's development strategy of independent innovation under the 11th Five-Year Plan, Hong Kong, with its favourable conditions for the development of innovation and technology, can play an active role to promote the use of innovation and technology in the industries of Hong Kong and the Mainland, in particular the PRD, to upgrade skills and develop brands. Moreover, trade in services has been playing an increasingly important role in the Hong Kong economy in recent years. Under the promotion of the 11th Five-Year Plan, the Mainland will vigorously develop business services such as legal services, accounting, consulting, information services and tourism, and will also encourage qualified enterprises to "go out" to tap the international market. Hong Kong's business services providers should strengthen their cooperation with the Mainland counterparts and expand businesses between the two places through CEPA. Hong Kong should also facilitate more services providers to come to Hong Kong to develop and at the same time assist the local services sectors to improve their competitiveness so as to further enhance Hong Kong's position as an international service platform, a "cosmopolitan city renowned for its services".

4. The maritime, shipping and logistics industries are closely related with one another. Enhancing the competitiveness of our logistics industry thus forms an essential part of the efforts towards reinforcing Hong Kong's status as an international maritime centre. In the face of the opportunities and challenges brought about by the 11th Five-Year Plan, Hong Kong

should make appropriate adjustments in its relevant policies and measures so as to strengthen our position as an international maritime centre. Hong Kong should strive to realise fully the strengths of the container transport system rendered by the Hong Kong port and other coastal ports in the PRD region, and avoid wastage of resources and the possible unhealthy competition amongst the ports. In this connection, Hong Kong should seek more communications and coordination with different regions and cities in the Mainland on the planning of transport infrastructure, and strengthen the water, land air transport linkages with most of the cities in the Pan-PRD region. In order to enhance the competitiveness of our logistics industry, the Government needs to make efforts to increase the efficiency of the cross-boundary cargo movements, promote the application of information technology in the logistics industry, and provide additional back-up land around the terminals, etc. As regards air transport, the Government will strive to extend our air transport network and actively coordinate with the Mainland and Macau authorities to explore ways of increasing efficiency in air traffic control. Besides, the Airport Authority and its business partners are making significant investments to further enhance the facilities and efficiency of the Hong Kong International Airport.

5. To sum up, Hong Kong should bring its unique advantage of “One Country, Two Systems” into play more effectively, reinforce its status as the bridge between the Mainland and the overseas market as well as its advantages as a leading international city, and further enhance its ability to “introduce foreign capital and technology and establish domestic connections”. This will enable Hong Kong to meet the increasingly keen competition in the region and make substantial contributions to the modernisation of China’s economic development and its integration with the international economy. The key overall strategies of Hong Kong in response to the 11th Five-Year Plan include: (1) enhancing the international character of Hong Kong and sharpening its international competitive edges; (2) strengthening the communication, cooperation and integration of Hong Kong with the Mainland, particularly with the PRD; (3) strengthening the training and pooling of talent; (4) enhancing environmental protection to reinforce Hong Kong’s position as a cosmopolitan city in Asia; and (5) strengthening “Hong Kong” as a unique brand.

Economic Analysis and Business Facilitation Unit
Financial Secretary’s Office
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
The Opportunities and Challenges Presented by the
11th Five-Year Plan and the Outlook for Hong Kong**

(Translation)

Purpose

This paper aims to examine the opportunities for and challenges to the Hong Kong economy presented by the implementation of the 11th Five-Year Plan, and analyse Hong Kong's roles and functions in the economic and social development of our country. In particular, the 11th Five-Year Plan unequivocally “supports Hong Kong’s development on fronts such as financial services, logistics, tourism and information services, and the maintenance of Hong Kong’s status as an international centre of financial services, trade and shipping”. This paper provides some strategic analyses of and suggestions on how to develop Hong Kong’s international financial, trading, and maritime centres so that Hong Kong could achieve and keep top world rankings in these areas.

Background

2. The 11th Five-Year Plan has laid down new goals and tasks for China's future development, symbolising a big step forward into a new stage of continued rapid growth of the national economy to attain coordinated and healthy development and an overall improvement of the society on the basis of the rapid economic development attained under the 10th Five-Year Plan. Efforts will be made to reinforce scientific

development, improve independent innovation capability, perfect institutional mechanism, and promote social harmony (please refer to **Annex 1** for the highlights of the National 11th Five-Year Plan). On the premise that our country aims to change the development concept to promote sustainable development by expanding domestic demand, optimising industrial structure, conserving resources and protecting environment, enhancing independent innovation capability and so forth, the HKSAR Government and the various sectors of the HKSAR have to examine seriously the opportunities and challenges arising from the 11th Five-Year Plan and make proactive and concrete response early so as to ensure that Hong Kong can effectively play up its advantages in “leveraging on the Mainland while engaging the world at large” in the course of our country’s comprehensive efforts in economic development, provide fresh growth impetus to the Hong Kong economy and at the same time contribute to the economic development of our country.

3. The 11th Five-Year Plan also proposes that the regions where city agglomeration has already formed should continue to perform the leading and radiation functions, and strengthen work division and cooperation and advantage complementarity of all cities in the city agglomeration to enhance the overall competitiveness of the agglomeration. Against this background, Hong Kong should, in response to the concrete development programme made under the Guangdong’s provincial-level 11th Five-Year Plan, consider how to enhance the integration and collaboration with the city agglomeration of the PRD region, timely complement and align well with the development of the integrated transport infrastructure in the PRD region, and bring into full play its functions as an international city economy (for the highlights of the Guangdong’s provincial-level 11th Five-Year Plan, please refer to **Annex 2**).

4. What is more directly related to Hong Kong is that the 11th Five-Year Plan unequivocally “supports Hong Kong’s development on fronts such as financial services, logistics, tourism and information services, and the maintenance of Hong Kong’s status as an international centre of financial services, trade and shipping”. The Central Government has not only reaffirmed its recognition of Hong Kong’s advantages, but also indicated Hong Kong’s roles and functions in the development process of our country.

5. In the following paragraphs, we will focus our discussion on the strategic approach to maintaining and enhancing Hong Kong’s status as

international financial, trading and maritime centres, and how Hong Kong should respond to the opportunities and challenges presented by the 11th Five-Year Plan.

Development as an international financial centre

6. Financial services industry is the most important one amongst all major industries in the future. As Deng Xiao-ping put forward, “Financial services are the core of the modern economy.” In the face of keen competition under the new situations, the way through which Hong Kong could maintain and enhance its position as an international financial centre so as to provide impetus for economic development is a crucial aspect in preserving its leading edge.

7. After years of development, Hong Kong has become a major international financial centre in the Asia-Pacific region. The direct contribution of Hong Kong’s financial services industry to Gross Domestic Product (GDP) was 12.2% (in 2004), and nearly 180 000 people were engaged in the industry. Of the 100 largest banks in the world, 69 have a presence in Hong Kong. In 2005, Hong Kong’s stock market ranked 5th worldwide in terms of equity funds raised and first in Asia in terms of equity funds raised from Initial Public Offer (IPO). In terms of market capitalisation, the Main Board and Growth Enterprise Market together ranked 8th worldwide and second in Asia. According to the research conducted by the Hong Kong Exchanges and Clearing Limited (HKEx), the turnover of listed covered warrants in Hong Kong was the largest in the world in 2003. Our asset management activities have been expanding rapidly, with combined fund management business registering an average annual growth of 25% in the past five years and exceeding \$4,500 billion at the end of 2005. In spite of fierce competition from other financial centres in the region, Hong Kong remains the premier choice for regional headquarters and offices in the Asia-Pacific region for many private equity funds and hedge funds. The service quality, professional knowledge and efficiency of the professional services related to financial services industries, including accounting, management consulting, law, actuarial services, are in the leading position of the world.

8. Nevertheless, Hong Kong cannot afford any complacency over its past achievements. As shown in **Annex 3**, the financial services industry of London, New York and Tokyo in economic value added terms was more than 2 times, 3 times and 5 times respectively larger than that of Hong

Kong. According to a research conducted earlier by the Hong Kong Monetary Authority (HKMA), the direct economic contribution of financial services industry to New York was about 30%, considerably higher than the 12% for Hong Kong. After years of efforts by the Government and the HKMA, the outstanding balance of issued bonds was equivalent to 56% of Hong Kong's GDP, far below the average level of over 100% for the advanced countries. Turnover of the foreign exchange market ranked sixth in the world, but is over the years falling behind other financial centres in the higher ranks. As the energy and commodities futures markets failed to develop, the financial services industry of Hong Kong has not been able to benefit from the opportunities brought by the rising demand for risk management and consultancy services amidst the price surges and fluctuations in the past few years. Also, innovation is the most crucial element in the success of financial services industry. Yet Hong Kong in the past could only follow the international trend in popular or fast evolving ambits in financial services industry, and has not been able to stay ahead of its peers. For instance, the real estate investment trusts (REITs) have been developing for over two decades in such areas as the United States and Australia, and have been relatively mature. Yet the first REIT was only listed in Hong Kong in 2005, three years later than Singapore.

9. The development of financial services industry in Hong Kong has been restrained on one hand by the relatively small scale of our local economy, and on the other, by the co-existence of several financial centres in Asia, which has hindered the formation of a hub with a scale similar to that of New York or London. Without economies of scale, Hong Kong has not yet been able to stay ahead of the global race in many areas of financial services. Nonetheless, the emergence of China and the Central Government's continuous effort in reforming the financial services industry during the 11th Five-Year Plan period will gradually change these constraints, and provide a broader scope for the development of Hong Kong's financial services industry. Moreover, the rapid development and gradual integration of the Asian economies have also brought new opportunities. Wealth management in Asia, for instance, has become one of the extremely prosperous yet challenging businesses in our financial services industry, and also involves broad coverage of services, products and customers. Therefore, it is necessary to examine in depth how to further develop Hong Kong as an asset management centre in the region, encourage innovation in financial products and broaden our client base.

10. At the same time, other financial centres in the Asia-Pacific region have been expanding rapidly. Both Shanghai and Beijing intend to be China's financial centres. Other cities in the region such as Singapore, Sydney and Seoul have also been vigorously promoting various ambits of their financial services businesses. Moreover, the trend of free flow of capital in a global context would lead to the concentration of certain financial activities and the clustering of talent in the larger, more liquid European and American markets with a wide variety of products. This reinforces the leading edge of the leading countries, which poses challenges to financial centres in the Asia-Pacific region and brings increasing pressure on their integration. Under such circumstances, Hong Kong must further step up its development efforts and create synergy as soon as possible, so as to significantly raise its status as an international financial centre.

11. Local financial regulatory and related bodies, including the HKMA, Securities and Futures Commission (SFC), Office of the Commissioner of Insurance, and HKEx etc., have made significant contributions to the protection of investors, the regulation of financial intermediaries, the enhancement of professional standards and the promotion of market development of the industry. Hong Kong's reliable and sound regulatory system has been recognized internationally. Nonetheless, stakeholders have opined from time to time that regulatory requirements in Hong Kong sometimes do not align well with the fast evolving global market. Certain regulatory ambits, methods and standards are over-demanding, thus bringing high compliance costs, hampering financial innovations and restraining the further developments in certain financial areas.

12. Hong Kong has to continuously examine in depth the issues on how the Government and regulatory bodies could strike a balance between market development and maintenance of international regulatory and governance standards while avoiding role conflict, and on how the communications between the Government and various regulatory bodies, and the stakeholders could be further improved. It is worthwhile for Hong Kong to examine in detail other advanced financial centres in respect of regulatory standards in various businesses and ambits of financial services as well as the practices of promoting market development, and to compare Hong Kong with them so as to learn from their experiences.

13. With the rapid rise of the Mainland economy, many Mainland enterprises have been assessing to various kinds of bank loans and

financing through Hong Kong. Since 1990s, Hong Kong has become a major listing and fund-raising centre for Mainland enterprises. Between 1993 and June 2006, Mainland-incorporated (H-shares), Mainland-related (red-chips) companies and private enterprises together raised a total of over \$1,240 billion, accounting for over 50% of total equity funds raised in Hong Kong over the same period. As at end-June 2006, a total of 350 Mainland enterprises were listed in Hong Kong stock market. It is believed that the steady economic growth of the Mainland, further reform and opening up of its financial markets under the 11th Five-Year Plan, and the expected internationalization of the renminbi (RMB) in a gradual and orderly manner will bring new challenges as well as opportunities to the financial services industry in Hong Kong.

14. Although the 11th Five-Year Plan unequivocally supports the maintenance of Hong Kong's status as an international financial centre, we should not take for granted that Mainland enterprises will continue to make use of Hong Kong as their fund-raising platform. Moreover, when the RMB capital account becomes fully convertible, international investors could enter the Mainland market directly and may no longer use Hong Kong as a springboard for their Mainland investments. Also, when the Mainland financial market becomes fully liberalised, market activities at that time might shift to the larger and more liquid Mainland market, leading to the gradual fading-out of Hong Kong's function as an international financial market. Furthermore, when the RMB turns into an international currency, other financial centres in the region will be Hong Kong's competitors in the provision of RMB-denominated financial services. Hong Kong can never overlook any of these new challenges.

15. On the other hand, the reform and development of the financial services industry of the Mainland brought new opportunities to the financial services industry in Hong Kong. In the area of RMB business, Hong Kong is the first place where banks are allowed to provide RMB services outside the Mainland. Building on the RMB business currently allowed to operate, Hong Kong can get ahead of others and develop RMB-denominated financial business gradually. Moreover, Hong Kong can make considerable contribution to helping our country in developing risk management in various ambits so as to maintain the financial stability of the country and the Asia-Pacific region as a whole. As Hong Kong has some experience in developing the commodity futures market, foreign exchange futures contract market and the insurance businesses, we suggest conducting further studies in these three areas so as to explore the

possibility of developing these businesses in Hong Kong. Paper Ref. 2006ES/5 will provide more details.

16. Specifically, in view of the challenges and opportunities arising from the financial reform and liberalisation under the 11th Five-Year Plan, for Hong Kong to give full play to its role of financial intermediation for the Mainland at the international level, the local level and in respect of internationalisation of the RMB, the development strategies of our financial services industry must include enhancing the “access for” Hong Kong’s financial institutions and financial instruments to the Mainland, reinforcing Hong Kong’s position as a gateway for Mainland capital and Mainland financial institutions to “go out”, enhancing the capability of Hong Kong’s financial system in handling transactions denominated in the RMB, as well as strengthening the financial infrastructural link between the Mainland and Hong Kong. This will not only help speed up the reform of the Mainland’s financial system but also maintain Hong Kong’s status as an international financial centre. Paper Ref. 2006ES/4 will provide more details on these strategies.

17. Internationalisation is not only one of the competitive strengths of Hong Kong as a financial centre, but also the fundamental underpinning the all-round development of our financial services industry. We need to on one hand attract enterprises and capital from Mainland to use Hong Kong as their financial intermediation and investment platform, and on the other maintain our highly internationalised financial services industry and promote Hong Kong as an international investment and risk management platform. The Financial Services and the Treasury Bureau, for instance, has already invited SFC and HKEx to jointly examine how to further facilitate the listing of overseas companies in Hong Kong in order to consolidate Hong Kong’s position as an international financial centre

18. To significantly increase the share of the financial services industry in our GDP is not merely a discussion subject for the industry itself. This subject not only requires the coordination of the market, investors, the HKSAR Government and the regulatory bodies, but also involves a number of policy areas, including professional services, training and flow of talent, environmental improvement, supply of Grade A offices in prime locations, and other complementary measures such as increasing the places in international schools.

Development as an international trading centre

19. Free trade has long been a distinguishing mark of Hong Kong and also the foundation for the development of the Hong Kong economy. In 2005, Hong Kong's total trade in goods reached HK\$4,579.6 billion (US\$592.9 billion), which ranked eleventh in the world and third in Asia. Over 90% of Hong Kong's total exports value was related to re-export goods. Moreover, offshore trade arranged by Hong Kong enterprises exceeded HK\$1,800 billion, close to the value of re-exports. As Hong Kong is a relatively small economy compared with the big countries like the United States, Japan and Germany, it is understandable that its total merchandise trade value has not attained the top position in the world. Yet it is worth noting that the ratio of Hong Kong's total merchandise trade value to its GDP reached 334%; when compared with other major trading entities in the world, this figure was just slightly lower than that for Singapore (**Annex 4**).

20. The trade sector has employed over 600 000 people in Hong Kong, accounting for 18% of the total employment, and its direct contribution to GDP is 22%. In addition, the logistics industry, which is closely related to the trade industry, has employed about 200 000 people, and its direct contribution to GDP is about 5.4%. Trade and logistics can be considered the largest pillar industry in Hong Kong, and its share in the overall economy is still on the rise in recent years.

21. That merchandise trade can achieve such remarkable growth in a tiny place like Hong Kong is closely related to the proximity of Hong Kong to the Mainland. Hong Kong's factories have been relocating to the Mainland and increasing their production substantially. Our country has gradually evolved into the "world's factory", with an average annual growth rate of about 25% in foreign trade in recent years, thereby bringing enormous trade opportunities to Hong Kong. Many sourcing units of major trading companies and large retail enterprises in the world have set up companies in Hong Kong. In addition, a large number of local small and medium trading companies are assisting buyers of various places by providing a wide range of high value-added trade, logistics and supply chain management services such as procurement, quality control of goods, and cargo tracking. On the other hand, many trading companies are actively accessing the rapidly growing Mainland market through Hong Kong.

22. Moreover, the zero tariff preferential treatment under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has increased the competitiveness of Hong Kong products in the Mainland. Furthermore, Hong Kong products are well received by Mainland consumers because of their high and guaranteed quality. The 11th Five-Year Plan emphasises the importance of perfecting the information infrastructure, which includes constructing the Internet of the next generation and accelerating commercial application. As such, it can be expected that more and more Mainland consumers will buy Hong Kong products through electronic means.

23. The continuous economic development of China during the 11th Five-Year Plan period will certainly increase foreign trade further. As the leading international trading centre of China, Hong Kong will have abundant new opportunities. With high efficiency, low tax system, a business environment with well-developed complementary facilities, and a global network established over the years, Hong Kong is well placed for further development into the premier sourcing centre in China and even in Asia.

24. In addition, the 11th Five-Year Plan stresses the need for expanding domestic demand. Growth in the residents' spending in the Mainland will drive Hong Kong further as a channel for importing various consumer products into the Mainland. With the large number of Mainland visitors coming to Hong Kong, Hong Kong has become a place for effectively promoting the brand names of many high-end consumer products in the Mainland, which is conducive to the development of our commerce.

25. The 11th Five-Year Plan brings enormous business opportunities to Hong Kong's merchandise trade, but at the same time it also poses challenges. A considerable number of Hong Kong-invested enterprises in the Mainland are labour-intensive SMEs. In the face of the Mainland's requirements for industrial upgrading, environmental protection and energy conservation, and improving the independent innovation capability, can these enterprises make the necessary adjustments and survive? This is a pressing issue for discussion, and appropriate strategies should be promptly formulated.

26. Trade in services has been playing an increasingly important role in the Hong Kong economy in recent years. In 2005, the total value of exports of services reached HK\$483.5 billion (US\$60.3 billion) and ranked

11th in the world, while the total value of imports of services was HK\$251.8 billion (US\$31.6 billion) and ranked 20th globally. Similar to the situation of merchandise trade, the ratio of Hong Kong's total value of trade in services to its GDP is in the forefront of the world (Annex 5). Moreover, Hong Kong's invisible trade surplus is much larger than its visible trade deficit, thereby yielding a significant surplus in the current account of the balance of payments over the years. This reflects that the services industry of Hong Kong is highly competitive internationally.

27. Hong Kong's exports of services mainly consist of trade-related transportation services, offshore trade and inbound tourism. The contributions of exports of financial services and other business and professional services are also substantial. The Mainland is the largest market for Hong Kong's exports of services. In the 11th Five-Year Plan period, Hong Kong should make every effort to give full play to its strengths in trade in services under CEPA, thereby making contributions to the country's economic development.

28. The first three phases of CEPA have been implemented by stages since early 2004, and a number of further liberalisation measures were introduced this July. This has provided substantial impetus to the commercial and trade development of Hong Kong. However, in the course of CEPA implementation, there are still many difficulties and obstacles at the local level. The HKSAR Government, the relevant Central Ministries and Commissions and the provincial governments need to further strengthen their cooperation and communications to overcome these challenges so that CEPA can play a more significant role in the process of economic integration between the country and Hong Kong.

29. As regards tourism, work in relation to regulating and developing outbound tourism, regulating tourist market order and accelerating the integration and restructuring of tourist enterprises is mentioned in the 11th Five-Year Plan. The Guangdong's provincial-level 11th Five-Year Plan also proposes to take the Pan-PRD regional cooperation as an opportunity to promote the regional cooperation of tourism. Hong Kong's tourism industry should grasp the opportunities arising from the relaxation measures under the latest phase of CEPA and operate "Hong Kong and Macao tours" in the Guangdong Province on a trial basis so as to bring in friendly competition. This will facilitate the operation of the Mainland tourist market. Hong Kong should also seize the cooperation opportunity

with the Mainland to enhance the effectiveness of complementing each other's strengths and achieving a win-win situation in tourism.

30. In respect of professional services, under the promotion of the 11th Five-Year Plan, the Mainland will vigorously develop business services such as legal services, accounting, management consulting, investment advisory, financial intermediation consulting and information services, and will also encourage qualified enterprises to "go out" to tap the international market. Most of Hong Kong's professional services providers have international qualifications and rich experience in these areas. Being familiar with the latest codes of practice, custom of the trades, and market information, they can certainly identify the scope for continuous expansion in such businesses under the 11th Five-Year Plan. Besides, more and more Mainland professionals and enterprises will come to Hong Kong to make use of this international platform to develop local and overseas business opportunities, which in turn should help Hong Kong to develop further into a "cosmopolitan city for services". However, as there are more and more professionals from the Mainland, coupled with their comparative advantages of having wide personal connections in the Mainland and of lower fee charges, this will bring new challenges to the existing Hong Kong service providers. What policy should HKSAR Government adopt to facilitate more services providers to come to Hong Kong to develop while at the same time assisting the local services sectors to improve their competitiveness is an issue worth in-depth deliberation.

31. Hong Kong has a number of favourable conditions for the development of innovation and technology, including a pool of high-quality researchers, sound intellectual property rights protection system, favourable environment for financing, free flow of information, and close ties with overseas universities and research and development (R&D) institutions. Although our community has been attaching increasing importance to innovation and technology in recent years, the overall expenditure on R&D still accounts for a rather small share in GDP compared with the neighbouring economies. With relatively weaker technology in general, many Hong Kong-invested manufacturing enterprises rely on the low production cost in the Mainland and imported technology. Moreover, their production activities have relatively high inputs and low value-added, and there is a lack of brand names. To complement the development strategy of independent innovation under the 11th Five-Year Plan, Hong Kong can play an active role in our country's development in science and technology, including collaboration in

individual technology areas to complement each other's comparative advantages, provision of R&D services and technology transfer, technology information exchange, intellectual property rights exchange, etc. so as to strengthen the ties with the rest of the world, and to promote the use of innovation and technology in Hong Kong and the Mainland, in particular the PRD, to upgrade and develop industries.

Development as an international maritime centre

32. The maritime, shipping and logistics industries are closely related with each other. Enhancing the competitiveness of our logistics industry thus forms an essential part of the efforts towards reinforcing Hong Kong's status as an international maritime centre. In the global arena, our maritime and logistics industries are amongst the leading positions in a number of areas: (a) in terms of gross tonnage of vessels registered, Hong Kong is the fifth largest shipping register in the world; (b) in terms of container throughput, Hong Kong has the second largest container port in the world, only after Singapore; (c) in terms of international air cargo volume, the Hong Kong International Airport is the busiest airport in the world; and (d) in terms of international passenger throughput, Hong Kong has the fifth busiest passenger airport in the world. Over 40% of our air cargoes are transported by passenger aircrafts (**Annex 6**).

33. As a shipping registration centre, Hong Kong places great emphasis on shipping services and sound regulations. This is very different in nature from the top four shipping registers which are considered by the industry as "flags of convenience", such as Panama and Liberia being the first and second positions respectively. Whilst not yet outdistancing Singapore which ranks sixth in the world, Hong Kong is expected to further consolidate its leading position in Asia amidst the rapid development of sea transport in the Mainland, provided that our competitiveness in respect of service quality and regulatory regime can be upheld. As regards ranking for container ports, there is indeed not much difference in container throughput between the ports of Hong Kong and Singapore. Given different economic hinterlands and cargo sources, there is no direct competition between the two ports. However, with the rapid emergence of Shanghai and Shenzhen in recent years, there is a great tendency that they will overtake Hong Kong and Singapore in the next several years. This will present a huge challenge to Hong Kong's leading position.

34. Hong Kong's strength in air transport is more apparent. Its international air cargo throughput is 52% higher than that of the Narita Airport, Tokyo, which ranks second globally. As regards international air passenger throughput, the top four are all European airports, probably due to the vibrant people movements amongst different member states of European Union. The international passenger throughput of Hong Kong is 30% higher than that of Singapore, which ranks sixth. If the Hong Kong International Airport's competitiveness in facilities, efficiency, and connectivity can be further strengthened, Hong Kong is well positioned to consolidate and enhance its leading position in air freight by leveraging on our country's economic take-off.

35. Superior and dynamic business environment, highly efficient supporting services as well as abundant business opportunities generated by China's rapid economic expansion are advantageous to Hong Kong as an international maritime and logistics centre. However, our land resources are limited and costs of doing business are higher than those in the Mainland cities. In view of this, some of the market players in our logistics industry have been increasingly shifting their focuses towards value-added logistics instead of relying on carriage of goods alone. Value-added logistics incorporates processes designed to efficiently support and facilitate different stages in the supply chain.

36. Implementation of the 11th Five-Year Plan will present enormous opportunities for and challenges to the maritime and logistics industries of Hong Kong. During the 11th Five-Year Plan period, the Mainland's industrial production, consumer spending and external trade are expected to grow at a steady yet relatively fast pace, with the proportion of high-value and time-sensitive items likely on a further rise. This will generate vast business opportunities for the trading and logistics industries in Hong Kong, which are positive to our development as a maritime centre in parallel. Moreover, it has been made clear in the layout of our country's comprehensive transportation system that under the premise of maintaining Hong Kong's status as an international maritime centre, initiatives should be taken to realise fully the strengths of the container transport system rendered by the port of Hong Kong and other coastal ports in the PRD region. Under this premise, Hong Kong and the Guangdong Province should map out a clear division of role in port development. The positioning and scale of development for different ports should be considered in the context of the overall development of the region, in order to avoid wastage of resources and the unhealthy competition amongst the

ports. However, there is still room for improving the water, land and air transport linkages between Hong Kong and most of the cities in the Pan-PRD region. It is necessary for Hong Kong to have more frequent, in-depth and comprehensive exchanges and cooperation with the Mainland.

37. In the face of the opportunities and challenges presented by the 11th Five-Year Plan, Hong Kong should make appropriate adjustments in its relevant policies and measures. The HKSAR Government will strengthen our position as an international maritime centre through various measures, including constantly reviewing our shipping registration services, upgrading service quality, expanding service scope, continuing to negotiate with our major trading partners on double taxation relief arrangements covering shipping income, and further promoting the quality services of Hong Kong's maritime cluster to the Mainland and overseas shipowners.

38. Regarding the development of the logistics industry, the HKSAR Government will seek more communication and coordination with different regions and cities in the Mainland on the planning of transport infrastructure, with a view to bringing into full play the overall strengths of the port transport system in southern China. The Government is also committed to enhancing the competitiveness of our logistics industry by increasing the efficiency of the cross-boundary cargo movements, promoting the application of information technology in the logistics industry, and providing additional back-up land around the terminals, etc. As regards air transport, the HKSAR Government will strive to extend our air transport network and actively co-ordinate with the Mainland and Macau authorities to explore ways of increasing efficiency in air traffic control. Besides, the Airport Authority and its business partners are making significant investments to further enhance the facilities and efficiency of the Hong Kong International Airport.

Key overall strategies of Hong Kong in response to the 11th Five-Year Plan

39. To sum up the analyses of the above three centres, Hong Kong, in the face of the new development under the 11th Five-Year Plan, should leverage on its unique advantage of "One Country, Two Systems" more effectively, enhance its ability to "introduce foreign capital and technology and establish domestic connections" in serving as the bridge between the Mainland and the overseas market, and reinforce its advantages as a leading international city. This will enable Hong Kong to meet the

increasingly keen competition in the region, and also to complement the future development of China, and make substantial contributions to the modernisation of our country and its integration with the international economy.

- (1) Enhance the internationalisation of Hong Kong and sharpen its international competitive edges

40. While China has been continuously undergoing modernisation, global development has also been making giant strides. The rise of China and India has been gradually changing the pattern of comparative advantages in the world. New business opportunities and competitions emerge continuously. The “rules of games” and the “business models” in various industries have also been changing. In the process of strengthening the link and alignment of China with the rest of the world, Hong Kong must consider how to enhance its international character and stay ahead of the game in various major industries in order to maintain its unique advantages in the competition with the other cities in China, and make its greatest contributions to our country. Besides, Hong Kong has rich experience in market operation. With the experience in risk management and handling market crises, Hong Kong can play a significant role in helping our country’s financial services sector and Mainland enterprises to manage various risks in the course of its development in aligning with the rest of the world.

- (2) Strengthen the communication, cooperation and integration of Hong Kong with the Mainland, particularly with the PRD

41. After years of exchange and cooperation, Hong Kong has developed an extremely close relationship with the Mainland in political, economic and cultural areas as well as people’s livelihood. Multi-level diverse communication and cooperation channels have been established through continual practice under the framework of “One Country, Two Systems” after 1997. However, for historical reasons and because of the different systems in Hong Kong and the Mainland, many differences in concepts and work practices between the two places still exist. As development never ceases, we should make further efforts and have some new thinking on how to increase communication and cooperation with the Mainland to allow free flow of people, goods, services and capital to achieve a win-win collaboration for mutual benefits. As seen in the past, there is considerable room for improvement in the communication and

collaboration in the area of integrated transport infrastructural facilities. We will examine this subject in depth in Paper No. 2006ES/7. Moreover, for discussions on how the HKSAR Government can enhance its communication and coordination with the Mainland with respect to the organisation and system, please refer to **Annex 7**.

(3) Strengthen the training and pooling of talent

42. Competing for talent is increasingly important in global competition nowadays. Pooling of talent can achieve synergy, promote the development of knowledge-based economy and increase competitiveness of the three “centres”, and it can also enhance the integration of and communication with people from different backgrounds, thereby promoting the development of a cosmopolitan city. For Hong Kong, this involves not only attracting the best talent from our country and other parts of the world to work in Hong Kong and training local knowledge workers, but also developing Hong Kong into a regional education hub by attracting a large number of outstanding students to study here, with a view to training talent for our country and Hong Kong. However, large amounts of land and other resources and the support of immigration policy are needed for developing Hong Kong into a regional education hub, particularly for expanding the scope for development of tertiary institutions. Hong Kong must reach a consensus on these issues before the community could wholeheartedly support the development in this direction. For discussions on how to make use of the high quality and diversified education services of Hong Kong to complement with and contribute to the strategies for nurturing talent put forth in the National 11th Five-Year Plan, please refer to **Annex 8**.

43. Besides, given the rapid human resources development in many developing countries, particularly China, coupled with the impacts of globalisation and of modern information technology and media, strengthening the development of multi-ability, and enhancing creativity, cultural attainment, and biliterate and trilingual proficiency of local talent, apart from the impartment of knowledge, are also long-term challenges to Hong Kong as a cosmopolitan city.

(4) Enhance environmental protection

44. Environmental protection and improvement has become a call of the general public and a pre-requisite for Hong Kong to maintain its

position as a cosmopolitan city of Asia. In view of the stricter environmental protection requirements in the Mainland and overseas, there will certainly be more legislation governing this. Enhancing environmental protection will increase Hong Kong's international competitiveness on the one hand, and create new business and employment opportunities on the other. In fact, the continuous tightening of the environmental protection requirements in the Mainland is a challenge to many Hong Kong enterprises, but this also presents an enormous business opportunity. We must consider how to improve both the local and cross-boundary environmental protection work.

(5) Strengthen "Hong Kong" as a unique brand

45. Of all the cities in China, Hong Kong is unique in its sound systems and global networks established over the years. The name "Hong Kong" itself is a brand. It symbolises a meeting place of the East and the West, freedom of speech, free flow of information, and a society that embraces diversities. "Hong Kong" represents the social values of fairness, probity and social justice. "Hong Kong" stands for free and open economy, small government, an efficient and orderly market, and economic vitality. Hong Kong enterprises are resilient and customer-driven, always trying to meet market needs. Hong Kong products and services are true to their names, guaranteed of quality and trendiness. "Hong Kong" is the most international city of China, a cosmopolitan city of Asia, and an international platform for a wide range of businesses. While our country and southern China have been continuously and rapidly developing their economies, how Hong Kong community and its enterprises maintain and enhance the characteristics of their brand to gain increased recognition in both the Mainland and overseas markets is of utmost importance.

46. The five overall strategies given above are meant to strengthen Hong Kong's role as a bridge between the Mainland and the outside world, and to enhance the competitiveness of Hong Kong as a leading cosmopolitan city. Members are invited to comment on whether the focus is right, whether there are any omissions, and whether any of these strategies need fine-tuning.

Summary of recommendations

47. This paper has analysed from a strategic perspective of how Hong Kong should make proactive responses to the opportunities and challenges

presented by the 11th Five-Year Plan, and maintain and enhance the status of Hong Kong as an international financial, trading and maritime centre. The specific recommendations put forward in the paper are summarised below for members' consideration. Other ideas and suggestions are welcome.

(1) Development of international financial centre

- Examine in detail other advanced financial centres in respect of regulatory standards in certain businesses and ambits of financial services as well as the practices of promoting market development and how Hong Kong could learn from their experiences.
- On the premise that Hong Kong will assist our country in developing various areas on risk management, and drawing on our experiences in the development of commodities futures market, foreign exchange futures contract market and the insurance businesses, conduct further studies to explore the possibility of developing the above three areas of business in Hong Kong.
- Examine in depth how to further develop Hong Kong as an asset management centre in the region, encourage the innovation of financial products and broaden our client base.

(2) Development of international trading centre

- Must continue to provide world-class services, in particular promoting wider use of information technology to reduce cost differences due to geographical locations. Moreover, the people engaged in commercial and trading activities in Hong Kong must enhance their proficiency in English and Putonghua.
- Switch to high value-added and knowledge-based activities and production; develop creative industries; and promote the development of branding in Hong Kong.
- Capitalise on the opportunities brought by CEPA, attract foreign investors to leverage on the economic synergy

between the Mainland and Hong Kong and set up R&D centres or manufacture proprietary products in Hong Kong. We should also grasp the opportunities brought by the development of the services industry in the Mainland and capitalise on the advantages derived from CEPA to give full play to our role as a “cosmopolitan city renowned for its services” and to facilitate more professional services providers to come to Hong Kong so as to further develop Hong Kong into a two-way international services platform.

- Assist Hong Kong-invested enterprises in the Mainland to meet new challenges such as environmental protection.
- On tourism, increase the effectiveness of advantage complementarity and achieve a win-win situation, including partnering with the Mainland to plan multi-destination and theme itineraries and promote these among overseas countries. Our tourism industry should capitalise on the opportunities brought by the new measures under CEPA to access the Mainland market, thus bringing in friendly competition, which is conducive to perfecting the operation of the Mainland tourist market.
- Regarding innovation and technology, capitalise on Hong Kong’s strengths such as its wide international network, sound intellectual property protection regime and rich market experience to create a favourable environment to promote scientific research in the community, and, taking advantage of the Mainland’s abundant manpower resources and riding on its rapid economic growth, actively participating in the formulation of science and technology development plans and of the standards in the Mainland.

(3) Development of international maritime centre

- Strengthen cooperation with the Guangdong Province in mapping out a clearer division of work in port development. The positioning and scale of development for different ports in the PRD region should be considered in the context of the overall development of the region, with a view to avoiding

wastage of resources and unhealthy competition amongst the ports.

- Have more communication and coordination with different regions and cities in the Mainland in regard to preliminary planning and study of transport infrastructure. It is necessary to have more frequent, in-depth and comprehensive exchanges and cooperation with the Mainland to boost regional development through improvement of transport facilities.
- Reinforce our position as an international maritime centre, continue to negotiate with our major trading partners on the bilateral tax relief agreements, promote the quality services of Hong Kong's maritime cluster to the Mainland and overseas shipowners, further improve the shipping registration system in Hong Kong, and enhance training of professionals for the maritime industry.
- Enhance competitiveness of our logistics industry, continue to work towards further expansion of air services arrangement between Hong Kong and the Mainland, continue to discuss with the Mainland on initiatives to increase efficiency of cross-boundary cargo movements, enhance the overall infrastructure planning, and assist the logistics industry in the development of e-logistics.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
September 2006

The National 11th Five-Year Plan

The guiding principles and selected key strategies of the National 11th Five-Year Plan are as follows:

<p>Implementing the scientific concept of development in all respects</p>	<p>During the 11th Five-Year Plan period, the country will enter into a new stage of realizing modernization, with the targets of building a moderately prosperous society in all respects, GDP in 2010 growing by more than 1.5 times over that of 2000, and per capita GDP of RMB19,270 (about US\$2,400) in 2010. To achieve the goal of modernized development, China must manage the overall situation of economic and social development with the scientific concept of development, earnestly turn the economic and social development into the track of comprehensive, coordinated and sustainable development, as well as adhere to the following six principles:</p> <p>(i) <u>Maintaining balanced and fairly rapid economic development.</u> Further expand domestic demand; regulate the relationship between investment and consumption; control investment in a reasonable manner and strengthen the pulling effect of consumption on economic growth.</p> <p>(ii) <u>Speeding up the transformation of economic growth pattern.</u> Uphold resource conservation as a basic national policy; develop a recycling economy; protect the ecological environment; expedite the building of a resource-conservation and environmental-friendly society; facilitate the coordination between economic development and population, resources and environment. Promote national economic and social informatization; move earnestly along the path of new industrialization and realize sustainable development.</p> <p>(iii) <u>Improving the capability of independent innovation.</u> Promote independent innovation capability as the strategic hub for scientific and technological developments as well as the core element for adjusting industrial structure and modifying the mode of economic growth.</p>
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Annex 1 (cont'd)

	<p>(iv) <u>Promoting balanced development between urban and rural areas and among regions.</u> Promote the building of a new socialist countryside and facilitate the healthy development of urbanization. Implement general strategies of regional development so that a development mechanism with regional coordination can be formed, in which the eastern, central and western regions of China can complement each other's strengths and interact positively.</p> <p>(v) <u>Strengthening the building of a harmonious society.</u> The society should be people-oriented and employment should be increased. More emphasis should be put on social fairness so that all people can share the fruits of reform and development, and social stability and solidarity can be maintained.</p> <p>(vi) <u>Deepening reform and opening-up persistently.</u> Improve the modern enterprise system and modern property right system. Establish a pricing mechanism which reflects the market supply and demand situation as well as the extent of resource scarcity. Give better play to the fundamental role of the market in resource allocation and enhance the efficiency of resource allocation. Rationalize the Government's functions and improve the macro-economic control system of the country.</p>
<p>Speeding up the financial system reform</p>	<p>The Central Government has laid down the policy direction for speeding up and deepening the financial system reform of the Mainland, including:</p> <p>(i) Improving the corporate governance structure of financial institutions and steadily developing financial enterprises under different systems of ownership.</p> <p>(ii) Accelerating the development of direct financing (e.g. the capital market of stock, bonds, etc.) and steadily developing the futures market. It also includes developing overseas financial services, foreign exchange risk management and comprehensive financial management, etc. as well as providing convenient services and foreign exchange risk management tools for cross-border operation of enterprises.</p>

Annex 1 (cont'd)

	<p>(iii) Improving the financial regulation and control mechanism, including steadily developing the money market, improving the managed floating exchange rate system and gradually realizing the convertibility of RMB under the capital account. Overseas capital markets will be effectively utilised to support the overseas listing of domestic enterprises. Qualified overseas institutions will be encouraged to hold stakes in domestic securities companies and fund management companies.</p> <p>(iv) Improving the financial supervision and management system, raising the level of financial supervision and management, strengthening risk monitoring and supervision and the restriction on capital adequacy ratio, establishing and improving the mechanism for coordination between banks, securities and insurance regulatory institutions and with the macro-economic control departments.</p>
<p>According priority to developing transportation industry</p>	<p>The Central Government points out that it has to coordinate, plan and rationally distribute traffic infrastructure, well carry out the mutual link-up of various transportation means, give play to the combined efficiency and overall advantage, and construct an integrated transport system which is convenient, unobstructed, highly efficient and safe. These efforts include, inter alia:</p> <p>(i) <u>Speeding up the development of rail transport</u> – Mainly construct passenger special lines and intercity rail transits, and preliminarily form the express passenger railway network (for example, the Beijing-Guangzhou-Shenzhen and Shanghai-Ningbo-Shenzhen passenger special lines, and the Guangzhou-Zhuhai intercity rail transit).</p> <p>(ii) <u>Further improving the road network</u> – Open up inter-provincial channels and give play to the overall efficiency of road network (for example, the Beijing-Hong Kong highway).</p>

Annex 1 (cont'd)

	<p>(iii) <u>Actively developing water transport</u> – Perfect the layout of coastal and riverside ports, and expand the ports’ throughput capacity; construct PRD high-grade navigation channel network; push forward the combined river-and-sea transport (for example, building container transport system for the ports of Fuzhou, Xiamen, Shenzhen, Guangzhou and Zhanjiang); step up construction of the container transport system and major passenger and cargo hubs.</p> <p>(iv) <u>Optimize the layout of civil airports</u> – Expand major airports and enhance the airline network (for example, expanding the Guangzhou New Baiyun International Airport and the Shenzhen Baoan International Airport).</p>
<p>Vigorously developing the modern logistics industry</p>	<p>The Central Government has formulated policy directed at fostering specialized logistics enterprises, actively developing third party logistics, strengthening the integration of logistics infrastructure and establishing major logistics hubs as well as developing regional logistics centres. It also encourages foreign investment in the logistics services industry.</p>
<p>Accelerating the development of the services industry</p>	<p>The Central Government has highlighted the importance of accelerating the development of services industry. This involves a wide range of issues, including:</p> <p>(i) <u>Regulating and developing business services sector</u> – Broaden and regulate legal services; develop investment and asset management services; regulate and develop the economic authentication services such as accounting, auditing, taxation and asset evaluation; support the development of consultation services such as engineering consultation, management consultation and credit services; encourage the development of specialized industrial design; promote the development of advertising industry, and rationally plan the layout and distribution of exhibition halls and develop conference and exhibition industry.</p> <p>(ii) <u>Actively developing information services industry</u> – Improve the basic business of post and telecommunications, develop value added business, explore new businesses and promote general services. Adjust telecommunications business structure and develop the internet industry. Actively develop electronic commerce. Establish and improve electronic commerce infrastructure, legal environment, credit and safety certification system and construct safe and convenient online payment service platforms.</p>

Annex 1 (cont'd)

	<p>(iii) <u>Vigorously developing the tourist industry</u> – Comprehensively develop domestic tourism, actively develop inbound tourism, and regulate and develop outbound tourism. Rationally develop and protect tourist resources, improve basic infrastructure, push forward the construction of key tourist zones and tourist routes, and regulate tourist market order. Continue to develop sightseeing tourism, develop leisure vacation as well as special-interest tourism on topics such as science popularization, agriculture, industries and the ocean, etc., and perfect the self-tour service system. Continue to promote “Red Tourism”. Accelerate the integration and restructuring of tourist enterprises and encourage the development of unique tourist packages.</p>
<p>Promoting regional coordinated development</p>	<p>The National 11th Five-Year Plan proposes to steadfastly implement and push forward the strategic development of Western China, revitalize the old industrial bases in the Northeastern regions, facilitate the emergence of the Central regions, encourage the overall regional development strategies spearheaded by the Eastern regions, perfect the regional coordinated interactive mechanism and rationalize the regional development framework. These measures include strengthening economic and technological cooperation with the neighbouring countries and developing cross-boundary trade. Besides, the Central Government will continue to give play to the roles of special economic zones and Shanghai Pudong New Area, push forward the development and opening of Tianjin Coastal New Area, support the economic development of the western side of the strait and other regions where Taiwan merchants are relatively concentrated to drive regional economic development.</p>
<p>Pushing ahead the strategy of “talent-strong nation”</p>	<p>The Central Government emphasizes that it has to firmly establish the scientific view of talents, expanding the supply of talents, improving the quality of talents, optimize human resources structure, improve talent selection mechanism, bring talents into full play and facilitate the transformation from a nation with large population to a strong nation with abundant human capital. Moreover, it will encourage and guide the Chinese people who have studied abroad to return to China to work and serve the country as well as actively attract overseas high-level talents.</p>

Annex 1 (cont'd)

Major targets of national economic and social development in the 11th Five-Year Plan period

Categories	Indicators	2005	2010	Annual average increase rate in the 11 th Five-Year Plan period(%)	Indicator property
Economic growth	GDP (trillion Yuan)	18.2	26.1	7.5	Anticipated
	Per capita GDP (Yuan)	13,985	19,270	6.6	Anticipated
Economic structure	Share of service industry's value added (%)	40.3	43.3	[3]	Anticipated
	Share of employment in service industry (%)	31.3	35.3	[4]	Anticipated
	Share of R & D spending out of total GDP(%)	1.3	2	[0.7]	Anticipated
	Urbanization rate (%)	43	47	[4]	Anticipated
Population, Resources, Environment	Total population (10 000 people)	130 756	136 000	<8%	Obligatory
	Energy consumption reduced per unit of GDP (%)			[20]	Obligatory
	Water consumption reduced per unit of industrial added value (%)			[30]	Obligatory
	Coefficient of effective use of water for agricultural irrigation	0.45	0.5	[0.05]	Anticipated
	Rate of comprehensive use of solid industrial waste (%)	55.8	60	[4.2]	Anticipated
	Total acreage of cultivated land (100 million hectares)	1.22	1.2	-0.3	Obligatory
	Total discharge of major pollutants reduced (%)			[10]	Obligatory
	Forest coverage (%)	18.2	20	[1.8]	Obligatory
Public service, People's life	Term of education per capita (year)	8.5	9	[0.5]	Anticipated
	Coverage of urban basic old-age pension (100 million people)	1.74	2.23	5.1	Obligatory
	Coverage of the new rural cooperative medical care system (%)	23.5	>80	>[56.5]	Obligatory
	New jobs created for urban residents in the five years (10 000 people)			[4 500]	Anticipated
	Rural laborers transferred to non-agricultural sectors in the five years (10 000 people)			[4 500]	Anticipated
	Urban registered unemployment rate (%)	4.2	5		Anticipated
	Per capita disposable income of urban residents (Yuan)	10,493	13,390	5	Anticipated
	Per capita net income of rural residents (Yuan)	3,255	4,150	5	Anticipated

Note: (1) The GDP and urban and rural resident income are in 2005 prices.

(2) Those with [] refer to the cumulative changes in the coming five years.

(3) Major pollutants refer to sulphur dioxide and chemical oxygen demand.

(4) Anticipated indicator: It is the nationally expected development objective and is achieved mainly through market forces. The government shall create a favourable macroeconomic environment, institutional environment and market environment, and may adjust the direction and strength of macro-economic control measures and comprehensively exert various policies in guiding social resources distribution to realize the objectives on a best effort basis.

(5) Obligatory indicator: It is the indicator that is further defined and strengthened on the basis of anticipated indicators and is the work requirements proposed by the Central Government to local governments and related departments in public service and the field involving public interests. The government shall ensure its realization through rational distribution of public resources and effective exertion of administrative forces.

Guangdong's provincial-level 11th Five-Year Plan

The 10 major tasks laid out in the Guangdong's provincial-level 11th Five-Year Plan and their respective key strategies include:

<p>Adjusting and optimizing industrial structure</p>	<p>The traditional mode of extensive development, in which economic growth is mainly supported by high level of inputs and consumption of energy and resources, has brought various problems to Guangdong. The Guangdong's provincial-level 11th Five-Year Plan thus emphasizes the promotion of optimization and upgrading of industrial structure so as to form an industrial framework which is led by high-tech industries, supported by pillar industries and characterized by the rapid and coordinated development of the services industry. In particular, some key strategies of accelerating the development of modern services industry are as follows:</p> <ul style="list-style-type: none"> (i) <u>Rigorously developing the financial services sector.</u> Accelerate the development of financial services in key cities, establish high-standard financial business districts and promote the establishment of regional financial centres in Guangzhou and Shenzhen, and enhance the radiative function of regional financial centres. (ii) <u>Accelerating the development of logistics industry.</u> Rationally integrate logistics resources, with Guangzhou and Shenzhen as the two core cities, and further open up the logistics market to promote the development of third party logistics. (iii) <u>Accelerating the development of business services industry.</u> Vigorously develop business services industry, including legal services, accounting, financial consultation, product design, etc. <p>Meanwhile, the Guangdong Province will also strengthen services industries with an existing advantage such as tourism, information services, real estate, and wholesale and retail trades.</p>
<p>Improving independent innovation capability</p>	<p>The Guangdong Province will promote independent innovation capability as the strategic hub for scientific and technological development; insist on original innovation, integrative innovation as well as re-innovation for introduction, assimilation and digestion of technology; vigorously push ahead the transformation of independent innovation and technological achievements to turn the Guangdong Province into an important national base for high-tech research and technology transfer. By 2010, the self-sufficiency rate for technology is expected to rise from the current level of 41% to around 48%.</p>

Annex 2 (cont'd)

<p>Promoting the coordinated development between domestic-oriented and foreign-oriented economies</p>	<p>The Guangdong Province will further open its economy to the outside world; optimize and upgrade the foreign-oriented economy whilst expanding and strengthening domestic-oriented economy, so as to achieve mutually beneficial and coordinated development between the two.</p>
<p>Strengthening regional coordination and cooperation</p>	<p>The Guangdong Province will restructure its regional development framework in a forward-looking and all-round way so that a development framework with clear principal functions, definite development orientation, good coordination between economic development and population, resources and environment as well as rational work division between regions will gradually evolve; it will raise the cooperation level between Guangdong, Hong Kong and Macao and enhance Pan-PRD regional cooperation; and facilitate regional coordination, cooperation and development.</p> <p>The Guangdong provincial government, in order to achieve more balanced economic development, will make special efforts to develop both the Eastern and Western regions and the mountainous areas in the North of Guangdong, with a view to transferring gradually the labour-intensive industries to these areas. As for the PRD region, the level of development will be elevated to achieve “the export of brands, relocation of industries, widening of scope of development, introduction of innovative technology, optimization of structure and further advancement.” In particular, Guangzhou will be developed into a modernized metropolis which drives the whole province, radiates to southern China and influences South East Asia.</p>
<p>Coordinating rural and urban development</p>	<p>The Guangdong Province will focus on improving farmers’ income and their living quality, strengthen the efforts of “industry nurturing agriculture and cities supporting villages” with a view to building socialist new villages with developed production, improved living standards, more civil behavior, overall cleanliness and democratic management.</p>

Annex 2 (cont'd)

<p>Building a green Guangdong</p>	<p>The Guangdong Province will enhance resource conservation, comprehensive management of the environment and ecological protection.</p> <p>Some of the major policies include:</p> <ul style="list-style-type: none"> (i) implementing resource-utilisation efficiency and a minimum threshold-standard for technical requirement; (ii) exercising compulsory elimination of high-consumption and outdated technology, equipment and products; (iii) perfecting the pricing and remedial mechanisms conducive to resource conservation; and (iv) introducing and perfecting laws and regulations and indicator evaluation systems with a view to promoting resource conservation.
<p>Developing educational, cultural and talent enterprises</p>	<p>The Guangdong Province will give priority to education development, vigorously develop cultural undertakings and cultural industry, step up the building of a talent pool and strengthen the nurturing of and attraction to talents. It would also implement training projects for six groups of talents, namely the Party and political talents, entrepreneurs, high-level professionals, high-skilled talents, rural functional talents and young talents so as to build up a huge, reasonably structured and innovative talent pool.</p>
<p>Developing infrastructure appropriately ahead of schedule</p>	<p>The Guangdong Province will optimize the layout, perfect the network, as well as step up the construction of infrastructure especially on transport, energy and irrigation with a view to pushing forward the modernization of infrastructure.</p> <p>With respect to perfecting the transportation network, the Guangdong Provincial government will vigorously push forward the construction of integrated traffic infrastructure, emphasizing the stepping up of the construction of the “Three Big Networks and Three Big Systems”, i.e. the highway network as well as road network of counties and villages; rail transit network; high-grade navigation channel network; container transport system; energy resources transport system and civil air transport system. By 2010, the total port throughput of Guangdong Province will reach 1.2 billion tonnes, which include 50 million TEUs ; the civil airport will be able to handle over 90 million passengers; the distance of roads will reach 140 000 km, of which about 5 000 km are highways; there will be about 2 900 km railway line and over 300 km underground railway line.</p>

Annex 2 (cont'd)

Deepening institutional reforms	The Guangdong Province will put emphasis on reforming the government administrative system and strengthening its efforts to carry out reforms. In addition, it will push forward the reform of public institutions, deepen the reform of state-owned enterprises, explore into the reform of local financial system and improve the modern market system.
Facilitating harmonious social development	The Guangdong Province is committed to facilitating harmonious social development by building a people-oriented society which firmly observes the requirements for democracy, rule of law, equity, justice, integrity, friendliness, vitality, stability and order.

Annex 2 (cont'd)

Major Targets of the Economic and Social Development of Guangdong Province in the 11th Five-Year Plan Period

Categories	Indicators	2005	2010	Annual average increase rate in the 11 th Five-Year Plan period(%)	Indicator property
Economic Growth	GDP (\$100 million Yuan)	21,701	33,500	9 %	Anticipated
	Per capita GDP (Yuan)	23,616	34,400	8 %	Anticipated
	Share of tertiary industry's value added (%)	44.2	45		Anticipated
	Share of R & D spending out of total GDP (%)	1.16	1.8		Anticipated
	10,000 Yuan GDP Energy Consumption (tons of standard coal)	0.879	0.763	-2.8%	Obligatory
	Water consumption reduced per unit of industrial added value (%)		20*		Obligatory
	Total retail sales of consumption goods (\$100 million)	7,883	14,000	12 %	Anticipated
	Consumer Price Index of residents (%)	102.3		3 %	Anticipated
	Total of import and export (100 million US\$)	4,280	6,800	10 %	Anticipated
	Urbanization rate (5 th National Census Gauge) (%)	60.7	65		Anticipated
	(Registered Household Gauge) (%)		55		
Share of employment in non-agricultural sectors (%)	65.4	72		Anticipated	
Social Development	Regular residence (10 000 people)	9 194	9 730	1.14 %	Anticipated
	Rate of natural population growth (%)	7.02	6		Obligatory
	Urban registered unemployment rate (%)	2.6	about 3.8		Anticipated
	Coverage of urban basic old-age pension (10 000 people)	1 565	2 180	7 %	Obligatory
	Coverage of urban basic medical insurance (10 000 people)	1 235	2 200	12 %	Obligatory
	Coverage of the new rural cooperative medical care system (%)	50.5	85		Obligatory
	Gross enrollment ratio of higher education (%)	22	28		Anticipated
	Gross enrollment ratio of senior high school (%)	57.5	80		Anticipated
Average schooling years for people aged above 25 (years)		10		Anticipated	
People's life	Per capita disposable income of urban residents (Yuan)	14,770	19,300	5.5%	Anticipated
	Per capita net income of rural residents (Yuan)	4,690	6,300	6 %	Anticipated
	Engle coefficient of urban residents (%)	36.1	34.7		Anticipated
	Engle coefficient of rural residents (%)	48.3	42.9		Anticipated
	Life expectancy (years old)	74.8	75		Anticipated
	Average number of doctors per thousand people (persons)		2.0		Anticipated
	Total acreage of cultivated land (10 000 hectares)	326.7	325.7		Obligatory
	Environmental Integrated indicator (points)	85	86		Anticipated
	Rate of sewage treatment in cities and towns (%)	45	Above 60		Anticipated
	Total discharge of major pollutants reduced (%)		10*		Obligatory
	Per capita area of public green land in cities and towns (square metre)	10	12		Anticipated
	Forest coverage (%)	57.5	58		Obligatory

- Notes:
- (1) GDP, per capita GDP and rural and urban resident income in the year 2010 are projected at 2005 prices.
 - (2) All data concerning energy consumption per 10,000 Yuan GDP are measured in 2000 prices.
 - (3) Consumer price index of residents is assumed to be 100 in 2004.
 - (4) Those with an asterisk refers to the cumulative change in the coming five years.
 - (5) Main pollutants refer to sulphur dioxide and chemical oxygen demand.
 - (6) For explanatory notes regarding the “anticipated” and “obligatory” indicators, please refer to Notes (4) and (5) in Annex 1.

**Comparing direct economic contribution and employment of
financial services industry between Hong Kong and other financial centres**

	<u>Hong Kong</u> ⁺	<u>Singapore</u>	<u>London</u> [#]	<u>New York</u> [^]	<u>Tokyo</u>
	2004	2004	2003	2003	2003
Value added (US\$ billion)	19.63	11.37	42.95	73.24	102.27
Share in GDP	12.2%	11.3%	16.5%	26.8%	14.1%
Employment ('000 persons)	179.3	111.2	214.0	318.7	216.0
Share in total employment	5.3%	4.9%	19.5%	9.0%	3.6%*

Notes : (+) Owing to the possible difference in statistical compilation methods, figures for Hong Kong might not be strictly comparable with those for other financial centres. Also, value added figure refers to the year 2004 and employment figure refers to the year 2005.

(#) The value added figure refers to the situation of London as a whole in 2003 whereas the employment figures covers City of London, Canary Wharf and City Fringe in 2004. Given the difference in coverage, these two sets of figures may not be directly comparable with each other.

(^) Value added or Gross City Product for New York is proxied by private earnings, which include income earned by employees and proprietors.

(*) As a share of total employment of all industries.

Source : Hong Kong – Census and Statistics Department.

London – National Statistics of UK and City Research Focus, City of London.

New York – A feature article by HKMA in March 2006.

Singapore – CEIC database.

Tokyo – Statistics Division, Tokyo Metropolitan Government Bureau of General Affairs.

World ranking of merchandise trade in 2005

World ranking of merchandise trade	Total value of merchandise trade (US\$Bn)	GDP (US\$Bn)	Ratio of total value of merchandise trade to GDP (%)
1. United States	2,637.0	12,485.7	21.1
2. Germany	1,744.8	2,797.3	62.4
3. Mainland of China	1,422.1	2,224.8	63.9
4. Japan	1,111.9	4,571.3	24.3
5. France	955.0	2,105.9	45.3
6. United Kingdom	879.1	2,201.5	39.9
7. Netherlands	759.2	625.3	121.4
8. Italy	746.5	1,766.2	42.3
9. Canada	679.7	1,130.2	60.1
10. Belgium	650.0	372.1	174.7
11. Hong Kong	592.9	177.7	333.6
12. Republic of Korea	545.7	793.1	68.8
13. Spain	463.7	1,126.6	41.2
14. Mexico	445.4	768.4	58.0
15. Singapore	429.6	117.9	364.4

Sources : Total value of merchandise trade – World Trade Organisation
GDP – International Monetary Fund

Annex 5

World ranking of trade in services in 2005

World ranking of trade in services	Total value of trade in services (US\$Bn)	GDP (US\$Bn)	Ratio of total value of trade in services to GDP (%)
1. Unites States	642.0	12,485.7	5.1
2. Germany	341.5	2,797.3	12.2
3. United Kingdom	333.5	2,201.5	15.1
4. Japan	242.5	4,571.3	5.3
5. France	216.6	2,105.9	10.3
6. Italy	185.7	1,766.2	10.5
7. Mainland of China	166.5	2,224.8	7.5
8. Spain	156.5	1,126.6	13.9
9. Netherlands	144.2	625.3	23.1
10. India	135.0	775.4	17.4
11. Ireland	122.2	199.7	61.2
12. Canada	112.9	1,130.2	10.0
13. Austria	105.5	307.0	34.4
14. Belgium	104.6	372.1	28.1
15. Republic of Korea	101.5	793.1	12.8
16. Hong Kong	91.9	177.7	51.7
17. Singapore	89.1	117.9	75.6

Sources : Total value of trade in services – World Trade Organisation
GDP – International Monetary Fund

Maritime and Logistics Development

Comparison of Hong Kong with global leaders and other major cities in the region (position as in 2005)

	Gross registered tonnage of <u>vessels</u> (‘000 tonnes)	Port container throughput (‘000 TEUs)	International air cargo throughput (‘000 tonnes)	International air passenger throughput (‘000)
World’s top position	Panama 139 460	Singapore 23 190	Hong Kong 3 402	Heathrow, London 61 010
Hong Kong	29 830	22 600	3 402	39 820
Mainland China	21 050	-	-	-
Shanghai	-	18 080	1 600	14 560
Shenzhen	-	16 200	630	450
Singapore	29 150	23 190	1 830	30 720
Taiwan	*	-	-	-
Taipei	-	-	1 690	19 210
Kaohsiung	-	9 470	80	3 260
Korea	8 370	-	-	-
Seoul (Incheon)	-	-	2 120	25 590
Pusan	-	12 520	-	-

Notes : (-) Data not available or not applicable.
(*) Rank below 25.

The HKSAR Government's Institutional Framework and Future Work Direction

Purpose

The ties and cooperation between the HKSAR and the Mainland in various aspects have grown ever closer since reunification. This paper explores ways to strengthen the HKSAR Government's communication and coordination with the Mainland under the existing organizational structure and coordination mechanisms to tie in with the implementation of China's 11th Five-Year Plan.

Background

Organizational Structure

2. Since reunification, many policy bureaux and departments of the HKSAR Government have strengthened liaison and cooperation with their counterparts in the Mainland through visits, seminars and training programmes. Some of them have already concluded cooperation arrangements, under which the two sides make concerted efforts in areas such as economic and trade, culture, postal service, combat against piracy, food safety and contingency mechanism in response to public health incidents.

3. To strengthen our ties with the Mainland, the HKSAR Government has recently adopted the following measures:

- (i) The Mainland Affairs Liaison Office under the Constitutional Affairs Bureau was set up in April this year. The new office is responsible for formulating the overall strategy and direction with regard to co-operation between HKSAR and the Mainland, promoting co-operation between Hong Kong and Mainland provinces/regions, keeping an overview of the overall liaison work of the Beijing Office (BJO) and Hong Kong Economic and Trade Offices (ETOs) in the Mainland.
- (ii) ETOs in Shanghai and Chengdu will be set up by the end of this year. The geographical coverage of the Shanghai ETO will include the municipality of Shanghai and the four provinces of Jiangsu, Zhejiang, Anhui and Hubei, while the

Chengdu ETO will cover the five provinces of Sichuan, Yunnan, Guizhou, Hunan, Shaanxi and the municipality of Chongqing. The Chengdu ETO will together with the Guangdong ETO (GDETO) promote the Pan-Pearl River Delta (PPRD) regional co-operation.

- (iii) The functions of BJO have been enhanced since April this year. Apart from dealing with liaison and communication between the HKSAR Government and the Central People's Government and other Mainland authorities as well as handling immigration matters, the newly established Investment Promotion Unit under BJO undertakes to strengthen economic and trade ties with the Circum-Bohai Sea, the northeastern and northwestern regions, and to facilitate Mainland enterprises to invest in Hong Kong.
- (iv) The coverage of GDETO has been expanded to include Guangxi, Fujian, Jiangxi and Hainan with effect from April this year. The functions of the office have also been strengthened. The newly established Immigration Team provides assistance to Hong Kong residents in distress in the five provinces/regions under its coverage.

Cooperation Framework

4. The HKSAR Government has made strenuous efforts to promote regional cooperation with the Mainland. Since reunification, the two sides have set up the Hong Kong/Guangdong Co-operation Joint Conference, Hong Kong/Shanghai Economic and Trade Co-operation Conference and Hong Kong/Beijing Economic and Trade Co-operation Conference. We have also concluded the PPRD Regional Cooperation Framework Agreement with nine Mainland provinces/regions and the Macao SAR.

5. Established in March 1998, the Hong Kong/Guangdong Cooperation Joint Conference facilitates discussion and coordination at a high level on various major cooperation initiatives between Hong Kong and Guangdong. At the Ninth Plenary Session of the Joint Conference held on 2 August 2006, the two sides made substantive progress in cooperation on many fronts, including major infrastructural projects, air quality improvement, control-point operations, facilitating cross-boundary flow of people and cargo, food safety and prevention of diseases.

6. Under the Hong Kong/Guangdong cooperation framework, the two sides have set up the following mechanisms to foster cooperation:

- (i) Hong Kong Guangdong Strategic Development Research Group, which studies topics that have a far-reaching bearing on Hong Kong/Guangdong cooperation;
- (ii) The Greater Pearl River Delta Business Council, which provides a platform for Hong Kong and Guangdong enterprises and business organizations to discuss proposals on the promotion of economic cooperation;
- (iii) Memorandum on Closer Cooperation between Hong Kong and Shenzhen and eight other cooperation agreements were signed by the HKSAR and the municipality of Shenzhen in June 2004. After the conclusion of the Memorandum, the two sides have strengthened exchanges and cooperation in control-point operations, infrastructural projects, planning, implementation of CEPA, technology, environmental protection, food safety and education etc.. Shenzhen and Hong Kong also formed two joint study groups last year and this year respectively; one on the development of the Lok Ma Chau Loop and the other on the construction of Liantang / Heung Yuen Wai Control Point.

7. The PPRD Regional Cooperation Framework Agreement was signed by the nine PPRD provinces/regions and the Hong Kong and Macao SARs in June 2004 during the Pan-PRD Regional Cooperation and Development Forum. Under the Framework Agreement, the “9+2” governments agreed to establish an annual conference among leaders, a liaison mechanism between the Secretaries-General of the “9+2” provinces and regions, as well as a General Co-ordination Office mechanism. The “9+2” governments have discussed cooperation in trade and investment, tourism, environmental protection, education, health and prevention of infectious diseases, labour, agriculture, and have laid down the direction of future cooperation and specific work plans.

8. On the multilateral front, a memorandum of cooperation on foreign trade and economic cooperation, and agreements on environmental protection, agriculture, education, anti-smuggling enforcement and intellectual property protection have been concluded among the 11 provinces/regions. On the bilateral front, an agreement on sports was concluded between Yunnan and Hong Kong in May 2005. In addition,

bilateral agreements on trade, sports and tourism between Hainan and Hong Kong were concluded in November 2004.

9. The HKSAR Government and the Shanghai Municipal Government established the Hong Kong/Shanghai Economic and Trade Cooperation Conference in October 2003, which aims to leverage on the opportunities brought about by CEPA, and foster cooperation in the areas of airport management, port and maritime, logistics, Shanghai Expo 2010, tourism, convention and exhibition industry, investment and trade, professional personnel exchanges, financial services and education, health and sports.

10. The First Meeting of the Hong Kong/Beijing Economic and Trade Cooperation Conference was held on 2 September 2004. The two sides agreed to foster cooperation in economic and trade, professional personnel exchanges, education, culture, tourism and environmental protection, and to exploit the business opportunities arising from 2008 Beijing Olympic Games.

Opportunities and challenges

11. To tie in with the implementation of China's 11th Five-year Plan, we may consider making the best use of the existing organizational structure and coordination mechanisms to strengthen our communication, coordination and cooperation with the Mainland. The scope of our study may include:

- (i) Whether the existing regional cooperation mechanisms between the HKSAR Government and the Mainland and the focused areas of work can fully reflect the development needs of Hong Kong? How to determine more effectively the focus and direction of regional cooperation and the priorities of cooperation areas?
- (ii) Whether the HKSAR Government should strengthen its liaison with the Mainland authorities responsible for planning and development, in particular the National Development and Reform Commission (NDRC)?
- (iii) Whether the HKSAR Government should step up its work in long- term policy research (in particular those related to projects involving the Mainland)?

- (iv) Is the geographical coverage of our representation in the Mainland sufficient? Is there room for enhancing their duties and functions?

Responses and actions of the Government and other sectors

(i) The Key Areas of Work in Regional Cooperation

At present, the HKSAR has established specific cooperation arrangements with Guangdong, the PPRD region, Shanghai and Beijing. These cooperation arrangements cover economic and trade, tourism, environmental protection, education, health and prevention of infectious diseases and culture etc.. With regard to our neighbouring region (i.e. the PPRD region, including Guangdong Province), there are concrete cooperation initiatives, such as the Hong Kong–Zhuhai–Macao Bridge, Shenzhen Western Corridor, the Emission Trading Pilot Scheme for Thermal Power Plants in the PRD and financial sector visits to provinces in the PPRD region. In addition, we have provided a platform to facilitate participation of the business sector.

(ii) Liaison and Exchanges between the HKSAR Government and NDRC

In March this year, the HKSAR Government invited officials of the NDRC to brief government departments and the community on the content and main points of China's 11th Five-year Plan. In August, we invited the Vice President, Macro-Economic Research Institute of the NDRC to speak to civil servants on the latest developments and policy directions of the national economy. In addition, the Planning Department and the Guangdong Development and Reform Commission jointly held a meeting in July this year on the 11th Five-year Plan of Guangdong Province and exchanged views on the regional comprehensive transport planning in Guangdong and Hong Kong. The two sides have also established a standing communication mechanism to enhance exchanges on planning.

(iii) Long-term Policy Research

From a macro perspective, the Commission on Strategic Development (CSD) is an important body engaged in the study of the long-term development trend in Hong Kong. One of the Terms of Reference of the Committee on Economic Development and Economic Cooperation with the Mainland formed under the CSD is to study how to foster closer regional cooperation between the HKSAR and the Mainland, with particular reference to the

Pearl River Delta and the PPRD region. Last year, the Committee discussed how we could strengthen Hong Kong's economic cooperation with the Mainland on all fronts. In addition, the Central Policy Unit conducts thematic studies on important issues from time to time.

(iv) HKSAR Government's Representation in the Mainland

The liaison network of the HKSAR Government's offices in the Mainland has covered all Mainland provinces/regions. Their respective division of work covers the main fast-growing economic areas of the Mainland (such as the Pearl River Delta region, the Yangtze Delta Region, the Circum-Bohai Sea), and areas with development potential (for example, the Western region with business opportunities arising from the Western Region Development, the PPRD provinces/regions that border on the ASEAN). Under the new arrangement, BJO focuses its work in the Circum-Bohai Sea, northeastern and northwestern regions; Shanghai ETO is responsible for the Yangtze Delta Region; while GDETO and Chengdu ETO focus on the promotion of regional cooperation in the PPRD region and monitor closely the business opportunities offered by Western Region Development and the China-ASEAN Free Trade Area.

Recommendations

12. As seen from the above, there already are close ties and quite extensive cooperation between the HKSAR and the Mainland. To further strengthen our communication, coordination and cooperation with the Mainland, we should focus on boosting the quality of cooperation and concentrate on the main development direction and key areas of China's 11th Five-year Plan. A number of proposed main directions are set out below for discussion.

(i) Facilitation of infrastructural development and improvement of transport efficiency to boost flow of people and cargo

We need to step up coordination of the planning and construction of regional infrastructural facilities, to accelerate the construction of an efficient and convenient cross-boundary transportation network and implementation of a number of major infrastructural projects. We should complete the Shenzhen Western Corridor as planned and commence the building of the Hong Kong–Zhuhai–Macao

Bridge and Guangdong– Shenzhen–Hong Kong Express Rail Link as soon as possible. It is also necessary to link up Hong Kong with other highways and express rail links planned in the Mainland. On air traffic, the Hong Kong Airport needs to strengthen its water-based and land-based transportation linkages with major cities and cargo distribution centres in the Pearl River Delta, and continue to expand its air transportation network. We also need to further simplify inspection procedures at control-points so as to boost the flow of people and cargo.

(ii) Development of an open market to facilitate capital and information flow

Hong Kong should work with the governments of different provinces/regions to eliminate barriers which are unfavorable to capital and information flow, so as to create a fair and open market environment to facilitate the provinces/regions to capitalize on the comparative advantages of the region, including Hong Kong's financial and professional service, our experience in marketing and our international network. This will enhance the competitiveness of the region.

(iii) Promotion of service trade and professional service

We will continue to deepen the implementation of CEPA. In regard to policies which have not yet been applied to the whole country, we should endeavor to initiate them in individual province/region in the form of pilot schemes, and continue to promote mutual recognition of professional qualification in different sectors.

(iv) Hong Kong's Role as a Bridge

Hong Kong can play the role of a bridge for trade between ASEAN countries and the PPRD Region. ASEAN enterprises may use Hong Kong as a base to gain access to the PPRD Region. By making good use of the concessions provided under CEPA and cooperating with Hong Kong enterprises, they can enter the market in the Region more effectively and efficiently. At the same time, Hong Kong can make use of its position as an international financial centre and opportunities brought about by CEPA, to help ASEAN countries invest in the infrastructural projects of

the PPRD Region. On the other hand, PPRD enterprises may use Hong Kong as a base to access the ASEAN market.

- (v) Leverage on CEPA to attract capital and talents
China's accession to the WTO, the upcoming establishment of the China-ASEAN Free Trade Area, 2008 Beijing Olympic Games and Shanghai Expo 2010 have offered opportunities to attract overseas investment and talents to the region. Hong Kong can operate as a platform to attract more foreign capital, technology, professional and management service to the Mainland, by capitalizing on CEPA and expanding its scope.
- (vi) Widening and deepening the Scope of Cooperation
While boosting economic ties with Guangdong, Beijing and Shanghai, Hong Kong should seek cooperation with other fast-growing regions or areas with development potentials in the Mainland in order to attain long-term sustainable development. Apart from the above, the question of how we could extend Hong Kong's quality service (including regional headquarters, financial and other professional services) to places that are geographically distant from Hong Kong is especially worth studying.

13. To tie in with the directions mentioned above, we should strengthen our work in the following areas:

- (i) We should maintain contacts and exchanges with the Development and Reform Commissions of relevant provinces/regions under the respective regional cooperation frameworks. We can consider strengthening our exchanges and communication channels with the relevant authorities in regard to planning and information exchanges, so as to facilitate forward planning.
- (ii) We can consider strengthening our work in long-term planning and policy research.
- (iii) Our offices in the Mainland can further develop HKSAR's liaison network in the Mainland, enhance communication and collaboration with business organizations from Hong Kong, and collect information on Mainland policies and

regulations which have a bearing on Hong Kong, and undertake policy analysis.

Constitutional Affairs Bureau
September 2006

Strategies for Nurturing Talents

Purpose

This paper discusses how we can make use of the high quality and diversified education services in Hong Kong to complement and contribute to the human resource development strategy in the Mainland's 11th Five Year Plan.

Background

Importance of Nurturing Talents to the Development of Hong Kong

2. Nurturing and attracting talents is an important tool to maintain the competitiveness of a modern city. Due to the lack of natural resources, investment in human capital is all the more important for Hong Kong. Moreover, with an extremely low birth rate, an gradual aging population and beginning of a shrinking workforce in the future, we must put in place measures to attract talents from all over the world to work or reside in Hong Kong so as to ensure the sustainable development of our city in a knowledge-based and globalized economy in the 21st century.

The Nation's strategies for nurturing talents under the 11th Five Year Plan

3. Two strategies, namely "Developing Education as a Priority" and "Boosting the Nation's Development through Talents", have been put forward under the 11th Five Year Plan. In respect of "Developing Education as a Priority", the Plan advocates the full implementation of quality education through "generalizing, developing and improving" education, accelerating the re-structuring of education, promoting a coordinated development of education, and building a learning society. Emphasis will be put on strengthening free education in rural areas, actively developing vocational education, raising the quality of higher education, putting more resources into education and deepening the education system reform.

4. In respect of higher education development, the focus of the 11th Five Year Plan is on “enhancing quality and output” and “improving the structure”. For vocational education, the emphasis will be on developing vocational education at the intermediate level, developing various forms of vocational skill training, reforming the pedagogy of vocational education, promoting industry-school integration and school-enterprise collaboration, and building a flexible learning system.

5. Under the strategy of “Boosting the Nation’s Development through Talents”, the Mainland needs to nurture scientific talents, enlarge the talent pool, raise the quality and improve the structure of human capital, and promote the evolution of the Nation from a “population-intensive” to a “human capital-intensive” economy. Furthermore, the Nation needs to nurture a group of entrepreneurs with innovative minds and abilities who can adapt well to the demands of a globalized economy, encourage Mainland students to return to and serve the country after completing their overseas studies, and attract overseas talents to the Mainland.

The Unique Attributes and advantages of Hong Kong

6. Hong Kong possess ideal qualities in helping the Nation to promote quality higher education and diversified vocational education, especially in the provision of quality higher education and training. Our advantage lies in the following aspects –

- Asia’s World City
Hong Kong is Asia’s World City as well as an international financial and trading centre having close connections with major economic entities of the world. Our quality and international higher education will help Mainland students establish a solid foundation and gain advantage in a globalized economy.
- World-class Universities
Hong Kong universities are world-renowned for integrating eastern and western academic and professional experiences. The University of Hong Kong, the Hong Kong University of Science and Technology, the Chinese University of Hong Kong and the City University of Hong Kong are ranked

among the best 200 institutions by the Times' Higher Education Supplement, with the first three institutions ranked in the top 51 league.

- High Quality Curriculum
We have a highly diversified education system supported by an internationally recognized curriculum and well-established quality assurance systems. Our business programmes have attained good rankings in surveys conducted by various internationally-renowned financial publications and institutions, and have topped the league in Asia in the past few years.
- Medium of Instruction, Articulation and Employment
English is used as the medium of instruction by Hong Kong institutions. Our curriculum covers professional knowledge that is applicable in the international context, and the qualifications obtained by our students are widely recognized internationally. Graduates enjoy a distinctive competitive advantage when they enter the employment market or pursue further studies locally or overseas.
- Geographical Location, Culture and Lifestyle
Given our integration of eastern and western cultures as well as cultural and geographically proximity to the Mainland, Mainland students will find it easier to adapt to the lifestyle in Hong Kong and to study in a multi-lingual and multi-cultural campus. Furthermore, the tuition fees charged by our institutions and the cost of living are lower in Hong Kong when compared to many western countries. A study by the Hong Kong Trade Development Council (HKTDC) also shows that Mainland parents are more willing to let their children study in Hong Kong.

7. In response to the strategy for nurturing talents in the 11th Five-Year Plan, we believe that Hong Kong possesses the necessary attributes for development into a regional education hub. We are also able to assist the Nation to nurture talents with international perspectives, as well as innovative minds and abilities to meet the demands of a globalized

economy. As an international city, Hong Kong has the ideal environment and qualities for pursuing this vision; and our institutions will also endeavour to provide a rich learning experience, an international perspective and the right network for Mainland students coming to Hong Kong to pursue their studies.

The Mainland's Demand for Quality Higher Education

8. There is huge and enthusiastic demand for quality higher education in the Mainland. According to the study⁽¹⁾ published by TDC in September 2005, out of the 7.23 million candidates attempting the National Colleges and Universities Enrolment System (NCUES) examination in 2004, only 62% (4.5 million) were eventually admitted to Mainland universities or colleges. Separately, about 10 000 students were pursuing higher education programmes run by foreign institutions in the Mainland. Another study published by the Organization for Economic Cooperation and Development (OECD) in 2002 revealed that about 45 000 Mainland students went overseas to receive higher education. However, according to the TDC Report quoted above, the estimated number of Mainland students who would like to receive higher education overseas amounted to 1.26 million, and an estimated 1.7 million students would like to attend higher education programmes run by overseas institutions in the Mainland⁽²⁾. In fact, there were over 30 000 applications from Mainland students applying for entry into degree programmes of UGC-funded institutions⁽³⁾ in the 2006/07 academic year. This is some 32 times more than the number of non-local students that could be admitted by these institutions.

Opportunities and challenges

9. Given the economic boom in the Mainland in recent years, there is a surge in the demand for talents in the more developed provinces/cities.

(1) "Exporting Higher Education Services to the Chinese Mainland: The Hong Kong Advantages", TDC, September 2005. The study covered Hong Kong and six Mainland cities (Beijing, Shanghai, Xian, Guangzhou, Shenzhen, Dongguan). The number of returned questionnaires was 3223.

(2) As at June 2004, the Ministry of Education has approved 164 overseas programmes to be offered in the Mainland, of which 22 were run by Hong Kong institutions.

(3) The quoted figure does not include applications made to the Chinese University of Hong Kong and the City University of Hong Kong, since the two universities have joined the PRC National Recruitment System.

Some middle-class families are very keen to send their children abroad to widen their perspectives and to receive internationalized higher education. Moreover, against the backdrop of the emphasis placed by the 11th Five Year Plan on nurturing talents and improving higher education, there is an unprecedented golden opportunity for Hong Kong institutions to provide higher education to Mainland students.

10. The UGC-funded institutions are undertaking large-scale expansion and improvement works to meet the demands brought by the new 4-year academic structure to be implemented starting in 2012. Through the three rounds of Matching Grant Schemes and the private donations raised, institutions have enhanced their capability to improve teaching and research facilities, and to provide scholarships for more non-local students. These measures have further enhanced the quality of Hong Kong institutions and their attractiveness to non-local students.

11. Nonetheless, we have to allow institutions to increase the number of places for non-local students and change some of our current policies before we can attract more Mainland students to study in Hong Kong. In addition, Hong Kong is faced with competition from other countries (like UK, Australia and Singapore). These countries have devoted substantial resources to promote their education services and provide financial assistance to non-local students applying to study in their universities. The Singapore Government has further provided various financial incentives to attract world-class universities (e.g. Harvard University, MIT) to establish branch campuses in Singapore so as to attract students from the region. Although Hong Kong may not adopt the Singaporean model, we should move quickly to build a strong and visible brand for our higher education services to attract more overseas and Mainland students to study in Hong Kong.

Responses and actions taken by the Government and other sectors

Attracting Non-local students to study in Hong Kong

(1) Increasing the quota for non-local students and exchange students

12. Without affecting the education opportunities of local students to post-secondary programmes, the Government has gradually raised the

quota for admission of non-local students (including Mainland students) by tertiary institutions since 1993. The overall ratio of non-local students in publicly-funded places has increased from 2% in 1993 to 10% in the 2005/06 academic year. Following the relaxation of the admission quota for non-local students in the 2005/06 academic year, our local tertiary institutions have also stepped up publicity in the Mainland. In the 2005/06 academic year, there were about 4 400 Mainland students (full-time and part-time) in Hong Kong, constituting more than 90% of the non-local student population. This year, more than 30 000 Mainland students have applied for entry into the undergraduate programmes of the UGC-funded institutions, representing a 150% increase over that of last year⁽⁴⁾.

13. Mainland students may pursue full-time locally-accredited post-secondary programmes and part-time taught postgraduate programmes offered by the eight UGC-funded institutions. The arrangements are:

- There is no quota restriction for all research postgraduate programmes. Non-local students may come to study these programmes without restriction⁽⁵⁾;
- For publicly-funded programmes at sub-degree, degree and taught post-graduate levels, the admission of non-local students (including Mainland students) is subject to the an overall quota of 10% of the student number targets of the respective institutions;
- For self-financing programmes below post-graduate level, admission of students from the Mainland, Macau and Taiwan is subject to a quota of 10% of the actual local student enrolment in the same programmes offered by the individual institutions in the preceding year. Self-financing programmes at postgraduate level are however not subject to any quota restrictions;
- Mainland students are allowed to enter into Hong Kong for part-time studies in locally-accredited taught post-graduate

(4) The figure does not include applications made to the Chinese University of Hong Kong and City University of Hong Kong, since the two institutions have joined the PRC National Recruitment System.

(5) Not applicable to nationals of Afghanistan, Albania, Cambodia, Cuba, Laos, the Democratic Republic of Korea, Nepal and Vietnam.

programmes offered by the eight UGC-funded institutions. For publicly-funded programmes, the quota for non-local students is 10% of the student number targets. There is no quota for self-financing programmes;

- Mainland students who have successfully completed a full-time post-secondary programme in Hong Kong are normally allowed to extend their stay to pursue another locally accredited full-time programme at a higher level of study.

14. Students from the Mainland, like all other non-local students, are allowed to enter Hong Kong for exchange programmes at degree or above level lasting up to one year without being subject to any quota restriction.

(2) Active Recruitment by Local Institutions in the Mainland

15. From the 2006/07 academic year, 12 local degree-awarding institutions^(6) may conduct direct recruitment in 20 Mainland provinces/cities (i.e. Beijing, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hebei, Guangdong, Chongqing, Sichuan, Liaoning, Hunan, Guangxi, Shanxi, Henan, Jinan, Jiangxi, Yunnan and Guizhou). Two institutions (City University of Hong Kong and the Chinese University of Hong Kong) have joined the PRC National Recruitment System.

(3) Supporting Institutions in Recruitment of Non-local Students

16. With a view to encouraging various sectors of the community to invest in education and to help institutions in their internationalization efforts, the HKSAR Government (HKSARG) has, since the Second Matching Grant Scheme, allowed institutions to use such funding to grant scholarships to outstanding non-local students. The Government has also provided a 3-year scholarship scheme totalling \$90 million to attract outstanding Mainland students to study undergraduate programmes in Hong Kong. Many institutions, private benefactors and commercial enterprises also provide scholarships for outstanding Mainland students.

(6) Apart from the eight UGC-funded institutions, the remaining four include Hong Kong Shue Yan College, Chu Hai College of Higher Education Hong Kong, Hong Kong Academy for Performing Arts, and the Open University of Hong Kong.

Separately, the UGC has earmarked \$40 million, on a matching basis, to help institutions build up their institutional capability so as to recruit more non-local students and promote their education services overseas and on the Mainland.

Operation of Campuses on the Mainland by Local Institutions

17. Our local institutions are very keen to provide education services on the Mainland, and many of them have already set up research centres and training institutes there. Baptist University of Hong Kong has taken the lead in setting up the United International College in Zhuhai, in partnership with the Beijing Normal University with a capacity of more than 4 000 students. The HKU School of Professional and Continuing Education (HKU SPACE) has also offered programmes in Guangzhou in collaboration with Mainland institutions.

18. The Education and Manpower Bureau of the HKSARG has signed a “Memorandum Of Understanding between the Mainland and Hong Kong on Mutual Recognition of Academic Degrees in Higher Education” (MoU) in 2004. The MoU provides that students who have obtained degree or above qualifications in recognized institutions in the Mainland or Hong Kong may apply for further studies in the institutions of the other side. The mutual recognition of qualifications has helped strengthen the cooperation between Mainland and Hong Kong in the area of education and promote exchange of students from both sides.

Numerous Schemes to Attract Talents and Professionals

19. Attracting talents from all over the world will not only increase our economic competitiveness, but also promote the development of our higher education. The HKSARG reviews its immigration policies from time to time to ensure that they meet the needs of the overall development of our society. For instance, through the Admission Scheme for Mainland Talents and Professionals, we have successfully attracted more than 11 000 Mainland talents to work here. About 60% are involved in academic research. Moreover, the HKSARG has implemented the Quality Migrant Admission Scheme since June this year. The objective of the scheme is to attract talents from all over the world to come to live in Hong Kong. Initially, the scheme has an annual quota of 1 000. Applicants must fulfil

certain eligibility criteria (e.g. good character). The Immigration Department will assess the qualifications and background of the applicant through a points system, taking into account age, academic achievements/professional qualifications, work experience, language proficiency, etc. The new scheme differs from other talent importation schemes in that it does not require the applicant to secure an employment in Hong Kong before submitting the application.

Issues for discussion

20. Regarding the following issues related to the development of Hong Kong as a regional education hub and nurturing talents for the Mainland, members are invited to express their opinions and provide other recommendations for the consideration of further studies :

(a) Attracting more non-local students to study in Hong Kong

(i) Relaxing the Quota Restrictions

As a result of the institutions' active promotion of their programmes on the Mainland, we have witnessed a sharp increase in the number of applications from Mainland students this year. Hong Kong institutions have thus requested a further increase in the admission quota for non-local students as well as relaxation in immigration restrictions so that more non-local students could come to study in Hong Kong. Should the HKSARG further increase the ratio of non-local students? Would it affect the tertiary education opportunities of local students?

(ii) Providing Hostel Facilities

Hong Kong is a densely populated city and lacks suitable sites to develop campuses and hostel facilities. Although all non-local students in UGC-funded programmes are eligible for boarding facilities during their studies, the supply of hostels is extremely limited. The lack of hostel facilities has become the major barrier and problem faced by institutions in admitting non-local students. Institutions consider that the hostel problem must be resolved as a matter of priority; otherwise even if they could admit non-local

students, it would be impossible for local and non-local students to interact with each other in a multi-lingual and multi-cultural environment. Should the HKSARG provide hostel facilities for non-local students, or subsidize self-financing institutions in providing such facilities?

(iii) Enhancing Financial Support

Although the tuition fee and cost of living in Hong Kong are lower than those in many western countries, some non-local students, especially certain outstanding Mainland students, may still be unable to afford the expenses. It would be a pity if these outstanding Mainland students cannot study in Hong Kong due to financial reasons. The current tuition fee payable by non-local students undertaking UGC-funded programmes basically reflects all the additional direct costs of providing a non-publicly-funded place. In order to attract more outstanding Mainland students to study in Hong Kong, should the HKSARG provide further financial support to alleviate their financial difficulties?

In accordance with current immigration regulations, non-local students are not allowed to work during their stay in Hong Kong unless exceptional approval is given by Immigration Department for them to take up study-related short-term internship. Tertiary institutions in Hong Kong have expressed the wish for the HKSARG to relax the restriction imposed on part-time work by non-local students, in order to reduce their financial burden and enable them to gain relevant work experiences before joining the workforce. Many other countries have already put in place measures to allow non-local students to undertake part-time employment. Should the HKSARG agree to relax the restriction on non-local students taking up part-time work? If so, would that affect the interests of local workers, and how to prevent abuse?

(b) Helping local institutions to open operations in the Mainland

21. Both the higher education institutions and the Vocational Training Council in Hong Kong have accumulated rich experience in providing education and training services. The academic level of Hong Kong

institutions is also of international standards. Hong Kong institutions are well- positioned to provide higher and vocational education programmes on the Mainland, especially in the Pearl River Delta area. Currently, Hong Kong institutions, like their foreign counterparts, have to follow the Regulations on Sino-Foreign Cooperative Education. Institutions are very keen to open up more development opportunities in the Mainland. In line with the national policy, should the HKSARG pursue with the relevant Mainland authorities so as to help our school sponsoring bodies and training institutions to establish branch campuses in the Mainland and provide programmes directly to Mainland students?

(c) Attracting talents to work in Hong Kong

22. There are many channels for talents from all over the world to come to work, study or conduct research in Hong Kong. For example, under the general employment policy, Hong Kong has successfully attracted 15 000 to 20 000 overseas professionals who possess skills, knowledge and experience not readily available in Hong Kong. As for the Quality Migrant Admission Scheme implemented since June 2006, the HKSARG will review the scheme after one year of implementation. The review will cover the quota, the basic eligibility criteria, and the points system etc. The HKSARG welcome proposals or suggestions on how to further attract Mainland talents to work in Hong Kong.

Recommendations

23. The HKSARG has announced in June that the Chief Secretary for Administration will chair a high-level Steering Committee comprising Directors of relevant Bureaux to formulate the overall strategy and measures to develop Hong Kong as a regional education hub. We welcome suggestions from members on how to develop Hong Kong as a regional education hub to complement the Nation's strategy to nurture talents under the 11th Five Year Plan. The Steering Committee will make reference to the Action Agenda developed by the focus groups when the relevant issues are deliberated.

Education and Manpower Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Trade and Business

Executive Summary

(Translation)

This paper examines the opportunities and challenges of Hong Kong in trade in goods under the 11th Five-Year Plan from the perspective of the Government and public organisations, with a view to generating discussions among the various sectors in the community to formulate a practical “action agenda” by the Economic Summit in the coming few months.

2. According to the World Trade Organisation, Hong Kong is the world’s 11th largest service trading entity, with a total trade in services amounted to US\$592.9 billion. Amongst them, trade with the Mainland accounted for US\$265.1 billion, i.e. 45.0% of the total trade amount. On the other hand, Hong Kong is the Mainland’s 3rd largest trading partner (after USA and Japan). In 2005, trade with Hong Kong accounted for 9.6% of the total trade amount of the Mainland.

3. The 11th Five-Year Plan highlights the need to expand the domestic market. With a total population of 1.3 billion, China has a huge potential consumer market. In addition, the rapid growth of the middle class which has increasing purchasing power also generates growing demand on imported goods.

4. Hong Kong products have always been popular among Mainland consumers. A product which has a unique identity given by its brand name can be differentiated from other similar kinds of products and can provide confidence to consumers that they are getting their value for money. The Mainland's policy of expansion of the domestic consumer market provides an opportunity for Hong Kong to expand its export. CEPA also provides the chance to promote export of Hong Kong products to the Mainland. We can further explore how Hong Kong manufacturers can establish and strengthen their brand products (particularly for high- and medium-end products) with a view to expand its market share in the Mainland and overseas.

5. Famous as the 'world's factory', the Mainland has seen its industries' production increasing rapidly. The 11th Five-Year Plan of the Guangdong Province calls for acceleration in the development of leading industries such as manufacturing of automobile accessories, iron and steel. The demand for raw materials, particularly iron and steel, will thus continue to increase. Most of the enterprises in the Mainland are small and medium sized enterprises with limited knowledge of the international market. In this respect, Hong Kong can play a role and demonstrate to the world the advantages of Hong Kong as a purchasing centre for imported goods and raw materials.

6. The rapid development of the economy in Mainland, on the one hand, provides Hong Kong enterprises in Guangdong more opportunity for development but on the other hand, Hong Kong enterprises also have to face the challenges from the stringent regulations the provincial government implemented in order to control pollution and conserve resources.

7. The 11th Five-Year Plan of the Guangdong Province calls for integrated environmental control measures, environmental protection mechanism and policy, strict enforcement of environmental assessment system for construction projects, control on the development of industry and construction projects with reference to the regional environmental capacity and resource conservation capability, and formulation of appropriate policy on the collection of waste emission charges.

8. To assist Hong Kong enterprises operating in the Mainland to meet the challenges on environmental protection, the Government will enhance communication with the relevant departments in Guangdong to ensure the timely release of information on the latest investment and trade (including environmental protection) policy, regulations and related information to Hong Kong enterprises, and organize visits to the eastern, western and other parts of the region for Hong Kong enterprises interested in moving their operations into these regions. At the same time, the Hong Kong Productivity Council, trade associations and other organizations are also implementing various environmental protection projects and providing support to Hong Kong enterprises on environmental issues.

Commerce, Industry and Technology Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Trade and Business

(Translation)

Purpose

Paper Ref. 2006 ES/1 has provided an analysis and recommendations on how to develop Hong Kong as international financial, trading and maritime centres under the 11th Five-Year Plan. This paper examines the opportunities and challenges of Hong Kong in trade in goods under the 11th Five-Year Plan from the perspective of the Government and public organisations, with a view to generating discussions among the various sectors in the community to formulate a practical “action agenda” by the Economic Summit in the coming few months.

Background

2. From the global perspective, Hong Kong was the world’s 11th largest trading entity in goods in 2005 (the value of total trade amounted to US\$592.9 billion) according to a report of the World Trade Organisation – the 11th largest importer (the value of imports amounted to US\$300.6 billion) and the 11th largest exporter (the value of exports amounted to US\$292.3 billion).

3. The Mainland is Hong Kong's largest trading partner. In 2005, trade between Hong Kong and the Mainland amounted to HK\$2,061.9 billion (US\$265.1 billion), accounting for 45.0% of Hong Kong's total trade. Reciprocally, Hong Kong was the Mainland's third largest trading partner (after the US and Japan) in 2005. Trade between the Mainland and Hong Kong accounted for 9.6% of the Mainland's total trade. Hong Kong is also an important entrepot for the Mainland. In 2005, re-exports of Mainland-origin goods through Hong Kong accounted for 62.1% of Hong Kong's total value of re-exports while Hong Kong's re-exports to the Mainland accounted for 45.8% of the total value of re-exports.

4. The Mainland has a population of over 1.3 billion, a potentially huge consumer market with enormous development potential. With the rapid expansion of the middle class and the continual rise in per capita spending capacity, there has been a growing demand for imports in the Mainland. In 2005, the Mainland imported US\$660 billion of goods. Imports also grew strongly by 22% in the first five months of 2006. Among the provinces, municipalities and autonomous regions, neighbouring Guangdong Province ranked the 6th in per capita GDP in the Mainland, making it a prominent consumer market.

5. Hong Kong products has always been popular among Mainland consumers, the Mainland's policy of expanding domestic demand can help create a larger export market for Hong Kong products. The tariff free access under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has also provided new opportunities to promote Hong Kong brand name products in the Mainland.

6. The 11th Five-Year Plan states that the Mainland should maintain stable and rapid economic development by further expanding domestic demand, thus regulating the relationship between investment and consumption (i.e. rationalizing the scale of investment and strengthening the role of consumption in economic growth.)

7. On top of economic development, the Mainland also calls for resource conservation, environmental protection and a fundamental change in the mode of economic growth. In addition, the Mainland also aims to promote national economic and social informatisation, "new industrialization" resource-conserving, clean, safe and sustainable development. As Mainland provinces are rectifying heavily polluting industries, many Hong Kong-invested enterprises in the Mainland,

particularly those heavily polluting trades operating in the Pearl River Delta (PRD), will face new challenges. On the other hand, the provinces will be in great need of external investment and support in technology, management, financing and environmental protection industry as they embark on environmental planning work. These new developments will result in both crises and opportunities for which Hong Kong businesses should now be considering how to manage.

8. The Guangdong Province's 11th Five-Year Plan proposes to optimize export commodities and export trade structure. It focuses on expanding the exports of brand name products with proprietary intellectual property content, encouraging the exports of products with high-technology and high value-added content, and restricting the exports of high resource, high energy consumption products, as well as those that are highly polluting. The plan also suggests enhancing the comprehensive management of environmental programmes, improving the environmental and policy formulation, and strictly implementing the environmental impact assessment system on construction projects. Planning of industry distribution and industrial construction projects will be based on the environmental capacity and resources protection capabilities of the respective regions. The province will also actively explore charging of a reasonable effluent fee and formulate a policy on applying such levy.

Opportunities and Challenges

9. With the Mainland's new development direction through expansion of domestic demands, optimization of industrial structures, resource conservation and environmental protection, innovation enhancement, etc. to promote sustainable development, we have attempted to analyse the opportunities and challenges facing Hong Kong businessmen in several areas :

(I) Brand Building in the International and Mainland Market

10. According to the Top 100 Global Brands Scoreboard 2006 published by the BusinessWeek magazine, there are only ten top global brands in Asia. None are from the Mainland or Hong Kong are on the list¹. This is one indication that Hong Kong products are still not widely

¹ HSBC is regarded as a British brand.

known to the international market. In a 2002 report, the Hong Kong Trade Development Council (TDC) set out the reasons for the low level of brand building in Hong Kong. The main reason was that Hong Kong only had a limited domestic market and lacked a critical mass of local consumers. In addition, Hong Kong manufacturers had a limited knowledge of the preferences, taste and other demands of overseas consumers. In recent years, local industries have gradually realised the importance of brand building to boost Hong Kong exports and have allocated substantial resources to the development of brand names. Under the 11th Five-Year Plan, the policy of expanding domestic demand will provide a great opportunity not only for the export of Hong Kong products, but also for the domestic sales of goods produced by Hong Kong-invested manufacturers in the Mainland. .

11. From a macro perspective, Hong Kong itself is a brand. It represents quality, confidence, style, genuine goods at fair prices and value for money. Since the implementation of the Individual Visit Scheme, a huge number of Mainland visitors have come to Hong Kong and shopped for local goods (though not all of the goods are locally manufactured), ranging from high-value jewellery accessories to popular food items such as moon cakes. This reflects the Mainland consumers' trust and desire for Hong Kong products, and pave the way for our products to enter the Mainland consumer market.

12. Hong Kong manufacturers, especially those producing medium- and high-end products, should consider how to build and strengthen their own brand names. A brand name gives a product with a distinct identity, differentiates it from similar products, and assures consumers of its value. A successful brand needs to be supported by quality, service and originality. The challenges for Hong Kong enterprises are how to upgrade the product design and quality, make better use of innovative technologies, enhance productivity, optimise production workflow, improve customer and after-sales services, and embark on effective promotion in the Mainland market.

(II) Exploiting the Mainland's Domestic Market

13. To take advantage of lower production cost, outward processing forms a significant portion of trade between HK and the Mainland. In 2005, trade involving outward processing in the Mainland amounted to HK\$388.5 billion (US\$50 billion), accounting for 38% of our total exports to the Mainland; whereas the total imports from the Mainland involving

outward processing also reached HK\$692 billion (US\$89 billion), accounting for 66% of our imports from the Mainland. According to Guangdong Province statistics, the cumulative number of contracted direct investment projects from Hong Kong in Guangdong was 87 274 at end-2005. Many of these are related to the manufacturing industry and processing trade activities. The majority of these products are exported to overseas markets using Hong Kong's efficient logistics and transportation services. Given the important role of Hong Kong-invested factories in Southern China's manufacturing sector, these enterprises are capable of restructuring from ones focusing solely on processing trade activities to those capable of making inroads into the Mainland's domestic market.

(III) Environmental Protection Requirements in Guangdong Province

14. With the rapid economic growth of the Mainland over the past few years, excessive energy consumption by some industries has aggravated the environmental pollution problems. In this connection, the 11th Five-Year Plan calls for resource conservation, environmental protection and a fundamental change in the mode of economic growth. The 80 000-odd Hong Kong-invested factories in Guangdong are facing serious resource and environmental problems.

15. In order to attain a more balanced economic development, the Guangdong provincial government is determined to develop its east and west wings as well as the northern mountainous area with a view to gradually shifting the labour intensive industries to these areas. In this connection, Guangdong Province has formulated the "Outline of the Planning of the Environmental Protection of the Pearl River Delta" and the "Environmental Protection Plan for Guangdong Province" and other environmental protection plans, with strict requirements on the designation and control of functional areas. In order to strengthen the pollution control and management of heavily polluting trades, Guangdong Province has proposed explicitly to speed up the "unified planning, unified location" for heavily polluting trades such as galvanization, chemical pulping and production, leather making, textile printing and dyeing, smelting, fermentation, solid waste processing, etc., in order to achieve centralised control, centralised rectification and centralised management of pollution.

16. While the strict control of environment pollution and resource conservation has created problems for some Hong Kong-invested enterprises in Guangdong Province, it will also bring about business

opportunities to the environmental protection enterprises. For example, the planning of the environmental protection business requires the participation of well-established companies with advanced technology and quality management in investment, development and operation.

17. There is much room for cooperation in environmental protection industry between Hong Kong and the Guangdong Province. For example, a Hong Kong enterprise has developed particulate reduction devices that can be retrofitted on eligible diesel vehicles and can reduce vehicle emission by half. The introduction of similar products in Guangdong Province and other regions will bring about tremendous business opportunities to Hong Kong enterprises.

Responses/Actions taken by the Government and Other Sectors

(I) Developing Brand Name Products

18. Under the free market policy, the HKSAR Government is committed to providing the maximum support to industries and create a business friendly environment, as well as improving intellectual property protection system needed to develop creative industries and brands in Hong Kong.

19. Hong Kong's comparative advantage has shifted from low-skilled and labour-intensive production to high value-added and knowledge-based activities. As such, the Government encourages the industries to move up the value ladder from Original Equipment Manufacturing (OEM) to Original Design Manufacturing (ODM) and Original Brand Manufacturing (OBM).

20. In recent years, the Government has provided considerable support to the industrial sector in response to the restructuring of industries. To provide an environment conducive to the development of high value-added and technology-based industries, the Government has set up the Innovation and Technology Fund (ITF) to encourage and support initiatives conducive to innovation and technology upgrading of local industries. By April 2006, \$2.3 billion was committed under the ITF to establish five research and development centres, namely, automotive parts and accessory systems, logistics and supply chain management enabling technologies, nanotechnology and advanced materials; textile and clothing; and, communications technologies. These centres will provide a one-stop

services shop for these industries and help them move up the technology ladder and to develop high value-added products. In addition, the Government supports the establishment of the Integrated Circuit Design and Development Support Centre at Science Park as well as the Digital Media Centre and the Wireless Solutions Development Centre in Cyberport, with a view to helping small and medium enterprises (SMEs) develop ODM capability. The SME Export Marketing Fund under the SME funding schemes implemented by the Government also provides financial assistance to SMEs in export promotion activities, indirectly facilitating Hong Kong's economic shift towards high value-added and knowledge-based activities and production, and promoting the growth of Hong Kong's trade in goods.

21. On the promotion of design and creativity, the Government and various organisations have introduced several initiatives to assist industries to make better use of design to enhance the product values, and to develop their own brands. For example, the Hong Kong Design Centre is committed to promoting design as a value-added activity, raising design standards and fostering design-related education, and raising the profile of Hong Kong as an innovative and creative hub. To position Hong Kong as a centre of design excellence in the region, the Government has also launched the DesignSmart Initiative to strengthen the support for design and innovation, instill high value-added content, substantial intellectual property and innovative elements into the production processes, provide funding for worthwhile design and branding projects and research, incubate start-up design ventures, and promote and honour design excellence and branding. In addition, local higher education institutions such as the Polytechnic University's School of Design, the Hong Kong Design Council, and professional bodies have been playing a pivotal role in raising design standards in Hong Kong, in fostering design-related education, and in training design talent. All these measures help enhance the potential of brand development in Hong Kong.

22. Many business chambers, trade associations and government subvented organisations also strive hard to develop of Hong Kong brands. Under the planning and promotion of the Hong Kong Brand Development Council, many local enterprises actively pursue excellence in the development of brands and products, and reinforce the status of Hong Kong original brands. The Hong Kong Q-Mark Scheme, the Hong Kong Top Brand Awards and the Hong Kong Top Service Brand Awards showcase the efforts and accomplishment of many local enterprises in

brand building. Besides, the Hong Kong Awards for Industries, established through the merging of the former Hong Kong Awards for Industry and Hong Kong Awards for Services, recognise the outstanding achievements of Hong Kong enterprises in moving towards higher technology and higher value-added activities. Awards are given in seven categories, namely consumer product design, machinery and equipment design, customer service, environmental performance, innovation and creativity, productivity and quality, and technological achievement. In addition, many exhibitions are held to showcase Hong Kong products, among which the annual Hong Kong Brands and Products Expo is a prominent example. Its organiser, the Chinese General Chamber of Commerce, has also held similar exhibitions in various Mainland cities to promote Hong Kong brand name products in recent years.

23. The TDC also contributes to enhancing the image and status of Hong Kong brand name products in the global market. Its efforts include organising and encouraging Hong Kong manufacturers to take part in local and overseas promotional functions, promoting the high quality and sophisticated design of Hong Kong products through market-specific publicity campaigns, and building up the image and reputation of Hong Kong original brands. The TDC has put special focus on the Mainland markets to promote Hong Kong products. It has held a series of promotional activities highlighting Hong Kong brand name products in leading department stores and organised the “Style Hong Kong” events in major Mainland cities which, by gauging the demand and taste of different markets in the Mainland provided useful references to Hong Kong manufacturers during the manufacturing and design processes. From 2006, the TDC has set up “Style Hong Kong Gallery” in trade fairs held overseas to promote Hong Kong brand name products.

24. CEPA serves as a catalyst for the industrial restructuring in Hong Kong. The zero tariff measures minimizes the costs of Hong Kong products exported to the Mainland and thus increases the competitiveness of Hong Kong products in the Mainland consumer market. CEPA also encourages the manufacturing in Hong Kong of brand name products or products with high value-added content or substantial intellectual property input which has helped to accelerate Hong Kong products’ penetration into the growing Mainland consumer market. Overseas investors may leverage on the economic synergy between Hong Kong and the Mainland, as well as the zero tariff preference and the trade and investment facilitation measures under CEPA to manufacture products in Hong Kong for export to the

Mainland. Given the effective intellectual property protection regime in Hong Kong, overseas investors may also set up research and development centres or manufacture proprietary products in Hong Kong.

25. The trade and investment facilitation measures under CEPA also enhance trade and investment activities between the Mainland and Hong Kong. For example, a series of customs facilitation measures have been implemented to speed up the flow of goods between Hong Kong and the Mainland while various arrangements on transparency in laws and regulations have enabled investors to gain a better understanding on the Mainland's laws and regulations. The incorporation of intellectual property (IP) protection under trade and investment facilitation measures this year further accelerates the launch of Hong Kong brand name products to the Mainland market. According to the latest thinking, the Mainland would set up an Intellectual Property Protection Coordination Centre in Hong Kong, which will provide a platform for exchanges on issues relating to IP protection between the two sides, and dissemination of information on IP protection to traders.

(II) Strengthening Ties with the Mainland Authorities and Exploiting the Mainland's Domestic Market

26. The Government strives to foster closer ties with the Mainland authorities. For example, the Pan-Pearl River Delta Regional Co-operation Framework Agreement, the Hong Kong/Guangdong Co-operation Joint Conference, the Hong Kong-Shanghai Economic and Trade Co-operation Conference and the Hong Kong-Beijing Economic and Trade Co-operation Conference all provide effective platforms for communication between the two places, the elimination of barriers on the flow of goods between provinces in the Mainland and the healthy development of trade and investment between Mainland and Hong Kong. The Government has also decided to strengthen its representation in the Mainland by establishing a Mainland Affairs Liaison Office under the Constitutional Affairs Bureau, establishing two Economic and Trade Offices in Chengdu and Shanghai, and by expanding the scope of functions of Hong Kong Economic and Trade Office in Guangdong (GDETO). Through the promotion of economic and trade collaboration, as well as the building of liaison networks, with individual provinces/regions, the Government is determined to strengthen the support for Hong Kong businessmen operating in the Mainland, publicise the products and roles of Hong Kong, as well as promote and advertise CEPA in the Mainland

with a view to further promoting the development of Hong Kong's trade in goods.

27. As the renowned factory of the world, the Mainland's gross industrial output value is increasing steadily. Given that Guangdong Province has suggested accelerating the development of principal industries like automotive parts and steel-led industries in its 11th Five-Year Plan, the demand for raw materials, particularly steel, will keep on rising. With the encouragement of the Mainland government to produce high value-added and high quality products, Mainland enterprises start to acquire raw materials from all over the world to enhance the quality and competitiveness of their products. A vast majority of Mainland enterprises are SMEs lacking adequate knowledge about the global market. On the other hand, Hong Kong enterprises have strong international business network and shrewd market acumen, and are familiar with international trade rules. They will surely provide sourcing services to the Mainland enterprises and meet the national demand for imported products and raw materials.

28. With the efforts in the past years, Hong Kong has established its status as the international sourcing centre. However, the Internet has brought about challenges to Hong Kong. More and more buyers may choose to procure on-line in order to save the agent commissions, or the rental and other administration fees arising from the setting up of a sourcing centre in Hong Kong. Furthermore, many multinational enterprises have set up Mainland offices in addition to their sourcing offices in Hong Kong. Last year, Walmart moved its regional sourcing headquarter from Hong Kong to Shenzhen. In face of such challenges, Hong Kong has to proactively publicise its strengths as the regional headquarters, and demonstrate the advantages of Hong Kong as the prime sourcing centre for goods and raw materials.

(III) Assisting Hong Kong-Invested Enterprises in Guangdong to Meet the Environmental Protection Challenges

29. Apart from encouraging our manufacturing sector to move up the value chain, the Government, together with various quasi-government organisations and business associations, has provided support at various fronts to the Hong Kong businessmen in the Mainland facing enhanced efforts (especially Guangdong) to protect the environment, and the new

environmental protection requirements² of economies such as Europe, the US and Japan.

30. The GDETO maintains a close liaison with the Guangdong government, with a view to reflecting the views of Hong Kong investors, assisting them to communicate with the relevant Guangdong authorities and collecting and disseminating as much information as possible to facilitate advance planning. In addition to providing assistance to Hong Kong manufacturers by organising familiarisation visits to the Mainland for to better understand the investment environment and latest economic and trade situation of areas accommodating relocated industries, the GDETO, in collaboration with the Hong Kong Productivity Council, is discussing with individual PRD cities on possible options of central administration and control, as well as encouraging governments of the cities/counties concerned to achieve a win-win situation by enlisting Hong Kong businessmen in the provision of environmental facilities.

31. The Hong Kong Productivity Council is committed to promoting the use of cleaner production technology among enterprises. Its efforts include:

- (a) Producing technical guides for the reference of different trades including bleaching and dyeing, electroplating, circuit board manufacturing, and food and leather industries. Through the provision of consultancy service on environmental protection, the Council assists business organisations to design, formulate and implement environmental management systems in compliance with the ISO 14001 standard;
- (b) With the development in environment technology innovation, assisting the industries concerned in complying with the relevant

² For example, the European Union (EU) has recently adopted directives on green production, including the Directive on Waste Electrical and Electronic Equipment (WEEE) which took effect in August 2005, and the Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) which entered into force on 1 July 2006. The WEEE Directive requires producers and distributors of electrical and electronic equipment to be responsible for collecting and processing waste electrical and electronic equipment and the expenses incurred. The RoHS Directive requires that the content indices of six hazardous substances including lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls and polybrominated diphenyle ethers in electrical and electronic equipment should comply with EU standards. Should violations be detected in sampling tests, the whole product lot will be recalled and destroyed on site. Entry into the EU market of such equipment in the future will be prohibited.

laws and regulations in Hong Kong, the Mainland and other overseas markets by controlling the emission of fumes, smoke, exhaust, wastewater and dust particulates during production processes. The Environment and Product Innovation Laboratory of the Council conducts a comprehensive range of pollution analysis including that of industrial effluents, noise measurements and treatability tests on waste and wastewater, with the aim to assisting the industries concerned to comply with the local and international environmental legislation;

- (c) Establishing the Green Manufacturing Network as a platform for dissemination and sharing of environmental information, organising regular seminars and workshops, and compiling guides assisting different trades and industries to comply with environmental protection requirements;
- (d) Discussing with the industries and Government the setting up of a centre for promotion and research of cleaner production, as a source of technical support for the industries; and
- (e) Setting up wholly owned subsidiaries in Guangzhou, Dongguan and Shenzhen in recent years to provide integrated services providing direct support to Hong Kong-invested enterprises operating in the Mainland. Major areas of work in the future will include greater support for cleaner production.

32. Apart from the Hong Kong Productivity Council, various organisations and business associations have implemented environmental protection programmes and measures as well:

- (a) The Sustainable Development Sub-group under the Greater Pearl River Delta Business Council is exploring measures to improve air quality; to raise awareness of energy saving, emission reduction and application of clean production technology among the Hong Kong manufacturing industries in Guangdong; and to introduce clean production measures to enterprises in the Greater PRD;
- (b) The Greater Pearl River Delta Business Council has joined hands with the Hong Kong General Chamber of Commerce, the Business Coalition on the Environment, the Guangdong Sub-

Council of the China Council for the Promotion of International Trade and the Guangdong Environment Protection Industries Association to launch the “Clean Air Charter”, encouraging all investors in the PRD to observe the Charter;

- (c) The Hong Kong Green Manufacturing Alliance, founded by seven business and trade organisations, encourages local manufacturers to comply with environmental legislation, seeks to raise their environmental awareness and promotes the application of green processes and products with a view to enhancing their competitiveness;
- (d) The Federation of Hong Kong Industries launches the One Factory-One Year-One Environmental Project Programme. It is a voluntary programme which requires participating manufacturers to implement at least one environmental project each year to reduce pollution in Hong Kong and the PRD and to improve the environment of the region; and
- (e) The TDC has also joined force in areas under its ambit. For example, the TDC organised a seminar on “RoHS Policies and Enforcement Conference” where enterprises shared their experience in complying with the RoHS Directive in the production and manufacturing processes. It also helps promote Mainland study visits and investment projects among Hong Kong enterprises.

Recommendations

33. In response to expanding domestic demand in the Mainland, and to assist Hong Kong-invested enterprises in the Mainland rise to environmental protection challenges, Members are invited to give their views on the following recommended measures or make suggestions on other areas for further consideration:

- (a) In order to preserve the competitiveness of Hong Kong products in the international arena and in the Mainland market, the Government will further promote the development of Hong Kong brands by encouraging enterprises to enhance product design and quality, improve services, make better use of innovative

technology, increase productivity and optimize production workflow, and upgrade quality control;

- (b) Industries and enterprises will promote proactively Hong Kong brand name products in the Mainland by capitalising the generally fine reputation of Hong Kong products;
- (c) The Government and related organisations will further intensify their efforts in publicising Hong Kong as a prime sourcing hub and as an intermediary role, whereby Mainland enterprises may source their goods in Hong Kong and multi-national enterprises may use Hong Kong as the platform for business matching when they enter the Mainland consumer market;
- (d) In an effort to encourage Hong Kong businesses to actively explore the domestic market of the Mainland, the Government will, through the existing cooperation channels with the Mainland, seek to overcome the internal trade barriers (such as taxation issues and the flow of goods between provinces).
- (e) The Government will continue to strengthen liaison with the related authorities in Guangdong, and to disseminate to Hong Kong businessmen the latest policies, measures and relevant information on investment and trade (including those on environmental protection) as early as possible, so as to deepen their understanding on the Mainland investment environment and to facilitate them to explore the business opportunities in the Mainland; and
- (f) The Government will continue to support and encourage business associations and enterprises to initiate environmental programmes.

Advice Sought

- (a) Is the above analysis on the international competitiveness of Hong Kong in trade in goods comprehensive and thorough? Are there any other issues that need to be addressed ?
- (b) Is the above analysis on the opportunities and challenges faced by Hong Kong businessmen under the 11th Five-Year Plan

comprehensive and thorough? Are there any other issues that need to be addressed?

- (c) Is the above analysis on the opportunities and challenges faced by Hong Kong businessmen under the Guangdong Province's 11th Five-Year Plan and the development in the region comprehensive and thorough? Are there any other issues that need to be addressed?
- (d) Are the measures proposed above for the government and public organisations to further consolidate and develop the domestic market in the Mainland and to assist Hong Kong businessmen in the Mainland to meet the environmental protection challenges pragmatic? Do we need to adjust our directions or strategies?
- (e) Do the issues on how to further consolidate and develop Hong Kong as an international business and trade hub in this paper and in Paper Ref. 2006 ES/3 require further analysis and study?

Commerce, Industry and Technology Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Services Industry

Executive Summary

(Translation)

This paper examines the opportunities and challenges for the services industry of Hong Kong from the perspective of the Government and related organizations. We hope that this could generate constructive discussions among the public which will enable the Government to formulate a practical “action agenda” in the coming months.

2. Hong Kong’s services industry is well-developed, contributing to 90% of our GDP. It is the world’s 16th largest services trading entity, with value of services trade amounting to more than 50% of our GDP. By international standards, the Mainland’s service industry is still at a fledging stage, taking up about 40% of its GDP.

3. The National 11th Five-Year Plan stresses acceleration of the development of services industry. Indeed, with the Mainland’s rapid and sustained economic growth, greater market openness, and continued expansion of external trade, Mainland enterprises have bigger need for different kinds of services. As regards the Guangdong Province, it also endeavours to increase the weight and standard of its services industry,

accelerate the development of its commerce and services industry, and attract to the Province more modern Hong Kong and Macao enterprises with a view to enhancing the competitiveness of its service industry.

4. Hong Kong has established its position as an international trading and services hub. With a wealth of talented professionals, good management practices, well-established infrastructure, independent legal system, simple tax regime, sound financial policy, Hong Kong is the preferred choice for many enterprises eyeing the Southeast Asian market, particularly the Mainland market. It is also a springboard for Mainland enterprises to “venture out” to the world market.

5. However, Hong Kong’s services industry is not without its worries. Hong Kong’s cost of business operation, in particular the rental and labour cost, far exceeds that of neighbouring areas. As the Mainland market continues to open up, more foreign investment goes in, reform of state-owned enterprises increase in depth, and policy support for services industry continues, Hong Kong’s services industry will have to face ever-increasing competition from the Mainland.

6. In the face of such challenges, the HKSAR Government will strive to promote Hong Kong’s advantages as a trading, investment and business hub and attract inward investment to consolidate Hong Kong’s position as Asia’s world city. At the same time, the Trade Development Council is working hard to help Hong Kong’s services industry to expand its markets.

7. The signing of CEPA opens up a huge Mainland market for Hong Kong’s services industry. The HKSAR Government will fully implement CEPA, look for ways to better facilitate its implementation, endeavour to expand the liberalisation measures, and step up liaison with Mainland provinces and municipalities to provide support to Hong Kong businessmen in the Mainland, as well as Hong Kong businessmen who intend to set up operations in the Mainland.

Commerce, Industry and Technology Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Services Industry
(Translation)**

Purpose

The paper 2006 ES/1 has provided strategic analysis and made suggestions on how to develop Hong Kong into an international financial, trading and maritime centres under the 11th Five-Year Plan. This paper examines the opportunities and challenges for the services industry of Hong Kong from the perspective of the Government and related organizations. We hope that this could generate constructive discussions among the public which will enable the Government to formulate a practical “action agenda” in the coming months.

Background

2. According to the World Trade Organisation, Hong Kong’s total trade in services amounted to US\$91.9 billion (1.9% of the total volume of world trade in services) in 2005, an increase of 10.2% over 2004, making Hong Kong the world’s 16th largest services trading entity¹. The annual statistics compiled by the Government on the external direct investment of Hong Kong show that our inward direct investment mainly goes into the services sectors, especially those related to the wholesale, retail, imports/exports trade services, transport and related services, real estate and other business support services.

¹ Ranked 11th (US\$60.3 billion) in exports of services, and ranked 20th (US\$31.6 billion) in imports of services.

3. The quality of the services industry in Hong Kong is very high by international standards after continuous efforts of the industry over the years. The services industry currently contributes to 90% of our Gross Domestic Product (GDP). On the other hand, the services industry in Mainland is still at a developing stage and accounts for about 40% of the GDP. As the Mainland economy continues to enjoy vigorous growth, its progressively liberalized market and expanding foreign trade has led to greater demand for different types of services, especially professional services. Meanwhile, economic globalization and China's accession to the World Trade Organization have intensified the Mainland's need for better integration into the world economic system. For this reason, growth in volume alone is not enough for their services industry. It is imperative that the industry improves its quality to meet international standards in its management, operation and performance.

4. Hong Kong should develop itself into a services hub for China and serve as a two-way servicing platform. Not only can the Mainland services industry import professionals from Hong Kong and through Hong Kong, from overseas, it can also use Hong Kong as a springboard to reach out to the world market.

5. In the 11th Five-Year Plan, it is mentioned that China will optimise and upgrade its industrial structure and accelerate the development of its services industry. This will have significant impact on Hong Kong as an international centre for trade and business. Relevant contents of the 11th Five-Year Plan are set out as follows:

- Chapter 3 – Adjust the structure and organisation of the raw material industry; exercise stringent control over the productivity for additional iron and steel; and promote restructuring and upgrading of the building material industry, with emphasis on the conservation of energy resources, the protection of natural environment and the upgrading of product quality.
- Chapter 4 – Adhere to the principles of using market orientation, commercialisation and socialisation; widen the scope of the services industry, expand its scale, optimise its structure, strengthen its function and regulate its market, so as to improve the level of the services industry and its share in the GDP.

- Sections 16 to 17 – Vigorously promote the development of the producer’s services industry; deepen specialisation and labour division; reduce social transaction cost and improve resource allocation efficiency..... Give priority to development of the transport industry; promoting the development of modern logistics; orderly develop the financial services; actively develop the information services; regulate and develop the commercial and professional services; foster the development of the real estate sector; boost tourism, etc.
- Section 18 – End monopoly; relax the scope of market access; develop an open, fair and regulated system for the market access of specific trades; encourage the injection of community capital into the services industry, increase the proportion of non-public-owned operations in the economy..... Perfect the system for the setting of standards, and promote standardisation in the services industry. Big cities should accord priority to the development of the services industry and those which are well placed should gradually restructure its industries to become service economies.

6. The 11th Five-Year Plan of the Guangdong province proposes to optimize the structure of the services industry, accelerate the growth of the commercial services industry, strengthen the development of related services in the areas of legal, accounting, financial consulting and product design, as well as the development of the well established wholesale and retail services. The 11th Five-Year Plan of Guangdong also proposes to enhance regional cooperation. Following the principle of “forward looking approach, holistic, pragmatic and mutual benefit”. The Plan proposes to further implement CEPA with Hong Kong and Macao, to enhance cooperation in all aspects with reference to the advantages of each city, and to attract the modern services from Hong Kong and Macao to upgrade the competitiveness of services industry in Guangdong.

Opportunities and Challenges

7. Hong Kong has established its position as an international hub for trade and services. Apart from the abundant inflow of foreign capital, Hong Kong has acquired from the foreign enterprises technical expertise

and management experience. For this reason, our services industry has made significant progress. Its performance now measures up to international standards. With a wealth of talented professionals and good management practices, adding to the well-established infrastructure, independent legal system, simple tax regime and sound financial policy, Hong Kong becomes the preferred choice to those wanting to establish their businesses in the South-East Asian market and in particular, the Mainland market.

8. Compared with Hong Kong, the services industry on the Mainland is currently at a fledging stage. Most of the companies in the Mainland are small and medium-sized enterprises with limited knowledge of the international market. On the contrary, Hong Kong enterprises enjoy a strong international business network. Sensitive to market developments and familiar with the rules of international trade, our companies can provide services to help the Mainland enterprises to source for raw materials and other imported goods to meet China's growing demand for them. As an international metropolis, Hong Kong attracts many foreign enterprises and experienced personnel with international outlook. Mainland enterprises can establish purchasing centres in Hong Kong to capitalize on the advantages of Hong Kong, which include a business environment characterized by a high degree of freedom and transparency, and a sound legal system.

9. Under the 11th Five-Year Plan, the Mainland has to continue with its industrial restructuring and expedite the development of its services industry. As Hong Kong is well developed in areas such as financial services, insurance, logistic services, trade and tourism, Hong Kong can play a key role in the development of the services industry on the Mainland, and act as China's service centre with a two-way servicing platform. The Mainland can bring in professionals of the services industry from Hong Kong or from foreign countries through Hong Kong. It can also use Hong Kong to enter into the international market.

10. In response to the "venture out" policy of the Mainland enterprises, Hong Kong can act as a gateway and play an intermediary role. In the past 27 years of market reform and liberalisation, Mainland enterprises basically focused on the "bringing in" of foreign investment. According to the Ministry of Commerce, the foreign capital realized over the period amounted to over US\$600 billion but the outward direct investment only totalled US\$60 billion. In the face of economic

globalization, Mainland enterprises should act proactively to “venture out”. The services industry of Hong Kong enjoys free flow of information. There is a large pool of professional talent who are multilingual, familiar with the rules of international trade, as well as having an international business network. All these are what the Mainland enterprises need.

11. Hong Kong’s services industry is at an advantageous position, but at the same time there are also a number of concerns we need to address. The rent and labour cost of Hong Kong is much higher than our neighbouring regions, and the operating cost is also high. In the Mainland, the market is opening up and attracting more foreign investment. Given the continued reform of the Mainland enterprises, their operation will gradually improve. Moreover, with the Mainland giving strong policy support to their private enterprises, their business are developing rapidly. All these would mean that Hong Kong companies will face severe competition and challenges.

12. Hong Kong is facing increasing competition from the Mainland cities. Developing the services industry is at the core of the industrial restructuring in the Mainland. The 11th Five-Year Plan has called upon the major cities to give priority to the development of the services industry. In their respective 11th Five-Year Plans, cities such as Shanghai and Guangzhou have set for themselves the target of developing into a financial hub or a logistics centre at international or regional level, and have formulated specific policies to achieve the goal. Under the circumstances, although the Mainland services industry may not be able to pose a serious threat to Hong Kong in the short term, it is inevitable that competition will become increasingly intense.

13. Meanwhile, the increasing use of the internet has made a major adverse impact on Hong Kong. Increasingly, buyers prefer to make the purchase through the internet to save the costs of the intermediaries, as well as the rent and the administrative overheads of maintaining an office in Hong Kong. While some multinational corporations may have stationed themselves in Hong Kong to purchase products from the Mainland, they have also established offices in the Mainland. Wal-Mart even withdrew from Hong Kong and established its regional headquarters in Shenzhen last year.

Responses / Actions taken by the Government and Other Sectors

Promotion of Hong Kong Services Industry

14. On the international front, InvestHK is dedicated to attracting inward investment by promoting Hong Kong's advantages as a trading, investment and business hub in Asia. It proactively assists enterprises interested in establishing businesses in Hong Kong and promotes Hong Kong's strength as the base for business and as a springboard to the Mainland market. The major promotion activities include 9 business areas : commercial and professional services; consumption, retail and merchandise; financial services; information technology; telecommunication; media and multi media; technology (including electronic enterprise and biotechnology); tourism and media entertainment; and transport. Moreover, the Trade Development Council (TDC) will promote Hong Kong to the overseas market according to different market needs. For instance, in recent years, the TDC concentrated on the promotion of logistics, information and communication technology to Japan and USA; patent services to South Korea; exhibition services to Germany and UK. Meanwhile, it also receives financial services groups from Europe, Japan and American and promote Hong Kong as the ideal platform for investment, and Asian capital centre.

15. The TDC provides Mainland enterprises with information on both Hong Kong and international markets, publicises our services industry to them, assists enterprises to set up offices in Hong Kong and provides follow up services to these enterprises and encourages them to expand their business. At the end of August 2004, the Mainland introduced new measures to facilitate outbound investments. These measures encourage Mainland enterprises to invest in Hong Kong. As at the first quarter of 2006, 378 Mainland enterprises have been given permission to invest in Hong Kong, with total investment of 2.23 billion Hong Kong dollars. These enterprises not only bring investments into Hong Kong, they also supply products and services and at the same time, increase demands for Hong Kong services.

16. The TDC also plays a key role in promoting trade co-operation between Hong Kong and the Mainland and in consolidating Hong Kong's position as a trade platform for the Mainland. The TDC has 11 offices in the Mainland. It provides matching services to help the Mainland enterprises to seek trade partners in Hong Kong. It organizes promotion

activities in the Mainland with other Hong Kong organizations. These activities include visits by Mainland trade delegations to Hong Kong and vice versa. The visits allow the Mainland enterprises to get a better understanding of Hong Kong services industry and provides opportunities for the Hong Kong services to enter the Mainland market. The TDC's web service also provides Mainland enterprises with information about the Hong Kong and the international market, assists them to devise their business strategies and provides Hong Kong companies with Chinese trade advisory services.

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)

17. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has helped Hong Kong's services industry open up an enormous market. Economic co-operation and integration between the two places has been greatly strengthened. Since its implementation in 2004, CEPA has successfully promoted the development of various services industry. The Mainland has opened up 27 service sectors to Hong Kong service suppliers, who can enjoy a "first mover" advantage over other World Trade Organisation members. They can enter the Mainland market ahead of others, and under more favourable conditions. By end-August 2006, 968 Hong Kong registered enterprises had obtained Hong Kong Service Supplier certificates for access to the Mainland under CEPA. More than 80% of them have already set up operations in the Mainland, or are planning to do so. These include enterprises in the banking, distribution, transportation and logistics sectors.

18. According to a report on "The Impact of CEPA on the Hong Kong Economy" completed in April 2005, companies in the 18 service areas covered by CEPA I increased capital investment in Hong Kong by HK\$5.5 billion in 2004 and 2005 because of CEPA. Service receipts generated as a result of CEPA I in 2004 and 2005 amounted to HK\$5.4 billion.

19. Since the implementation of CEPA, Hong Kong has enjoyed continued economic growth. Our Gross Domestic Product rose 8.6% in 2004, 7.3% in 2005, and 8.0% year-on-year in the first quarter of 2006.

20. Through our Economic and Trade Offices, we will strengthen communication and co-operation with provincial and municipal

governments. We will adopt complementary measures to collaborate with the provinces and municipalities to implement CEPA such as information exchange and linkage, as well as trade and investment facilitation. With regard to the development of the provinces and the relevant strengths of our service industries, the Economic and Trade Offices will formulate plans to foster the implementation of CEPA in various provinces by stages. In regards to Guangdong, an Expert Group on Services Implementation under CEPA has been set up under the Hong Kong/Guangdong Co-operation Joint Conference to drive the implementation of CEPA in Guangdong Province.

Strengthening Liaison with Mainland Provinces and Municipalities

21. Hong Kong has worked hard to promote and strengthen mechanisms for co-operation with Mainland provinces and municipalities, and in particular Guangdong Province. These include the Pan-Pearl River Delta Regional Co-operation Framework Agreement, the Hong Kong/Guangdong Co-operation Joint Conference, Hong Kong/Beijing Economic and Trade Co-operation Conference and Hong Kong/Shanghai Economic and Trade Co-operation Conference. Under these cooperation frameworks, Hong Kong and its Mainland counterparts agree to use CEPA as the basis for strengthening exchange and co-operation at the government, enterprise and community levels with emphasis on developing modern services.

22. Apart from co-operation under the CEPA framework, the HKSAR Government also strives to strengthen liaison with our major business partners in the Mainland and to attract them to invest in Hong Kong. In June this year, the Chief Executive led a business and trade delegation to Guangxi and attended the Hong Kong-Guangxi Business Co-operation Symposium to promote the strengths of our services industry and offer assistance to Guangxi enterprises to “venture out” and to expand into overseas markets. The Chief Executive will lead business delegations to other provinces in the Pan-Pearl River Delta, including Hunan, Guizhou and Jiangxi and will also attend the first Expo of Central China for Trade and Investment to be held in Changsha, Hunan this September, with the objective of promoting Hong Kong’s services industry to local governments and enterprises, and strengthening co-operation and exchanges between the governments and enterprises of the two places.

23. To further foster relations between Hong Kong and the Mainland, and to provide support for Hong Kong businesses operating in the Mainland, the Government set up the Mainland Affairs Liaison Office under the Constitutional Affairs Bureau in April 2006. It has since extended the services of the Hong Kong Economic and Trade Office in Guangdong to five provinces in the region, namely Fujian, Jiangxi, Guangdong, Guangxi and Hainan. The Government is planning to set up two more Economic and Trade Offices in Chengdu and Shanghai in the latter half of 2006. The three offices, together with the Beijing Office, will strengthen liaison with the relevant authorities in the Mainland so as to establish a closer working relationship.

Recommendations

24. To maintain its strengths internationally, nationally and in particular in the region, Hong Kong's services industry will have to keep making improvements in terms of efficiency and service standards. Also, Hong Kong must work out the means to sustain its edge as an international trade and business centre in the Mainland market where competition has become increasingly intense, for instance, by keeping up a fully developed market system, international exposure, and the ability to innovate and add value. We should, at the same time, take the initiative to step up exchanges and co-ordination with the Mainland. To tie in with China's development trend of emphasizing services industry development, members are invited to comment on the following recommendations and put forward other worthy suggestions:

- (a) Actively attracting multinational corporations to set up regional headquarters in Hong Kong to take forward high quality research and development, design and marketing projects. With a critical mass of experts and enterprises gathered in Hong Kong, we will gain synergy, which in turn will help maintain Hong Kong's position as the most internationalised service centre in the region. We will also support established Mainland enterprises, including those in the services industry, to use Hong Kong as their base to "venture out". We will help them develop international businesses, build up overseas marketing networks, carry out merger or acquisition locally and overseas, and build up strategic alliances.

- (b) Raising the standard of Hong Kong's services industry. The Government encourages individual sectors of the services industry to formulate long-term Mainland development strategies and to motivate its practitioners to make more proactive and long-term arrangements for the implementation of such strategies, including the development of the interpersonal networks vital to the industry. At the same time, the Government encourages the services industry to make good use of, and to further promote, the Hong Kong brand, ensure quality performance, as well as improve the various monitoring regulations and ensure their proper implementation. The Government also encourages services industry to expand their service targets to include Mainland enterprises so as to help promote standardisation for the Mainland services industry and raise their performance standard.
- (c) The Government will continue to join hands with Mainland provinces and municipalities to promote the advantages of the region to foreign investors, highlighting Hong Kong's role as an effective stepping stone for investors worldwide to enter the Mainland market. Efforts will also be made to encourage multinational corporations to set up regional headquarters or offices in Hong Kong to provide effective support services to their enterprises in the region by utilising Hong Kong's advantages in the services industry. In the 11th Five-Year Plan, it is stressed that *"the rise of the Central Region shall be built on the existing foundation, and achieved through helping its industries move up the value chain, promoting industrialisation and urbanisation, and growing up while exerting the advantages of linking the east and west and industrial development"*. With rich experience in investment, business operation and joint ventures on the Mainland, Hong Kong can play an active role in the economic and trade development of the Central Region.
- (d) Deepening liberalisation measures under CEPA. CEPA is an open agreement which adopts a building block approach. We will, in consultation with the Central Government, make a continued effort to deepen and broaden its content, with a view to facilitating the long-term development of the various services mentioned in the 11th Five-Year Plan, including the financial and information services, logistics, and tourism. The

Government will maintain close liaison with the Ministry of Commerce and other ministries, commissions and authorities under the Central Government that oversee the four service industries mentioned above, so as to broaden and deepen the scope of CEPA. Sector-specific measures to enable Hong Kong businesses to make the best use of CEPA for market access in the Mainland should work to expand the scope of development for our services and optimise the services industry there. A good example is that under a liberalisation measure recently introduced under CEPA, travel agents set up by Hong Kong enterprises can, on a pilot basis, apply to operate group tours to Hong Kong and Macao for residents of Guangdong starting from 2007, implying a very broad scope of cooperation between the two places. Meanwhile, individual liberalisation measures newly added under CEPA should be implemented flexibly, say, ahead of the original schedule, so as to cater for the development needs of individual services;

- (e) Facilitating the implementation of CEPA. While striving for further liberalisation of the Mainland market, the Government aims to seek the policy support of the Central Government to maximise the benefits of CEPA, for instance, introducing amendments to relevant laws and regulations speedily, and fine-tuning the regulatory framework for the services industry. Noting the difficulties reflected by Hong Kong businesses in relation to starting new operations in the Mainland, the Government should explore with various provinces and municipalities the provision of facilitation measures such as one-stop investment advisory services and a designated counter for CEPA-related applications. These measures will help our services industry start business in the Mainland under CEPA.
- (f) Strengthening liaison and co-operation with the Pan-Pearl River Delta as well as other provinces and municipalities. Given our geographical proximity and close economic and trade relations with the Pan-Pearl River Delta provinces/areas, and the signing of the Pan-Pearl River Delta Regional Co-operation Framework Agreement, regional growth remains the core objective and the driving force of co-operation in the region. With the setting up of the Economic and Trade Office in Chengdu and the expanded coverage of the Economic and Trade Office in Guangdong, we

will strengthen our efforts in promoting Hong Kong's services industry in the Pan-PRD region and the effective implementation of CEPA. The Government will see to the early launch of a sector-specific reference database on Mainland policies, laws and regulations, and will organise briefing sessions to acquaint our services industry with the details.

- (g) Using the Hong Kong TDC as a promotion platform. The TDC will strengthen its co-operation with government departments at different levels in the Mainland to facilitate Hong Kong businessmen to seize the opportunities brought about by the implementation of CEPA and the 11th Five-Year Plan. Through the "Guangzhou-Hong Kong CEPA Market Entry Facilitation Group", it will continue to liaise with the industrial and commercial departments of Guangzhou to assist Hong Kong businessmen in resolving the difficulties encountered in obtaining approval for starting businesses and in applying for setting up individually owned stores in Guangzhou. In addition, the TDC will organise more exhibitions in the Mainland and arrange for more trade tours to Mainland cities. It will continue to organise the annual CEO and CFO forums, with forum themes based on the needs of enterprises. Leaders of prominent enterprises, both local and overseas, will be invited to attend these forums to explore opportunities for future development and co-operation. All these efforts will further enhance the level of co-operation between Hong Kong and Guangdong. The TDC will co-organise the first "Expo of Central China for Trade and Investment" to be held in Changsha, Hunan this September in a bid to promote both the services industry and the intermediary role of Hong Kong.

Advice Sought

- (a) Is the analysis on the international competitiveness of Hong Kong's services industry sufficiently comprehensive and thorough? Is there any supplement to the analysis?
- (b) Is the analysis of the opportunities and challenges for Hong Kong's services industry under the national 11th Five-Year Plan sufficiently comprehensive and thorough? Is there any supplement to the analysis?

- (c) Is the analysis of the opportunities and challenges for Hong Kong's services industry under the 11th Five-Year Plan of the Guangdong Province sufficiently comprehensive and thorough? Is there any supplement to the analysis?
- (d) Whether the actions taken by the Government and public bodies can achieve the purposes of consolidating and developing the services industry? How should the strategy be adjusted?
- (e) Whether the issues raised for consideration in this paper and paper 2006 ES/2 concerning the consolidation and development of Hong Kong as an international commercial and trading centre are appropriate issues for further consideration?

Commerce, Industry and Technology Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Financial Development

Executive Summary

(Translation)

- Expediting financial reform on the Mainland and the maintenance of status of Hong Kong as an international financial centre are two stated policy directions in the 11th Five-Year Plan. This paper analyses challenges and opportunities brought about by the 11th Five-Year Plan for the development of Hong Kong as an international financial centre from the government and public sector perspective, with a view to initiating discussions while a practical “action agenda” will be formulated in the next few months.
- The development of Hong Kong as an international financial centre has largely been related to Mainland’s international financial intermediation activities. Compared with other international financial centres such as New York, London and Tokyo, an obvious shortcoming of Hong Kong is the relative small size of its domestic economy. In order to catch up with New York, London or Tokyo, apart from improving its own credentials, an important strategy for Hong Kong as an international financial centre is to strengthen its integration with the Mainland economy and to serve the financial intermediation needs of the large Mainland economy in a more significant scale. To this end, there is a need to have a better understanding of the implementation of the 11th

Five-Year Plan and its implications for the financial system on the Mainland.

- The 11th Five-Year Plan has set out policies for expediting financial reform on the Mainland. Considering these reform policies, going forward, there are three main areas of development of the Mainland's financial system that would have particular implications for Hong Kong: (i) improvement of financial intermediation to ensure sustainable economic growth; (ii) the move towards renminbi capital account convertibility; and (iii) internationalisation of renminbi.
- As these developments of the Mainland's financial system take place, they present challenges and opportunities to Hong Kong as an international financial centre. In terms of challenges, Mainland companies may reduce their use of Hong Kong as a fund-raising platform, while overseas investors will be able to invest in financial markets on the Mainland directly. Hong Kong as an international financial centre will also face competition from other financial centres in the region. On the other hand, however, Hong Kong can seize the related opportunities, by strengthening and developing further its role in the financial intermediation between Mainland and the rest of the world, participating in domestic financial intermediation activities on the Mainland, and, providing a testing ground for renminbi internationalisation.
- China is unique in having the two different financial systems of Mainland and Hong Kong at the same time. The relationship between the two financial systems should be cooperative, complementary and interactive, and the Mainland can make more use of Hong Kong's financial platform. In response to the challenges and opportunities brought about by Mainland's financial reform and liberalisation, the financial development of Hong Kong can proceed with the following five-pronged strategy:
 - (i) **Hong Kong financial institutions to go into the Mainland:** Through the Closer Economic Partnership Arrangement and other channels, Hong Kong financial institutions (including banks, securities companies and insurance companies) should expand their range of services and actively develop their business on the Mainland.

- (ii) **Hong Kong to serve as a gateway for Mainland funds and Mainland financial institutions to come out:** Given that Hong Kong has an efficient, multi-currency platform and Mainland investors are more familiar with the financial markets in Hong Kong than other markets, Hong Kong is an effective channel for orderly outflows from the Mainland. Moreover, Hong Kong can also serve as a springboard for Mainland financial institutions to develop their international business.
 - (iii) **Financial instruments issued in Hong Kong to be made available on the Mainland:** For instance, through dual-listing or depository receipts, investors from both Hong Kong and the Mainland can have access to securities listed in Hong Kong. In addition to equity-related financial instruments, making other financial instruments available on the Mainland, such as bonds and derivative products, can also be considered. This will not only provide Mainland investors with more investment tools but also help the development of Hong Kong's financial markets.
 - (iv) **Enhance the capability of Hong Kong's financial system in handling renminbi-denominated transactions:** It is necessary for Hong Kong to enhance the capability of its financial system to handle renminbi-denominated transactions and provide related risk management instruments in order to play a role in Mainland's domestic financial intermediation. Hong Kong can also provide a testing ground for the move towards renminbi convertibility and internationalisation.
 - (v) **To strengthen financial infrastructural linkages between the Mainland and Hong Kong:** To facilitate cross-border fund flows, monitor the associated risks and enhance the efficiency of financial intermediation and supervision, there is a need to strengthen financial infrastructural linkages between Hong Kong and the Mainland.
- Strengthening the cooperation between the regulatory bodies in Hong Kong and the Mainland is a pre-requisite for the implementation of the above five-pronged strategy. This is also crucial for the financial stability and development of the two places. Furthermore, in promoting the increased use of Hong Kong's financial system for Mainland's financial intermediation through the five-pronged strategy, there is need

and room for developing a wider range of markets for risk management instruments.

Hong Kong Monetary Authority
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Financial Development**

(Translation)

Purpose

1 Expediting financial reform on the Mainland and the maintenance of status of Hong Kong as an international financial centre are two stated policy directions in the 11th Five-Year Plan. This paper discusses the financial development strategy for Hong Kong in response to 11th Five-Year Plan, considering the associated challenges and opportunities. It analyses the issues from the government and public sector perspective, with a view to initiating discussions while an “action agenda” will be formulated in the next few months.

Position of Hong Kong as an international financial centre at present

2 Deng Xiaoping said, “Finance is very important; it is the nexus of the modern economy.” The essence of finance is about financial intermediation, or in other words, mobilising savings to economic activities and investments in an effective manner. A balanced and efficient financial system is crucial to sustainable economic growth and development. Financial intermediation is conducted via three channels, namely, banking, equity and bond markets, whereby the investment needs of savers can marry the financing needs of fund-raisers, both domestically and internationally. It follows that the position of an international financial centre depends on its ability in providing an efficient platform for conducting domestic and international financial intermediation activities.

As a global financial centre

3 At end-2005, the total assets of Hong Kong's banking sector exceeded US\$800 billion, being the 4th largest in Asia and 17th in the world. With a market capitalisation of US\$1,055 billion, Hong Kong's stock market was the 2nd largest in Asia and 8th in the world; and in terms of the amount of capital raised during 2005, Hong Kong came first in Asia and 5th globally as an equity fund-raising centre. The size of Hong Kong's bond market was relatively small, with the amount of outstanding bonds at around US\$100 billion, being the 8th in Asia and 35th in the world. Statistics comparing Hong Kong against financial centres in other major economies are presented in Annex 1.

4 Due to the small size of its domestic economy, in the past two decades or so, Hong Kong has largely been providing a platform for international capital to invest in Asia, including the Mainland. As for banking, since as early as the late 1970s, many foreign enterprises have set up regional headquarters in Hong Kong, making use of finance obtained in Hong Kong to invest in Asia and the Mainland. Many of the world's largest financial institutions have set up branches in Hong Kong providing the banking services required. Whereas for the equity market, Hong Kong has developed as a channel for international capital to invest in Mainland enterprises and the major IPO centre for Mainland enterprises. At the end of June 2006, there were 350 Mainland enterprises listed on the Hong Kong Stock Exchange. The market capitalization and aggregate turnover (in the first six months of 2006) for these Mainland companies (H shares) and Mainland-related companies (red chips) respectively amounted to 41% and 53% of the total of Hong Kong's stock market as a whole. These companies also raised in the first six months of 2006 a total of HK\$130 billion (or 73% of the market total). The IPO activities relating to Mainland companies have created a critical mass of investment assets and helped promote the rapid growth of asset management business in Hong Kong, attracting leading international fund management companies to Hong Kong for the related opportunities.

As a national and regional financial centre

5 From the country's perspective, in the past Hong Kong has mainly provided a platform for obtaining foreign capital, and this is particularly evident from the developments in the neighbouring Guangdong area. Currently, Hong Kong banks have set up a total of 82 branches on the

Mainland, of which more than one-third are located in the Pearl River Delta area. Furthermore, many of the Mainland enterprises taking loans from Hong Kong banks and those listed in Hong Kong are also from the Pearl River Delta area. That said, this role has already been reflected in Hong Kong's international financial intermediation activities as discussed above. Until now, the use of Hong Kong for Mainland's domestic financial intermediation (i.e. Hong Kong to be Mainland's financial centre for the meeting of Mainland's savers and investors) has been limited.

Shortcomings of Hong Kong

6 The past experience of Hong Kong as an international financial centre, as discussed above, has shed some lights on future development. Hong Kong possesses most of the pre-requisites for an international financial centre, including a sound legal system, efficient financial infrastructure, the most resilient banking system in Asia and a regulatory framework that is of international standards. However, compared with other leading international financial centres such as New York, London and Tokyo, Hong Kong loses out in terms of the size of its domestic economy. The development of New York and Tokyo as financial centres have been supported by the large economies of US and Japan respectively, while London to an extent provides financial services for the economy in continental Europe. The financial intermediation needs arising from domestic economic activities serve as a foundation for the relevant financial centres, creating a critical mass and attracting financial activities from other economic areas.

7 In the past two decades, without a sizable domestic economy, the development of Hong Kong as an international financial centre has focussed mainly on serving Mainland's international financial intermediation activities. Owing to the existing foreign exchange controls on the Mainland, the role played by Hong Kong's financial system in Mainland's domestic financial intermediation is still very limited. In order to catch up with New York, London or Tokyo, therefore, apart from improving its own fundamentals, an important strategy for Hong Kong is to strengthen its integration with the Mainland economy and to serve the financial intermediation needs of the large Mainland economy. To this end, there is a need to have a better understanding of Mainland's financial reform and liberalization process, particularly the implementation of the 11th Five-Year Plan and its implications for the development of the financial system on the Mainland.

Financial policies under the 11th Five-Year Plan

8 Chapter 33 of the 11th Five-Year Plan has set out the policies for expediting financial reform, which cover four areas: (i) to deepen the reform of financial enterprises, improve corporate governance of financial institutions, and develop different forms of financial enterprises gradually; (ii) to speed up the development of the channels for direct financing, such as the equity and bond markets, and to develop futures markets gradually; (iii) to enhance the mechanism for financial and monetary management, which includes developing money markets and introducing renminbi convertibility for capital account items in a gradual manner; and (iv) to improve financial sector supervision.

9 Meanwhile, Guangdong has proposed specific policy measures for implementing the country's 11th Five-Year Plan, which include: to explore and implement reforms for local financial enterprises, for instance through reforming the shareholding structure of financial institutions and improving financial sector supervision; and to enhance market mechanisms and develop capital markets.

10 Considering these reform policies under the country's and Guangdong's Five-Year Plan, going forward, there are three main areas of development of Mainland's financial system that would have particular implications for Hong Kong.

Improvement of financial intermediation to ensure sustainable economic growth

11 First, currently domestic financial intermediation on the Mainland relies too heavily on the banking channel. The function of Mainland's equity market as a fund-raising platform has yet to fully recover, notwithstanding that the reform of desegregating shareholders' rights is helping resolve the long-standing issue of non-tradable shares; while the bond market has yet to be further developed, particularly for medium to long term corporate bonds. It is particularly difficult for smaller companies with growth potential to raise funds due to the underdevelopment of the direct financing channels. Whereas for savers, apart from deposits with banks, there are only limited choices of investment instruments with varying quality. The savings rate on the Mainland is standing at more than 45% of GDP, but these savings are not directed to the hands of fund raisers in an effective manner.

12 In view of this, the 11th Five-Year Plan has explicitly stated that it is necessary to speed up the development of direct financing, in order to broaden the fund-raising channels and improve the overall financial intermediation efficiency. And for the development of equity and bond markets, a pre-requisite is to strengthen corporate governance, and this includes upholding the rights of investors and creditors and improving information disclosures and accounting standards. Moreover, the development of derivatives markets is also needed to provide risk management tools for both investors and fund-raisers.

Towards renminbi capital account convertibility

13 Secondly, renminbi is expected to gradually achieve capital account convertibility. To date, the process of liberalisation in respect of renminbi convertibility has three distinctive features: (i) inflows followed by outflows; (ii) current account items followed by capital account items; and (iii) for capital account items, long-term followed by short-term.

14 The Mainland authorities announced in December 1996, in accordance with Article VIII of the Articles of Agreement of the International Monetary Fund, to allow renminbi to be convertible for current account transactions such as trade payments and travelling expenses. For capital account items, under the principle of “inflows followed by outflows”, renminbi convertibility in relation to foreign direct investments has been allowed for many years. And in recent years, the Mainland authorities are encouraging Mainland enterprises to “go out” and make direct investments overseas, and the related currency conversion quotas were abolished in June 2006. However, the Mainland authorities are more cautious in liberalising conversion restrictions in relation to portfolio investments. From December 2002, overseas institutional investors can convert foreign currencies into renminbi and invest in the securities market on the Mainland through the QFII scheme. In terms of outflows, with the issuance of the [2006] No. 5 Notice by the People’s bank of China in April this year, restrictions on offshore investments by Mainland institutions and individuals have been relaxed.

15 In sum, renminbi convertibility in relation to current account transactions and direct investments has largely been achieved. Going forward, further liberalisations would mainly involve short-term, cross-border capital movements such as portfolio investments. The related framework is already in place, and future liberalisation can be implemented

through increases in the relevant conversion quotas. In this respect, the present favourable macroeconomic circumstances, characterised by strong economic growth, low inflation and sizable trade surplus, provide enabling conditions for further liberalisation. In addition, large foreign exchange inflows in recent years have complicated monetary and exchange rate management on the Mainland, and there is a need to allow orderly outflows in accordance with the gradual, controllable and proactive approach.

Internationalisation of renminbi

16 Thirdly, as the currency of one of the largest economies of the world, the internationalisation of renminbi will be an inevitable process as it becomes gradually a fully convertible currency. With rapid modernisation, the Mainland economy has now become one of the largest in the world. It was the fourth largest in terms of GDP in 2005, and is growing fast – currently at around 10% a year in real terms, much faster than many developed economies. The renminbi, like the currencies of other major economies, will become an international currency.

17 An international currency is a currency which performs the functions of medium of exchange, store of value and unit of account outside its home economy. The advantages of renminbi becoming an international currency include: seigniorage revenue for the central bank as a result of the demand for renminbi offshore; domestic institutions and individuals can avoid exchange rate risk by using renminbi for external trade and investments; and furthermore, Mainland institutions can issue renminbi-denominated bonds overseas, facilitating the finance of any deficits in balance of payments. But on the other hand, changes in the offshore demand for renminbi could pose risks to financial stability and the operation of monetary policy on the Mainland.

18 The process of renminbi internationalisation is expected to be gradual. It will be initially used in international trade, and with an early form being the “border trade” settled in renminbi at present. As the use of renminbi in international trade and the amount of renminbi being held offshore increase, there will be demand for using renminbi for fund-raising and investment activities, and offshore renminbi financial markets will also emerge. In the longer term, renminbi might become a reserve currency and anchor currency for other economies in the region.

Challenges and Opportunities presented by 11th Five-Year Plan

Challenges

19 As reforms of Mainland's financial system are implemented and the developments discussed above take place, they can pose challenges to the status of Hong Kong as an international financial centre:

- (i) With the improvement of equity and bond markets on the Mainland, companies can make use of such markets to raise funds, reducing the use of Hong Kong's markets;
- (ii) When renminbi convertibility for capital account items is fully achieved, offshore investors can invest in the Mainland financial markets directly, reducing the need to do so through Hong Kong;
- (iii) When financial markets on the Mainland are fully liberalised, there is no need for any partitioning between domestic and international segments; nor is there any need for distinction between national and international market participants. Hong Kong's role as an international financial centre may dwindle over time, as activities migrate to the liberalised, larger and more liquid domestic markets on the Mainland; and
- (iv) When renminbi becomes an international currency, there will be competition from other financial centres in the region in providing renminbi-denominated financial services.

Opportunities

20 However, if Hong Kong can move with the times in response to the changes on the Mainland, the aforementioned financial developments on the Mainland present opportunities for Hong Kong in at least three aspects as follows:

As a global financial centre

- (i) **Hong Kong can strengthen and develop further its role in financial intermediation between Mainland and the rest of the world:** Located within the Asia time zone, Hong Kong can provide 24-hour international financial services alongside with

New York and London. Hong Kong has a comparative advantage in this aspect, particularly in serving as the platform for channelling foreign capital into the Mainland, which should be further entrenched. Apart from bringing foreign savings into the Mainland, as renminbi convertibility for capital account items is introduced, capital flows will become increasingly two-way. With the huge amount of savings on the Mainland but the majority of offshore assets owned by the public sector, the demand of non-public investors for investing offshore are not satisfied. Hong Kong can act as a channel for such outflows, providing services for offshore investments by Mainland institutions and individuals.

As a national and regional financial centre

(ii) **Hong Kong can participate in domestic financial intermediation activities on the Mainland:** Building on the function as a platform for Mainland's international financial intermediation, Hong Kong can increase its participation in Mainland's domestic financial intermediation in two ways to help improve financial intermediation efficiency on the Mainland. First, for financial services that need to be provided on location, the vast market on the Mainland offers a great deal of development potential for Hong Kong's financial institutions. It is expected that Hong Kong financial institutions will have a larger presence in the Pearl River Delta area given its proximity.

Second, as Mainland's capital account is liberalised, fund-raisers and investors move abroad more freely. Hong Kong can provide a convenient, low-risk and efficient platform for Mainland investors and fund-raisers to meet, thereby channelling Mainland savings to the hands of fund-raisers on the Mainland. For instance, currently there are many high-quality enterprises listed on Hong Kong's stock market. With restrictions on offshore investments being relaxed, Mainland investors can invest in the shares of Mainland enterprises listed in Hong Kong.

Hong Kong's role in Mainland's link-up with the global market

(iii) **Hong Kong can provide a testing ground for renminbi internationalisation:** Hong Kong was the first place outside the

Mainland where banks provided deposit-taking, exchange, remittance and card services in renminbi. With the experience of conducting renmibi business since 2004 and the close cooperation between the financial regulators in Hong Kong and on the Mainland, Hong Kong can provide a reliable testing ground for the move towards renminbi convertibility and its increased use in international trade and financial transactions. The State Council is earnestly studying the scope for further expansion of renminbi business in Hong Kong, which includes allowing Hong Kong importers to settle direct import trade from the Mainland in renminbi, and financial institutions on the Mainland to issue renminbi financial bonds in Hong Kong on a pilot basis. In tandem with the process of renminbi internationalisation, Hong Kong should strive to be the first mover and develop into a commercial and financial centre for trade and financial transactions settled in renminbi outside the Mainland.

Recommendations

21 China is unique in having the two different financial systems of Mainland and Hong Kong, and the relationship between the two financial systems should be cooperative, complementary and interactive. The increased use by the Mainland of Hong Kong's financial platform will not only help speed up Mainland's financial reform, but also contribute to the maintenance of the status of Hong Kong as an international financial centre.

22 In order to maintain the status of Hong Kong as an international financial centre, there is of course a need to preserve Hong Kong's sound financial system, and to further increase the depth and breath of our financial markets, particularly the bond market. And in response to the challenges and opportunities brought about by the liberalisation and reform under the 11th Five-Year Plan, Hong Kong should play an active role in Mainland's international and domestic financial intermediation and in the process of renminbi internationalisation. To this end, the financial development of Hong Kong should proceed with the following five-pronged strategy:

(i) Hong Kong financial institutions to go into the Mainland

Through CEPA and other channels, Hong Kong financial institutions (including banks, securities companies and insurance companies) should expand their range of services and actively develop their business on the Mainland. As Hong Kong financial institutions are familiar with the environment on the Mainland and the Pearl River Delta area, and with their international experience, they can contribute by providing transfer of technical know-how and a greater variety of financial instruments and services on the Mainland.

(ii) Hong Kong to serve as a gateway for Mainland funds and Mainland financial institutions to go out

Given that Hong Kong has an efficient, multi-currency platform and Mainland investors are more familiar with the financial markets in Hong Kong than other markets, Hong Kong provides an effective channel for orderly outflows of funds from the Mainland. Moreover, Hong Kong can serve as a springboard for Mainland financial institutions to develop their international business.

(iii) Financial instruments issued in Hong Kong to be made available on the Mainland

For instance, through dual-listing or depository receipts, investors from both Hong Kong and the Mainland can have access to securities listed in Hong Kong. In addition to equity-related financial instruments, making available on the Mainland other financial instruments, such as bonds or derivative products, can also be considered. This will not only provide Mainland investors with more investment tools but also allow Mainland enterprises, particularly those from the Pearl River Delta area, to improve their corporate governance through listing in Hong Kong, while at the same time helping the development of Hong Kong's financial markets.

Allowing financial instruments between two markets to be fungible in a gradual manner can reduce the price differential of same shares and promote harmonisation of regulatory standards across the border.

(iv) Enhance the capability of Hong Kong's financial system in handling renminbi-denominated transactions

Financial activities conducted by Mainland investors and fund-raisers are denominated in renminbi. Thus, in order to play a role in Mainland's domestic financial intermediation, Hong Kong needs to enhance the capability of its financial system to handle renminbi-denominated transactions. As a first step towards this goal, the HKSARG has been pushing ahead for the expansion of renminbi business in Hong Kong, which can proceed in tandem with the process of the move towards renminbi convertibility for capital account items on the Mainland.

(v) To strengthen financial infrastructural linkages between the Mainland and Hong Kong

To facilitate cross-border fund flows, monitor the associated risks and enhance the efficiency of financial intermediation and supervision, there is a need to strengthen financial infrastructural linkages between Hong Kong and the Mainland. Meanwhile, as Mainland's financial system is opening up, to cater for the increasing cross-border trade and financial transactions, there is a need for Mainland's payment systems to link up with the international payment systems.

At present, the financial infrastructural linkages between the Mainland and Hong Kong were first forged with Guangdong and Shenzhen, including the cross-border clearing mechanisms for Hong Kong dollar, US dollar and renminbi cheques. This underscores the strategic importance of Guangdong and Shenzhen in financial cooperation between the Mainland and Hong Kong. Going forward, further studies on regional linkages in support of Guangdong's planning can be conducted.

23 Strengthening the cooperation between the regulatory bodies in Hong Kong and the Mainland is a pre-requisite for the implementation of the above five-pronged strategy. This is also crucial for the financial stability and development of the two places. Furthermore, in promoting the use of Hong Kong's financial system for Mainland's financial intermediation through the five-pronged strategy, there is need and room for developing a wider range of instruments for risk management purposes.

Closing remarks

24 The five-pronged financial development strategy is proposed with a view to responding to the challenges and opportunities presented by the financial reform and liberalisation on the Mainland. This is also envisaged that, by doing so, Hong Kong can contribute to Mainland's financial reform and development, and the status of Hong Kong as an international financial centre can be enhanced.

25 Panel members are invited to provide comments on the above recommendations and any other proposals for consideration.

Issues for discussion:

- (i) Has the paper provided a thorough analysis on the competitiveness of Hong Kong as an international financial centre? Is there any other consideration?
- (ii) Has the paper provided a thorough analysis on the challenges and opportunities for Hong Kong as an international financial centre arising from the country's 11th Five-Year Plan? Is there any other consideration?
- (iii) Has the paper provided a thorough analysis on the challenges and opportunities for Hong Kong as an international financial centre arising from Guangdong's 11th Five-Year Plan and regional developments? Is there any other consideration?
- (iv) Are the recommendations proposed from the government and public sector perspective relevant for the maintenance and development of Hong Kong as an international financial centre? Are there any adjustments needed for any of the recommendations?

- (v) Are the recommendations proposed for the maintenance and development of Hong Kong as an international financial centre appropriate for further studies?

Hong Kong Monetary Authority
September 2006

Annex 1

Comparison of Hong Kong against financial centres in other major economies

	Total assets of banks	Equity markets capitalisation	Amount of bonds outstanding	Total assets of banks	Equity markets capitalisation	Amount of bonds outstanding
	(US\$ billion)			(as % of GDP)		
Hong Kong	808	1,055	99	454%	592%	56%
US	10,530	17,001	23,779	84%	136%	190%
UK	7,629	3,058	2,913	362%	145%	138%
Japan	7,077	7,543	8,512	166%	177%	200%
Singapore	217	257	107	186%	220%	92%
Mainland of China	3,563	402	622	158%	18%	28%

Figures for 2005

Sources: IMF, World Federation of Exchanges and BIS

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

**Consolidating Hong Kong’s Position as an
International Financial Centre**

Executive Summary

(Translation)

This paper discusses the financial development strategy for Hong Kong in response to the 11th Five-Year Plan, considering the associated challenges and opportunities. It analyses the issues from the government and regulators’ perspective, with a view to initiating discussions while a practical “action agenda” will be formulated in the next few months. Members are invited to offer comments on the recommendations below and other suggestions that are worth pursuing.

(I) Stock Market

2. Hong Kong has long been recognised as an important international financial centre and the premier capital formation centre for the Mainland. Looking ahead, apart from continuing our efforts to encourage quality Mainland enterprises to list in Hong Kong, we may consider broadening the source of corporations seeking to use Hong Kong as a platform for listing, with a view to attracting listings of quality overseas companies. This will strengthen Hong Kong’s position as an international financial centre.

(II) Asset Management Industry

3. Hong Kong is one of the most important international asset management centres. The Central authorities announced in April this year measures to allow investment in overseas financial markets through qualified institutional investors. Under the new measures, the huge savings in Mainland will become a growth driver for Hong Kong's asset management industry. To attract Mainland funds to invest in Hong Kong markets, we recommend conducting a study on ways to further develop Hong Kong into a regional asset management centre, including measures to encourage product development.

(III) Commodity Futures Market

4. The 11th Five-Year Plan (Section 2 in Chapter 33) mentioned the gradual development of a commodities futures market. Hong Kong may examine whether and how the commodity futures market would be developed with a view to serving the country by performing the risk transfer function of a commodities future market, and enhancing the function performed by, and product development in, the Hong Kong financial markets.

(IV) Foreign Exchange Futures Contracts

5. The 11th Five-year Plan (Section 3 in Chapter 33) mentioned the goal of gradually achieving full convertibility of the Renminbi capital account. Hong Kong may examine whether and how to develop exchange-traded foreign currency futures contracts. In the long run, this will not only facilitate the Mainland in managing risks associated with the exchange rate, but also broaden the products and functions of the Hong Kong financial markets.

(V) Insurance Industry

6. Hong Kong is one of the most open insurance markets in the world. Our regulation relating to corporate governance, market transparency, margin of solvency, etc., is on a par with international standards. We may continue to foster mutual exchanges between the insurance practitioners in Hong Kong and the Mainland, and develop Hong Kong into a training centre in insurance business. The rapid development

of the Mainland insurance industry has generated much demand for reinsurance. As an international insurance and reinsurance market, Hong Kong is well positioned to meet such demand for reinsurance services, and to facilitate the development of the Mainland financial markets and their integration with the international markets.

Financial Services and the Treasury Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

**Consolidating Hong Kong’s Position as an
International Financial Centre**

(Translation)

Purpose

Expediting financial reform on the Mainland and maintaining the status of Hong Kong as an international financial centre are two stated policy directions in the 11th Five-Year Plan. This paper discusses the financial development strategy for Hong Kong in response to the 11th Five-Year Plan, considering the associated challenges and opportunities. It analyses the issues from the government and regulators’ perspective, with a view to initiating discussions while a practical “action agenda” will be formulated in the next few months.

(I) Stock Market

Background

2. Hong Kong is recognised as an important international financial centre with an active securities industry. With a total market capitalisation of HK\$10,114.1 billion in end July 2006, Hong Kong’s securities market ranked eighth in the world and second in Asia. In terms of equity funds raised, it ranked fifth in the world and first in Asia. Hong Kong’s stock market has all along been the premier capital formation centre for the Mainland. Following the first listing of a H share company in 1993, there are 350 Mainland enterprises listed on our stock exchange, raising a total of

HK\$1,245.8 billion.

Opportunities and Challenges

3. Many quality Mainland enterprises and banks are now listed in Hong Kong. Looking ahead, apart from continuing our efforts to encourage quality Mainland enterprises to list in Hong Kong, we may consider broadening the source of corporations seeking to use Hong Kong as a platform for listing, with a view to attracting listings of quality overseas companies. The existing Listing Rules of the Stock Exchange of Hong Kong Ltd (SEHK) expressly set out the listing requirements for companies incorporated in Hong Kong, the Mainland, Bermuda and the Cayman Islands. But the Listing Rules do not specify the listing requirements applicable to companies incorporated outside the four specified jurisdictions, and hence such listing applications can only be processed on a case-by-case basis. Due to the regulatory uncertainties, some overseas companies might not be keen to apply to the SEHK for listing. In this context, we have invited the Securities and Futures Commission and the Hong Kong Exchanges and Clearing Limited to work together in exploring ways to facilitate the listing of overseas companies in Hong Kong, with a view to strengthening Hong Kong's position as an international financial centre. Panel members are invited to provide comments on the above recommendation and other suggestions that are worth pursuing.

(II) Asset Management Industry

Background

4. Hong Kong is one of the most important international asset management centres. Both the depth and breadth of the investment funds managed in Hong Kong have increased notably in recent years. In 2005, the combined fund management business in Hong Kong amounted to \$4,526 billion, which was 33% ahead of Singapore, and has also represented a growth of 25% compared with 2004. As of end-July 2006, 82 fund management companies were approved to manage more than 1,950 authorized unit trusts and mutual funds. To further enhance the competitiveness of our fund management industry, the Government has abolished estate duty and exempted offshore funds from profits tax in the past year. These can help attract foreign funds and encourage existing funds to stay in Hong Kong.

5. There is currently a broad range of funds in Hong Kong, including bond funds, money market funds and exchange traded funds, etc. Hong Kong is also one of the very first jurisdictions in the world to allow the offering of hedge funds to the retail public. As at end-June 2006, there are more than 160 hedge funds in Hong Kong, operating total assets under management of more than HK\$140 billion. Separately, we saw the takeoff of the Hong Kong Real Estate Investment Trust (REIT) market last year, which was followed by the launching of the first REIT with 100% of its portfolio in Mainland properties. These have allowed the Hong Kong REIT market to offer investors a wide choice of properties.

Opportunities and Challenges

6. The Central authorities announced in April this year measures to allow investment in overseas financial markets through qualified institutional investors. Under the new measures, the huge savings in the Mainland will become a growth driver for Hong Kong's asset management industry. To capitalise on the new opportunities, we may consider introducing new financial products to cater for the needs of Mainland investors. The products may include Mainland equity-based derivatives as well as international products such as financial products like ETFs and REITs. This will help attract Mainland funds to invest in Hong Kong markets. We propose conducting a study on ways to further develop Hong Kong into a regional asset management centre, including measures to encourage product development. Panel members are invited to provide comments on the above recommendation and other suggestions that are worth pursuing.

(III) Commodity Futures Market

Background

7. There is no commodity futures market in Hong Kong. In terms of the total trading volume in 2005, the New York Mercantile Exchange (300 million contracts) was World's largest commodity futures market in the world. The Dalian Commodity Exchange (99 million contracts) ranked second. In the Mainland, the Dalian Commodity Exchange ranked first followed by the Shanghai Futures Exchange (33 million contracts) and the Zhengzhou Commodity Exchange (28 million contracts).

8. Between 1977 and 1980, the then Hong Kong Commodities Exchange Ltd. (restructured as Hong Kong Futures Exchange Ltd. in 1985) offered four commodity futures contracts involving cotton, sugar, soyabean and gold. However, due to lack of demand from local and international participants, all the contracts were subsequently suspended from trading one after another from 1981 to 1999.

Opportunities and Challenges

9. The 11th Five-Year Plan (Section 2 in Chapter 33) mentioned the gradual development of the commodities futures market. Hong Kong may examine whether and how the commodity futures market would be developed with a view to serving the country by performing the risk transfer function of a commodities future market, and enhancing the function performed by, and product development in, the Hong Kong financial markets.

10. At present, there are three commodity futures exchanges in the Mainland, namely the Shanghai Futures Exchange, Dalian Commodity Exchange and Zhengzhou Commodity Exchange. The Mainland government has also announced its plan to launch a new financial futures market in Shanghai. Because of capital account control and other regulatory and market constraints, the Mainland commodity futures exchanges are segregated from the international markets. As such the current market structure is not the ideal way to enable the commodity futures markets to perform their price discovery and risk transfer functions for the economy.

11. To develop a commodity futures market, the availability of a competitive and efficient commodities futures market being able to connect various international liquidity pools in the Asian time zones would be critical. Compared with other well established commodity futures exchanges in Chicago (Chicago Mercantile Exchange, Chicago Board of Trade), New York (New York Mercantile Exchange) and London (London Metals Exchange), Hong Kong does face a number of market structural and business challenges if we wish to develop a world-class commodity futures exchange –

- the demand for commodities;
- the availability of talents and experts who have good knowledge

about the global commodity market and are familiar with the operation of a commodity futures exchange;

- competition from other commodity futures exchanges;
- willingness of market operators to devote resources to the development of the commodity futures market; and
- the prospect of the global commodity market.

12. We suggest that the Securities and Futures Commission be invited to study the issues mentioned above. The Government might also examine measures that are necessary for the development of the market. Panel members are invited to provide comments on the above proposals and other suggestions that are worth pursuing.

(IV) Foreign Exchange Futures Contracts

Background

13. Currently, there is no exchange-traded foreign exchange futures in Hong Kong. In terms of the total trading volume of financial futures and options contracts (including stocks, stock index, interest rate, foreign exchange futures and options), Hong Kong ranks 24th in the world with a trading volume of 25.5 million contracts. The Korea Exchange ranked first and the number of contracts traded is 2.6 billion. At present, foreign exchange futures or other financial futures or options are not traded in the Mainland, though it is expected that a financial futures exchange will soon commence operation in Shanghai which will first launch stock index futures contracts.

14. From 1995 to 2002, the Hong Kong Futures Exchange (HKFE) offered the trading of exchange traded foreign currency futures contracts to the market. A number of commercial banks were appointed by HKFE to act as market makers to provide bid/ask quotations for the Rolling Forex contracts. However, trading interests in Rolling Forex contracts diminished. In the end, HKFE delisted all the Rolling Forex contracts in May 2002.

15. With the support of the Central Government, starting from January 2004, banks in Hong Kong have been allowed to launch Renminbi banking business, including deposit taking, currency exchange, remittance, debit and credit cards. To cater for the expanded Renminbi business, the Hong Kong Monetary Authority (HKMA) launched a new Renminbi

Settlement System on 6 March 2006. The system lays a foundation for the future development of a fully-fledged Renminbi payment system that would put Hong Kong in a competitive position in relation to other financial centres.

16. Besides the spot RMB market described above, there are also offshore non-deliverable Renminbi forward market in Hong Kong, Singapore and Japan. Non-deliverable Forwards (NDF) are foreign exchange derivative products traded over the counter. According to market estimation, in September 2005, Singapore accounted for 80% of the RMB NDF turnover with 15% in Tokyo and 5% in Hong Kong. In July 2006, 17 banks in Hong Kong are offering retail RMB NDF contracts to their customers.

Opportunities and Challenges

17. The 11th Five-Year Plan (Section 3 in Chapter 33) mentioned the goal of gradually achieving full convertibility of the capital account. Hong Kong may examine whether and how to develop exchange-traded foreign currency futures contracts. In the long run, this will not only facilitate the Mainland in managing risks associated with the exchange rate, but also broaden the products and functions of the Hong Kong financial markets.

18. The continued strong growth of the Mainland economy, the move towards a more market-based exchange rate regime, the further opening up of the capital account and the increasing integration between the Mainland financial market and the external world have provided Hong Kong with favourable market environment and condition. Notwithstanding the delisting of the Rolling Forex contracts by HKFE in May 2002, HKFE has gained valuable experience in launching currency futures contracts. It had gone through the process to establish the relevant rules, procedures and systems which are essential for the operation of a currency futures market. We suggest conducting a study in this subject. Panel members are invited to provide comments on the above recommendation and other suggestions that are worth pursuing.

(V) Insurance Industry

Background

19. Hong Kong is one of the most open insurance markets in the world. As at end June 2006, there were 175 authorised insurers, 88 of which were incorporated in Hong Kong while the remaining were incorporated on the Mainland and in 20 overseas jurisdictions. There are a total of about 50,000 insurance agents and brokers in Hong Kong. In the past decade, our insurance business has achieved double-digit annual growth. In 2005, the total gross premiums of the insurance industry reached HK\$141 billion (\$24 billion for general insurance and \$117 billion for life insurance), an increase of about 16% from 2004. As one of the founding members of the International Association of Insurance Supervisors (IAIS), Hong Kong is committed to abiding by the regulatory principles and standards promulgated by the Association. This will help ensure that our regulatory standards are on a par with international standards. In Hong Kong, our regulation relating to corporate governance, market transparency, margin of solvency, etc., is on a par with international standards. In supervising the insurance industry, the Insurance Authority also adheres to the free market principle, and endeavour to promote an open, stable and transparent insurance market.

Opportunities and Challenges

20. Panel members are invited to provide comments on the following recommendations and other suggestions that are worth pursuing.

Access to the Mainland Market

21. Under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), Hong Kong insurance companies can gain access to the Mainland insurance market through the formation of groups or strategic mergers. Some insurance companies which intend to enter the Mainland market through this channel have already obtained the Certificate of Hong Kong Service Supplier. Besides, the maximum allowed equity participation by Hong Kong insurers has been raised to 24.9%. These arrangements help our insurance companies enter the Mainland market and enhance the growth potential of the insurance industry.

Exchange of Talent

22. For exchanges in the insurance sector, exchange visits between Hong Kong and the Mainland are held from time to time to discuss the latest development. We will continue to foster mutual exchanges between the insurance practitioners of the two places. Also, we will explore the possibility of accelerating the opening of the insurance intermediary services to Hong Kong under the framework of CEPA, for it will encourage insurance institutions (for example professional insurance agents) and professionals familiar with the operation of the international insurance market to start their business in the Mainland.

23. On industry regulation, in addition to day-to-day contact at the working level, the regulatory bodies in Hong Kong regularly participate in joint meetings of the insurance regulators of Guangzhou, Hong Kong, Macao and Shenzhen to discuss issues of common interest. The coming Sixth Joint Meeting of the Insurance Regulators will be held in November in Hong Kong. Enhancing Mainland-Hong Kong exchanges on regulatory issues is conducive to strengthening insurance regulation, preventing insurance risks and increasing the efficiency of the insurance markets in both places.

Reinsurance Centre

24. As the development of reinsurance will help enhance the status of Hong Kong as a regional insurance centre, the Hong Kong Government has devoted much effort to encouraging international professional reinsurance companies to set up operations here. At present, a number of international reinsurance companies are operating in Hong Kong. Of the world's top 20 reinsurance companies, most of them have branch offices in Hong Kong. These offices stand ready to provide reinsurance services and offer professional advice on risk management and related matters.

25. The rapid development of the Mainland insurance industry has generated much demand for reinsurance. As an international insurance and reinsurance market, Hong Kong is well positioned to meet such demand for reinsurance services, and to facilitate the development of the Mainland financial markets and their integration with the international markets.

26. Human resources is important for the development of regional reinsurance centres. Currently, the seven universities in Hong Kong offer various courses to develop expertise in such areas as insurance, actuarial science, risk management and financial planning. To further enhance the quality of insurance practitioners, the HKSAR Government supports the efforts by the Insurance Institute of Hong Kong in collaboration with various professional insurance bodies in developing local insurance qualifications that are internationally recognised. The HKSAR Government also encourages insurance companies to organise training courses and on-the-job training for professionals in the areas of insurance, risk management and actuarial science. Such courses may also be open to Mainland insurance practitioners, for this will not only help develop Hong Kong into a training centre in insurance business, but also enhance the exchange of insurance expertise between the two places.

Investment Funds

27. On 13 April this year, the People's Bank of China announced measures whereby the business of overseas securities investments by insurance institutions shall be broadened. Qualified insurance institutions shall be allowed to purchase foreign exchange for investing in overseas products with fixed proceeds and money market instruments. Although the details of the measures are yet to be released, we expect that our global and diversified financial markets will be able to attract the inflow of capital. Part of the funds may also make use of Hong Kong as the platform for global investment.

Issues for Discussion

28. Members are invited to comment on the following issues –
- (i) Has the paper provided a thorough analysis on the competitiveness of Hong Kong as an international financial centre? Is there any other consideration?
 - (ii) Has the paper provided a thorough analysis on the challenges and opportunities for Hong Kong's financial services industry arising from the country's 11th Five-Year Plan? Is there any other consideration?
 - (iii) Are the recommendations proposed by the Government and the regulators relevant for consolidating and developing Hong

Kong's financial services industry? Are there any adjustments needed for any of the recommendations?

- (iv) Are the recommendations proposed for consolidating and developing Hong Kong's financial services industry appropriate for further studies and consideration?

Financial Services and the Treasury Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Logistics and Maritime Services

Executive Summary

(Translation)

This paper presents a preliminary analysis, from the perspective of the Government and public sector, of the opportunities and challenges brought by the 11th Five-Year Plan to Hong Kong’s developments in logistics, air cargo, port and maritime services. The paper aims to initiate discussion in the community with a view to developing a practical “action agenda” in the next few months.

2. Trading and logistics services is a major industry in Hong Kong. In the country’s 11th Five-Year Plan, the Central Government unequivocally supports Hong Kong in the development of our logistics industry and in maintaining our position as an international maritime centre.

3. Under the auspices of the 11th Five-Year Plan, the Mainland economy will continue to grow steadily, and its booming import/export trade will bring about ample business opportunities for the logistics industry of Hong Kong. Yet along with the rapid port development in South China, the competition between Shenzhen and Hong Kong in sea freight transport will intensify. Meanwhile, continuous liberalization of the air transport service industry in the Mainland will bring competition to Hong Kong’s role as the gateway to the Mainland China.

4. Against the above mentioned challenges and opportunities, the Government and the industry have adopted a number of measures, with a view to providing infrastructure conducive to the development of the logistics industry and improving their business environment. The key objectives of the major measures are -

- to enhance cross-boundary trucking efficiency;
- to promote the application of information technology in the logistics sector;
- to enhance the facilities of the Hong Kong International Airport; and
- to strengthen the competitiveness of Hong Kong Port and the maritime sector.

5. Leveraging on the staunch support of the Central Government and the robust economic development in the Mainland, we invite members to comment on our proposals and offer further recommendations with a view to taking our logistics and maritime industry to the next level. We propose that there should be a clear division of role between Guangdong and Hong Kong in port development, and that the development of transport infrastructure in Hong Kong and different Mainland regions and cities should also be co-coordinated. The Government will continue to negotiate avoidance of double taxation agreements with our major trading partners; introduce our quality, maritime services to the Mainland shipowners; further improve the Hong Kong Shipping Register; take a focused approach towards training of maritime professionals; expand our air services arrangements with the Mainland; explore with the Mainland authorities on measures for enhancing the efficiency of cross-boundary road freight; enhance the overall infrastructure planning, and assist the industry to develop e-logistics.

Economic Development Branch
Economic Development and Labour Bureau
September 2006

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Logistics and Maritime Services**

(Translation)

Purpose

This paper presents a preliminary analysis, from the perspective of the Government and public sector, of the opportunities and challenges brought by the 11th Five-Year Plan to Hong Kong’s developments in logistics, air cargo, port and maritime services. The paper aims to initiate discussion in the community with a view to developing a practical “action agenda” in the next few months.

Background

2. Historically, logistics referred generally to the transportation of goods. With the rapid expansion of global sourcing and increasing specialization in production over the past decade, the supply chain has been extended to cover more and more regions around the world. In parallel, there has been rising demand for integrated logistic services, especially those in support of transportation and complemented by holding and processing of goods. This movement towards concurrent and convergent activities underlies value-added logistics (VAL). There is no consensus definition of VAL. Typical examples of VAL involve labeling and packaging, light assembling between pickup and delivery, cargo tracking and tracing, IT and inventory management support.

3. Generally speaking, VAL can best be understood as a profile which incorporates processes designed to efficiently support and facilitate different elements in the supply chain. In the same way that supply elements are 'chained', activities and services are inter-related and inter-dependent within the VAL profile. With changes in technology, economic-socio-political environment and modus operandi of business organizations, the VAL profile will continue to evolve, covering different processes at different times.

Global Trend of Logistics Development and Competition

4. In the past, trade meant coordinating exchange and logistics merely transportation. Globalization and the rise of the Mainland China as a manufacturing base and then as a large market have led to a facelift of the trading and logistics services in Hong Kong. Technological improvements, notably in information technology, have also made it possible for firms to enhance their competitiveness by reducing inventory cost and turnaround time through improving the efficiency of their supply chain. Hong Kong companies, taking advantage of the enormous growth in manufacturing in Mainland China, have specialized more and more in supply chain management. They now source raw materials, co-ordinate the production, consolidate and distribute products, and manage inventory for large chain stores in Europe and the United States in a timely and efficient manner.

5. To meet the global demand in procurement, transportation, documentation and distribution of raw materials and finished products, the logistics industry has progressed from first party to third party logistics. The expansion in market size and the increasing sophistication of the whole industry have made it possible for a third party to provide logistics support to users in a cost effective manner. In order to achieve a seamless supply chain from the sourcing of material to timely delivery of finished products, logistics service providers have to ensure against any disruption or delay in the whole process, especially if high-value and time-critical merchandise is at stake. Faced with this global trend, Hong Kong does not only need to provide effective logistics services to South China exporters, but also needs to provide multinational chained corporations and large manufacturers with one-stop supply chain management service, in order to become a regional procurement and distribution centre. With the rapid transmission of electronic messages and the rise of e-logistics, Hong Kong also needs to

compete with other Asian and Mainland cities in the development of virtual logistics.

Economic Contribution

6. Trading and logistics is a major industry in Hong Kong. In 2004, this sector generated HK\$346.9 billion in value added, equivalent to 27.7% of GDP (Annex 1). Persons engaged in trading and logistics numbered 804 600 or 24.3% of the employed population, of which 198 400 were in logistics (Annex 2). The value added of the logistics sector increased at an average annual rate of 5.9% during 1999-2004, reaching HK\$67.2 billion. The percentage share of logistics in Hong Kong's GDP also increased from 4.2% in 1999 to 5.4% in 2004. It should be noted that trading and logistics create demand for other services such as banking, insurance and a wide range of professional services. Such indirect economic contributions are not included in the above-quoted figures.

7. In Hong Kong, the Census and Statistics Department conducts surveys on the economic contribution, in terms of value added in GDP (GDP VA), of the six logistics sectors, namely land freight transport, water freight transport, air freight transport, ancillary services, storage and postal and courier services. The figures from 1999 to 2004 are shown in Annex 2. Logistics services for water freight transport and air freight transport together accounted for 80% of the total income generated. In particular, air freight transport registered the highest per capita income and the fastest growth among the different modes of freight services.

8. In terms of per capita GDP VA, maritime services (i.e., shipowners and operators of sea-going vessels and shipbrokers) had the highest VA per capita, especially for 2003 and 2004 (Annex 3), because maritime services provide high yield with a relatively small number of employees. The soaring freight rates and global demand for maritime transport services in recent years have also contributed to the substantial growth of this sector. In terms of ratio of GDP VA to business receipts of major elements in the sub-sector, specialized service-oriented activities such as shipbroking, ship management and cargo inspection services, and infrastructure-based activities such as container terminals, airport and air cargo terminal services produced relatively high margins (Annex 4).

9. Apart from the above measures, another crucial factor for gauging the economic significance of individual sub-sectors within the logistics

industry is their ability to generate employment at different skill levels. In terms of job opportunities generated, sea freight transport had made greater contribution to Hong Kong than air freight transport. The number of establishments and persons engaged in the various sub-sectors of logistics industry are at Annex 5. More importantly, VAL services integrate the core transport functions along the supply chain. Integration, innovation, comprehensiveness and economies of scale are all keys to sustaining the competitiveness of Hong Kong's trading and logistics sector.

Support from the Central Government

10. The country's 11th Five-Year Plan (2006-2010) outlines the long-term visionary plans for social, economic and infrastructural developments up to 2020. In this plan, the Central Government recognizes HKSAR's strategic position, and expressly supports Hong Kong in the development of our logistics industry and in consolidating our status as an international maritime centre. Making full use of Hong Kong's strength as a regional economic centre, in the promotion of the four pillars of Hong Kong's economy (i.e. financial services, tourism, trading and logistics, and professional and producer services), will have profound implication for the future development of HKSAR, the Pearl River Delta (PRD) and the country.

Opportunities Brought by the 11th Five-year Plan

11. Under the auspices of the 11th Five-Year Plan, Mainland China's industrial production, consumer spending and external trade are expected to maintain a steady yet relatively fast-paced growth. Its overall import/export business will continue to provide ample opportunities for Hong Kong's trading and logistics industry, despite keen competition from other Mainland cities. Closer to Hong Kong, infrastructure developments in the PRD region and the gradual evolution of geographical clustering of economic activities in South China will also provide opportunities for Hong Kong as a logistics hub in future.

International positioning of logistics, air services, port and maritime services

World's Busiest Air Cargo Centre

12. Since 1996, Hong Kong has been the world's busiest air cargo centre. Annex 6 shows that in the past 10 years, the average annual growth

rate of air cargo volume reaches 9%. Air cargo is time-critical, so frequent flight schedules, worldwide network, efficient cargo handling system, and simple and clear customs clearance procedures are all the more important. Hong Kong has advantages in all these aspects. There are currently some 80 international airlines at the Hong Kong International Airport (HKIA) operating about 5 200 scheduled flights between Hong Kong and some 140 global destinations (including 36 Mainland cities) per week, providing speedy and efficient air cargo services. The flow of people in Hong Kong is vigorous because of its superior geographic location, and the resulting frequent passenger flights provide enormous air cargo space. At present, around 43% of the air cargo volume is transported by passenger flights. Cargo transport and passenger transport compliment each other, enabling Hong Kong to become the regional hub and world's busiest air cargo centre.

Challenges

13. The regional cooperation of Pan-PRD will further expand Hong Kong Port's (HKP) and airport's cargo hinterland. It will also speed up the economic development of the inland provinces and western region in the Mainland. Nonetheless, Hong Kong has to strengthen its water, road and air connections with most cities in the Pan-PRD region.

14. Continuous liberalization of the air transport service industry in the Mainland will lead to a growing number of direct international flights between Mainland cities and overseas countries, which will impact Hong Kong's position as the major gateway to the Mainland. Neighbouring regions have also stepped up their investment in airports (such as Seoul and Bangkok) in a bid to become the premier transshipment hub for air cargo in the Asian-Pacific region. Moreover, the high concentration of airports within the PRD region, the limited airspace for civil aviation and the defective designs of air routes and flight procedures have constrained the capacity of air traffic management, and may hinder the further expansion of Hong Kong's aviation industry. Our cost of transporting air cargo is higher than Mainland airports'. We have to maintain our frequent flights schedules and operation with economies of scale to reduce cost and prevent loss in cargo volume.

Sea Transport

15. Hong Kong Port (HKP) is one of the busiest container ports in the world. The nine container terminals, with a total of 24 berths, in Kwai

Tsing provide a handling capacity of over 18 million TEUs per annum. In addition, mid-stream operation, the River Trade Terminal and Public Cargo Working Areas provide alternative facilities for handling waterborne cargo. Our port handled 22.6 million TEUs in 2005. There are some 80 shipping lines operating about 500 calls per week to over 500 destinations globally. Some 232 000 ships, including about 39 000 ocean vessels and about 193 000 river vessels, visited our port in 2005. Our terminals boast a record of 40 lifts per crane per hour. Every minute we save in the turnaround time of a 6000-TEU container vessel (with a daily chartering rate at about HK\$1.56 million) at our terminals through efficient port operation means a cost reduction of HK\$1,083.

16. Since 1992, except for the year 1998, HKP has been the world's busiest container port for 12 years, with the largest container throughput. In 2005, Hong Kong ranked second to Singapore (Annex 7). Hong Kong and Singapore serve different hinterlands, so their growth of throughput is not at the expense of each other. There is no direct competition between them. Besides, Singapore's port is operated by the government's Maritime and Port Authority. The Singapore Maritime and Port Authority has investment in ports worldwide (including Hong Kong), and with its own shipping company. All in all, its mode of operation is different from the private-sector terminal operators in Hong Kong. Its Maritime and Port Authority also has greater influence over port charges and port operation than the Hong Kong Government.

17. Hong Kong's loss its status as the world's largest port is actually due to the rapid growth of Mainland ports, which alters HKP's premier position in the handling of South China cargoes (Annex 8). In face of competition from the South China ports and the Mainland container trucking industry, the share of South China container cargoes handled by Hong Kong's cross-boundary container trucking sector has been decreasing since 2003. The rise of Shenzhen ports is posing direct and severe challenges to HKP.

Opportunities

18. HKP is one of the lifelines of the HKSAR economy. The core port industries' direct and indirect economic contributions constitute around 4% of Hong Kong's GDP. About 110 000 jobs or 3.2% of the total employment are closely linked to the port. With sustained growth for more than a decade, Hong Kong has established itself as a world leader in

port management and operation, thereby laying a solid foundation for future development.

19. Due to cost consideration, the cargo source has extended from the eastern to the western side of the PRD region in recent years. This trend will continue into the future. Continuous port developments in the PRD region will substantially enhance its capacity in water freight transport. Until the supporting road connection is fully developed, river trade transport will remain the key transport mode for cargoes from the western PRD. This is expected to bring new opportunities to the HKP.

20. Meanwhile, the region's economic and trade growth in the medium to long term will give momentum to cargo growth and present growth opportunities for HKP. The construction of the Hong Kong-Zhuhai-Macao Bridge will establish on top of water freight transport, direct road link between Hong Kong and the western PRD; upon the commissioning of the Bridge, cargo can also be trucked directly to Hong Kong for shipment to other countries. This will expand HKP's cargo hinterland and help strengthen Hong Kong's position as the hub port and logistics centre in the region.

Challenges

21. New ports in Shenzhen, with operation and management largely modeled after Hong Kong terminals, pose keen competition for direct ocean cargo to and from South China. In fact, with the rapid growth in external trade of South China, its total trade volume has far exceeded the capacity of HKP. In 2005, HKP and Shenzhen ports together handled 39 million TEUs. The capacity of Shenzhen ports is expected to almost double within the 11th Five-Year Plan period, intensifying the competition between Hong Kong and Shenzhen for South China cargo.

22. Port expansion and ever increasing vessel capacity of vessels will provide more options for transshipment cargo. For instance, at present there is no direct competition for direct cargo between Hong Kong and Shanghai, as the latter's cargo source is the Yangtze River Delta region. However, the development and expansion of Shanghai ports will attract more direct shipping calls, enabling it to become a transshipment centre. In the long run, it might compete with Hong Kong for transshipment cargo.

23. The Mainland and Taiwan reached a consensus in mid-2006 to

extend the Spring Festival passenger charter flight services to the Ching Ming, Dragon Boat and Mid-Autumn Festivals, and allow the operation of cargo charter flights for specified purpose. The first cargo charter flight arrived at Shanghai from Taiwan in late July. The arrangement is definitely a breakthrough toward direct cross-strait cargo flow. However, cross-strait merchandise trade is still dominated by sea freight transport. Thus when direct link between Mainland China and Taiwan is fully established and extended to sea freight transport and scheduled services, the impact on Hong Kong's status as a transshipment hub for cross-strait passenger and cargo flows will be more apparent.

24. In 2005, a total of 0.9 million TEUs* transshipment cargo between the Mainland China and Taiwan went through the HKP, accounting for 5% of our laden container throughput. Of all the transshipment containers handled by HKP from both sides of the strait, 80% are related to the South China region, with the remaining 20% coming from or moving to ports outside the PRD region.

25. Once direct sea link for cross-strait freight transport is established, Hong Kong's position as an entrepot for cargo between Taiwan and non-PRD ports will bear the brunt of the impact, due to geographical and cost considerations. These transshipment cargoes, nevertheless, accounted for only 1% of Hong Kong's total laden container throughput. Whether the seaborne cargo between South China and Taiwan will continue to be routed through Hong Kong will depend on the competitiveness of HKP relative to other ports in South China.

26. Hong Kong/Guangdong cross-boundary trucking is an important segment of Hong Kong's logistics industry, representing a major link between Hong Kong and the South China cargo source. The "Study on Hong Kong Port – Master Plan 2020" (HKP2020) commissioned by the Hong Kong Government in late 2004 noted that it costs about US\$300 (HK\$2,340) more for a container from Dongguan to the US to be routed through Hong Kong than through Shenzhen. The cost comparison is set out in Table 1 below:

* Apart from transshipment cargo, HKP handled 346 000 TEUs of direct imports from Taiwan and 90 000 TEUs of exports to Taiwan in 2005. According to the merchandise trade statistics, 80% of the import cargo from Taiwan was re-exported to the Mainland and 40% of the export cargo to Taiwan was imported from the Mainland.

Table 1: Total Through Cost Comparisons

Industry data as at mid 2004, US\$ (From Dongguan to the US west coast)	Via Hong Kong		Via Yantian		Via Shekou/Chiwan	
	20ft*	40ft	20ft	40ft	20ft	40ft
1 Ocean Freight Rate (Basic); +/- \$50**	2,000	2,700	2,000	2,700	2,000	2,700
2 Fees#	599	1,014	579	994	579	994
3 Truck to Port Terminal	308	333	128	154	141	167
4 Terminal Handling Charge (THC)	274	366	141	269	141	269
Total	3,181	4,413	2,848	4,117	2,861	4,130
Differential: HK Relative to Shenzhen	+\$333	+\$296				

Remarks: * 20ft means a 20 Foot ISO container (1 TEU), and 40ft means a 40 Foot ISO container.

** Average based on consultation with shipping lines – agreed rates between a specific shipping line and a specific customer may diverge from this figure.

Fees include Destination Delivery Charge (DDC), Fuel Adjustment Factor (FAF), Bunker Adjustment Factor (BAF) and Declaration Fee.

Source: Stakeholder consultations.

The key factors contributing to these cost differentials are the road haulage costs and the terminal handling charges. A main challenge facing HKP is how to narrow the difference in the transport cost.

27. In this connection, the Government has been discussing with the Mainland authorities to pursue on behalf of the industry relaxations of restrictions on cross-boundary trucking and extension of operating hours of inland control points, with a view to enhancing flexibility and efficiency of cross-boundary trucking. The industry will also need to increase its own operational efficiency to strengthen the competitiveness of Hong Kong. Yet the industry has different views over how to reduce costs; some advocate the importation of Mainland container truck drivers, others request that the container terminal operators and shipping lines to reduce the terminal handling charge.

28. Promotion of smooth freight flow through efficient customs clearance is an objective generally embraced the logistics industry. However, there are diverging views as to whether the establishment of an express customs clearance channel between container terminals in Hong Kong and specified logistics parks in the Mainland will serve the best interests of the industry and Hong Kong at large. Out of consideration

that saving customs clearance time will enhance cargo handling efficiency, terminal operators are inclined to support the establishment of such an express channel. However, the trucking industry worries that the proposal will take the long-haul trucking business away from them, leaving them with only shuttle service between Hong Kong and the specified logistics parks. Different sectors in the logistics industry are generally of the view that it is necessary to assess the cost effectiveness of the proposal, and to evaluate how an express channel connecting a designated logistic park in the Mainland will affect Hong Kong's cargo distribution, consolidation, delivery, storage and warehousing businesses.

Response Actions

29. Against the above mentioned challenges and opportunities, the Government and the industry have adopted a number of measures to strengthen Hong Kong's position as a logistics hub.

30. In an effort to strengthen Hong Kong's status as the most preferred international transportation and logistics hub in Asia, the Government is dedicated to promoting services integration in a seamless supply chain, moving Hong Kong further up the value chain, and providing infrastructure and business environment conducive to the development of the logistics industry. To gauge the actual needs of the industry, the Government engages business leaders through the establishment of the Hong Kong Logistics Development Council (LOGSCOUNCIL). We draw on their expertise and wise counsel in the formulation of initiatives for logistics development. In addition, from time to time the Government and the Mainland discuss and study issues related to the developments of cross-boundary transport infrastructure, with a view to ensuring that our infrastructure construction can tie in with the needs for social and economic developments.

Enhancing Cross-boundary Trucking

31. To enhance the competitiveness of Hong Kong's logistics industry, the Government seeks to improve cross-boundary trucking efficiency so as to strengthen Hong Kong's road connectivity with the cargo sources in Mainland China and reduce cross-boundary trucking cost. In the context of the Hong Kong/Guangdong Co-operation Joint Conference, both sides have achieved good progress in the following measures –

- The “four-up-four-down” and “one-truck-one-driver” rules were relaxed in 2005, thereby increasing the flexibility of the cross-boundary trucking industry in the deployment of equipment and drivers;
- The Guangdong Provincial authorities also agreed to extend the operating hours at four inland control points at Dongguan (i.e., Fenggang, Changan, Huangcun and Taiping) in 2005, taking into account the cargo volume and actual needs of different regions. To further enhance customs clearance efficiency, a new inland control point at Liaobu in Dongguan will be put to operation before end-2006, while the existing one at Huangcun will be closed. This new control point will adopt an improved clearance system for more effective and efficient inspection.

Harnessing Information Technology

32. Strengthening information connectivity is also key to smooth freight flow. As a matter of fact, modern logistics services and seamless supply chain management cannot be achieved without the application of advanced information technology. Hong Kong’s strength in its free flow of information has laid foundation for e-logistics development, which in turn can bring this strength into full play.

33. With these considerations in mind, the Government, through LOGSCOUNCIL, works together with the industry to promote the development of the Digital Trade and Transportation Network (DTTN) System. The DTTN, launched in December 2005, provides an open, neutral and secure e-platform to facilitate information flow along the supply chain in an efficient and reliable manner. DTTN can reduce paperwork, minimize human errors in the process and thus save time. DTTN can also help promote the adoption of information technology in particular by the small and medium-sized enterprises, and encourage the logistics industry to improve on the provision of high quality, high reliability and more efficient services, thereby enhancing their competitiveness in the market.

34. Through LOGSCOUNCIL, the Government also jointly runs a pilot project with the Hong Kong Productivity Council on an On-Board Trucker Information System (OBTIS) to improve trucking efficiency through advanced technologies. The pilot focuses on the application of

electronic communication technologies in the operation of container trucks, with a view to enhancing interconnectivity among truckers, carriers, shippers, terminal operators and potentially other stakeholders, increasing flexibility and effectiveness in fleet management, as well as maximizing the load factor and utilization of the entire trucking fleet in Hong Kong.

35. Besides, the “Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies”, funded by the Innovation and Technology Commission and jointly managed by the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong University of Science and Technology, came into operation in April 2006. The Centre aims to assist the logistics industry to adopt technologies applicable to logistics services and supply chain management so as to boost their competitiveness. The focus at the initial stage is on the use of radio frequency identification (RFID).

Improving Air Transport Facilities and Efficiency

36. The Airport Authority (AA) and its business partners are making significant investments to further improve the facilities and efficiency of the Hong Kong International Airport (HKIA).

- To upgrade the airport passenger handling facilities, AA completed its expansion works at East Hall of Passenger Terminal Building (PTB) in March 2004 to increase the passenger handling capacity. The second PTB cum SkyPlaza, a multi-purpose development comprising retail, commercial and other passenger facilities due for completion at the end of 2006, will provide a variety of services to attract visitors from all over the world to use HKIA. In addition, AA constructed five additional taxi-in/taxi-out aircraft parking stands in 2005 to meet the airlines’ request for lower operating cost and shorter turnaround time. With over 40% of air cargoes in Hong Kong being transported by passenger flights, frequent passenger flights will also contribute to the enhancement of freight services.
- On cargo handling facilities, following the commissioning of DHL Central Asia Hub with a handling capacity of 160 000 tonnes per annum in June 2004, DHL has further invested US\$110 million to expand the Hub. The expansion works, upon completion in 2007, will increase the Hub’s handling capacity to 700 000 tonnes per

annum. Four additional cargo freighter parking stands were constructed by AA in 2005, bringing the total number to 25. Ten additional stands are expected to be in operation in September 2007. Asia Airfreight Terminal expansion works are also underway, which will increase the terminal's handling capacity from about 0.6 million tonnes to over 1.5 million tonnes per annum.

- Regarding other ancillary facilities, the Hong Kong Aircraft Engineering Company Limited (HAECO) commenced in August 2005 the construction works of its second hangar, which is expected to be commissioned at end-2006. The construction of a third one is under planning. Meanwhile, AA is carrying out resurfacing works on the runway.

37. The Government also continues to progressively liberalize our air services to further expand our aviation network.

- There are currently some 80 international airlines at the HKIA operating about 5 200 scheduled flights between Hong Kong and some 140 global destinations (including 36 Mainland cities) per week. We will continue to proactively implement the policy of progressive liberalization of our air services with a view to further expanding our aviation network.
- Hong Kong has so far concluded bilateral air services agreements (ASA) with 55 civil aviation partners and initialed texts with seven others. We also review our air services arrangements with our civil aviation partners from time to time. Over the past three years, Hong Kong has concluded five new ASAs and initialed two others. In addition, we have removed all the restrictions on bilateral passenger and freight transport with 14 civil aviation partners, and have conducted over 40 rounds of negotiations and reviews to expand the air services arrangements with more than 30 civil aviation partners.
- Meanwhile, the air transport arrangements between Hong Kong and Mainland China also saw significant expansion in recent years. Following a 40% increase in total capacity in 2004, a further increase of 10% was recorded in 2005. New arrangements were concluded in 2006, lifting the limit on passenger capacity for over

60% of destinations and increasing the total passenger capacity for the rest of the destinations by 40%, starting from the summer of 2007. With regard to freight transport, the capacity limit between Hong Kong and the great majority of destinations in the Mainland will be lifted. Such arrangements will further strengthen the aviation links between Hong Kong and the Mainland, enhance the competitiveness of HKIA and maintain Hong Kong's status as an international and regional aviation centre.

38. The Government coordinates closely and proactively with the civil aviation authorities of the Mainland and Macau to explore ways to achieve more efficient use of limited air space and to bring overall improvement to air traffic flow by optimizing airspace layout and enhancing coordination of air traffic control, in order to cope with the increasingly rapid development in civil aviation.

Enhancing HKP's Attractiveness and Competitiveness

39. In face of the rapid growth in our neighbouring ports, the Government is committed to making HKP more competitive. The Government completed the HKP2020 Study in late 2004. The main objective of the HKP2020 Study is to formulate a competition strategy and a master plan for Hong Kong's sustainable port development over a 20-year time frame. In light of the recommendations of HKP2020, the Government seeks to address the cost differential between HKP and the neighbouring ports, improve customs clearance efficiency and provide more cross-boundary freight transport facilities and port back-up land. In parallel, the Government has launched a series of measures to enhance the attractiveness and competitiveness of HKP.

40. With the development of mega container vessels, hub port operations are more important than ever before, as these vessels call at fewer ports and with lower frequencies. To enhance HKP's attractiveness as a hub port, to encourage the use of Hong Kong's freight transport services by other Asian countries, and to attract more ocean-going vessels (especially intra-Asia vessels carrying transshipment cargoes) to use our port, the Government amended the relevant legislation to reduce anchorage dues and port facilities and light dues early this year. With these measures in place since 1 February 2006 (the day the relevant legislation was gazetted), a medium-sized vessel calling Hong Kong for two days can save about 25% of anchorage dues and 5% of port facilities and light dues.

41. In view of the significant growth in the volume of river trade cargo in recent years and upon the industry's request, the Government has expanded the mid-stream cargo handling capacity by establishing new anchorages in the north of Lantau and in the western part of Victoria Harbour. The Government will continue to respond flexibly to market needs by providing more anchorages, so as to facilitate shipping companies' service scheduling and meet port operators' requests.

42. For the purpose of enhancing port productivity, the Government, after consulting the industry and gaining the support of the Hong Kong Port Development Council, provided the industry with back-up land adjacent to the Kwai Tsing Container Terminals in order to increase the cargo handling capacity and productivity of the terminals. The first batch of two barge handling facilities was put out for open tender in May 2006.

43. In addition, with a view to enhancing the efficiency of river trade operation and attracting more river trade vessels to call at HKP, the Government is making legislative amendments to introduce multiple entry permits for river trade vessels, such that the application procedures will be streamlined and permit fees lowered. With the enactment of the new legislation, a river trade vessel using a multiple-entry permit can save up to 50% of the entry permit cost. This measure will not only increase the river trade vessels' operational efficiency, but also lower their operating cost at HKP.

Maritime Services

44. With the success of its shipping and maritime industry, Hong Kong is one of the world's major maritime centres. Currently, about 900 renowned and experienced maritime service providers are operating in Hong Kong, providing a wide range of maritime services ranging from ship owning/management, registration, financing, insurance, brokerage, maritime arbitration, surveying, repairs to replenishment.

World's 5th Largest Shipping Register and the Global Trend of Maritime Services and Competition

45. Hong Kong is a world maritime centre. As at 1st January 2006, Hong Kong Shipping Register (HKSR) is the world's fifth largest shipping register, with a gross tonnage of 29.83 million GT and 1070 registered

ships. As shown in Annex 9, Hong Kong is still far behind the world's top shipping register in Panama. Nevertheless, the maritime industry widely regards the top four shipping registers as "flags of convenience", which have different standards in shipping services and control, and are not comparable with shipping registers with proper control. Instead the industry widely recognizes that Hong Kong should enhance the quality, standard and reputation of its shipping register in order to attract high quality vessels. Hong Kong Shipping Register also brings business opportunities to other maritime services. However, for historical reasons, many international maritime service providers are based in those maritime centres with long history, such as London and New York. Meanwhile, some places offer various favourable treatments, such as reduction in tax and registration fees, in order to get a share in the market of maritime services. Therefore, we have to examine how we can raise the standard and reputation of Hong Kong in the provision of international and regional maritime services to achieve a breakthrough.

Opportunities

46. With its growth in trade, Mainland's demand for sea transport will increase and its shipbuilding industry will expand rapidly, progressing towards the league of the world's largest shipbuilding countries. The number of ships built in Mainland China continues to rise. In 2005, new ships built in Mainland China reached 1200 million GT. Due to the proximity in geography, language and culture, the development of Mainland's sea transport will bring business opportunities to HKSR and our maritime services.

Response Actions

47. To further develop Hong Kong's maritime industry, the Hong Kong Maritime Industry Council (MIC) was established in 2003 to advise the Government on the formulation of maritime policies and initiatives. It also assists the Government in promoting Hong Kong's comprehensive maritime services and Hong Kong's position as an international maritime centre. Two task forces have been set up under the MIC to further enhance Hong Kong's attractiveness as a base for international maritime enterprises. The Human Resources Task Force addresses the education, training and manpower supply issues, while the Maritime Services Task Force focuses on formulating measures to promote the various sectors within the maritime cluster.

48. HKSR is reputable for its excellent services and is a world-class quality register. In 2004, its reputation as a quality flag was reaffirmed by the recognition under the “US QUALSHIP 21 Scheme”. To further enhance HKSR’s reputation and standards, the Marine Department continues to introduce improvement measures to attract top quality tonnage to register in Hong Kong. The HKSR crossed the 31 million gross tonnage mark in mid-July this year, with a registration of 1 100 vessels. It is now among the world’s top five shipping registers.

Manpower training

49. In the course of its expansion, Hong Kong’s maritime industry is faced with shortage of manpower. Both the shipping industry and the Government need to give some thoughts to the issue of manpower training, especially for senior management with sea-going experience, to meet the demand for such services as professional ship management and brokerage. To ensure an adequate supply of local talents with sea-going experience for the shipping and maritime industry, the Government launched the “Sea-going Training Incentive Scheme” in July 2004 to provide financial incentives for qualified youngsters to take up sea-going training as cadets. The training paves the way for them to become shore-based professionals and ensures quality human resources for the industry.

50. To attract more quality ships to register in Hong Kong on a long-term basis, thereby maintaining a stable number Hong Kong registered ships and further developing HKSR as a quality shipping register in the world, the Government introduced an Annual Tonnage Fee reduction scheme in early 2006. Under the scheme, ships that have continuously registered with the HKSR for two years without any record of detention during that period will be entitled to a six-month fee reduction. This arrangement will not only attract more ships to register in Hong Kong and enhance the quality of HKSR, it will also encourage shipowners to further improve the safety and quality of their ships.

51. In choosing a shipping register, apart from the flag’s international reputation and service quality, tax concession is also a major consideration of shipowners. Singapore is ahead of Hong Kong in offering tax concession. Hence, to boost the competitiveness of its maritime industry, Hong Kong has been actively negotiating with its trading partners over the avoidance of double taxation arrangements for shipping income. So far, Hong Kong

has made double taxation relief arrangements for shipping income with 13 tax administrations, namely Belgium, Germany, the Netherlands, Norway, Singapore, the UK, the USA, Sri Lanka, Denmark, New Zealand, the Republic of Korea, Thailand and the Mainland China.

Recommendations

52. The 11th Five-Year Plan expressly supports Hong Kong in our development of the logistics industry and as a maritime centre. With the firm support from the Central Government and the robust economic development in Mainland China, the industry is making continuous improvement on the basis of existing foundation and strengths of Hong Kong. Members are invited to comment on the following proposals and to offer other worthy recommendations.

Coordinated Development

53. The layout of the national comprehensive transportation system has made clear that under the premise of maintaining Hong Kong's status as an international maritime centre, initiatives should be taken to realize fully the strengths of the container transport system rendered by HKP and other coastal ports in the PRD region. The idea is to have Shenzhen, Guangzhou and Xiamen as main ports, Fuzhou, Quanzhou, Shantou, Humen, Zhuhai, Zhanjiang, Fangchenggang, and Haikougang as second-tier ports and others as feeder ports. Shenzhen, as a main container port in South China, and Hong Kong will complement each other to achieve mutual development. Under the above premise, Hong Kong and Guangdong should map out a clear division of role in port development. The positioning and scale of development for different ports should be considered in the context of the overall development of the region. Linkages between the sea and land transport systems should be further enhanced to raise the efficiency of freight transport between the ports and the sources/destinations of cargoes. This can also avoid wastage of resources and unhealthy competition that hurts the national interest. Furthermore, it is recommended that Hong Kong should strengthen communication and coordination with different regions and cities in the Mainland on the preliminary planning and study of transportation infrastructure. It is necessary for Hong Kong to have more frequent, in-depth and comprehensive exchanges and cooperation with the Mainland to boost regional development through improvement on transportation facilities, so as to contribute to the development of the country.

Sharpening Competitive Edges

54. Under the “one country, two systems” principle, the HKSARG shall continue to adopt economic, social and political systems distinct from those in the Mainland after the reunification in July 1997. The Basic Law, as the constitutional law of the HKSARG, firmly protects this principle. The HKSARG shall continue to uphold the rule of law, maintain an effective executive-led Government, keep a clean and efficient civil service, promote free enterprise and free trade, maintain a stable public finance system and a sound financial system, practise prudent public finance, and adopt a simple and predictable tax system with low tax rates.

55. These systems are the cornerstones of stability and prosperity of Hong Kong, which create a favourable business environment that inspires confidence in foreign investor. They also ensure the well-being of Hong Kong people. Thus the Government should continue to make every effort to sustain such advantages and further enhance these systems. In particular, maritime, logistics, tourism, financial, and professional and producer services are the high value-added sectors which exhibit the best competitive edge in the Hong Kong economy. The Government should strive to reinforce Hong Kong's competitiveness as international financial and maritime centres and logistics hub through streamlining the procedures to attract more international corporations and business operators to expand their markets and to provide services in Hong Kong.

Avoidance of Double Taxation Agreements

56. As air transport and shipping are international business activities, incomes derived from such operations are more likely to be subject to double taxation. The Government will continue to negotiate agreements with its major trading partners for the avoidance of double taxation on shipping and air transport incomes, with a view to easing the overseas tax burden of local shipowners and airline operators and boosting their international competitiveness, as well as strengthening Hong Kong's position as international maritime and air transport centres. Currently, the Government is negotiating such agreements with India, Israel and the Philippines. Double taxation relief provisions have also been incorporated into some of the bilateral air services agreements. In response to the request of the industry, the Government has also taken the initiative to contact other trading partners including Indonesia, Malaysia

and Poland, inviting them to negotiate such agreements.

Promotional Activities

57. Being an international maritime centre, Hong Kong has a world-class maritime cluster which readily provides support and ancillary services for Mainland China's fast-developing shipbuilding and maritime industries. Due to the rapid rise of its shipbuilding industry, the Mainland's shipbuilding tonnage has ranked third in the world for 11 successive years. To further promote the quality services of Hong Kong's maritime industry to Mainland shipowners, MIC has organized a series of promotional activities and seminars in Hong Kong, Xiamen and Shanghai. In the coming year, the Government will join the MIC, the Hong Kong Trade Development Council and the China Classification Society to visit major port cities in the Mainland to promote the related services, and attract Mainland shipowners to register their ships in Hong Kong, make use of the services provided by our maritime cluster, and set up branch offices here. The visits will also provide an effective platform for the industry to explore business opportunities and form business ventures.

Shipping Register

58. The Marine Department reviews the shipping register service from time to time, with a view to further enhancing the HKSR. The purposes are to raise the service quality, expand the service scope, and meet the demands of shipowners and other clients. Moreover, to strengthen Hong Kong's position as an international maritime centre, the Government will host maritime seminars in collaboration with international organizations, such as the Baltic and International Maritime Council, to equip local and Mainland maritime professionals with knowledge of international maritime requirements and the latest developments.

Maritime Training

59. To reinforce Hong Kong's position as a maritime centre, it is extremely important to attract international maritime service providers to establish their regional headquarters in Hong Kong. Apart from capitalizing on the strengths of our systems, the Government is also keen on training local talents and upgrading the knowledge and technical skills of our professionals, such that the manpower resources can meet the market demand. In this connection, the Government will set up a maritime

studies scholarship shortly to train local talents, as well as to attract Mainland talents to study post-graduate maritime courses in Hong Kong and stay behind to work. The initiative will not only raise the standard of home-grown maritime professionals, but will also provide quality human resources to multinational corporations to set up offices in Hong Kong. Taking a broader perspective, the initiatives can strengthen Hong Kong's position as a maritime centre, which will provide further impetus to our thriving economy and hence more job opportunities for the local workforce.

Air Services

60. The HKSARG will continue to work towards further expansion of air services arrangements between Hong Kong and the Mainland, to allow more airlines from both sides to enter the market and provide them with increased business opportunities, with a view to strengthening Hong Kong's connections with provinces and cities in the Mainland and hence Hong Kong's position as a major gateway of air freight transport to the Mainland. In parallel, our international connectivity will be strengthened to enhance the role of the HKIA as a major aviation hub in the region.

61. In addition, the Civil Aviation Department continues to regularly review the air traffic management control system, and strengthen coordination among the civil aviation authorities of Hong Kong, the Mainland and Macau, with a view to facilitating the opening up of more civil airspace to support the long-term development of the local civil aviation industry.

Efficiency of Cross-boundary Trucking Operation

62. The validity period of the licences for operating cross-boundary trucking business has been extended from three to six years, which helps reduce the administrative cost in licence renewal. In response to the industry's request for the Mainland to consider lowering the licence fee paid by Hong Kong/Guangdong joint-venture cross-boundary trucking companies, the HKSARG will continue to liaise with the relevant authorities.

Enhancement of the Overall Infrastructure Planning

63. Looking ahead, to ensure that the industry can keep abreast of the

international logistics development trends and to further enhance the competitiveness of Hong Kong's logistics industry, the Government will make available more back-up land for the logistics industry. This will provide them with a suitable operating environment and facilitate the integration of various logistics services.

64. The Government is planning to introduce a pilot scheme to dispose of sites which are suitable for logistics use on a long-term basis through public tender. Meanwhile, the Government will review statutory land use plans from time to time to assist the development of logistics centres and related facilities.

Development of E-logistics

65. The Government will work together with the industry to further develop e-logistics and promote information connectivity, including monitoring the implementation of DTTN services and carrying out the pilot project of OBTIS.

66. To cultivate manpower resources for meeting the needs of modern logistics development, the Government will continue to collaborate with training institutions in the provision of training programmes. The training aims to equip employees in the logistics sector with the necessary skills and techniques in e-logistics applications, especially for those working in the small and medium-sized enterprises.

Advice Sought

- (i) Is this paper comprehensive and thorough in its analysis of the international competitiveness of our logistics, port, and maritime industries? Is supplement necessary?
- (ii) Is this paper comprehensive and thorough in its analysis of the opportunities and challenges brought by the 11th Five-Year Plan to our logistics, port and maritime industries? Is supplement necessary?
- (iii) Is this paper comprehensive and thorough in its analysis of the opportunities and challenges of our logistics, port and maritime industries in the context of Guangdong's 11th Five-Year Plan and regional development? Is supplement necessary?

- (iv) Are the response actions of the government and public sector to consolidate and develop our logistics, port and maritime industries relevant? Which strategic directions require adjustment?
- (v) Are the recommended topics for further studies and exploration aiming to consolidate and develop our logistics, port and maritime industries appropriate?

Economic Development Branch
Economic Development and Labour Bureau
September 2006

Value Added of the Four Key Industries

Four Key Industries	Value Added at current prices in 2004 (HK\$Mn)
1. Financial services	152,900 (12.2%)
a. Banking	100,500
b. Insurance and other financial services	52,400
2. Tourism (inbound & outbound)	36,900 (2.9%)
a. Inbound tourism	27,400
b. Outbound tourism	9,600
3. Trading and logistics	346,900 (27.7%)
a. Trading	279,700
b. Logistics	67,200
4. Professional services and other producer services	132,400 (10.6%)
a. Professional services	46,800
b. Other producer services*	85,700
Four Key Industries = 1+2+3+4	669,100 (53.3%)
GDP at factor cost #	1,254,500

Notes: Figures in brackets are the percentage contributions of the respective industries to GDP.

* Other producer services refer to producer services other than financial services, trading and logistics, tourism and professional services.

To facilitate comparison of the contribution of the four key industries to GDP, GDP at factor cost is used. This is slightly different from the GDP figures commonly used, which is compiled on market price basis.

Source: Census and Statistics Department

Annex 2

Value Added and Employment in Logistics

	1999	2000	2001	2002	2003	2004	AAGR*
Logistics							
Value added (HK\$billion)	50.5	56.0	53.4	54.8	58.5	67.2	+5.9%
Employment ('000 persons)	187.0	195.8	195.6	186.8	188.9	198.4	+1.2%
VA per person (HK\$'000)	270.1	286.0	273.0	293.4	309.7	338.7	+4.6%
- Land freight transport							
Value added (HK\$billion)	6.1	6.5	5.8	5.6	5.7	6.3	+0.6%
Employment ('000 persons)	66.2	70.0	67.9	60.4	62.5	67.1	+0.3%
VA per person (HK\$'000)	92.1	92.9	85.4	92.7	91.2	93.9	+0.4%
- Water freight transport							
Value added (HK\$billion)	22.8	25.4	25.0	24.9	28.1	31.0	+6.3%
Employment ('000 persons)	73.9	74.5	77.6	75.2	75.9	79.2	+1.4%
VA per person (HK\$'000)	308.5	340.9	322.2	331.1	370.2	391.4	+4.9%
- Air freight transport							
Value added (HK\$billion)	14.5	16.9	16.4	18.2	18.4	22.7	+9.4%
Employment ('000 persons)	22.9	26.0	25.1	26.2	25.9	26.1	+2.7%
VA per person (HK\$'000)	633.2	650.0	653.4	694.7	710.4	869.7	+6.6%
- Ancillary services (e.g. cargo inspection)							
Value added (HK\$billion)	0.3	0.4	0.3	0.4	0.5	0.6	+14.9%
Employment ('000 persons)	1.8	1.4	1.2	0.9	1.0	1.0	-11.1%
VA per person (HK\$'000)	166.7	285.7	250.0	444.4	500.0	600.0	+29.2%
- Storage							
Value added (HK\$billion)	1.2	1.3	1.1	1.0	1.0	1.1	-1.7%
Employment ('000 persons)	4.7	5.0	5.3	5.1	5.1	5.2	+2.0%
VA per person (HK\$'000)	255.3	260.0	207.5	196.1	196.1	211.5	-3.7%
- Postal and courier services							
Value added (HK\$billion)	5.5	5.4	4.8	4.7	4.7	5.4	-0.4%
Employment ('000 persons)	17.5	18.9	18.5	18.9	18.5	19.8	+2.5%
VA per person (HK\$'000)	314.3	285.7	259.5	248.7	254.1	272.7	-2.8%
Percentage share to GDP	4.2	4.5	4.3	4.4	4.9	5.4	--
Percentage share to total employment	6.0	6.1	6.0	5.8	5.9	6.0	--

Note: * AAGR : Average annual growth rates in 1999-2004

Source: Census and Statistics Department

Annex 3

Value Added to Persons Engaged in Logistics

HK\$ '000

Logistics sub-sector	1999	2000	2001	2002	2003	2004	AAGR*
Shipowners or operators of sea-going vessels	661	907	663	488	1,456	2,605	+31.6%
Shipbrokers	498	625	617	657	807	1,128	+17.8%
Ancillary services to air transport	718	801	814	884	836	993	+6.7%
Airlines companies**	861	890	743	990	825	949	+2.0%
Ancillary services to water transport	649	665	624	613	608	672	+0.7%
Cargo inspection, sampling and weighing services	350	372	342	473	605	642	+12.9%
Inland water freight transport	376	336	416	453	429	511	+6.3%
Sea cargo forwarding services	380	430	394	420	458	447	+3.3%
Ship agents and managers	329	374	336	337	373	426	+5.3%
Air cargo forwarding services	356	411	417	407	385	415	+3.1%
Packing and crating services	166	180	192	213	188	261	+9.4%
Storage	257	261	229	212	244	253	-0.3%
Miscellaneous communications services (e.g. courier services)	250	280	232	230	242	250	0.0%
Land freight transport	200	199	179	186	175	196	-0.4%

Notes: * AAGR: Average annual growth rates in 1999-2004

** Include passenger transport

Sources: Annual economic surveys on various sectors conducted by Census and Statistics Department

Ratio of Value Added to Business Receipts in Logistics

Logistics sub-sector	1999	2000	2001	2002	2003	2004	AAGR*
Logistics	0.31	0.30	0.29	0.28	0.27	0.25	-3.9%
- Land freight transport	0.46	0.49	0.48	0.48	0.47	0.46	-0.0%
- Water freight transport	0.30	0.28	0.28	0.26	0.27	0.24	-4.6%
Shipbrokers	0.52	0.54	0.45	0.63	0.58	0.73	+7.1%
Ship agents and managers	0.67	0.68	0.64	0.62	0.67	0.69	+0.7%
Inland water freight transport	0.38	0.30	0.44	0.42	0.46	0.51	+6.0%
Shipowners or operators of sea-going vessels	0.08	0.09	0.07	0.05	0.13	0.13	+9.6%
Sea cargo forwarding services	0.16	0.16	0.16	0.17	0.15	0.12	-5.5%
Ancillary services to water transport including container terminals, stevedoring, haulage of containers	0.56	0.54	0.57	0.56	0.55	0.55	-0.2%
- Air freight transport	0.28	0.27	0.27	0.28	0.25	0.24	-2.8%
Airlines companies**	0.37	0.33	0.33	0.36	0.30	0.30	-4.4%
Air cargo forwarding services	0.10	0.10	0.11	0.10	0.11	0.10	-0.3%
Ancillary services to air transport including airport and air cargo terminals	0.63	0.68	0.69	0.70	0.68	0.73	+3.2%
- Ancillary services (e.g. cargo inspection)	0.54	0.55	0.46	0.58	0.61	0.63	+3.2%
Cargo inspection, sampling and weighing services	0.56	0.56	0.45	0.59	0.67	0.69	+4.1%
Packing and crating services	0.40	0.48	0.61	0.54	0.39	0.45	+2.7%
- Storage	0.31	0.31	0.32	0.36	0.41	0.38	+4.5%
- Postal and courier services	0.49	0.42	0.37	0.28	0.25	0.26	-11.7%
Miscellaneous communications services (e.g. courier services)							

Notes: * AAGR: Average annual growth rates in 1999-2004

** Include passenger transport

Sources: Annual economic surveys on various sectors conducted by Census and Statistics Department

**Number of Establishments and Number of Persons Engaged
in Logistics in 2004**

Logistics sub-sector	Number of establishments	Number of persons engaged
Shipowners or operators of sea-going vessels	76	2 121
Shipbrokers	33	187
Ancillary services to air transport	24	9 519
Airlines companies*	67	19 769
Ancillary services to water transport	3 578	19 612
Cargo inspection, sampling and weighing services	32	513
Inland water freight transport	471	3 076
Sea cargo forwarding services	2 012	15 087
Ship agents and managers	245	7 135
Air cargo forwarding services	701	15 407
Packing and crating services	24	309
Storage	275	4 189
Miscellaneous communications services (e.g. courier services)	606	12 819
Land freight transport	9 078	31 172

Notes: The sum of the number of persons engaged **does not** equal the employment of the whole logistics sector. It is because the employment of whole logistics sector is based on a number of survey estimates, which can better reflect a comprehensive and accurate picture.

* Include passenger transport

Sources: Annual economic surveys on various sectors conducted by Census and Statistics Department

Hong Kong Air Cargo Throughput

'000 Tonnes

Air Cargo throughput	
1996	1 563
1997	1 786
1998	1 629
1999	1 974
2000	2 241
2001	2 074
2002	2 479
2003	2 642
2004	3 090
2005	3 402
Average annual growth rates in 1996-2005	9.0%

World Top 10 Container Ports

	'000 TEUs ⁽¹⁾	
	2004	2005
Singapore	21 329 (+15.9%)	23 192 (+8.7%)
Hong Kong	21 984 (+7.5%)	22 602 (+2.8%)
Shanghai	14 554 (+29.0%)	18 084 (+24.3%)
Shenzhen	13 659 (+28.2%)	16 197 (+18.6%)
Busan	11 492 (+10.4%)	12 521 (+9.0%)
Kaohsiung	9 714 (+9.8%)	9 471 (-2.5%)
Rotterdam	8 292 (+15.9%)	9 287 (+12.1%)
Hamburg	7 003 (+14.1%)	8 088 (+15.5%)
Dubai	6 429 (+24.8%)	7 596 (+18.5%)
Los Angeles	7 321 (+2.0%)	7 485 (+2.2%)

Notes: () Year-on-year rate of change.

⁽¹⁾ TEU refers to Twenty-Foot Equivalent Unit.

South China Container Cargo Base Analysis

	2001	2002	2003	2004	2005
					million TEUs
South China Container Cargo Base (including Hong Kong)	13.81 (+1.4%)	16.07 (+16.3%)	19.13 (+19.0%)	21.44 (+12.1%)	23.72 (+10.7%)
- handled by Hong Kong port	10.51 (-4.4%)	11.07 (+5.4%)	11.37 (+2.6%)	11.86 (+4.3%)	11.32 (-4.6%)
- handled by South China ports	3.31 (+25.5%)	4.99 (+51.1%)	7.76 (+55.4%)	9.58 (+23.4%)	12.40 (+29.5%)
% share of South China Container Cargo Base					
Hong Kong port's share	76.1%	68.9%	59.4%	55.3%	47.7%
South China ports' share	23.9%	31.1%	40.6%	44.7%	52.3%

Notes: () Year-on-year rate of change.

World Top 10 Shipping Registers⁽¹⁾ as at 1 Jan 2006

	'000 Gross tonnage	Number of vessels
Panama	139 458	5 790
Liberia	58 017	1 545
Bahamas	36 460	1 204
Greece	30 788	1 269
Hong Kong	29 825	1 070
Singapore	29 153	1 185
Marshall Islands	28 581	722
Malta	22 724	1 172
China	21 046	2 515
Cyprus	18 791	895

Notes: ⁽¹⁾ Based on statistics released by Danish Shipowners' Association, which includes only merchant ships of 100 GT and above, where the figures for HK are slightly different from those recorded in the HK Shipping Register.

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Transport Infrastructure Development**

Executive Summary

(Translation)

This paper is to provide a preliminary analysis of the Eleventh Five-Year Plan (11th FYP) and its opportunities and challenges posed to the development of Hong Kong from the government/public sector perspective. It is intended to initiate discussions among various sectors of the community with a view to formulating a practical and achievable “action agenda” in the coming months.

Purpose

2. The trend of globalization has led to intensified economic activities among countries. People and cargo flows have thus been increasing, thereby generating more demand for provision of transport infrastructure. The development of a well-planned transportation network will play an important role in enhancing a city’s competitiveness. This paper aims to explore how Hong Kong can strengthen co-ordination with the Mainland on transport infrastructure planning and construction in response to the National 11th FYP’s proposal to improve transport infrastructure. The development of cross-boundary transport infrastructure will on one hand reinforce Hong Kong’s position as an

international centre of finance, trade and shipping, and at the same time strengthen its functions in boosting and bridging Mainland's development with the international market.

Opportunities and Challenges

Opportunities

3. The National 11th FYP proposes to promote balanced development among regions. Similarly, the Guangdong (GD) 11th FYP also emphasizes the need to enhance co-operation among GD, Hong Kong and Macao. Both plans provide strategic basis and directions for co-operation between GD and Hong Kong on cross-boundary transport infrastructure.

4. To reinforce the position as an international centre of finance, trade and shipping, Hong Kong should strengthen co-operation with the neighbouring cities on cross-boundary transport infrastructure development. Following the improvement of transportation networks in the Mainland with focus on developing hub functions, Hong Kong should build convenient and direct links to these neighbouring hubs, thereby shortening the spatial distance with the Mainland. This will expand the economic hinterland of Hong Kong's ports and airport and provide fresh impetus to the development of finance, trade, logistics, tourism, information technology, professional and industrial/commercial supporting services, etc. At the same time, this will promote and support the development of related industries in the Mainland.

Challenges

5. The development and expansion of transport infrastructures in the neighbouring cities has put pressure on the already keen competition faced by Hong Kong's ports and airport. To enhance competitiveness, Hong Kong should examine vigorously and implement various feasible proposals to strengthen transport links with the Mainland.

6. Hong Kong and the Mainland have adopted different approaches to the development of transport infrastructures and each has its own merits and demerits. The Mainland adopts the concept of "developing infrastructure moderately ahead of the actual requirement". The National Development and Reform Commission is responsible for the overall

planning and approval of major and regional transport infrastructures. Infrastructure developments are considered as important strategies to support economic development and their implementation is ensured by administrative measures. Hong Kong generally adheres to the market mechanism in developing cross-boundary transport infrastructures and the decision to trigger off a project relies very much on the imminently foreseeable demand. At present, cross-boundary transport infrastructure projects in Hong Kong will take a longer lead time from planning to implementation than that in the Mainland. In order to provide timely responses to meet the needs of regional development, Hong Kong should further improve its existing mechanism of planning and implementation of infrastructure projects and strengthen co-operation with the Mainland. Besides, Hong Kong should also improve communication with neighbouring cities on the detailed planning aspects of major transport infrastructure projects.

Suggested Major Areas for Discussion

7. In the light of the challenges and opportunities brought about by the National 11th FYP, the SAR Government should hold discussions with various stakeholders, in particular the transportation sector and those with business dealings in the Mainland, on the vision of cross-boundary transport infrastructure developments and their mode of operation. Members are invited to provide comments on the following suggestions and recommend other topics for investigation:

(I) How to employ new thinking to promote co-ordinated regional development

8. Both the National and GD 11th FYPs propose to promote co-ordinated development among regions and establish a regional co-ordination mechanism, breaking the confines of administrative demarcation. There will be competition as well as co-operation between Hong Kong and GD, in particular among those cities in the Pearl River Delta (PRD) Region. As such, we may consider the following :

- is it necessary to make adjustment to the “demand-led” approach to the development of cross-boundary transport infrastructures?
- how to adopt more effectively a forward-looking perspective on regional development in formulating transport infrastructure

development strategy?

- does the Government need to consider establishing a high-level cross-bureaux/departments co-ordination mechanism for formulating a comprehensive cross-boundary infrastructure development strategy, and to co-ordinate various cross-boundary transport infrastructure projects? and
- apart from continuously improving the high-level co-ordination mechanism with GD, consideration may be given to stepping up communication and information exchange with the Mainland authorities responsible for transport infrastructures such as the Ministry of Communications, the Ministry of Railways and the Development and Reform Commissions at various levels. Better comprehension of the FYPs and keeping abreast of initial studies of major transport infrastructures in neighbouring cities through improved communication would help Hong Kong get good hold of the latest information and make timely responses.

(II) How to optimize cross-boundary transportation networks to enhance Hong Kong's competitiveness

9. According to the National and GD 11th FYPs, the Mainland will invest heavily in the development of transport infrastructures. Hong Kong may give consideration to various aspects, including :

- examining how to strengthen links with comprehensive transportation nodes in the Mainland, whether it is necessary to review the functions and positioning of various cross-boundary transport infrastructures, and how to strengthen connections among different transportation systems;
- examining how to connect the eastern part of GD by highways more effectively. In pursuit of sustainable development, how could Hong Kong strengthen its links with the Mainland by means of high-capacity transportation modes in the long run?
- examining how to achieve seamless connections with the Mainland's railway network under the principle of providing smooth, rapid and comfort services, and in the long term, whether Hong Kong should provide more point-to-point through train services to major cities

along railway lines?

- examining how to promote the development of ports and airport by optimizing the transport networks; strengthen land and waterborne links with neighbouring cities and cargo distributing centres to facilitate unimpeded passenger and cargo flows; and continuously extend the aviation network;
- considering how to acquaint further with the concept, development and implementation programme of port-rail with multi-modal operations in the Mainland, and examining how Hong Kong can handle cargoes originated from the Mainland in a more effective way. With the improvement of the waterway networks in Xijiang, it is worth exploring how to attract a bigger share of PRD river cargoes; and
- examining how to enhance the use of resources and functions of boundary control points in the light of the commissioning of the Hong Kong-Shenzhen Western Corridor Control Point and the Lo Ma Chau Rail Crossing Point.

Housing, Planning and Lands Bureau
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**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Transport Infrastructure Development**

(Translation)

Preamble

This paper is to provide a preliminary analysis of the Eleventh Five-Year Plan (11th FYP) and its opportunities and challenges posed to the development of Hong Kong from the government/public sector perspective. It is intended to initiate discussions among various sectors of the community with a view to formulating a practical and achievable “action agenda” in the coming months.

Purpose

2. The trend of globalization has led to intensified economic activities among countries. People and cargo flows have thus been increasing, thereby generating more demand for provision of transport infrastructure. The development of a well-planned transportation network will play an important role in enhancing a city’s competitiveness. The National 11th FYP proposes to actively enhance and improve transport infrastructures so as to cater for the rapid economic development. This paper aims to examine how Hong Kong could step up its co-ordination with the Mainland in the planning and construction of transport infrastructures with a view to establishing a comprehensive transportation system. This would help Hong Kong to continuously play a leading role among cities in the Pearl River Delta (PRD) Region, perform its functions

in boosting and bridging Mainland's development with the international market, and reinforce its position as an international centre of finance, trade and shipping.

Background

3. The National 11th FYP recognizes Hong Kong's position as an international centre of finance, trade and shipping. It also supports the development of services industries in Hong Kong, including financial services, logistics, tourism and information technology. To dovetail with the National 11th FYP and further capitalizing on Hong Kong's bridging role between the Mainland and other parts of the world in trade and investment, it is important to develop a well-planned cross-boundary transportation network.

The New Situation of the Mainland's Transport Infrastructure Development under the 11th FYP

4. Instead of detailing the transport infrastructure proposals in an individual chapter, the National 11th FYP incorporates these into the chapters of "Promoting Balanced Development Among Regions" and "Accelerating the Development of Services Industry" (**Annex 1**). On the premise of maintaining steady and fairly rapid economic development and improving the market economy mechanism, the main function of transport infrastructures is to support and drive economic development. The key points are summarized as follows:

(1) Promoting Balanced Development Among Regions

- Promote healthy urban development to form a reasonable spatial pattern. In addition to strengthening their co-coordinated functions and complementary strengths, the cities in the PRD, Yangtze River Delta and Beijing-Tianjin-Hebei Region should continue to play their leading roles in boosting the development of the surrounding regions. The Plan proposes to improve market mechanism, overcome constraints of administrative demarcation, facilitate the free flow of major production factors among different regions and guide the relocation of industries. Regarding infrastructures, it proposes to construct trans-regional railways and strengthen inter-provincial highway corridors, etc.

- The Guangdong (GD) 11th FYP also puts forward the idea of enhancing co-operation among GD, Hong Kong and Macao. To develop individual strengths, GD, Hong Kong and Macao should step up all-round co-operation and expedite the building of cross-boundary infrastructures under the “forward-looking, holistic, pragmatic and mutually beneficial” principle. Moreover, it proposes to speed up the construction of outbound expressways linking up with surrounding provinces/regions and the Pan-PRD Region, and particularly puts emphasis on outbound railways development.

(2) Accelerating the Development of Services Industry

- Develop producer’s services industry with the support of a progressive transportation sector and vigorously developed modern logistics industry.
- Through co-ordinated planning and rationalized layout of transport infrastructure, the Plan proposes to provide convenient, efficient and safe interchange among different transport modes.
- In respect of highways, the Plan proposes to keep improving the national and provincial network, open up inter-provincial corridors and improve their overall efficiency (Plans 1 and 2). In respect of railways, it suggests expediting development with priority given to the construction of passenger rail lines¹ and inter-city rapid transit systems (Plans 3 and 4).
- The Plan also proposes to improve the disposition of coastal and riverside ports, increase the throughput of ports and construct high-level navigation course networks. The GD 11th FYP proposes to designate the Shenzhen Port and Guangzhou Port as the Main Ports with priority given to the construction of

¹ To accommodate the rapidly increasing passenger traffic demand, the Ministry of Railways proposed to build rapid passenger lines between major cities, including the “Four Verticals, Four Horizontals” rapid passenger lines and three inter-cities rapid passenger transit systems in the “The Medium & Long Term Railways Network Plan” published in 2004. The targeted train speed of the passenger lines is 200 km per hour or above.

the “Xijiang Main Inland River Waterways” and “Three Verticals, Three Horizontals System” (Plan 5) in PRD.

- Optimizing the disposition of civil airports, the Plan suggests expanding large-scale airports and improving the flight path network. The GD 11th FYP proposes to designate the new Guangzhou Baiyun International Airport as the hub, and expand the Shenzhen Airport.
- Promote river-sea inter-modal transportation and container multi-modal transportation as well as intensify the construction of freight container transportation system. The GD 11th FYP recommends speeding up the construction of the “Three Big Systems”, i.e. container, energy and civil aviation transportation systems. For the container transportation system, its focus is on the integration between railways and roads.

5. During the 9th FYP (1996-2000) and the 10th FYP (2001-2005), the Mainland embarked on vigorous development of transport infrastructures with significant increase in highways, railways and berthing spaces of ports. At the same time, the Mainland economy had developed by leaps and bounds (**Annexes 2 & 3**), confirming the close relationship between economic development and transport infrastructure development.

Hong Kong’s Links with the Mainland

6. At present, there are three road-crossing points between Hong Kong and the Mainland at Lok Ma Chau, Man Kam To and Sha Tau Kok, leading to major cities in the Mainland through Shenzhen’s highway network. Apart from increasing the handling capacity of control points, the nearly completed Hong Kong-Shenzhen Western Corridor will provide a more direct link to Guangzhou and other cities via the Guang-Shen Coastal Expressway currently under construction. In respect of railways, Hong Kong is at present linked up with Shenzhen’s rail lines through the KCR East Rail. Upon completion of the Sheung Shui to Lok Ma Chau Spur Line in 2007, Hong Kong’s rail network can interchange more conveniently with Shenzhen’s mass transit railway system. On river transport, Mainland’s river cargoes processed by Hong Kong has experienced a significant increase in recent years². The development of

² According to the information of the Census and Statistics Department of Hong Kong,

Hong Kong's ports and airport is closely associated with the Mainland's economic development. The continuous rapid growth of South Mainland's economy, particularly that of PRD, has provided invaluable opportunities for further development of Hong Kong's ports and airport.

7. From 1997 to 2005, the annual average growth rate of cross-boundary passenger flow between Hong Kong and the Mainland was 9.5% and that of vehicle flow was 5.6%³ (**Annex 4**). The trip ends of most cross-boundary passenger traffic flow (95%)⁴ and vehicle traffic flow (99%)⁵ were PRD cities. With the improvement and expansion of regional transport infrastructures during the 11th FYP period, the ties between the two places in terms of people, vehicle and cargo flows are expected to keep getting stronger and the destinations for cross-boundary trips will also change along with socio-economic development.

Opportunities and Challenges

Opportunities

(I) Creating Conditions for Co-ordinated Regional Development

8. The relationship between the Mainland and Hong Kong was mentioned in the National 9th and 10th FYPs. The 11th FYP offers even more explicit support to Hong Kong in developing its logistics industry and maintaining its status as shipping centre. Besides, the Plan proposes to boost balanced development among regions and enhance the co-ordinated functions and complementary strengths of cities in the PRD Region. The target of transport infrastructures is "Co-ordinated Planning, Rationalized Disposition", providing a strategic basis and directions for regional transport infrastructure co-operation. Under this framework, the GD 11th FYP stresses the need to raise the level of co-operation among GD, Hong Kong and Macao and expedite the construction of cross-boundary infrastructures, thus creating a favourable environment for further co-operation.

the annual average growth rate during 1997-2001 was 7.6% and that from 2001-2005 was 9.7%.

³ Figures provided by the Transport Department.

⁴ Cross-boundary Travel Survey 2003, Planning Department, 2003

⁵ Cross-boundary Travel Survey 2004 Supplementary Survey, Planning Department, 2004

9. To further strengthen co-operation between GD and Hong Kong, both sides should address the needs of its socio-economic development and make the most of its own comparative advantages to complement each other. Therefore, Hong Kong should seize the opportunities brought about by the 11th FYP and step up co-operation with neighbouring cities in developing cross-boundary transport infrastructures under the principle of achieving mutual benefits. This will help extend Hong Kong's economic hinterland as well as consolidate its leading role in sectors such as finance, trade, logistics, tourism, information technology, professional and industrial/commercial supporting services, etc.

(II) Solidifying Hong Kong's Hub Status by Connecting with the Mainland's Transportation Network

10. In recent years, the optimization of GD's transportation system, especially the progressive development of the waterborne transport and railway transport, has provided a high-capacity and low-cost transportation system to support its economic development. The GD 11th FYP intensifies the planning and construction of its transportation network, which will greatly enhance the accessibility and capacity of the Province's transportation system. Regarding the inter-provincial ties, GD focuses on strengthening its links with the adjoining provinces/regions, particularly the Pan-PRD Region. At present, GD has planned 12 outbound expressways⁶ and 12 outbound railways⁷.

11. The Mainland has placed much emphasis on the function of transportation hubs (also known as nodes) in planning the disposition of transportation network in order to achieve synergic efficiency. Integrating multi-modal transportation with the concept of seamless interchange for passenger and cargo movements, cities with major ports, railways and airports could be developed as important regional passenger and cargo distributing centres. According to the "Planning Principles on Road and Waterborne Transport Infrastructures under the Pan-PRD Regional Co-operation" published by the Ministry of Communications, Guangzhou and Shenzhen have been designated as the major comprehensive transportation nodes of the Pan-PRD Region while Dongguan, Foshen, Zhongshan and Zhuhai as regional highway transportation hub cities

⁶ Expressway Network Plan of Guangdong Province (2004-2030), Guangdong Provincial Transportation Department, 2004

⁷ Planning Proposal for Railway Construction in Guangdong Province, Guangdong Development and Reform Commission, 2004

(Annex 5).

12. Following the improvement of the Mainland's transportation network, Hong Kong should improve its boundary crossings and handling capacities, and establish efficient and convenient direct links with neighbouring comprehensive transportation hubs. This would facilitate rapid cross-regional movement of major economic factors, shorten the spatial distance with the Mainland and develop closer links with provinces and cities throughout the nation. At present, Hong Kong's "half-day transport ring"⁸ by highway can basically cover the PRD Region. Upon completion of GD's proposed internal and outbound expressways, the ring is expected to expand and cover all major cities in the GD Province. Our "one-day transport ring" can even extend to cover major cities adjacent to GD. As for railways, upon completion of the Hang-Fu-Shen, Wu-Guang Passenger Rail Lines and Guangzhou-Shenzhen-Hong Kong Express Rail Link, it is possible to extend the "half-day transport ring" to cover major cities along the rail lines such as Hangzhou and Wuhan. This will strengthen our links with Mainland cities having major economic co-operation with Hong Kong. Besides, if we further improve our transportation systems in terms of comfort and accessibility and provide diversified non-stop services or convenient interchange facilities, the level of service will be greatly enhanced.

13. Improvement in the Mainland's transportation facilities can also enhance the ability of Hong Kong's ports and airport to boost development of its surrounding areas. At present, authorities in GD, Hong Kong and Macao are actively pursuing the construction of the Hong Kong-Zhuhai-Macao Bridge. Upon completion of the bridge and transport infrastructures at the west coast of the Pearl River, the socio-economic integration between the two places can be strengthened. More people and cargoes will be drawn to Hong Kong's ports and airport for access to other parts of the world. Regarding the waterborne transport, Hong Kong's ports will also be benefited from the increased cargo sources brought about by the completion of the "Xijiang Main Inland River Waterways" and the "Three Verticals, Three Horizontals System" in PRD river transportation network.

⁸ According to the "Expressway Network Plan in Guangdong Province (2004-2030)", "one-day transport ring" refers to the travel distance between two cities which would be reached in the same day.

Challenges

(I) Regional Competition Intensified Greater Challenges Posed

14. Both the National and GD 11th FYPs attach great importance to enhancing the development of ports and airports and planning basic infrastructures to cater for their transport needs. This is a vital strategy in support of further economic development. The GD 11th FYP proposes to raise the port throughput to 1.2 billion tonnes by 2010 and container throughput to 50 million TEUs. The construction of container ports and the improvement in supporting transport infrastructures in the PRD, such as freight rails, has exerted greater pressure on the competitiveness of Hong Kong's ports. In respect of airports, the completion and extension of the new Guangzhou Baiyun International Airport has also put pressure on the growth of the Hong Kong International Airport. Phase 2 extension of the new Baiyun Airport has already been included as a major project in the GD 11th FYP. Since land resource is not so much a constraint, the Baiyun Airport can increase its capacity within a short period of time.

15. For railways, the Mainland places emphasis on the construction of passenger rail lines, inter-city rapid transit systems and mass transit railway networks. In order to facilitate business and leisure travels between the two places, Hong Kong should keep on strengthening its railway connection with Mainland's railway networks and upgrading the existing level of service to tie in with the ever improving and higher speed railway services in the Mainland. Otherwise, the competitive edge of Hong Kong's overall transportation services in the region will be undermined.

(II) Hong Kong takes time to respond to Mainland's Rapid Transport Development

16. **The two places are at different stages of development:** at present, the Mainland is still at a stage of rapid development. As the existing transport infrastructures cannot completely satisfy the needs of its economic development and people's traveling demand, it is necessary to put in considerable resources to construct transportation facilities. It is worth pointing out that Hong Kong's development has already reached a mature stage. Its transport infrastructures can basically meet the requirements of socio-economic development and cross-boundary travel demand. As such, different development lead time for transport

infrastructure between the two places is understandable (**Annex 6**). While undertaking timely planning and construction of new transport infrastructures in accordance with its own needs, Hong Kong should also actively explore how new development opportunities can be seized through development of innovative concepts and improvement in institutional system.

17. **Difference in the approach of transport infrastructure development:** the Mainland adopts the concepts of “Priority Development of Transportation Sector”⁹ and “Developing Infrastructures moderately ahead of the actual requirement”¹⁰ in driving economic development and regards transport infrastructures as important initiatives to support development of producer’s services industry. Moreover, the Mainland government will ensure the implementation of major transport infrastructure projects through administrative measures such as subsidies or policy support provided by governments at various levels. Hong Kong basically adheres to the market mechanism. Any decision to trigger off an individual infrastructure project depends on whether there is imminently foreseeable demand. Besides, stringent cost-benefit analyses are also required. Although adhering to the market force can avoid uncertainty resulting from administrative intervention and waste of resources induced by duplicate developments, the inherent limitation is its inability to provide timely response to any policy changes and hence the failure to provide the necessary transport infrastructures in time. Moreover, if Hong Kong sticks to its present mechanism for triggering off development, its competitiveness in the overall regional development may be weakened.

18. **Difference in development mechanism and procedures:** the Mainland’s major and regional transport infrastructure projects are planned and approved by the Development and Reform Commissions (DRCs) of various levels. The DRCs, which co-ordinate and balance the planning of major industries and transport infrastructure facilities based on the strategy generally adopted for developing various sectors, possess stronger co-ordinating capability. As for Hong Kong, different policy bureaux/ departments/committees are responsible for different cross-boundary infrastructure development and their planning and development are usually determined on an individual project basis. Hence, there is room for improvement in the formulation of regional transportation development strategies and co-ordination of different projects. On the lead time for

⁹ Chapter 16 of the national 11th FYP.

¹⁰ Chapter 3 of the 11th FYP of the Guangdong Province.

individual projects, statutory procedures such as extensive public consultation are required in Hong Kong. Taking more than ten years from conceptualization to completion will give rise to many uncertainties to a project (**Annex 7**). Furthermore, although major projects in both sides will need to undergo environmental assessment and land resumption processes, the time required in the Mainland is usually shorter and their implementation, if being included in the five-year plans or short-term development plans, can be expedited administratively. The above demonstrates that both systems have their own merits and demerits but the time required by the Mainland in planning and construction of transport infrastructures is shorter.

19. **Need to strengthen initial planning studies with the Mainland** : the existing co-ordinating mechanism on cross-boundary transport infrastructures between GD and Hong Kong is mainly project-oriented. Under this approach, engineering and technical studies will only be carried out after consensus on the project has been reached by both sides. Co-operation with the Mainland on the comprehensive planning of cross-boundary transport infrastructures should be stepped up so that both sides can discuss and study topics of mutual concern and issues affecting regional development as early as possible. Moreover, major projects included in the Mainland's five-year plans have in general had their initial studies completed, and can proceed in full speed upon announcement of the plans. Hong Kong thus becomes unable to respond in a timely manner. Under the principle of "One Country, Two Systems", the Mainland authorities have difficulties to provide Hong Kong with unpublished information or invite Hong Kong to participate in discussions at an early planning stage. As Hong Kong cannot get good hold of the latest information on major transport infrastructure projects in the neighbouring cities and make timely responses, this may give an impression that Hong Kong is not proactive enough.

Responses/Actions from the Government and Other Sectors

20. The Hong Kong SAR Government has been liaising with the Mainland on the development of cross-boundary transport infrastructures through such channel as the Hong Kong/Guangdong Co-operation Joint Conference with a view to further facilitating the implementation of projects. At present, cross-boundary transport infrastructure projects under planning or construction (Plans 6 and 7) include:

(1) Hong Kong-Shenzhen Western Corridor

The Hong Kong-Shenzhen Western Corridor, being the fourth vehicular boundary crossing, will not only alleviate the traffic congestion at the existing boundary crossings, but will also be able to cope with the future demand. At present, works on the Hong Kong section have been completed and the works on the Shenzhen Bay Control Point are in progress. Hong Kong and GD are working towards commissioning the Corridor in 2007.

(2) Sheung Shui to Lok Ma Chau Spur Line

Sheung Shui to Lok Ma Chau Spur Line is constructed to meet the increasing cross-boundary passenger travel demand. This line will branch off from the existing East Rail just north of Sheung Shui and lead to the new Lok Ma Chau Terminal close to the boundary. The station will be connected to Futian Control Point by a footbridge, and cross-boundary passengers may interchange with Shenzhen's mass transit railway system. The crossing is scheduled for opening in the first half of 2007.

(3) The Northern Link

The Northern Link (NOL) will run between the existing West Rail at Kam Sheung Road Station and the new Lok Ma Chau Terminal now being built as part of the Spur Line project. KCRC would take forward further planning of the NOL and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link as a combined project. Upon completion, it will not only facilitate traveling between eastern and western New Territories but also provide residents of western New Territories with more convenient cross-boundary rail services.

(4) Hong Kong-Zhuhai-Macao Bridge (HZMB)

The HZMB Advance Work Co-ordination Group was established by the three governments to co-ordinate and take forward the initial work of the project. At the recent Ninth Plenary of Hong Kong/Guangdong Co-operation Joint Conference, the concerned parties have agreed to adopt the "separate location of boundary

crossing facilities (BCFs)" mode¹¹ and to commission the Highway Planning and Design Institute to commence the study on the arrangements and site selection of the BCFs as soon as possible. In parallel, the study on funding proposals of the bridge will continue. Once the proposals are confirmed feasible and approval obtained from the Central Government, development of the project will proceed. Apart from shortening the spatial distance between Hong Kong and the western PRD and widening the SAR's cargo sources, the bridge would also help boost the development of Mainland's central and western regions.

(5) Guangzhou-Shenzhen-Hong Kong Express Rail Link

The Guangzhou-Shenzhen-Hong Kong Express Rail Link (ERL), linking Hong Kong to the Shibi Station in Guangzhou via the Longhua Station in Shenzhen, will form part of the national high-speed rail network. With this new inter-city rail corridor, the journey time between Guangzhou and Hong Kong would be reduced from the current 100 minutes to within an hour. The Hong Kong section of the ERL will run from a proposed terminal at West Kowloon to the boundary at Lok Ma Chau for connection with the Mainland section of ERL. The works on the section between Shibi and Longhua have commenced in December last year. As for the Hong Kong section, approval was given in February this year to plan ERL as an integrated project with NOL. In line with the aim to speed up railway development as set out in the National 11th FYP, the ERL will strengthen Hong Kong's connection with the PRD and cities in the eastern region.

(6) Eastern Corridor (Liantang-Heung Yuen Wai Control Point)

Hong Kong and Shenzhen have set up a joint study group on the Eastern Corridor (Liantang-Heung Yuen Wai Control Point) to explore the needs, functions and benefits of the Liantang-Heung Yuen Wai Control Point with a view to completing all necessary assessment and planning studies in the shortest possible time. Hong Kong and Shenzhen will, through the joint study group, identify the most effective way to improve cross-boundary traffic in the east and provide a convenient corridor to the eastern part of GD.

¹¹ The boundary control facilities and immigration/customs inspections are to be set up within the respective boundaries of Hong Kong, Zhuhai and Macao.

21. Apart from the aforesaid projects, Hong Kong and the Mainland have also carried out initial studies on cross-boundary development and transport infrastructures, such as the “Planning Study on the Co-ordinated Development of the Greater Pearl River Delta Township” and the “Thematic Planning Study on the Comprehensive Transport System of the Pan-Pearl River Delta Region”:

(1) “Planning Study on the Co-ordinated Development of the Greater Pearl River Delta Township”

The Expert Group on Hong Kong/Guangdong Town Planning and Development¹² launched the "Planning Study on the Co-ordinated Development of the Greater Pearl River Delta Township" in early 2006. The objective of the study is to formulate a regional development strategy by taking a forward-looking perspective to consider and analyze the development direction of the Greater PRD Region, and help integrate and co-ordinate regional developments. The study is expected to complete in 2008.

(2) “Thematic Planning Study on the Comprehensive Transport System of the Pan-Pearl River Delta Region”

The governments of Hong Kong, Macao and the nine provinces in the Pan-PRD Region have jointly commissioned the Institute of Comprehensive Transportation of the National Development and Reform Commission to conduct the “Thematic Planning Study on the Comprehensive Transport System of the Pan-PRD Region”. The Pan-PRD Leaders' Conference has, in principle, endorsed the “Guiding Principles” of the Study. The GD Development and Reform Commission was requested to take the lead in addressing the technical issues of the “Guiding Principles” and to publish the document for implementation with a view to developing a comprehensive transportation network in the Pan-PRD Region expeditiously.

¹² It is one of the expert groups under the Hong Kong/GD Cooperation Joint Conference.

Suggested Major Areas for Discussion

22. As the blueprint for the nation's development in the next five years, the 11th FYP proposes various development targets in areas such as industry upgrading, services industry development and regional co-ordinated development. The Plan affirms the advantageous position of Hong Kong. Indeed, this is the first time the Plan states clearly the role and functions of Hong Kong within the context of the nation's development. In connection with the proposals put forward in the National and GD 11th FYPs, the Government should conduct extensive discussions with various stakeholders, in particular the transportation sector and those with business dealings in the Mainland, on the vision of cross-boundary transport infrastructure developments and their mode of operation. This will promote regional development and mutual benefit as well as contribute to the implementation of development targets as set out in the National 11th FYP. To facilitate discussion, this paper attempts to propose some preliminary ideas so that others may come up with valuable opinions.

23. Members are invited to provide comments on the following suggestions and recommend other topics for investigation.

(I) Facilitating Co-ordinated Regional Development by Employing New Thinking

24. The National and GD 11th FYPs will bring challenges and opportunities to Hong Kong's transport infrastructure development in the future. Competition as well as co-operation exist side by side in the relationship between Hong Kong and GD, in particular among cities in PRD. The Mainland advocates the strategy of developing transport infrastructure to drive economic development, which has intensified the competition among cities in the region. On the other hand, the National 11th FYP proposes to improve the regional co-ordination mechanism, breaking the confines of administrative demarcation, thus providing co-operation opportunities. The GD 11th FYP also proposes to actively facilitate the co-operation among GD, Hong Kong and Macao in areas of logistics and customs clearance and expedite the construction of cross-boundary infrastructures. All these create favourable conditions for further regional co-operation.

25. In view of the new opportunities brought about by the 11th FYP, is it necessary for Hong Kong to make adjustment to the "demand-led"

development mode for developing cross-boundary transport infrastructures? How to adopt more effectively a forward-looking perspective on regional development so as to implement cross-boundary transport projects which are conducive to regional development? How to expedite the development of cross-boundary transport infrastructures so that Hong Kong's competitiveness will not be affected for being not able to respond in a timely manner? Do we need to consider establishing a high-level cross-bureaux/departments co-ordination mechanism to ensure effective support by various departments? Its scope of work may include:

- Discuss the development of cross-boundary infrastructures from a macro perspective on a regular basis, step up efforts in research and invite various stakeholders to participate in discussions in order to formulate a comprehensive development strategy for cross-boundary infrastructures.
- Take on the task of co-ordination in respect of various cross-boundary transport infrastructure projects so that different government departments/stakeholders can take complementary and follow-up actions.
- Apart from improving the hardware, more thorough studies on the systems, procedures and policies relating to the cross-boundary transportation are proposed in order to explore the means of further enhancing the efficiency of people, vehicle and cargo flows through innovation in the management system and utilization of information technology.

26. During the 11th FYP, regional co-operation will be strengthened gradually. It is anticipated that more discussions and co-ordination on the planning of transport infrastructures will take place among various regions and cities in the Mainland. How could Hong Kong engage more vigorously in deeper and broader co-operation with the Mainland so as to implement feasible plans for strengthening links between both sides? Apart from continuously improving the high-level co-ordination mechanism with GD, Hong Kong may consider stepping up communication and exchange with the Mainland authorities responsible for transport infrastructures such as the Ministry of Communications, the Ministry of Railways, and the Development and Reform Commissions at various levels. Every effort should be made to keep abreast of initial studies being carried out for major transport infrastructures in the Mainland,

so that Hong Kong can grasp the latest information and make timely responses, thereby ensuring that the development of transport infrastructures on both sides is mutually complementary and making the most of the synergic effect.

(II) Enhancing Hong Kong's Competitiveness through Optimizing Cross-Boundary Transportation Network

27. The improvement in the Mainland's transportation network has presented Hong Kong with new opportunities. By promoting regional integration and improving its interchange with neighbouring comprehensive transportation nodes, Hong Kong will be able to facilitate the rapid movement of major economic factors inside and outside the region, shorten the spatial distance to various provinces and cities in the Mainland, extend its economic hinterland, provide fresh impetus into the development of such sectors as finance, trade, logistics, tourism, information, professional and industrial/commercial supporting services. This will, in turn, foster and support the development of these sectors in the Mainland. Hence, to improve the cross-boundary transport infrastructure, consideration may be given to various aspects, including:

- Strengthen links with comprehensive transportation nodes in the Mainland. Consideration may be given to reviewing the functions and positioning of various cross-boundary transport infrastructures including roads, railways and waterways by taking into account their functions and service ranges, with a view to optimizing the functions of various transport modes, improving their interchange and enhancing their complementary roles. The objective is to establish a well-integrated transportation system.
- Examine how to connect more effectively with the proposed Shenzhen Eastern Corridor to provide a better access to the eastern part of GD from Hong Kong. Due to scarce land resources, it is hard for Hong Kong to handle a huge increase in cross-boundary vehicular flows. In the long term, apart from enhancing the road network connection, how could Hong Kong, in pursuit of achieving sustainable development, strengthen its links with other mass transit transportation modes in the Mainland?

- Under the principle of providing smooth, rapid and comfort services, examine how to strengthen interchange with the rail network in the Mainland and step up exchange with the relevant Mainland cities on the planning of rail-based boundary control points and ancillary facilities so as to achieve seamless interchange between rail networks on both sides. Apart from the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, which adopts a “shared corridor option”¹³ scheme, Hong Kong will continue to consider linking with the national express rail network via a “dedicated corridor option” in accordance with strategic development needs. Moreover, to foster socio-economic development, should consideration be given to providing more point-to-point cross-boundary through train services between Hong Kong and major cities in the Mainland?
- How to promote the development of ports and airport by optimizing the transport networks; strengthen land and waterborne transport links with neighbouring cities and cargo distributing centres to facilitate unimpeded passenger and cargo flows; and continuously extend the aviation network? .
- Hong Kong should acquaint itself further with the concept, development and implementation programme of port-rail with multi-modal operation in the Mainland. This would provide a basis to decide on the follow-up studies and next steps to take to enable Hong Kong to handle cargoes originated from the Mainland in a more effective way. Furthermore, with the construction of the “Xijiang Main Inland River Waterways” and “Three Verticals, Three Horizontals System” in PRD, waterborne transport will be enhanced. It is worth exploring how to attract a bigger share of PRD waterborne cargoes more effectively.
- Consider how to further optimize resources and define

¹³ The “shared corridor option” scheme adopted in the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link refers to the sharing of rail tracks by the existing West Rail, the proposed Northern Link and the Kowloon Southern Link under construction. The “dedicated corridor option” scheme refers to laying an exclusive cross-boundary rail track.

functions in respect of boundary control points in light of the commissioning of the Hong Kong-Shenzhen Western Corridor Control Point and Lo Ma Chau Rail Crossing Point.

Advice Sought

28. Members are cordially invited to express views on the following :
- (i) Have the proposed improvements in transport infrastructure for enhancing international competitiveness of the nation and Hong Kong been comprehensively and thoroughly analyzed in this paper? Are there any points need to be supplemented?
 - (ii) Have the opportunities and challenges arising from the transport infrastructure development strategies set out in the National 11th FYP been comprehensively and thoroughly analyzed in this paper? Are there any points need to be supplemented?
 - (iii) Have the opportunities and challenges arising from the transport infrastructure development strategies set out in the GD 11th FYP been comprehensively and thoroughly analyzed in this paper? Are there any points need to be supplemented?
 - (iv) Are the proposed measures to further develop Hong Kong's transport infrastructure considered appropriate? Are there any strategic directions need to be adjusted?
 - (v) Are the topics on further developing Hong Kong's transport infrastructure proposed for further investigation and consideration considered appropriate?

Housing, Planning and Lands Bureau
September 2006

List of Annexes

- (1) The positioning of Hong Kong and development of transport infrastructures in National and Guangdong 11th Five-Year Plans
- (2) Transport infrastructures in the National and Guangdong 9th, 10th and 11th Five-Year Plans
- (3) Comparison of GDP growth between Hong Kong and the Mainland, 1995 - 2005
- (4) The growth of cross-boundary people and vehicle flows of Hong Kong, 1995 - 2005
- (5) The layout of regional highway transport networks in the “Planning Principles on Road and Waterborne Transport Infrastructures under the Pan-Pearl River Delta Regional Cooperation”
- (6) Comparison of GDP per capita between Hong Kong and the Mainland
- (7) Comparison of the main procedures for major transport infrastructure development between Hong Kong and the Mainland

The positioning of Hong Kong and development of transport infrastructures in National and Guangdong 11th Five-Year Plans

The National 11th Five-Year Plan

The National 11th FYP sets out clearly that support will be rendered to develop Hong Kong's services industries like finance, logistics, tourism and communications, to maintain Hong Kong's position as an international finance, trade and shipping centre, and to strengthen the co-operation on infrastructures among Mainland, Hong Kong and Macao. In promoting the development of cities in a region, the Plan highlights the need to enhance the co-ordination and complementary strengths of cities in the Pearl River Delta (PRD), Yangtze River Delta and Beijing-Tianjin-Hebei Region so as to increase the overall competitiveness of each region and maintain the interaction and radiation to the neighbouring areas.

In giving priority to the development of transport infrastructure, the National 11th Five-Year Plan has the following proposals:

- Through co-coordinated planning and rationalized layout of transport infrastructure, it proposes to enhance the mutual convergence between different transport means so as to achieve combined efficiency and overall strength, and construct a convenient, unobstructed, efficient and safe integrated transport system.
- Expedite railway development. Emphasis will be given to the construction of passenger lines and inter-city rapid transit system forming a primary rapid passenger transport network.
- Further improve the road. Enhance the overall efficiency of road networks through opening up inter-provincial corridors.
- Vigorous development of waterborne transport. Improve the layout of coastal and riverside ports, and increase the throughput of ports. Construct a high-grade fairway network at the PRD. Promote river-sea trans-mode transportation.
- Optimize the layout of civil airports, expand large-scale airport and improve the air route network.
- Optimize the allocation of transport resources. Strengthen the links with hubs and the convergence with passenger/cargo distributing nodes to promote integrated transportation.

Guangdong 11th Five-Year Plan

Guangdong(GD) 11th FYP proposes the “forward-looking, holistic, pragmatic, mutually beneficial” principles to fortify the implementation of the Closer Economic Partnership Arrangement (CEPA) among the Mainland, Hong Kong and Macao. Optimizing individual strengths, Guangdong, Hong Kong and Macao will enhance co-operation in an all-around perspective. The Plan fosters co-operation on such areas as logistics, tourism, finance, medium consultation, science and technology, education, culture, hygiene, information, environmental protection and clearance in control points. It also proposes to expedite the construction of cross-boundary infrastructural facilities.

Promoting Pan-Pearl River Delta Regional Cooperation, GD 11th Five-Year Plan proposes to establish a new mechanism to facilitate the formulation and implementation of the co-operation plans. With a view to actualizing cooperation proposals and overcoming constraints of administrative bulwark, Pan-PRD regional cooperation will be promoted comprehensively through phased implementation. It also proposes to improve the regional comprehensive transport networks with emphasis on the development of expressways, rail links, coastal ports, inland waterways and airport infrastructures to further enhance the capacity of the comprehensive transport network in the region. The obstacles of regional co-operation should be gradually eliminated to build up a fair and open regional market.

GD 11th FYP sets out the details of planning for the transport infrastructure within the -province. During the 11th FYP period, GD will continue to improve the transportation networks with emphasis on the development of “Three Major Networks and Three Major Systems”, in which road , railway and high-grade waterway networks as well as container, energy and civil aviation transportation systems will be provided. By 2010, the total mileage of highways in GD will reach 140,000 km; of which, about 5,000 km will be expressways. The highway density will reach about 78 km/100 sq. km. The mileage of railways in operation will be about 2,900 km while that of the underground railway will be above 300 km. The passenger handling capacity of civil aviation airports will be over 90 million. The port throughput will reach 1.2 billion tonnes, among which the throughput for containers will reach 50 million TEUs.

GD 11th FYP proposes to develop 62 major comprehensive transport items amounting a total investment of about RMB550 billion, of which about 432 billion will be incurred during the period of 11th FYP.

The Hong Kong-related major transport infrastructure projects
in the Mainland 11th Five-Year Plans

Types of facilities	National 11 th Five-Year Plan	Guangdong 11 th Five-Year Plan
(A) Expressways	<ul style="list-style-type: none"> - the Beijing to Hong Kong (Macao) Expressway - the Shenyang to Haikou Expressway - the Baotou to Maoming Expressway - the Guangzhou to Kunming Expressway 	<ul style="list-style-type: none"> - the Guangshen Coastal Expressway - Pearl River Delta Outer Ring Expressway
(B) Railways	<ul style="list-style-type: none"> - Beijing-Guangzhou-Shenzhen (passenger rail line) - Shanghai-Ningbo-Shenzhen (passenger rail line) - Guangzhou-Zhuhai Line (inter-city rapid transit system) 	<ul style="list-style-type: none"> - Wu-Guang Passenger Rail Line - Xia-Shen Coastal Railway - The Guangzhou -Shenzhen Line and Guangzhou -Zhuhai Line of the Pearl River Delta Intercity Rapid Link System - the fourth track of the existing Guangshen Railway
(C) Ports	<p>- constructing transit systems for coal, imported liquefied petroleum gas and imported quarry and container transportation systems for coastal ports including Dalian, Tangshan, Tianjin, Qingdao, Shanghai, Ningbo to Zhoushan, Fuzhou, Xiamen, Shenshen, Guangzhou, Zhanjiang and Fangcheng</p>	<p>- develop specialized terminals for containers, liquefied petroleum gas, quarry, etc, at the five major hub ports, namely Guangzhou, Shenzhen, Zhuhai, Zhanjiang and Shantou. On the basis of the major coastal hub ports, a mutually interchanging railway-road container transportation system is formed by making Shenzhen and Guangzhou the Main Ports, Zhuhai, Humen, Zhanjiang and Shantou the Second-tier Ports, and other ports like Zhongshan as feeder port. It proposes to strengthen the interchange of distributing centres within hub ports and promote the development of multi-modal transportation.</p>
(D) Fairways	<p>- Upgrading works of the estuary and waterways of the Pearl River</p>	<p>- construct a high-grade navigation course network to be formed by the main inland river waterways of Xijiang and the “Three Horizontals and Three Verticals System” waterways of 3rd class or above in PRD</p>

		- clear the outgoing fairway of the major hub ports and upgrade inland waterways of 1,000 bearing tonnes or above.
(E) Aviation	- Expand Guangzhou's airport - Expand Shenzhen's airport	- Phase II Development of the New Guangzhou Baiyun International Airport - Expand Shenzhen's airport - Construct a civil aviation airport in Zhaoshan.

Annex 2

Transport infrastructures in the National and Guangdong 9th, 10th and 11th Five-Year Plans

	The Nation			Guangdong Province		
	9 th Five-Year Plan 1995-2000	10 th Five-Year Plan 2000-2005	11 th Five-Year Plan 2006-2010	9 th Five-Year Plan 1995-2000	10 th Five-Year Plan 2000-2005	11 th Five-Year Plan 2006-2010
New highways Traffic Mileage	240,000 kilometres	250,000 kilometres	380,000 kilometres*	18,000 kilometres	13,000 kilometres	25,000 kilometres*
Of which, new traffic mileage for expressways	13,000 kilometres	25,000 kilometres	24,000 kilometres*	828 kilometres	1,954 kilometres	2,000 kilometres
Length of new railways in operation	5,600 kilometres	6,500 kilometres	17,000 kilometres	401 kilometres	414 kilometres	1,100 kilometres
Of which, new passenger rail lines			7,000 kilometres			
Number of new berthing spaces of the coastal ports handling over 10,000 tonnes	130	196	N.A.	33	65	150 *

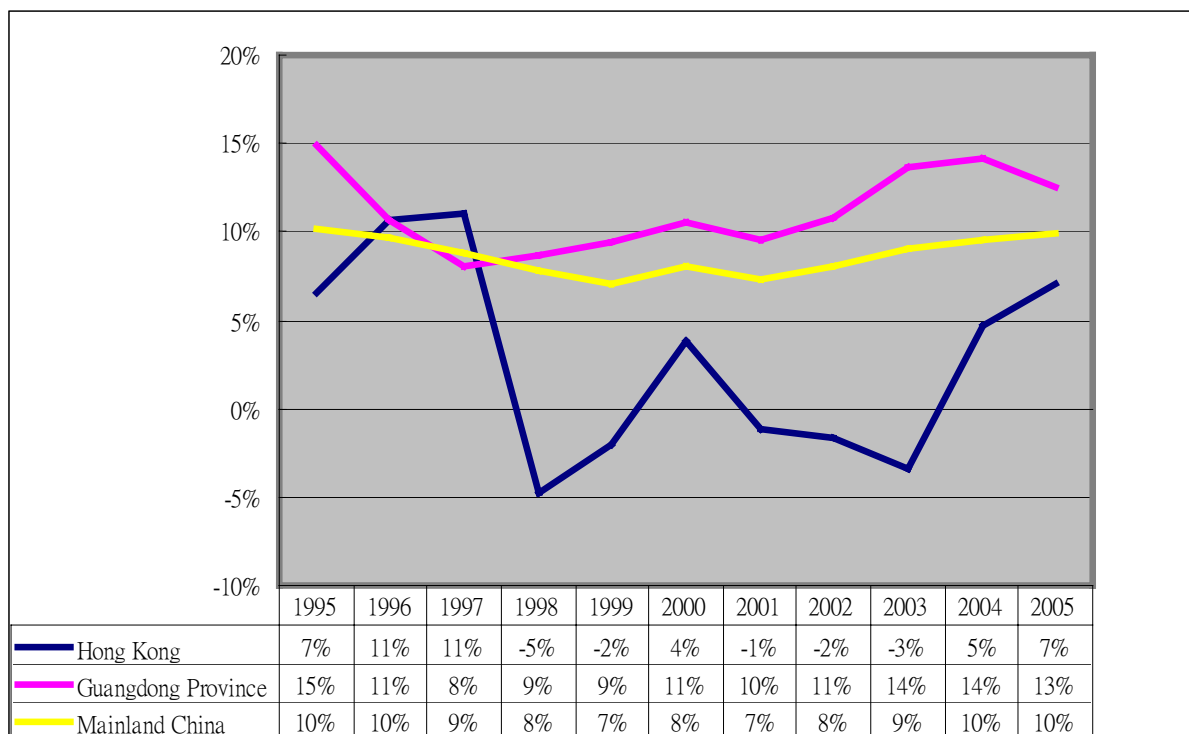
* From the news report and no official data has been released.

Sources of Information:

1. The Framework of the 11th Five-Year Plan for National Economy and Social Development.
2. Ministry of Communications: Statistics on the development of highway and water transport industries in 2005.

3. National Bureau of Statistics of China: The long-term and fruitful development of transport industry during the period of the 10th Five-Year Plan --- a review report on the Country's socio-economic development in the 10th Five-Year Plan.
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5. Ministry of Communications: Issue of the notice of the 10th Five-Year Plan for highway and water transport.
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7. Statistics Bureau of Guangdong Province: A review of the development of communications, postal and telecommunications industries in Guangdong during the period of the 10th Five-Year Plan.
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10. "An addition of 25,000 kilometres in the new transport blueprint in Guangdong's 11th Five-Year Plan", Nanfang Daily, dated 27-01-2006.

Comparison of GDP growth between Hong Kong and the Mainland, 1995 - 2005



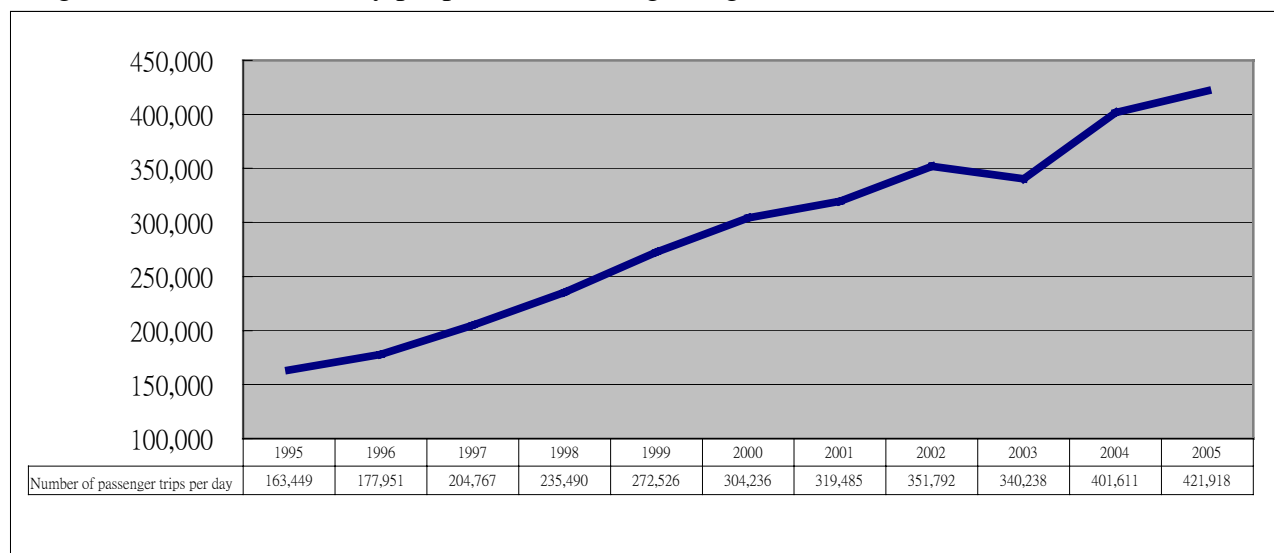
Sources of Information:

1. Statistical communiqué of the People’s Republic of China on the 2005 National Economic and Social Development (1990-2005)
2. The Government Work Report of Guangdong Province (2000-2006)
3. Guangdong Statistical Yearbook (1991-2000)
4. Hong Kong Annual Digest of Statistics (1990-2005)

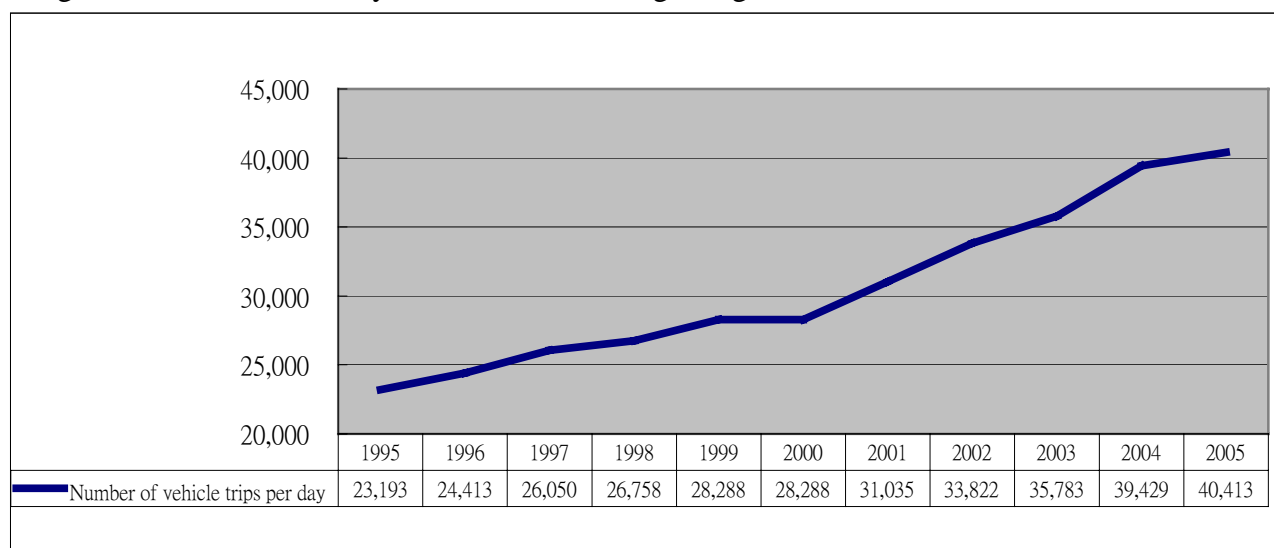
Annex 4

The growth of cross-boundary people and vehicle flows of Hong Kong, 1995 - 2005

The growth of cross-boundary people flow of Hong Kong between 1995 and 2005



The growth of cross-boundary vehicle flow of Hong Kong between 1995 and 2005



Source of Information: Information from the website of Transport Department,
HKSARG.

The layout of regional highway transport networks in the “Planning Principles on Road and Waterborne Transport Infrastructures under the Pan-Pearl River Delta Regional Cooperation”

On the basis of the regional expressways network, the regional transportation nodes of the Pan-Pearl River Delta Region are located at the major cities with mutual convergence with various transport means. There are totally 65 highway-based transportation centres, which bear significant economic value, are formed by national highway transportation nodes and major regional highway transportation nodes.

List of the cities proposed for the development of regional transportation nodes

Province	City
Guangdong	Guangzhou, Fushan, Dongguang, Shenzhen, Shantou, Zhanjiang, Zhuhai, Maoming, Meizhou, Jiangmen, Shaoguang, Zhaoqing, Huizhou, Zhongshan
Fujian	Fuzhou, Xiamen, Quanzhou, Zhangzhou, Nanping, Longyan, Sanming
Hainan	Haikou, Sanya
Guangxi	Nanning, Liuzhou, Fangchenggang, Guilin, Baise, Hechi, Wuzhou, Beihai, Chongzuo, Guigang
Guizhou	Guiyang, Zunyi, Liupanshui
Hunan	Changsha, Zhuzhou, Hangyang, Yueyang, Changde, Shaoyang, Huaihua, Xiangtan, Zhangjiajie
Jiangxi	Nanchang, Yingtang, Ganzhou, Yichun, Jiujiang, Shangrao, Ji'an
Yunnan	Kunming, Qujing, Dali, Jinghong, Ruili, Kaiyuan
Sichuan	Chengdu, Yubin, Neijiang, Nanchong, Mianyang, Leshan, Luzhou

The regional highway hub cities, which contain major ports, major railway nodes and hub airport, should be planned in a comprehensive manner in order to develop them as integrated transportation hubs. Based on the principles of seamless interchange for passenger transport and seamless convergence for cargo transport, three or above transportation means for interchange can be realized in such transportation hubs in a bid to develop these cities as major regional comprehensive transportation nodes. The major regional comprehensive transportation nodes are significant nodes of the comprehensive transport networks in the region, which are the main inbound/outbound passenger and cargo distributing centres of the Pan-PRD region providing essential support to the Pan-PRD cooperation and development. The major comprehensive transportation nodes in the Pan-PRD region include 16 cities, namely Guangzhou, Shenzhen, Fuzhou, Zhanjiang, Xiamen, Shantou, Yueyang, Changshan, Nanchong, Nanning, Chengdu, Kunming, Guiyang, Liuzhou, Guilin, and Haikou.

Based on the general principles of “co-ordinating the development of roads and stations, synchronizing development, putting emphasis on major nodes, guiding the directions, making use of major nodes to drive overall development and gradually forming

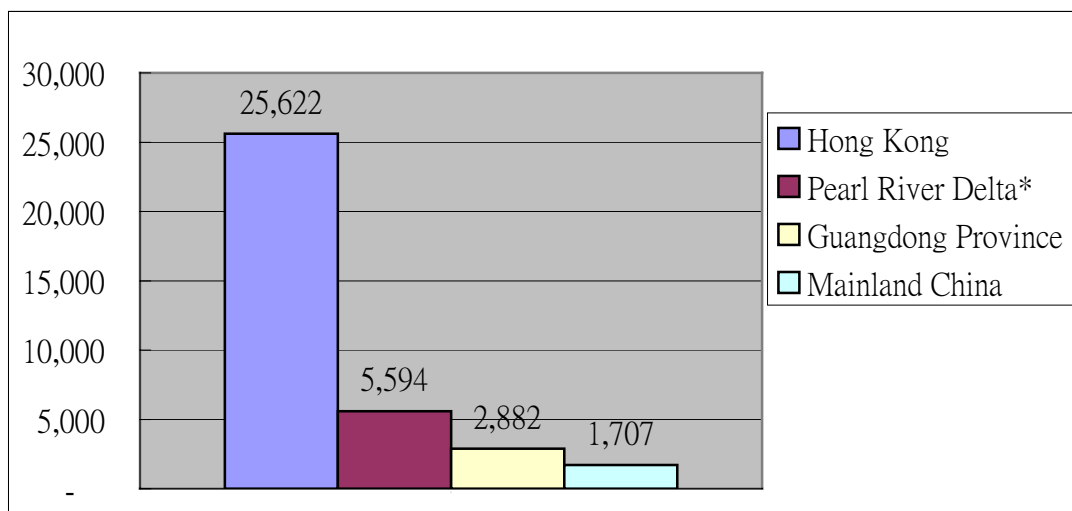
networks”, the comprehensive planning for the development of highway-based transport nodes in the hub cities should be hastened. From the planning perspective, with the general directions of developing inter-provincial express passenger and cargo transportation system, the international-inland container transportation security system , the tourism travel service network as well as the integrated inter-city, inner-city and city-town passenger/cargo transportation system, the key development projects to be completed by 2010 are as follows:

- (1) develop the provincial central cities of the 9 provinces as the key integrated passenger transport nodes, which connect with the integrated cargo transportation nodes within the layout of major ports and railway nodes.
- (2) construct container transit stations at points where the main ports for containers and rail container transportation nodes meet.
- (3) cargo stations at boundary crossing points in cities with major road crossing points.
- (4) integrated passenger transportation stations in major tourist cities.
- (5) Major passenger distributing points along expressways.

Comparison of GDP per capita between Hong Kong and the Mainland

Comparison of GDP per capita between Hong Kong and the Mainland (2005)

Unit: US dollars

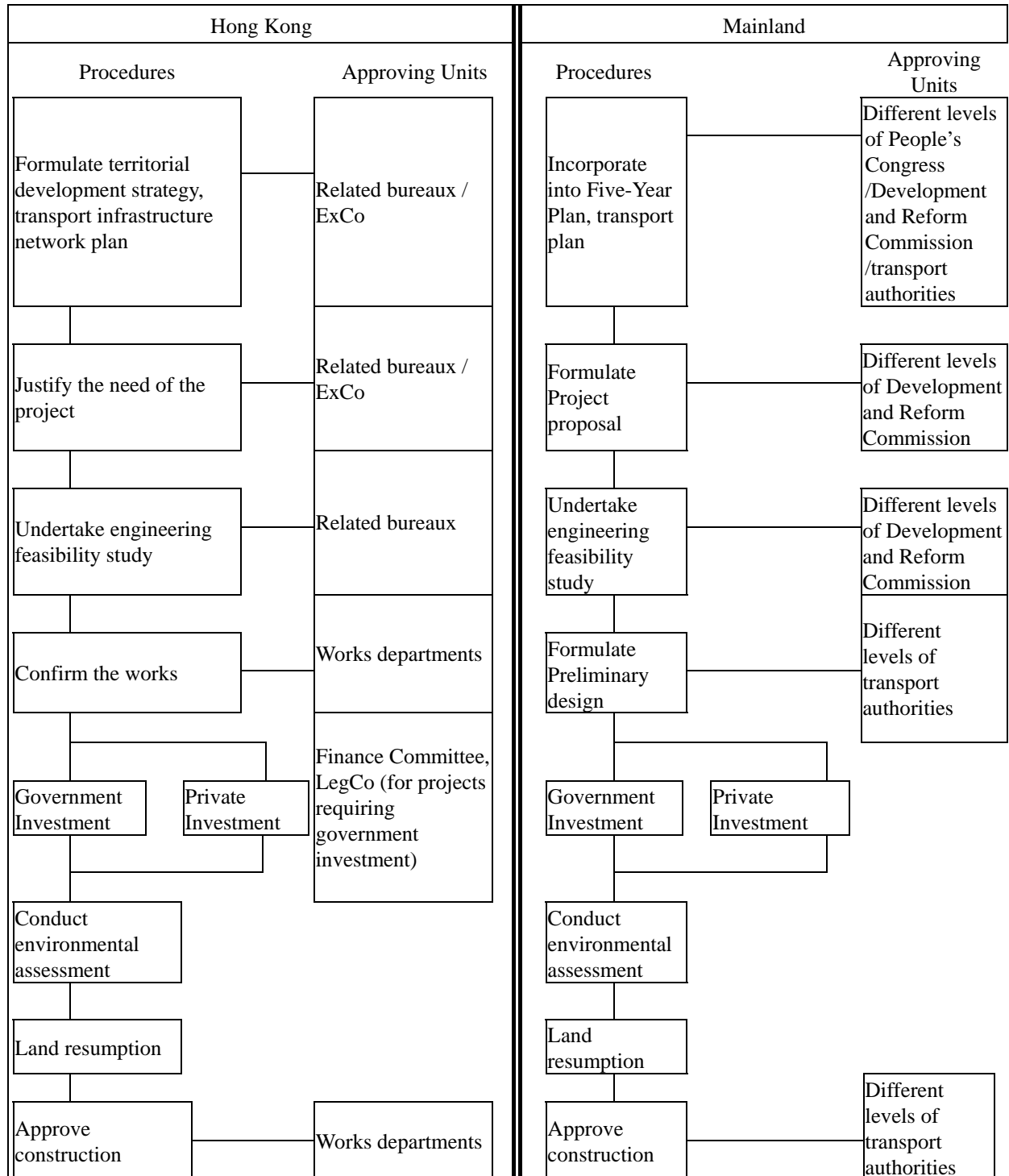


*The data for the Pearl River Delta was obtained in 2004 and the data for 2005 is yet to be released by the Statistics Bureau of Guangdong Province.

Sources of Information:

1. China Statistical Summary in 2006
2. The Government Work Report of Guangdong Province in 2006
3. Hong Kong in Figures 2006

Comparison of the main procedures for major transport infrastructure development between Hong Kong and the Mainland



Sources of Information:

1. Project Management for the Public Works Programme, Hong Kong Government.
2. “Provisional Regulations for Renewal and Reform Measures and Infrastructure Planning”, the then National Planning Commission, then National Economic Commission and National Bureau of Statistics, 1983
3. “Notice of National Planning Commission to reaffirm the strict implementation of requirements for Infrastructure Planning and Approving”, the then National Planning Commission, 1999
4. “State Council’s Decision on the Reform of Investment Systems”, the State Council, 2004

List of Plans

- Plan 1 National Expressway Network Layout
- Plan 2 Expressway Network in Guangdong Province
- Plan 3 The Medium and Long Term National Passenger Rail Lines
- Plan 4 Railway Network in Guangdong Province
- Plan 5 Major Inland River Waterways in Guangdong Province
- Plan 6 Hong Kong Cross-boundary Expressway Network
- Plan 7 Hong Kong Cross-boundary Railway Network



圖例 Legend

- 首都放射線 Capital Line
- 縱線 South-North Line
- 橫線 East-West Line
- 聯絡線(縱) Connection Link (South-North)
- 聯絡線(橫) Connection Link (East-West)
- 地區環線 Regional Ring Line

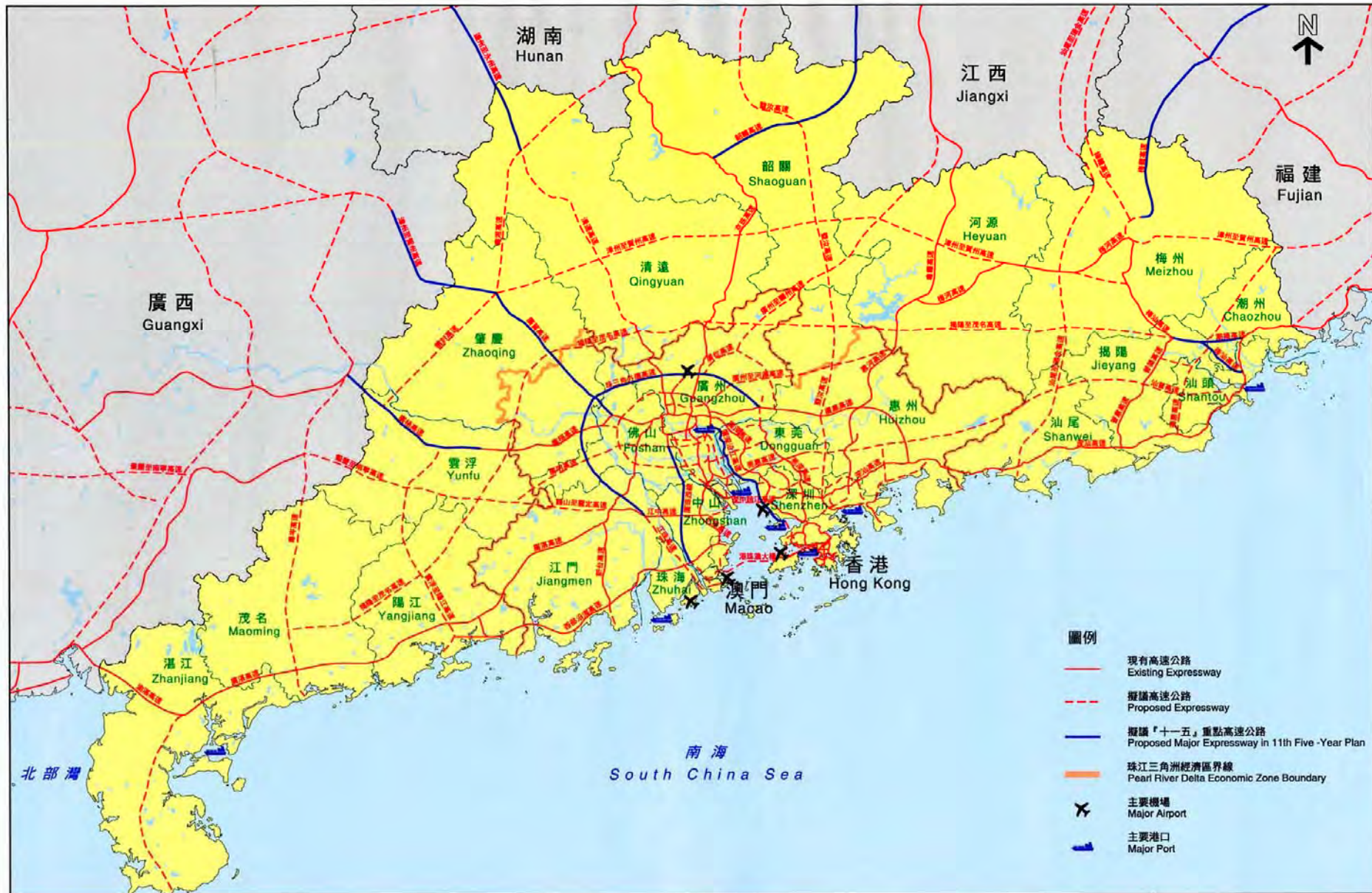
- 國家高速公路網佈局方案**
- 放射線**
- * 1. 北京-上海
 - * 2. 北京-台北(至福州)
 - * 3. 北京-港澳
 - * 4. 北京-昆明
 - 5. 北京-拉薩
 - 6. 北京-烏魯木齊
 - * 7. 北京-哈爾濱
- 縱線**
- 1. 鶴崗-大連
 - * 2. 瀋陽-海口
 - 3. 長春-深圳
 - 4. 濟南-廣州
 - 5. 大慶-廣州
 - 6. 二連浩特-廣州
 - * 7. 包頭-茂名
 - 8. 蘭州-海口
 - 9. 重慶-昆明
- 橫線**
- 1. 綏芬河-滿洲里
 - 2. 琿春-烏蘭浩特
 - 3. 丹東-錫林浩特
 - 4. 榮成-烏海
 - * 5. 青島-銀川
 - 6. 青島-蘭州
 - 7. 連雲港-霍爾斯果
 - * 8. 南京-洛陽
 - * 9. 上海-西安
 - 10. 上海-成都
 - * 11. 上海-重慶
 - * 12. 杭州-瑞麗
 - * 13. 上海-昆明
 - * 14. 福州-銀川
 - 15. 泉州-南寧
 - 16. 廈門-成都
 - 17. 汕頭-昆明
 - * 18. 廣州-昆明

注釋: *「十一五」規劃擬建項目



資料來源 Source :
國家交通部
Ministry of Communications, China

國家高速公路網佈局方案
NATIONAL EXPRESSWAY NETWORK LAYOUT



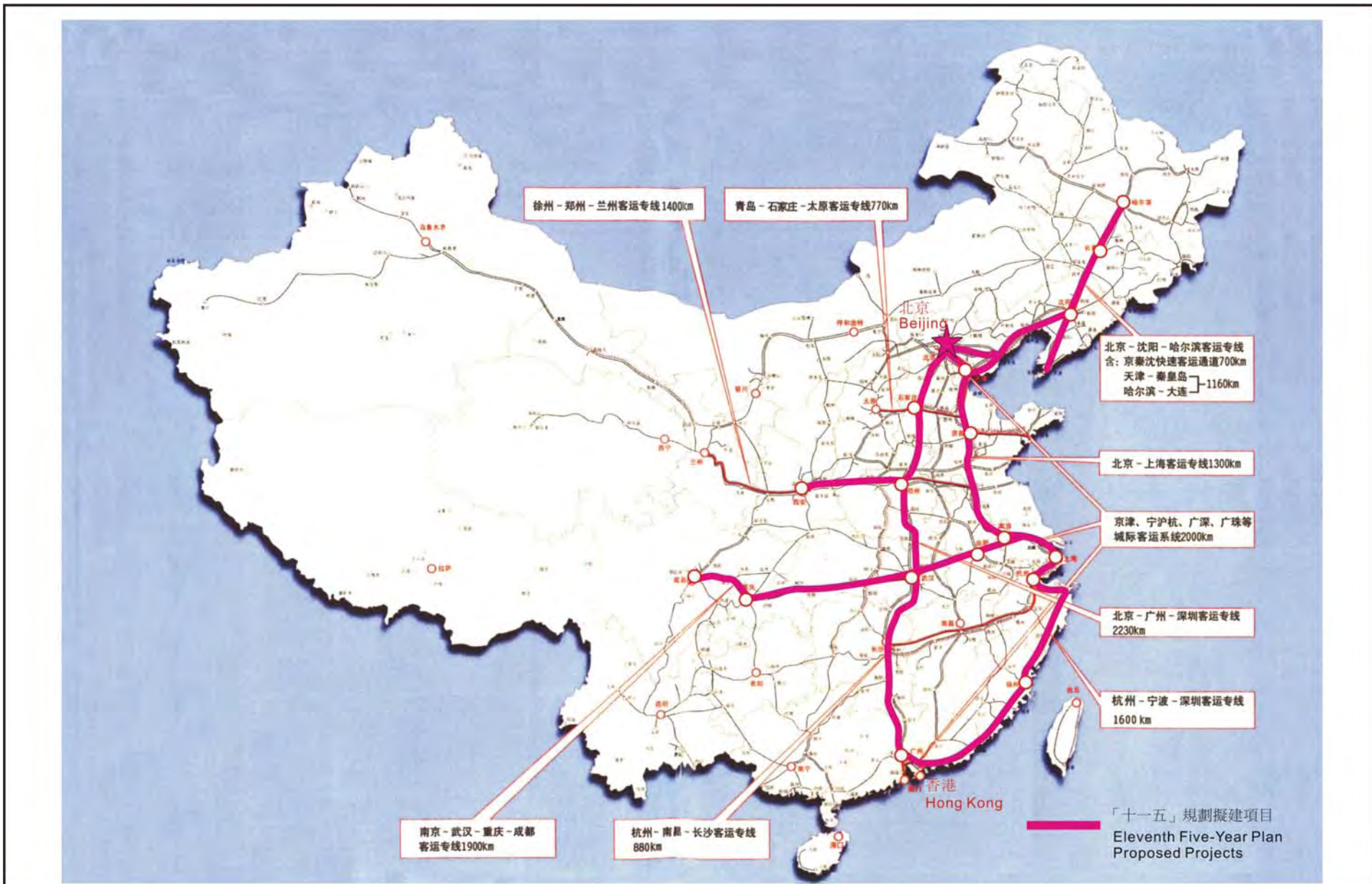
資料來源 Source :
 此圖資料蒐集自多處來源例如規劃報告、報章新聞、研究文獻等。
 The information on this plan is extracted from various sources such as planning reports, newspapers, research papers and etc.

廣東省高速公路網

EXPRESSWAY NETWORK IN GUANGDONG PROVINCE

PLANNING DEPARTMENT 規劃署

Plan No. 圖則編號	M/SP/06/065	圖 PLAN
Date 日期	24-08-2006	2



資料來源 Source :
國家鐵道部中長期鐵路網規劃
The Medium & Long Term
Railway Network Plan,
Ministry of Railways, China

國家中長期客運專線網
THE MEDIUM AND LONG TERM NATIONAL PASSENGER RAIL LINKS

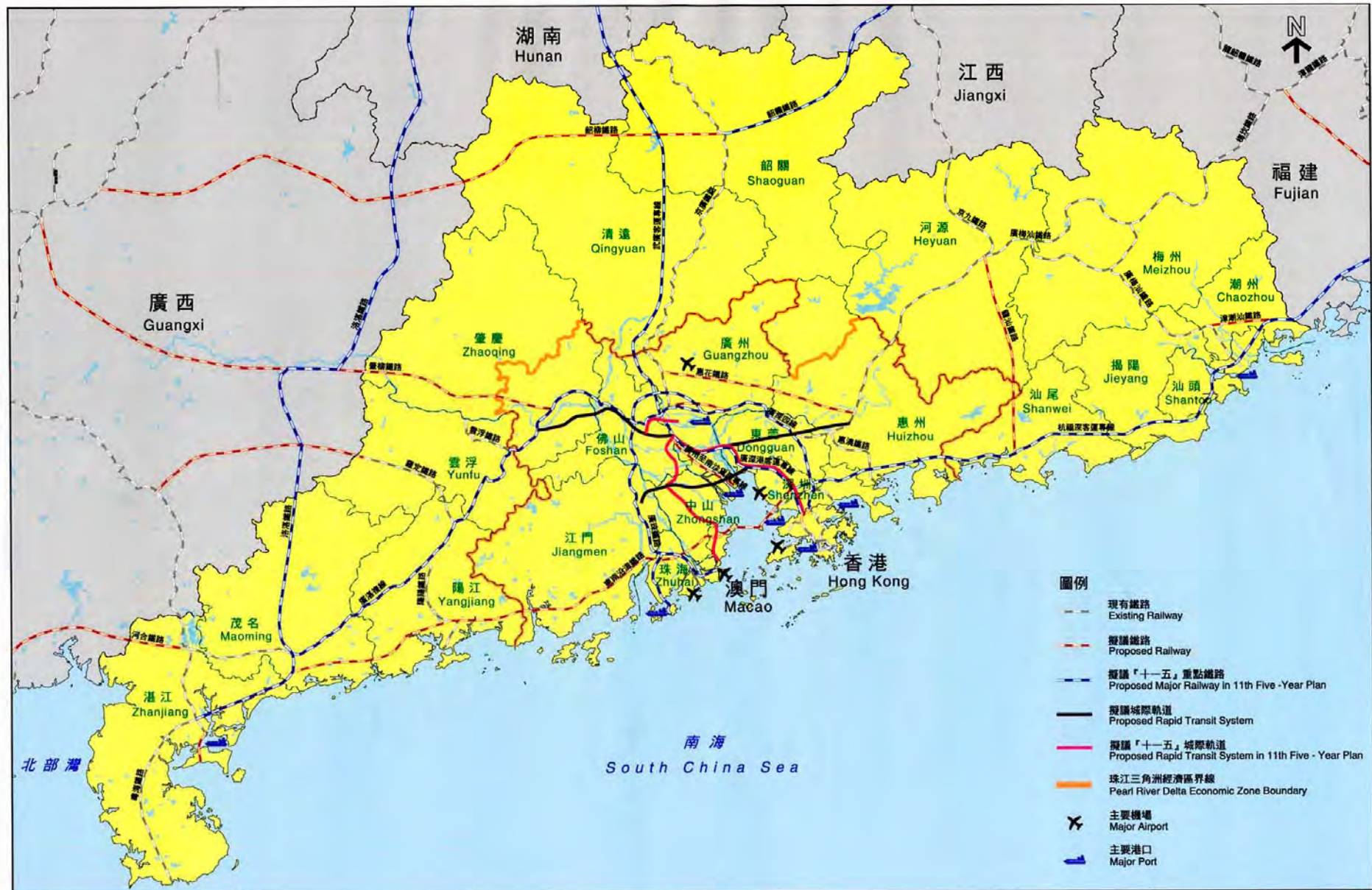
PLANNING DEPARTMENT 規劃署

Plan No. 圖則編號: M/SP/06/063

Date 日期: 28-08-2006



圖 PLAN
3



- 圖例**
- 現有鐵路
Existing Railway
 - - - 擬議鐵路
Proposed Railway
 - - - 擬議「十一五」重點鐵路
Proposed Major Railway in 11th Five - Year Plan
 - 擬議城際軌道
Proposed Rapid Transit System
 - 擬議「十一五」城際軌道
Proposed Rapid Transit System in 11th Five - Year Plan
 - 珠江三角洲經濟區界線
Pearl River Delta Economic Zone Boundary
 - ✈ 主要機場
Major Airport
 - ⚓ 主要港口
Major Port

資料來源 Source :
 此圖資料蒐集自多處來源包括規劃報告、報章新聞、研究文獻等。
 The information on this plan is extracted from various sources such as planning reports, newspapers, research papers and etc.

廣東省鐵路網

RAILWAY NETWORK IN GUANGDONG PROVINCE

广东省主要航道及港口分布图



资料来源 Source :
 广东省交通厅
 Guangdong Provincial
 Bureau of Communications

广东省主要航道及港口分佈
 MAJOR FAIRWAYS AND PORTS IN GUANGDONG PROVINCE

PLANNING DEPARTMENT 規劃署

Plan No. 圖則編號: M/SP/06/062

Date 日期: 28-08-2006

圖 PLAN

5



- 圖例**
- 現有高速公路
Existing Expressway
 - - - 擬議高速公路
Proposed Expressway
 - 現有主要公路
Existing Major Road
 - - - 擬議主要公路
Proposed Major Road
 - 主要貨櫃碼頭
Major Container Terminal
 - ✈ 主要機場
Major Airport
 - 現有口岸
Existing Control Point
 - 擬議口岸
Proposed Control Point

資料來源: Source
 此圖內地部份資料蒐集自多處來源例如規劃報告、報章新聞、研究文獻等。
 The information of mainland on this plan is extracted from various sources such as planning reports, newspapers and research papers and etc.

香港跨界高速公路網
HONG KONG CROSS-BOUNDARY EXPRESSWAY NETWORK



圖例
LEGEND:

- 現有鐵路
Existing Railway
- 擬議鐵路
Proposed Railway
- 現有地鐵
Existing MTR
- 擬議地鐵
Proposed MTR
- 主要貨櫃碼頭
Major Container Terminal
- 主要機場
Major Airport



資料來源 Source:
深圳部份參考深圳市規劃局資料
Information of Shenzhen is based on
Shenzhen Planning Bureau materials

香港跨界鐵路網
HONG KONG CROSS-BOUNDARY RAILWAY NETWORK

PLANNING DEPARTMENT 規劃署

Plan No. 圖則編號: M/SP/06/061 PLAN 7

Date 日期: 28/08/2006

For Focus Group Discussion
- Professional Services, Information &
Technology and Tourism

Paper Ref.: 2006ES/8

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Professional Services

Executive Summary

(Translation)

Purpose

This paper provides a preliminary analysis, from the Government and public sector perspectives, of the opportunities and challenges facing Hong Kong’s professional services sector under China’s 11th Five-Year Plan (the 11th Five-Year Plan), with a view to stimulating discussion among different quarters of the community and laying the groundwork to compile a pragmatic and feasible “action agenda” in a few months after the Economic Summit.

Background

2. As an international business centre, Hong Kong provides a comprehensive range of professional services. The services industry accounts for 90% of the Gross Domestic Product (GDP), and the professional services sector is a high value-added component of our vibrant service industry.

Opportunities and Challenges

3. At the global level, our professional services sector is generally able to provide quality service on par with international standards. In particular, our practitioners in the legal, construction, medical, and accountancy professions are enjoying a leading position in Asia. The other niche of local practitioners is that they share the same culture and language with potential clients in the Mainland, and are very experienced in conducting business in the Mainland. That notwithstanding, in light of economic globalization, China's accession to the World Trade Organization, and the development momentum associated with the rapid liberalization of the Mainland economy under the 11th Five-Year Plan, our practitioners will face keen competition from around the globe.

4. At the national level, services account for only about 40% of the Mainland GDP. As the Mainland's economy continues to grow, Mainland enterprises will demand greater support from professional services, especially in the course of implementing the "going global" strategy. The strengths of Hong Kong include the international outlook of its top managers, a well-established self-regulatory system, high quality professional services, competitive infrastructures, and international standards of corporate governance and project management. Nonetheless, with the development of the Mainland, and the relatively higher manpower and operating costs in Hong Kong, local practitioners are expected to face keen competition from other Mainland cities.

5. At the regional level, the Government of Guangdong Province is seeking to accelerate the development of its services industry including legal and accountancy services. This is expected to pose imminent challenges to Hong Kong, given the rapid pace of economic reform in Guangdong, and the fact that the practitioners therein have an edge over Hong Kong service providers in terms of networking opportunities and lower service charges.

Responses / Actions taken by the Government and Other Sectors

6. At the international level, professional bodies have maintained close liaison with their international counterparts, with a view to enhancing the international competitiveness of Hong Kong practitioners. At the national level, the Closer Economic Partnership Arrangement (CEPA) has provided an important trade facilitation platform enabling our service

providers to enter the Mainland market earlier. At the regional level, the Government has put in place new cooperative frameworks between Hong Kong and the Mainland, and established the Professional Services Development Assistance Scheme to help enhance the competitiveness of our practitioners in the Mainland market. The Trade Development Council (TDC) has also been promoting the service industries of Hong Kong, collecting and disseminating economic and trade information for the professional services sector.

Recommendations

7. On short-term measures, the HKSARG Government will work closely with the Mainland to implement and promote CEPA, with a view to facilitating Hong Kong companies to make use of the Mainland's preferential measures under CEPA. The TDC's promotional efforts aside, individual bureaux will also seek to strengthen exchanges between professional bodies of the two places, follow up on the implementation of liberalization measures under CEPA, facilitate the work on mutual recognition of professional qualifications, and prepare for the next phase of CEPA consultation.

8. On medium and long-term measures, the Government will continue to enhance CEPA's benefits through such means as consolidating the liberalisation measures on trade in professional services between the Mainland and Hong Kong, seeking to lower market entry thresholds or qualification requirements for registration of enterprises, promoting mutual recognition of professional qualifications and mutual exemption of certain areas in examinations, and facilitating trade and investment. To facilitate the provision of service by our professionals in the Guangdong market, the Government may, in collaboration with the Guangdong Province, consider putting forward proposals to the relevant departments of the Central People's Government on the delegation of certain approving authority in relation to the professional services, as well as measures to improve the policies of establishing business and market entry in Guangdong. Moreover, local practitioners' efforts to develop tailor-made services for the Mainland market, maintain their international perspectives, strengthen cooperation with their Mainland counterparts should be conducive to strengthening Hong Kong's role as a services centre of China, and a two-way platform for Mainland enterprises to "bring in foreign investment" and "go global".

Advice Sought

9. We would like to seek advice from members on the above analysis and recommendations.

Commerce, Industry and Technology Bureau
September 2006

For Focus Group Discussion
- Professional Services, Information &
Technology and Tourism

Paper Ref.: 2006ES/8

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Professional Services**

(Translation)

Purpose

This paper provides a preliminary analysis, from the Government and public sector perspectives, of the opportunities and challenges facing Hong Kong’s professional services sector under China’s 11th Five-Year Plan (the 11th Five-Year Plan), with a view to stimulating discussion among different quarters of the community and laying the groundwork to compile a pragmatic and feasible “action agenda” in a few months after the Economic Summit.

Background

2. As a major international business hub and services centre, Hong Kong provides a comprehensive range of professional services. Our services industry accounts for 90% of our gross domestic product (GDP), and the professional services sector is a high value-added component¹ of

¹ Between 1996 and 2004, the average annual growth of the Gross Domestic Product at factor cost was 0.8%, whereas the average annual growth of professional services over the same period was 2.5%, about two times greater than the former.

that vibrant industry. Hong Kong, a well-developed market, is an ideal place for multinational enterprises to set up business.

3. The relevant extract on professional services of the 11th Five-Year Plan is set out as follows:

Regulating and developing business services sector – Broaden and regulate legal services; develop investment and asset management services; regulate and develop the economic authentication services such as accounting, auditing, taxation and asset evaluation; support the development of consultation services such as engineering consultation, management consultation and credit services; encourage the development of specialized industrial design; promote the development of advertising industry, and rationally plan the layout and distribution of exhibition halls and develop conference and exhibition industry.

Opportunities and Challenges

4. At the global level, the niche of our professional services sector is that local practitioners share the same culture and language with potential clients in the Mainland, and have vast experience in conducting business in the Mainland. However, it is difficult for the HKSAR Government to assess, in quantitative terms, the ranking of our professional services sector in the global league because of the different ways in which individual economies define the term “professional services”, interpret what constitutes the professional services sector, and measure its contribution to the economy.

5. In general, professional services providers in Hong Kong have attained international qualifications, are rich in experience, and are familiar with the updated rules, practices and market information in particular industries. Their knowledge and expertise are also on par with international

standards. Specifically, the following major professions² in Hong Kong enjoy a leading position in Asia:

- (a) Legal services: Hong Kong is the most liberalised jurisdiction in Asia in permitting foreign lawyers to participate in the market. Hong Kong is home to the largest cluster of international lawyers in Asia – about 40% of international lawyers in Asia are based in Hong Kong. More than half of the top 10 legal advisers in Asia’s merger-and-acquisition deals have a presence in Hong Kong. Moreover, arbitration awards made in Hong Kong are enforceable through the courts of most trading economies in the world. Compared with other Asian arbitration venues, Hong Kong handles the most cases in which neither party is local.
- (b) Construction and related engineering services: Hong Kong is a regional leader in experience and technical know-how, particularly in projects such as bridges, ports, airports, railways, construction on slopes, high-rise and intelligent buildings. Moreover, the Hong Kong construction market has been open for a long time. Through years of co-operation and interaction with foreign enterprises, the industry has accumulated rich experience in international market operation, construction supervision, contract management, dispute arbitration, and facilities management and operation. Individual local qualifications are recognised in overseas countries including Australia, Canada, Ireland, New Zealand, the United Kingdom and Singapore.
- (c) Medical services: The standards of medical treatment technologies in Hong Kong are on par with international levels. For example, Hong Kong has pioneered a number of surgical techniques that contribute to a significant increase in

² The focus groups on “Trade and Business”, “Financial Services” and “Maritime, Logistics and Infrastructure” will discuss in detail issues relating to the further development of Hong Kong as an international centre of financial services, trade and shipping. The paper entitled “Services” (Paper Ref.: 2006ES/3) has also provided a preliminary analysis of Hong Kong’s position as a services centre in general. This paper will focus on the following major professions : legal, construction and related engineering, medical, and accountancy services.

the survival rate of liver-transplant patients. Hong Kong's treatment technology for hepatoma and nasopharyngeal cancer, two of the most commonly found cancers in the Chinese population, also stands at the forefront globally. And the World Health Organization has commended Hong Kong for its comprehensive preparedness and response plans to cope with avian influenza and an influenza pandemic.

- (d) Accountancy services: Hong Kong's professional standards now reflect the best practices adopted by the most reputable accounting bodies in the world. The Hong Kong Institute of Certified Public Accountants (HKICPA) has strong and influential representation in international bodies such as the International Federation of Accountants, International Accounting Standards Board and Confederation of Asian and Pacific Accountants.

6. Nevertheless, in light of economic globalisation, China's accession to the World Trade Organization and the development momentum associated with the rapid liberalisation of the Mainland economy under the 11th Five-Year Plan, professional services suppliers in Hong Kong face keen competition from around the globe.

7. At the national level, services account for only about 40% of the Mainland's GDP. As the Mainland's economy and foreign trade continue to grow in the course of its further market liberalisation, there will be a growing demand from Mainland enterprises for more services, especially professional services. Hong Kong's strengths include the international outlook of its top managers, a well-established self-regulatory system, high quality professional services, competitive infrastructures, and international standards of corporate governance and project management.

8. In addition, Hong Kong, riding on the strengths of local professional services suppliers, can act as a platform for Mainland enterprises to expand overseas in the course of the gradual implementation of the "Going Global" strategy and the Mainland's vigorous economic growth.

9. Notwithstanding the advantages and opportunities ahead, our professional services sector faces various challenges. On the whole,

manpower and other operational costs are higher in Hong Kong than in the Mainland. Moreover, with the development of the Mainland in recent years, Hong Kong's competitive edge in terms of free market, free flow of information and a vibrant professional services sector has been on the wane. In particular, the advantages of local professionals over their Mainland counterparts in terms of international outlook, technical skills and English proficiency have been dwindling. With the development of Mainland professional services in full swing under its 11th Five-Year Plan, Hong Kong is expected to face keen competition from other Mainland cities.

10. At the regional level, the HKSAR Government notes that the Government of Guangdong Province seeks to accelerate the development of its business services industry including legal and accountancy services. Given the rapid pace of economic reform in Guangdong, and the fact that its practitioners have an edge over Hong Kong services providers in networking opportunities and lower service charges, the development of Guangdong's professional services sector is expected to pose imminent challenges to Hong Kong. So, we need to consider how our professional services sector may maintain its leading position and enhance its competitive edge.

11. The opportunities and challenges facing the legal, construction and related engineering, medical and accountancy services are set out at Annex 1.

Responses / Actions taken by the Government and Other Sectors

12. Apart from its efforts to promote the development of professional services, the HKSAR Government has been helping the local professional services sector on various fronts to enter the Mainland market and strengthen Hong Kong's role as China's services centre.

13. At the international level, the HKSAR Government notes that some professional bodies have taken actions to enhance their international competitiveness. For example, the HKICPA has signed agreements for mutual recognition of membership with chartered accountancy bodies in eight overseas jurisdictions: Canada, Australia, England & Wales, Ireland, New Zealand, Scotland, South Africa and Zimbabwe. By virtue of such agreements, members of HKICPA can acquire membership in chartered

accountancy bodies that confer the most renowned accountancy qualifications recognised worldwide. The Government also notes that the legal profession and the construction and related engineering profession have also maintained close contacts and co-operation with their international counterparts. It is worthwhile to explore how the Government and professional services sectors may join hands to promote the development of our professional services at the international level.

14. At the national level, the Closer Economic Partnership Arrangement (CEPA) signed between Hong Kong and the Mainland in 2003 has facilitated the entry of our services providers into the Mainland market. The Mainland has agreed to provide preferential treatment for Hong Kong suppliers in 27 service sectors, including our competitive professional services sector (such as legal, construction and related engineering, medical and accounting services). They can enter the Mainland market ahead of the other World Trade Organization members with more favourable conditions. On trade and investment facilitation, the Ministry of Commerce announced in August 2004 a series of measures to encourage Mainland enterprises to invest and expand their operations in Hong Kong, offering our professional services sector the opportunity to provide service for Mainland enterprises directly in Hong Kong. On mutual recognition of professional qualifications, examinations and exchanges, agreements or arrangements for various professionals, including estate surveyors, architects, structural engineers, planners, quantity surveyors, building surveyors, securities and futures industry practitioners, accountants, insurance intermediaries and patent agents, have been made between Hong Kong and the Mainland. On dissemination of information, the Government has since the announcement of CEPA organized or participated in about 190 seminars in Hong Kong to promote business opportunities brought about by CEPA to local, Mainland and foreign investors. Large scale exhibitions and promotional activities have also been held in Hong Kong and overseas to publicise CEPA. The Trade and Industry Department has been providing free information and one stop advisory service. The public can obtain up-to-date information on CEPA through e-mail, telephone enquiry hotline and the Department's website. Thus far, the Department has handled more than 62 000 enquiries while the CEPA website has attracted more than 1.1 million hits.

15. At the regional level, the Government has worked hard to put in place new co-operative frameworks between Hong Kong and the Mainland.

These include the signing of the Pan-Pearl River Delta Regional Cooperation Framework Agreement with provinces/areas in the Pan-Pearl River Delta region; the establishment of the Hong Kong/Guangdong Cooperation Joint Conference with Guangdong Province; and the Hong Kong-Shanghai Economic and Trade Co-operation Conference with Shanghai. These initiatives aim to strengthen communication and co-operation among the governments, enterprises and the communities concerned at various levels, with a view to providing a favourable platform for the professional services sector to gain access to the Mainland market.

16. The Government established the Professional Services Development Assistance Scheme in 2002 to provide financial support for the professional services sector to enhance the standard of professional services and increase the sector's competitiveness in overseas and Mainland markets. As at end June 2006, over 300 applications for funding support under the Scheme were received. A total of 146 projects were approved with grants amounting to \$56.82 million. Of these, 65 projects with grants amounting to \$25.57 million are related to exploitation of the Mainland market. They include seminars, training programmes, experience-sharing workshops and drawing up of practical guides on access to the Mainland market.

17. The Trade Development Council has also been actively promoting the service industries of Hong Kong, collecting and disseminating economic and trade information for the professional services sector and organising various trade promotion activities to introduce the professional services of Hong Kong to Mainland enterprises. The Council has joined force with some professional bodies to promote the image of Hong Kong as a quality and reliable "regional service platform". The Council has actively organised major promotion activities for individual professional sectors in the Mainland, reinforcing the professional and quality image of Hong Kong, arranging visits of Mainland enterprises to Hong Kong for exchanges with our professional bodies and received a number of Mainland delegations. Moreover, the Council organizes talks by Mainland experts for Hong Kong enterprises on the latest Mainland market policies and means of market access.

18. In addition, the Government notes that about 50 Hong Kong accountancy firms have established business presence in the form of member offices, cooperation offices, liaison offices or representative offices in Guangdong Province. Such a move not only rides on the steady

pace of economic development in the province, it exposes the province to international professional standards and best practices. It also helps ease the access of Hong Kong's accountancy firms into the Mainland market, resulting in a win-win situation for both sides.

19. Details of the responses made and actions taken by the Government and the relevant bodies to assist the major constituents of our professional services sector (viz. legal, construction and related engineering, medical and accountancy services) in their entering the Mainland market are set out at Annex 2.

Recommendations

20. In the light of the developments brought about by China's 11th Five-Year Plan and in response to the opportunities and challenges ahead, the Government plans to implement a number of short, and medium-to-long term measures to assist the professional services sector to take advantage of the opportunities and face up to the challenges ahead, thereby further strengthening Hong Kong's role as China's services centre and as a two-way platform for Mainland enterprises to "bring in foreign investment" and "go global".

Short term

21. The Government will keep up its efforts to implement and promote CEPA, to facilitate Hong Kong companies to make use of the Mainland's preferential measures under CEPA. The initiatives in this regard include strengthening liaison with Mainland authorities at central, provincial and municipal levels, streamlining application and approval procedures, providing information on Mainland laws and regulations governing the provision of relevant services, compiling investment guides, and establishing designated enquiry points and one stop service centres for Hong Kong service suppliers. In this regard, the Trade and Industry Department has set up a database of Mainland laws and regulations for individual service sectors, which has been uploaded onto a designated website of the Department to enable Hong Kong enterprises to know more about the application and approval procedures for setting up businesses in the Mainland. The Department will also participate actively in the work of the Guangzhou-Hong Kong CEPA Market Entry Facilitation Group. The Group, set up in November 2005 by the Hong Kong Trade Development

Council and the Bureau of Foreign Trade and Economic Cooperation of Guangzhou, is tasked to assist Hong Kong businessmen who have encountered difficulties regarding procedural matters in starting businesses or setting up individually owned stores in Guangzhou under CEPA.

22. The Trade Development Council will step up its efforts to promote Hong Kong's professional services sector in the Mainland, and will assist these professional bodies to gain access to the Mainland market through major programmes such as the Hong Kong Real Estate Services and City Development Expo, Hong Kong Management Consultancy Services Conference and CEO Forum. These activities will provide opportunities for distinguished business leaders and entrepreneurs from Hong Kong, the international community and the Mainland to share their insights, with a view to strengthening the trade cooperation and economic ties between Guangdong and Hong Kong, and reinforcing the professional and quality image of Hong Kong.

23. Individual bureaux are planning to introduce measures to encourage and help the relevant professional services to seize the opportunities brought about by CEPA and expand into the Mainland market. For example:

- (a) To organise more visits to enhance exchanges between the relevant sectors of the two places, including such events as briefings and seminars to help Hong Kong practitioners better understand the Mainland market as well as the requirements and application procedures for setting up business in the Mainland, and to introduce to Mainland enterprises the various quality services which our professional services sector can offer;
- (b) To carry through the ongoing consultation between the relevant professional bodies of the two places on mutual recognition of qualifications, including working out with the Mainland authorities the arrangement for our professionals to register in the Mainland after acquiring the Mainland professional qualifications through mutual recognition; and
- (c) To follow up on the implementation of various liberalisation measures under CEPA, including reflecting the views of the

industries to the Mainland authorities concerned on further liberalisation of the Mainland market, so as to prepare for the next phase of CEPA consultation.

Medium and Long-term

24. The Government will continue to enhance CEPA's benefits through such means as consolidating the liberalisation measures on trade in professional services between the Mainland and Hong Kong, seeking to lower market entry thresholds or qualification requirements for registration of enterprises, promoting mutual recognition of professional qualifications and mutual exemption of certain areas in examinations, and facilitating trade and investment. Given the close economic ties between Guangdong and Hong Kong, relevant bureaux are prepared to strengthen cooperation with the Guangdong Province to promote the development of professional services under the framework of CEPA. To facilitate the provision of service by our professionals in the Guangdong market, the Government may, in collaboration with the Guangdong Province, consider putting forward proposals to the relevant departments of the Central People's Government on the delegation of certain approving authority in relation to the professional services, as well as measures to improve the policies of establishing business and market entry in Guangdong.

25. Bureaux will also examine further ways to support enterprises in their bid to seek more development opportunities in the Mainland. For example:

- (a) The relevant bureau will make use of the Hong Kong/Guangdong Co-operation Joint Conference to enhance cooperation with Guangdong province, and help the local construction and related works professions to explore business opportunities in the Mainland, such as the infrastructural projects in relation to the 2010 Asian Games. The bureau will also explore opportunities with the other provinces/areas, seek to further liberalize the construction market, and streamline procedures to facilitate industries starting new business in the region through the Pan-Pearl River Delta Regional Co-operation Framework Agreement signed with the provinces/areas of the region concerned. Meanwhile, the Construction Industry Council to be

established soon will explore ways to co-ordinate cooperation and exchanges between the academic sector and the industry in research activities for better utilization of research output by the industry.

- (b) On the accounting profession, the Financial Reporting Council to be established soon will step up investigation on irregularities and on non-compliance in accounting acts committed by auditors in relation to listed corporations and listed collective investment schemes.
- (c) The Department of Justice will encourage the legal profession of Hong Kong to continue the consultation with the Mainland legal professional bodies on the setting up of “a legal information centre”. The Government envisage that the centre will become the platform for exchanges between the legal professionals of both places, and that enterprises and interested parties of both sides can obtain more information about the laws and legal news of each other.

26. Apart from the Government’s efforts, we note that the professional bodies concerned are actively developing tailor-made professional services for the Mainland market, maintaining their international perspectives and are striving to excel in terms of technical and service standards. These efforts should be conducive to strengthening Hong Kong’s role as the services centre of China. Local professional bodies’ enhanced cooperation with their Mainland counterparts, coupled with the Government’s promotional efforts in the Mainland, should result in a win-win situation for both sides.

Advice Sought

27. We would like to seek advice from members in the following areas:

- (a) In the light of the constraints mentioned in paragraph 4, are there other quantitative means of assessing the international competitiveness of Hong Kong’s professional services? Is there any supplement to the analysis of the professional services mentioned in paragraphs 5 and 6?

- (b) Is the analysis in paragraphs 7 to 9 of the opportunities and challenges facing the professional services sector under the 11th Five-Year Plan sufficiently comprehensive and in-depth? Is there any supplement to the analysis?
- (c) Is the analysis in paragraph 10 of the opportunities and challenges facing the professional services sector concerned under the 11th Five-Year Plan of the Guangdong Province sufficiently comprehensive and in-depth? Is there any supplement to the analysis? The accounting profession has responded positively to the business opportunities in Guangdong as mentioned in paragraph 18. Are similar actions being taken by other professional bodies?
- (d) Whether the actions mentioned in paragraphs 20 to 23 to be taken by the Government and public bodies can achieve the purposes of consolidating and developing the leading position of our professional services sector? How should the strategy be adjusted?
- (e) Whether the issues concerning the consolidation and development of professional services raised in paragraph 10 and paragraphs 24 to 26 provide appropriate pointers for further studies?

Commerce, Industry and Technology Bureau
September 2006

The Opportunities and Challenges Facing Individual Professional Services Sectors

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
(1) Legal Services	<ul style="list-style-type: none"> • The Mainland has about 120 000 lawyers. Data from the Mainland shows that only about 5 000 to 6 000 of them have the language proficiency and experience to handle international legal practice. Hence, there is considerable scope for Hong Kong-based law firms to fill this gap and provide Mainland enterprises with quality legal services. • Hong Kong’s legal system is well known for offering an effective mechanism for litigation, arbitration, mediation and other forms of alternative dispute resolution. • The close interaction of local and international law firms in Hong Kong has brought about benefits in terms of cross-fertilisation of experience and cultures, and comprehensive development of the legal sector, which can deal with a broad spectrum of legal work in such areas as capital markets, corporate finance, securities, intellectual property, information technology and maritime law, etc. • It is advantageous for not only international corporations, but also Mainland parties to make use of the dispute resolution 	<ul style="list-style-type: none"> • The number of Mainland professionals who are capable of handling international legal practice is on the increase. However, Hong Kong law firms can employ foreign lawyers. Apart from providing advice on local law, many Hong Kong firms also provide one-stop service on various foreign laws, including Mainland, American and English laws. • Another major challenge facing the Hong Kong legal sector is the rapidly expanding market in the Mainland and the new demands for services that arise from such a change in the environment.

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
	<p>services in Hong Kong, due to the rich experience of our legal profession. We share the same language and culture, and we are extremely familiar with the way the Mainland market operates.</p> <ul style="list-style-type: none">• The listing of Bank of China in Hong Kong broke many records and we believe that there will be more listings of PRC enterprises in future. The need for professional legal services is phenomenal, though Hong Kong lawyers may have to compete with their counterparts worldwide on large scale listings of this kind. But Hong Kong's proximity to the Mainland, both in terms of physical distance and language, is a definite advantage.	
(2) Construction and related Engineering Services	<ul style="list-style-type: none">• The Hong Kong construction market has already been opened up for a long time. Through the past years of co-operation and interaction with foreign enterprises, the Hong Kong construction industry has accumulated rich experience in international market operation as well as construction technology, standard and management.	<ul style="list-style-type: none">• The operating cost in Hong Kong is relatively high which affects its overall competitiveness.• Many of the local professional firms are small to medium enterprises which usually do not have sufficient resources in exploring Mainland and overseas

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
	<ul style="list-style-type: none">• Our construction technology is on par with the latest development worldwide. In particular, our technology is internationally renowned in areas like the construction of bridges, ports, airports, railways, construction on slope, high-rise and intelligent buildings.• On professional manpower resources, excellent technical and managerial staff are provided through well-established universities and professional training systems.• Hong Kong has a full range of professionals in construction and related services and is able to provide one-stop services for Mainland construction projects, including pre-investment studies, project preparation, design and procurement, construction supervision and contract management, dispute arbitration and resolution as well as facilities management and operation.• Under the CEPA framework, the Mainland construction market has been further opened up for Hong Kong enterprises, providing them with preferential treatment on market access over foreign enterprises.	<p>markets.</p> <ul style="list-style-type: none">• Compared with their counterparts in other economies, the investment made by our construction industry in research and development is low and there is a lack of co-ordination between academia and industry in research activities.• The Mainland construction related professional services market will be opened up to foreign enterprises by the end of 2006 under the WTO. Hong Kong construction industry stakeholders will face more competition.• The procedures of establishing enterprises in the Mainland are complicated.• Hong Kong professionals are required to register before they can practise in

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
	<ul style="list-style-type: none"> Through the 9+2 Pan-Pearl River Delta regional co-operation, the accelerated integration within the region will advance the development of regional transport and infrastructure projects, thereby providing more business opportunities for the construction and related engineering services sector. 	<p>the Mainland. However, the corresponding registration arrangements are yet to be implemented.</p>
<p>(3) Medical Services</p>	<ul style="list-style-type: none"> With the growth in personal income in the Mainland, Mainland residents are willing to pay more for better health care services. The long-established and sound regulatory system in Hong Kong maintains doctors' discipline and ensures the quality of medical services in Hong Kong. These are qualities that appeal to Mainland people. With a well-developed, sophisticated and specialists training system, Hong Kong has built up a significant pool of talents in various fields to achieve synergy. In the mastery, application and research of certain specialist skills, Hong Kong's medical profession stands at the forefront of the world and enjoys a unique edge in the region. Private medical practices are flourishing in Hong Kong's market, with ample experience in maintenance of professional standard, customer service and effective management. Whilst attracting more Mainland 	<ul style="list-style-type: none"> The costs of Hong Kong medical professionals are far higher than their Mainland counterparts and beyond the reach of the general public in the Mainland. The number of people who can afford high-end medical services is relatively small. Given that there has never been a lack of local demand for the services that Hong Kong enjoys competitive advantage, there is little incentive to develop external markets actively. These factors may impose limits on the scope for Hong Kong's export of medical services.

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
	<p>people to seek medical treatment in Hong Kong, our medical professionals can also help develop the medical services in the Mainland by complementing their strengths with those of their Mainland counterparts, taking reference from the medical systems of both places, experience sharing and technology transfer.</p> <ul style="list-style-type: none"> • On the other hand, regularization of the Mainland medical system has facilitated the practices of Hong Kong medical professionals in the Mainland. With the growing integration of the economies across the border, more Hong Kong residents are moving to the Mainland, thus increasing the demand for the services of Hong Kong medical professionals. This would provide a stepping stone for Hong Kong medical professionals to make their way to the Mainland. • The 11th Five-Year Plan has placed special emphasis on developing the healthcare sector and improving the health conditions in the rural areas. Hong Kong’s medical profession has always been committed to providing health care services to the remote areas and has actively organized volunteer medical services and medical training for local 	<ul style="list-style-type: none"> • Generally speaking, our medical sector is not very familiar with the medical system, regulations, development strategies and the medical profession of the Mainland. On the other hand, there are still relatively few professionals who have taken the national qualification examination for medical practitioners as provided under the CEPA framework. • The regulations on how Hong Kong doctors may open clinics in the Mainland are not yet very clear. The medical sector generally considers that it is difficult to open clinics and hospitals in the Mainland, and hopes that sole proprietorship and a lowered capital requirement would be allowed under the CEPA framework. • At present, Hong Kong contributes to

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
	<p>doctors. This planning strategy would offer a broader platform for the Hong Kong medical sector to expand their work in this respect.</p>	<p>the development of the national medical sector mainly through experience sharing and volunteer work. The current challenge is to promote trade in commercial medical services to facilitate cooperation across the border and technology transfer.</p>
(4) Accountancy Services	<ul style="list-style-type: none">• Certified public accountants (CPAs) in Hong Kong possess a broad international horizon and deep understanding of International Financial Reporting Standards. They are qualified upon completion of an internationally recognized professional qualification programme. They embody the professionalism wherever they go in the global world of business.• The ties of the accountancy profession in Hong Kong with the Mainland, one of the world's emerging economic superpowers, are deepening, giving Hong Kong CPAs unparalleled knowledge of doing business on the Mainland, which in turn benefits their companies and clients. Hong	<ul style="list-style-type: none">• At present, there are about 25 700 accountants in Hong Kong. With the growing economic development on the Mainland, there will be more Mainland entities seeking to list in Hong Kong. The demand for professional services ranging from auditing and assurance to financial consulting will only be rising. In fact, CPAs demonstrating solid global and Mainland experience are widely sought in the market. We, therefore, need to train more accounting professionals to meet the

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
	<p>Kong Institute of Certified Public Accountants (HKICPA) are working closely with its counterparts on the Mainland so that the profession evolves at the highest possible standards, thereby benefiting local and regional economies, and ultimately, the global economy.</p> <ul style="list-style-type: none">• In line with the position in jurisdictions including the European Union, Australia and Singapore, the HKICPA successfully completed the full convergence of Hong Kong Financial Reporting Standards with the International Financial Reporting Standards in 2005. In 2006, the HKICPA adopted the “Code of Ethics for Professional Accountants” issued by the International Federation of Accountants, thereby converging local requirements concerning professional ethics of accountants with the internationally recognized standards. In this regard, Hong Kong’s professional standards now reflect the best practices adopted by the most reputable accounting bodies in the world.• The accountancy profession plays a very important role in our country’s economic development. A sound accounting	<p>economic development of Hong Kong and our country.</p> <ul style="list-style-type: none">• While coping with the continuous development of enterprises, we must ensure that quality is assured in their financial reporting systems. In this regard, the accountancy profession plays a number of important roles. Company accountants help directors prepare financial statements conforming to the relevant regulations and accounting principles and showing the true and fair view of the company’s results and state of affairs. As independent “monitors”, auditors are responsible for ensuring the quality, accuracy and integrity of financial reporting. Non-compliances or ethical misconducts in any of these aspects will directly affect the confidence of

<i>Sectors</i>	<i>Opportunities</i>	<i>Challenges</i>
	<p>system and quality financial reporting is important in promoting corporate governance and protecting the interests of the investing public. With the present rapid development in the Mainland, the scope and scale of development of Mainland enterprises are continuously expanding. In the process of development when the Mainland is instituting an accounting system on par with international standards, there is a huge demand for quality professional accountants who are familiar with international accounting rules and standards.</p> <ul style="list-style-type: none">• The accountancy profession in Hong Kong, with its solid foundation, has rich international experience and sound knowledge of the International Financial Reporting Standards. Exchanges and co-operation between the accountants in Hong Kong and their counterparts in the Mainland will further expand our country's accountancy profession, upgrade its professionalism and broaden its international horizon, thereby enabling them to contribute towards the economic development of our country.	<p>the investing public in the financial markets and threaten market stability.</p>

Response and Actions Taken in Individual Professional Services Sectors on Expanding into the Mainland Market

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
(1) Legal Services	<p>(1) <u>Enhancing exchanges between the legal professions of Hong Kong and the Mainland</u></p> <ul style="list-style-type: none"> ● In the past few years, the Secretary for Justice and other officers of the Department of Justice (DoJ) paid visits to various major cities in the Mainland, including Hangzhou, Guangzhou, Nanjing, Shanghai, Shenzhen, Jilin, Chongqing, Tianjin and Hefei, and participated in large-scale promotion activities, such as Hong Kong Week and various seminars and forums, with a view to promoting the legal services of Hong Kong and assisting Hong Kong lawyers in exploring new business opportunities and strengthening their ties with their Mainland counterparts. <p>(2) <u>Promotion and implementation of CEPA</u></p> <ul style="list-style-type: none"> ● Since 2004 when CEPA came into effect, the DoJ has taken a number of steps to ensure that all sectors of the community are aware of the impacts of CEPA on the Hong Kong legal profession. These include briefing the legal profession of the contents of CEPA, 	<ul style="list-style-type: none"> ● In recent years, the legal profession of Hong Kong has been actively expanding into the Mainland market. Since the implementation of CEPA, 16 Hong Kong law firms have set up their representative offices in the Mainland. Together with those set up before the implementation of CEPA, currently there are a total of 69 representative offices of Hong Kong legal firms in 12 Mainland cities. Furthermore, 19 applications have been lodged by Hong Kong law firms to form associations with Mainland law firms (approval has already been given to 5 of them), and 53 applications have been lodged for a Certificate of Good Standing, indicating the intention to set up representative offices in the Mainland. ● Since 2002, the Law Society of Hong Kong has entered into Legal Services Co-operation Agreements with the lawyers associations of

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>participation in fora, publication of articles and dissemination of information on DoJ’s website on the five sets of management measures and decisions promulgated by the Ministry of Justice for the implementation of the CEPA provisions concerning trade in legal services.</p> <ul style="list-style-type: none"> ● The DoJ maintains a close tie with the legal professional bodies of Hong Kong and has conveyed their views on further liberalization of the legal services market on the Mainland within the framework of CEPA and the problems they encountered in its implementation to the Mainland authorities. Since the implementation of CEPA I, the Central Authorities, after considering the views of the legal profession of Hong Kong, have promulgated a number of new measures in the subsequent Supplements, enabling the legal profession to gain easier access to the Mainland market for further provision of legal services. ● Officers of the DoJ, together with the delegations of Hong Kong legal profession, have attended a number of seminars and conferences held in the Mainland and 	<p>26 provinces and municipalities in the Mainland in order to foster exchanges and cooperation between the legal professions of the two places. Through the establishment of a business information platform, reciprocal visits, seminars and other activities, the Law Society also promotes greater understanding of the latest developments of the Mainland legal services among Hong Kong lawyers and develops further inroads into the Mainland market.</p> <ul style="list-style-type: none"> ● The Law Society of Hong Kong has launched the Professional Development Training Program for Hong Kong and Mainland Lawyers since 2002. Under the program, mutual visits and exchanges for lawyers to law firms of the other side have been arranged. The program, which lasts for two to four weeks, enables lawyers to have a better understanding of the legal system and practice of the other side. So

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>Hong Kong to discuss with Mainland officials and professional bodies on the implementation of CEPA and the problems encountered.</p> <p><u>(3) To make arrangements for the State Judicial Examination to be held in Hong Kong</u></p> <ul style="list-style-type: none"> ● One of the major initiatives of CEPA is to allow Hong Kong residents to enter the State Judicial Examination. With the first batch of candidates taking the examination in Shenzhen in 2004, the Ministry of Justice accepted the DoJ's proposal of setting up an examination centre in Hong Kong from 2005 onwards to conduct the examination. (Note: <i>The DoJ and the Ministry of Justice signed the "Memorandum of Discussion on matters regarding the organization of Hong Kong residents sitting the State Judicial Examination" on 13 May 2005. The DoJ was entrusted by the Ministry of Justice to assist in organizing the arrangements for Hong Kong residents to sit for the examination to be held in Hong Kong, whereas the actual administrative work would be undertaken by the Hong Kong Examination and Assessment Authority.</i>) The above 	<p>far, a total of 160 lawyers from 14 Mainland provinces and cities and 28 lawyers from Hong Kong have participated in the program.</p> <ul style="list-style-type: none"> ● The Hong Kong Bar Association has signed Legal Services Co-operation Agreements with 14 Mainland provinces and municipalities to strengthen the relations between the two sides in the area of legal practice. Through activities like exchange visits, participation in seminars and forums, etc., understanding of the demands of the legal services market on the Mainland was enhanced.

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>arrangements make it easier for Hong Kong candidates to enter the examination with a view to acquiring the Mainland legal professional qualification.</p> <p><u>(4) Development of Hong Kong as a centre of legal services for dispute resolution</u></p> <ul style="list-style-type: none"> ● To further enable the legal profession of Hong Kong to give full play to its advantages, the HKSAR Government has been actively promoting the development of Hong Kong as a regional centre of legal services for dispute resolution. We encourage parties to foreign-related contracts or joint ventures which conduct their business in the Mainland to negotiate and execute their contracts in Hong Kong, to choose the law of Hong Kong as the applicable law, and to choose our courts or arbitral institutions as the fora for dispute resolution. ● Arbitral awards of any party in the Mainland and Hong Kong are enforceable on the other side under the <i>Arrangement Concerning Enforcement of Arbitral Awards</i> signed by the Supreme People's Court and the HKSAR Government in 1999. On 14 July 2006, the two places also signed the Arrangement on Reciprocal 	

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned. Under the Arrangement, judgments by the courts of the Mainland and the HKSAR are mutually enforceable provided that the relevant requirements are met. The Arrangement will formally come into effect after the HKSAR has completed the relevant legislative procedures and the Supreme People’s Court has issued the relevant guidelines and interpretation.</p> <ul style="list-style-type: none"> ● It is believed that the Arrangement will reinforce the measures for the promotion of Hong Kong as a regional centre of legal services for dispute resolution and provide greater convenience for people who are involved in business dealings in the two places. <p>(5) <u>Entering into Legal Services Co-operation Agreements with the Mainland</u></p> <ul style="list-style-type: none"> ● The DoJ has entered into Legal Services Co-operation Agreements with the Ministry of Justice and the judicial authorities of 7 Mainland provinces and municipalities. 	

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>(Note: The DoJ entered into such agreements with the Ministry of Justice in December 2004 and with the Justice Bureaux/Departments of the following 7 provinces and municipalities respectively: Qingdao (in September 2002), Chongqing (in December 2002), Beijing (in October 2003), Nanjing (in December 2003), Shanghai (in December 2003), Zhejiang Province (in January 2004) and Shenzhen (in June 2004).) Under such agreements, the DoJ will exchange information on the legal system and legal profession with the judicial authorities concerned, actively foster professional exchanges between the legal services sectors of the two places, and study and follow up the implementation of CEPA in the relevant provinces and municipalities.</p>	
<p>(2) Construction and related Engineering Services</p>	<ul style="list-style-type: none"> ● The Government has fostered agreements or arrangements on mutual recognition of professional qualifications of the two places including estate surveyors, architects, structural engineers, planners, quantity surveyors and building surveyors. ● The Government further strengthens the connection and consultation with Hong Kong construction industry 	<ul style="list-style-type: none"> ● In the construction and related engineering design services sector, 23 Hong Kong consultants have acquired Grade A or B qualifications in the Mainland. ● The relevant Hong Kong professional institutes have reached mutual recognition agreements with their Mainland counterparts

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>stakeholders and the relevant Mainland authorities with a view to speeding up the liberalization of the Mainland construction market under the CEPA framework.</p> <ul style="list-style-type: none"> ● The Government encourages exchange and collaboration between the two places at different levels. ● The Environment, Transport and Works Bureau (ETWB) has signed a co-operation arrangement with the Ministry of Construction in May 2002 with a view to promoting mutual recognition of professional qualifications for construction and related engineering professions. ● ETWB has maintained close liaison and held meetings with the Ministry of Construction, the State Bureau of Surveying and Mapping and the relevant professional bodies of the Mainland and Hong Kong 	<p>for estate surveyors, architects, structural engineers, planners, quantity surveyors and building surveyors. They have also arranged their members to participate in the training and test sessions in order to facilitate them in acquiring the professional qualifications of the Mainland.</p> <ul style="list-style-type: none"> ● The Hong Kong Professional institutes and their Mainland counterparts continue their discussion and exchange with a view to reaching more agreements on mutual recognition of professional qualifications.
(3) Medical Services	<ul style="list-style-type: none"> ● Whilst the Mainland has yet to develop a uniform and regularized system for training of specialist doctors, Hong Kong has a longer history in this respect, and our statutory Academy of Medicine and Specialist Register have been in place for over a decade. To facilitate the establishment of the specialist registration system in the 	<ul style="list-style-type: none"> ● The medical profession has organized a delegation to the Mainland for professional exchanges in order to better understand the Mainland’s medical system development direction and needs, and to explore the opportunities for collaboration. Since the

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>Mainland and to enhance its operation, the Ministry of Health (MOH) and the Hong Kong Academy of Medicine signed a <i>Memorandum of Understanding between Ministry of Health and Hong Kong Academy of Medicine on a Pilot Programme for Specialists Registration System</i> in April 2006. The objective of the Memorandum is to help MOH develop a medical examination and registration system for specialist doctors in the Mainland. It will enable Hong Kong and the Mainland to complement each other with their respective advantages, facilitate connection between their professional systems as well as promote professional exchanges, thereby not only making direct contribution to the development of the medical sector in the Mainland but also enhancing the professional image of Hong Kong's medical profession.</p> <ul style="list-style-type: none"> ● The Red Ribbon Centre of the Department of Health, with the sponsorship of the Lions Club International District 303 Hong Kong and Macau, has been implementing the <i>Lions Red Ribbon Fellowship Scheme</i> since 1999 to support experienced professionals from the 	<p>signing of CEPA, although the overall number of applications is still not high, there has been a steady growth in the number of medical professionals who apply to take the national qualification examination for medical practitioners. Separately, some medical practitioners have been already capitalizing on the favourable concessions under CEPA to engage in short-term practice in the Mainland with a view to exploring the possibilities of further expanding their practice there.</p> <ul style="list-style-type: none"> ● To improve the health care in the rural areas, Hong Kong's medical professionals have been playing an active role in employing their professional knowledge to participate in volunteer work. In April 2006, more than ten medical practitioners from Hong Kong joined a Henan study tour paying a visit to the Henan AIDS village, where they inspected the work on HIV/AIDS control

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	<p>Mainland to further their training and research activities on HIV/AIDS control in Hong Kong. The aim is to facilitate experience sharing between Mainland and local medical professionals, enhance technical exchange on HIV/AIDS prevention and control, and encourage collaboration and networking.</p> <ul style="list-style-type: none"> ● Representatives from the Health, Welfare and Food Bureau have briefed the healthcare sector on the details of CEPA at functions organized by the sector. The Medical Council of Hong Kong, Chinese Medicine Council of Hong Kong and Dental Council of Hong Kong provide assistance to the practitioners in enrolling in the national qualification examination for medical practitioners. 	<p>from a medical perspective and developed proposals and schemes for the prevention and treatment of AIDS. The medical sector also provides positive support for charitable organizations. For example, doctors from Hong Kong have worked side by side with Mainland medical and nursing staff on “Lifeline Express” to provide free operations to poverty-stricken cataract patients living in remote villages of the Mainland, and upgrade the medical standard of the rural areas through exchanges on medical skills and experience.</p>
<p>(4) Accountancy Services</p>	<ul style="list-style-type: none"> ● The HKSAR Government signed an agreement for the exemption of professional examination papers, in respect of the qualification programmes of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Chinese Institute of Certified Public Accountants, with the Mainland's Ministry of Finance in August 2004. CEPA II, which took effect from 1 January 2005, has 	<ul style="list-style-type: none"> ● The Hong Kong Institute of Certified Public Accountants (HKICPA) has all along been assisting in the development of the accountancy profession and financial reporting standards in the Mainland. The efforts made in this area by the HKICPA and its members conducting business in the

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
	<p>provided for further liberalisation measures. These include allowing consultancy companies established by Hong Kong accountants to provide bookkeeping services in the Mainland; deeming the auditing experience acquired by Hong Kong accountants in Hong Kong as the same acquired in the Mainland for the application of a practising licence in the Mainland; and allowing eligible Hong Kong residents to take the relevant Mainland accountancy qualification examinations. Moreover, since the implementation of CEPA III on 1 January 2006, the validity period of the “Temporary Business Permit”, applied by Hong Kong accounting firms for the purpose of conducting business on a temporary basis in the Mainland, has been extended from one year to two years. The above measures will help Hong Kong accountants gain a wider access to the Mainland market.</p> <ul style="list-style-type: none"> ● To maintain Hong Kong’s position as a major international financial centre and the premier capital formation centre of our country, the SAR Government is committed to ensuring that the regulatory system of the 	<p>Mainland have produced notable results. By introducing the highest international standards and the best practices into the Mainland, they have helped promote the development of the accountancy profession there.</p> <ul style="list-style-type: none"> ● The HKICPA has built up a close working partnership with its Mainland counterparts, and has actively helped them align their financial reporting standards with the International Financial Reporting Standards. In May 2006, the HKICPA signed a joint declaration on the convergence of accounting standards with the China Accounting Standards Committee (CASC). It states that the new China Accounting Standards have substantially converged with the Hong Kong Financial Reporting Standards. In addition, the HKICPA and a number of its Mainland counterparts have conducted visits in the two places from time

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	<p>accountancy profession of Hong Kong is on a par with international standards. The Financial Reporting Council will be set up in accordance with the Financial Reporting Council Ordinance enacted in July 2006 to strengthen the investigation of irregularities of auditors and non-compliances of financial statements relating to listed corporations and collective investment schemes. It is expected that the Financial Reporting Council will come into operation in early 2007.</p> <ul style="list-style-type: none"> As at August 2006, about 50 Hong Kong accountancy firms have established business presence in the form of member offices, cooperation offices, liaison offices or representative offices in Guangdong Province. Such a move not only rides on the steady pace of the economic development in the province and introduces into the province international professional standards and the best practices, but also helps the access of Hong Kong's accountancy firms into the mainland market, resulting in a win-win situation for both sides. 	<p>to time and co-organised training courses and practice programmes so as to achieve a win-win situation through complementing each other's strengths. The HKICPA had signed agreements on mutual recognition of membership with eight prestigious chartered accountancy bodies in the world. In addition, mutual exemption is granted to certain papers in the Qualification Programme of the HKICPA and their equivalents in the examination of the Chinese Institute of Certified Public Accountants.</p> <ul style="list-style-type: none"> In May 2006, the HKICPA, together with the Institute of Chartered Accountants in England and Wales (ICAEW), successfully hosted the "China and the Global Capital Markets" Conference in Hong Kong, bringing together senior government officials, representatives of regulatory bodies, academics, investors and Chinese

<i>Sectors</i>	<i>Response and Actions by the Government</i>	<i>Response and Actions by the Industry</i>
		<p>enterprises active in international capital markets to discuss how China’s thirst for capital was affecting global capital markets and related topics such as the role of the accountancy profession in upgrading the financial reporting system of Chinese enterprises.</p> <ul style="list-style-type: none"> ● The HKICPA will also assist its members in accessing and expanding business in the Mainland market through, for example, setting up a “China Desk” to provide them with free information services, and disseminating through its website updated information about the Mainland laws. In Hong Kong, there are now more than 40 accounting firms which, through the establishment of management consultant companies, member firms or affiliated firms, provide Mainland enterprises with professional accountancy services.

For Focus Group Discussion
- Professional Services, Information
& Technology and Tourism

Paper Ref.: 2006ES/9

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Innovation, Technology and Information Services

Executive Summary

(Translation)

This paper provides an initial analysis of the 11th Five-Year Plan and the opportunities and challenges concerning the development of Hong Kong from the perspective of the Government and public sector, with a view to stimulating discussions among various sectors in the community on this front and facilitating the Economic Summit to formulate a concrete and practicable “action agenda” in the coming months.

Present Position, Opportunities and Challenges

2. The Hong Kong industries have relocated most of their production lines northwards, taking advantage of the low production cost in the Mainland. The majority of them are engaging in original equipment manufacturing (OEM). In the face of competition from other regions and in order to maintain Hong Kong’s competitive advantages in the global arena, innovation and technology are the crucial factors for promoting sustainable economic development and industry upgrading.

3. The national 11th Five-Year Plan puts emphasis on implementing the “Outline Plan on National Long-term and Medium-term Science and

Technology Development” (國家中長期科學和技術發展規劃綱要) which focuses on autonomous innovation (自主創新) and upgrading the overall hi-tech capability and technology level of the industries. Many Mainland provinces and municipalities have devised their own strategies for promoting innovation and technology. In particular, Guangdong Province has pledged in its 11th Five-Year Plan to speed up the course of acquiring autonomous innovation capacity, to develop high value-added and hi-tech industries, and to enhance regional cooperation. Shenzhen has also proposed to build a “Shenzhen-Hong Kong Innovation Circle” (深港創新圈), with a view to promoting overall economic development and competitiveness.

4. Hong Kong possesses many favourable elements that are conducive to the development of innovation and technology. We can play an active role in supporting national technological development by providing services in research and development (R&D) and technology transfer, technological information exchange and exchange of intellectual property (IP). On the other hand, the technology level of the Hong Kong industries is generally low and many of them are still engaging in high input but low value-added (高投入, 低增值) production activities. With globalization and the growing concern of the Mainland (particularly the Guangdong authorities) about environmental protection, enterprises need to respond to these challenges through strengthening their R&D efforts, using design effectively and progressing to higher value-added activities.

5. At the same time, as the Mainland economy continues to enjoy vigorous growth, there is an increasing demand by Mainland enterprises for information technology (IT) and related services. The Mainland has also been actively promoting the development of the digital content and animation industries in recent years. With our strength in the provision of information services, Hong Kong is well-placed to support the development of these industries in the Mainland. Moreover, as Mainland enterprises are gradually implementing the “Go Global” (走出去) policy, Hong Kong can act as the launching pad for them to expand overseas.

6. While recognizing our advantages and opportunities ahead, we also need to face the challenges arising from the implementation of the 11th Five-Year Plan. Generally speaking, human capital is relatively more costly in Hong Kong as compared with the Mainland. With the development of the Mainland in recent years, the comparative advantages of our IT professionals in global vision, technical skills and English

proficiency are under threat.

Responses/Actions taken by the Government and other sectors

7. The Hong Kong Special Administrative Region Government (HKSARG) has been striving to strengthen our technological infrastructures and funding support programmes including the Innovation and Technology Fund, the Hong Kong Applied Science and Technology Research Institute, the Hong Kong Science Park, the DesignSmart Initiative and the InnoCentre, etc. The HKSARG has recently implemented a new strategy to further promote innovation and technology development by setting up five new R&D Centres to focus on technology areas that Hong Kong has competitive edges and has the potential to meet market needs. These technology areas include automotive parts and accessory systems, logistics and supply chain management enabling technologies, nanotechnology and advanced materials, information and communications technologies, and textiles and clothing. The five R&D Centres together with the existing Hong Kong Jockey Club Institute of Chinese Medicine provide one-stop services including undertaking industry-oriented applied R&D, promoting technology transfer and commercialization, providing technology and market information, and establishing an exchange platform for IP and technology. The R&D Centres will work closely with the industries in the Greater Pearl River Delta (PRD) region in conducting applied R&D projects, with a view to facilitating them to upgrade their technology level, develop new products and services, and move up the value chain.

8. Meanwhile, the HKSARG has established collaboration mechanisms with the Mainland at different levels, including the Mainland/Hong Kong Science and Technology Cooperation Committee, the Pan-PRD Joint Conference on Regional Cooperation in Science and Technology, and the Guangdong/Hong Kong Expert Group on Cooperation in Innovation and Technology. In particular, the HKSARG and the Ministry of Science and Technology have agreed to enhance cooperation in four technology areas, namely radio frequency identification (RFID) technologies, automotive parts and accessory systems, integrated circuit design and Chinese medicine. The Pan-PRD Joint Conference is taking forward the Planning Study on Pan-PRD Cooperation in Science and Technology for 2006-2010, while the governments of Guangdong Province and HKSAR have launched the Guangdong/Hong Kong Technology Cooperation Funding Scheme to support applied R&D projects in

technology areas of mutual interest. Furthermore, enterprises are putting more and more emphasis on the development of new technologies and design, while research institutes are proactively enhancing technology cooperation with the relevant organizations in the Mainland.

9. The HKSARG will also keep up its efforts to promote the development of IT and telecommunications sectors. It will provide support on various fronts to help the local IT sector expand into the Mainland market, strengthen Hong Kong's role as China's service centre, and promote Hong Kong as the two-way platform for Mainland enterprises to "bring in foreign investment" (引進來) and "go global" (走出去).

10. On IT, the HKSARG supports the development of a secure and reliable IT infrastructure and a set of common standards. We also seek to develop an information infrastructure with an open common interface. The HKSARG is also committed to promoting e-commerce. On communications, Hong Kong's telecommunications market is fully liberalized by being completely open to competition. The HKSARG will keep up efforts to promote effective competition and put in place regulatory and policy framework as and when required to encourage the industry to invest in a competitive, advanced and high bandwidth telecommunications infrastructure. Hong Kong telecommunications service providers possess considerable experience in the international market and sharp market sense. If they are allowed to operate in the Mainland, this will bring innovative and diverse product choices to the Mainland telecommunications services market.

11. Besides, the IT and related services sector can make good use of the liberalization measures under CEPA. With the help of the Hong Kong/Guangdong Expert Group on Cooperation in Informatisation, the IT and related services sector can also promote joint efforts of both places to explore the software outsourcing market and to foster the development of digital entertainment.

Recommendations

12. To enable Hong Kong to seize the opportunities in innovation and technology development, we recommend the following measures from the Government's perspective: to improve the Guangdong/Hong Kong Technology Co-operation Funding Scheme and explore the feasibility of extending the scheme to the Pan-PRD region; to establish joint

Guangdong/Hong Kong technological innovation platform to provide more effective support for the development of new technologies in both places; to establish closer cooperation with Shenzhen and formulate concrete measures for the establishment of the “Shenzhen-Hong Kong Innovation Circle”; to increase participation in Mainland’s technology development plans and the formulation of national standards; and to further promote cooperation of R&D institutes and professional organizations between the Mainland and Hong Kong.

13. On IT and related services, we recommend the following measures: to allow Hong Kong enterprises to engage in more informatisation development projects in the Mainland and to promote using Hong Kong as an international exhibition and transaction platform for showcasing and promoting IT products and services of Mainland enterprises to the world; to work with research institutes and universities to seek to participate in national planning in relation to the development of the information and digital content industries and formulation of IT standards, which will help them keep abreast of the focus of the relevant R&D activities in respect of IT and digital media technology as well as the market trend in the Mainland; industry to pitch their performance at a higher technical and servicing level and to build up their own brands so as to be competitive when faced with the low-cost services of the Mainland; and to strengthen cooperation in the provision of telecommunications services, including basic and valued-added services, in the Pan-PRD region, so as to speed up the expansion of the telecommunications markets and help the Mainland telecommunications industry prepare for full implementation of their WTO commitments and opening up of the domestic market in future.

14. Members are invited to offer comments on the aforesaid recommendations and suggest other measures for further consideration.

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- Professional Services, Information
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**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Innovation, Technology and Information Services

(Translation)

Preamble

This paper provides an initial analysis of the 11th Five-Year Plan and the opportunities and challenges concerning the development of Hong Kong from the perspective of the Government and public sector, with a view to stimulating discussions among various sectors in the community on this front and facilitating the Economic Summit to formulate a concrete and practicable “action agenda” in the coming months.

Background

2. Since early 1980s, the Hong Kong industries have relocated most of their production lines northwards. According to a research study “Made in Pearl River Delta” conducted by the Federation of Hong Kong Industries, there are more than 60,000 Hong Kong-invested enterprises in the Pearl River Delta (PRD) region. Taking advantage of the low production cost in the Mainland, the majority of them are engaging in original equipment manufacturing (OEM) while their trading and business headquarters are mainly based in Hong Kong. In general, their offices in Hong Kong provide support to the production lines in the Mainland, including product design and development, production planning, sales and marketing and quality control.

3. In the present knowledge-based economy, with the changes in global markets and competition from other regions, innovation and technology are the crucial factors in promoting sustainable economic development and industry upgrading. Not only can innovation and technology bring us new products and services, create new business opportunities and expedite the development of the local pillar industries, they also spawn emerging industries as a new driving force to economic growth and help maintain Hong Kong's competitive advantages in the global arena.

4. Excellent communication and information dissemination systems are indispensable for the development of an international finance, trading and shipping centre. Being a regional telecommunication hub and information centre, Hong Kong possesses sophisticated and competitive communication infrastructures, freedom of communication as guaranteed by the Basic Law and free flow of information. Businesses here can acquire the latest news and information anytime. The Hong Kong Special Administrative Region Government (HKSARG) is committed to promoting the development of information technology (IT) and telecommunications so as to create a better business environment and to maintain and reinforce our role as an international finance, trading and shipping centre. In 2000, the local IT and related services contributed HK\$7.59 billion to our economic growth, but the corresponding figure went down to HK\$6.22 billion in 2001, or 18% decrease. According to the statistics of the Census and Statistics Department, the economic value of the industry has returned to an upward trend in recent years. Between 2002 and 2004, the industry made economic contributions of HK\$6.91 billion, HK\$7.12 billion and HK\$7.59 billion respectively, close to the level of 2000.

5. Hong Kong's achievements in IT have also received international recognition: the Economist Intelligence Unit ranked Hong Kong 10th in the world and 2nd in the Asia Pacific region in its e-readiness Index in 2006; the Digital Opportunity Index 2006 of the International Telecommunication Union ranked Hong Kong 5th in the world and 3rd in the Asia Pacific region; and the 2005-06 Networked Readiness Index of the World Economic Forum ranked Hong Kong 11th in the world.

6. Since the 1990s, the software and information services industry¹ of the Mainland has been growing rapidly. The sales of software and information services grew from RMB10.7 billion in 1994 to RMB110 billion in 2002, representing an average annual growth rate of about 32.4% which is higher than the average growth rate of the national Gross Domestic Product (GDP) during the same period.

7. Although Hong Kong's overall research and development (R&D) capabilities, particularly in basic research, is not comparable with those of other advanced countries and economies, our achievements in some technology areas and research projects have reached world-class levels. Meanwhile, local enterprises have kept on developing, introducing and applying advanced technologies to enhance their competitiveness. For instance, the finance and trading sectors have been using information technology widely to improve the transaction system; and the logistics and shipping sectors have been adopting advanced logistics and supply chain management enabling technologies to enhance efficiency. These efforts are essential for strengthening Hong Kong's position as an international finance, trading and shipping centre. In view of the emphasis of the national 11th Five-Year Plan on innovation and technology and Hong Kong's advantages of extensive international connection, robust intellectual property (IP) protection regime and profound market experiences, Hong Kong is well-placed to proactively promote innovation and technology development, thereby enhancing the competitiveness of the relevant local industries and contributing to the development of the Mainland.

11th Five-Year Plan and the situation in the Mainland

8. The Ministry of Science and Technology (MOST) has recently promulgated the "Outline Plan on National Long-term and Medium-term Science and Technology Development" (國家中長期科學和技術發展規劃綱要) to set out the future roadmap for the national development of science and technology. It upholds the principle of "autonomous innovation, multi-foci development, industrial-oriented support and forward looking" (自主創新、重點跨越、支撐發展、引領未來), which mainly refers to:

¹ In the Mainland, the definition of "information industry" is broad enough to cover a variety of industries including electronics, communications, computer products, integrated circuit, components and parts, information services etc. Software industry is generally included in information services according to the Mainland framework of national statistics.

- promoting originality, introducing advanced technologies, and acquiring more autonomous IP rights in key areas;
- focusing on key areas with sound foundation and advantage that are relevant to national economy, welfare and security;
- basing on genuine and practical needs; and
- creating new market needs and cultivating new industries.

9. The national 11th Five-Year Plan places emphasis on implementing the Outline Plan, expediting the building up of the national innovation system, promoting closer integration of technology and the economy, and upgrading overall hi-tech capability and technology level of the industries. In view of the overall social development and strategic needs, the future development foci include energy and environmental protection, equipment manufacturing and information industry, biotechnology, aerospace and marine technologies, and foundation science and advanced technology researches. The 11th Five-Year Plan and the Outline Plan have identified a number of major projects in various areas (e.g. chips, integrated circuit fabrication and wireless mobile communications) and set out various measures including setting up a market-oriented technological innovation system with enterprises as the major participant supported by industry, universities and R&D institutes; perfecting the policies to facilitate technology transfer and industrialization of advanced technology, and increasing investment in technology and infrastructure; stepping up IP protection; and breeding a pool of technology talents.

10. Many provinces and municipalities like Guangdong, Beijing and Shanghai have formulated their own policies to facilitate technological innovation through the provision of R&D infrastructure and resource input. In particular, Guangdong Province has pledged in its 11th Five-Year Plan to speed up the course of acquiring independent innovation capacity. It will proactively develop high value-added and hi-tech industries such as automobile, equipment manufacturing, electronic information and new materials, thereby creating new innovative industries and enhancing regional cooperation to upgrade the level of Guangdong-Hong Kong collaboration. Building a city with autonomous innovation capability has become a goal for many cities within the province. In early 2006, the Shenzhen Municipal Government proposed to build a “Shenzhen-Hong Kong Innovation Circle” (深港創新圈). It is proposed that Shenzhen and Hong Kong should consolidate their technological resources and

complement each other's strengths, with a view to developing the two cities into a region with ample innovation resources and dynamic innovation activities and promoting the overall economic development and competitiveness of both places.

11. On IT and related services, the 11th Five-Year Plan highlights the following:

- to perfect the information infrastructure and to actively push ahead the “Convergence of Three Networks”. These include constructing and perfecting the broadband communication network; speeding up the development of users’ access to the broadband network and steadily taking forward the construction of the new generation mobile communication network; constructing the digital TV network that supports cable, terrestrial and satellite transmissions; building up the next generation internet and expediting commercialized application; and formulating and improving network standards and promoting interoperability and resource sharing;
- to develop information services actively. These include improving basic service, developing value-added service, exploring new service and promoting universal service for the post and telecommunications; re-structuring the telecommunications industry and developing the internet industry; actively developing e-commerce; building up the infrastructure, the legal environment, the creditability and the security certification system, as well as setting up a safe and convenient online payment service platform for e-commerce; and
- to encourage the development of digital content industry in the education, culture, publication, broadcasting, film and television sectors, and to enrich the resources of Chinese digital content and promote the development of animation industry.

Opportunities and Challenges

12. The PRD region is one of the most efficient manufacturing bases in the world, accounting for one-third of Mainland’s total export. Hong Kong industries, with manufacturing base in the PRD region, are renowned for efficiency and flexibility. They have built up a significant market

share and good reputation in the world market. Meanwhile, PRD's pillar industries, including textiles and clothing, communication devices, computers and other digital devices and automobile manufacturing, are experiencing rapid growth and taking leading role in the Mainland industries. With the implementation of the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA) and Hong Kong's strengthened foundation in R&D, the economic development of the neighbouring regions has brought enormous opportunities to Hong Kong, particularly for those enterprises engaging in the manufacturing of high value-added and hi-tech products.

13. Hong Kong possesses many advantages that are conducive to the development of innovation and technology. These include pools of R&D talents, robust IP protection regime, sound financing environment, free information flow and close connection with overseas universities and research institutes. Hong Kong can take an active role in the promotion of national technological development by providing services in R&D and technology transfer, technological information exchange and IP exchange, and enhancing collaboration with other regions, thereby expediting industrial development in Hong Kong and the Mainland, in particular the PRD region.

14. Hong Kong enterprises and Hong Kong-invested enterprises operating in the Mainland are facing a number of challenges. Many low-tech, labour-intensive enterprises are currently relying on low-cost production and imported technologies. They are engaging in high inputs but low value-added productions (高投入, 低增值) and have yet to develop their own brands. In the face of the changes brought by globalization and the severe competition from other low-cost regions, one of the possible means for enterprises to excel in the global market is to enhance product competitiveness by strengthening their R&D efforts, using design effectively and moving up the value chain from OEM to original design manufacturing (ODM).

15. Moreover, the Guangdong Provincial Government has recently promulgated policies for transforming industry, enhancing environmental standards and controlling pollution. For such purposes, they are relocating low-end and high pollution enterprises to remote areas, such as rural hilly areas and eastern and western parts of the province. Affected Hong Kong-invested enterprises will have to face problems such as shortage in talents and technology and insufficient infrastructure. Under

such circumstances, enterprises are in urgent need to respond to these challenges through developing new technologies to minimize pollution, adopting innovation and technology effectively for industry upgrading and transformation, and progressing to higher value-added activities.

16. In the course of exploring ways for Hong Kong to seize the opportunities and meet the challenges, one of the critical elements is to realize the national emphasis on the change of growth mode which pinpoints the need and importance of innovation and technology and industry upgrading. Against this background, we set out below several key issues for members' reference:

- given the existing advantages of our technological infrastructure and innovation system, how can Hong Kong meet the challenges brought by the Mainland in enhancing its autonomous innovation capacity? Relevant issues include:
 - whether it is necessary to adopt measures to encourage enterprises to put in more resources on R&D?
 - how can the recently established R&D Centres help Hong Kong and Mainland enterprises undergo industry upgrading?
 - how to capitalize Hong Kong's advantages and leverage on the development in our neighbouring regions, such as the Guangdong Province and the Pan-PRD region, so as to promote the local R&D industry?
 - how to take on board Mainland's growing concern on quality improvement to promote optimization and upgrading of the local industries?
- how can Hong Kong play a more active role in the Mainland in promoting innovative design and sophisticated brand management which are also crucial elements for industry upgrading?

17. Regarding IT and related services, Hong Kong shares the same origin and language with the Mainland, which is an advantage over developed countries such as the United Kingdom and the United States. When compared with the Mainland, Hong Kong's advantages include its international outlook, competitive infrastructure, and a corporate governance and project management system and a quality management regime that are in line with international standards. Hong Kong could

capitalize on these edges to meet the emerging opportunities and challenges and maintain its uniqueness.

18. As the Mainland economy continues to enjoy vigorous growth, with the liberalizing market and expanding foreign trade, there is an increasing demand by Mainland enterprises for different kinds of services, especially IT and related services. Moreover, the Mainland has been actively promoting the development of digital content and animation industries in recent years. With our strengths in the provision of information services, Hong Kong is well-placed to support the development of these industries in the Mainland. As Mainland enterprises are gradually implementing the “Go Global” (走出去) policy, Hong Kong can act as a launching pad for them to expand overseas.

19. Meanwhile, we also have to face the challenges arising from the implementation of the 11th Five-Year Plan. Generally speaking, human capital is relatively more costly in Hong Kong as compared with the Mainland. With the development of the Mainland in recent years, the quality of human resource has been improving. The comparative advantages of our IT professionals in global visions, technical skills and English proficiency are under threat. Hong Kong’s IT sector could pitch its performance at a higher technical and servicing level etc, so as to create a win-win situation by complementing the IT and related services in the Mainland.

Responses /Actions taken by the Government and Other Sectors

Innovation and Technology

20. The HKSARG is committed to creating a conducive environment for innovation and technology development, mainly through strengthening technological infrastructure and providing funding support for applied R&D. After a comprehensive review, the HKSARG has recently implemented a new strategy to further promote the development of innovation and technology. It is also noteworthy that enterprises are now attaching greater importance on developing new technologies and designs, whereas R&D institutes are actively enhancing technology cooperation with their counterparts in the Mainland.

Technological Infrastructure and Funding Support

21. The HKSARG set up the Innovation and Technology Fund (ITF) in 1999 to support projects that help develop innovative ideas and technology and industry upgrading. Over the past six years, the ITF has provided about \$2.5 billion to support more than 800 projects carried out by universities, research institutes and enterprises.

22. The HKSARG has also strengthened technological infrastructure to support the development of technology enterprises and research activities. In 2000, the Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI) was set up to perform industry-related high quality R&D for transfer to industry for commercialization. The ASTRI aims to elevate the technology level of our industry and stimulate the growth of technology-based industry in Hong Kong. In addition, Phase One of the Hong Kong Science Park and the Cyberport were completed and opened in 2002, offering quality facilities and comprehensive support to technology companies. Phase One of the Science Park has about 84,000m² lettable area, with shared technical support facilities such as the Integrated Circuit Design and Development Support Centre, Product Analysis Laboratory and Intellectual Property Services Centre. With these facilities, the initial operating cost of the technology companies in the Science Park can be lowered and the time for launching R&D projects can be shortened. At present, over 100 overseas, Mainland and local technology companies have moved into Phase One of the Science Park (including three Mainland companies) and the occupancy rate reaches 90%. To cater for the increasing demand, construction of Phase Two of the Science Park is underway. Around 78,000m² lettable area will be provided and the construction is expected to be completed in 2007-08. The Cyberport, offering approximately 94,000m² lettable area, is equipped with advanced facilities including the Digital Media Centre and the Hong Kong Wireless Development Centre as well as server hosting service. The Cyberport currently has about 60 tenants (including three Mainland companies).

23. To assist technology start-ups in business development, the HKSARG has set up the Small Entrepreneur Research Assistance Programme (SERAP) to provide seed money for small technology entrepreneurs to carry out R&D on innovative technology products, processes and services. SERAP has supported more than 200 companies with a total funding of about \$200 million. Furthermore, the incubation

programme launched by the Hong Kong Science and Technology Parks Corporation (HKSTPC) aims to nurture technology start-ups by providing low-cost office accommodation as well as administrative management, marketing, financial and technical assistance. Over 200 companies have participated in the programme.

24. Apart from R&D on technology, design is also crucial to the upgrading of products and services. In 2004, the HKSARG allocated \$250 million to launch the DesignSmart Initiative to promote wider use of design in industries. The Initiative has provided \$51 million to support design/business collaboration, focus studies and promotion of design excellence. Moreover, the InnoCentre was just set up in early 2006 as a design cluster to provide one-stop design service to industries and offer incubation programme to design start-ups. More than 10 incubatees and tenants have already moved into the InnoCentre.

New Strategy of Innovation and Technology Development

25. In order to promote the sustainable development of innovation and technology and effective use of resources, the HKSARG issued a consultation paper in mid-2004 on the proposal of implementing the new strategy of innovation and technology development. The new strategy emphasizes on five elements, namely identification of technology focus areas for priority development, demand and market driven, industry participation, leverage on the Mainland, and better coordination among different elements of the innovation and technology programme. The consultation paper listed out 13 technology areas which could be considered for focused development for extensive consultation. During the three-month public consultation period, the Innovation and Technology Commission (ITC) received over 160 written submissions from the R&D sector, industries and the public. They generally supported the proposed new strategy, including the selection of technology areas that Hong Kong has competitive edges and has the potential to meet the market needs for priority development. Having regard to the opinions from various sectors, the HKSARG decided to set up five new R&D centres hosted by local universities and research institutions that possess considerable research capabilities and foundation. The five R&D centres are:

- the R&D Centre for Automotive Parts and Accessory Systems hosted by the Hong Kong Productivity Council (HKPC);

- the R&D Centre for Logistics and Supply Chain Management Enabling Technologies jointly hosted by the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong University of Science and Technology;
- the R&D Centre for Nanotechnology and Advanced Materials hosted by the Hong Kong University of Science and Technology;
- the R&D Centre for Information and Communications Technologies hosted by the ASTRI; and
- the R&D Centre for Textiles and Clothing hosted by the Hong Kong Polytechnic University.

26. Each R&D Centre operates independently and provides support and solutions that meet the specific requirements of the respective industries. A board of directors and a technology committee are appointed in each Centre. Comprising Government representatives as well as academic and industry leaders in the relevant technology areas, the boards of directors are responsible for setting the overall development direction of the Centres. The technology committees comprise representatives from academia and industry in the relevant technology areas, and they are responsible for assessing and monitoring the progress of R&D projects. This management structure can strengthen cooperation between the Government and the industries, ensuring that R&D projects are supported by the industries.

27. The five new R&D Centres commenced operation in April 2006. Together with the Hong Kong Jockey Club Institute of Chinese Medicine established in 2001, they provide one-stop services to industries, including undertaking industry-oriented applied R&D, promoting technology transfer and commercialization, providing technology and market information and establishing an exchange platform of IP and technology. The ITF has reserved about \$2 billion to support the operation and the research funding of the Centres.

28. The R&D Centres are open to enterprises and research institutions which are welcome to participate in the Centres' projects by contributing IP, capital and talents. Participating institutions can make use of the R&D deliverables according to the proportion of resources they contribute. By making use of the Centre's research talents and facilities, enterprises can also commission the Centres to undertake specific R&D

projects. Enterprises are also welcomed to join the Centres as ordinary members to gain access to the latest technology information, take part in the Centres' activities and keep themselves abreast with the latest R&D deliverables.

29. Apart from local research talents, the R&D Centres also engage notable research institutions and technology companies from the Mainland, Europe and the United States. Through diversified modes of cooperation, the Centres can facilitate technology exchange and introduce advanced knowledge and technologies into Hong Kong and the PRD. The Centres aim to serve as a regional platform of applied R&D, technology transfer and commercialization, offering services to enterprises in the Greater PRD. The Department of Science and Technology of Guangdong Province and several municipal governments in the PRD region have shown great support to the Centres' work. In May and June this year, ITC organized seminars in four PRD cities to promote the services offered by the Centres and the collaboration opportunities for the enterprises.

Technology Cooperation between Hong Kong and the Mainland

30. Strengthening cooperation with the Mainland is one of the vital elements of the new strategy. In this regard, the HKSARG has established collaboration mechanisms with the MOST, Pan-PRD region and Guangdong Province:

- Ministry of Science and Technology – MOST and the Commerce, Industry and Technology Bureau of the HKSARG set up the Mainland/Hong Kong Science and Technology Cooperation Committee in 2004 to formulate and coordinate technology collaboration programme between the Mainland and Hong Kong. In addition to MOST, Mainland members of the Committee include other departments responsible for technology development such as the Ministry of Education and the Chinese Academy of Sciences. At its first two meetings held in Beijing and Hong Kong, the Committee has agreed to enhance cooperation in four technology areas, namely radio frequency identification (RFID) technologies, automotive parts and accessory systems, integrated circuit design and Chinese medicine, and four working groups have been set up to devise cooperation measures. To enhance exchange and

co-operation between Hong Kong and the Mainland, the Committee has also agreed to organize a large-scale exhibition in Hong Kong during the National Science and Technology Week to be held in May next year to showcase the latest technology achievements;

- Cooperation with Pan-PRD region – Representatives from the Departments of Science and Technology of the nine Pan-PRD provinces, ITC of HKSAR and the Science and Technology Commission of Macao have formed the Pan-PRD Joint Conference on Regional Cooperation in Science and Technology to foster collaboration in innovation and technology in the Pan-PRD region. In July 2005, the nine Mainland provinces, HKSAR and Macao SAR completed the “Planning Study on Pan-PRD Regional Co-operation in Science and Technology for 2006-2010”. The Planning Study was endorsed at the 4th Joint Conference held in Hong Kong on 30 September 2005. With the aim to facilitate the nine provinces and the two SARs to complement each other’s strengths to achieve a win-win situation, the Planning Study put forward a number of recommendations including establishing technology collaboration platforms, promoting nurture of talents and technology exchanges, and conducting joint research on technologies that the Pan-PRD has competitive edges in the international market. The Pan-PRD provinces/SARs are working together to formulate working plans to take forward the recommendations. Hong Kong will be responsible for two projects, namely nanotechnology and advanced materials, and logistics and supply chain management enabling technologies, which are also the technology focus areas under our new strategy of innovation and technology development; and
- Guangdong-Hong Kong collaboration – The Guangdong Provincial Government and the HKSARG established the Guangdong/Hong Kong Expert Group on Cooperation in Innovation and Technology in 2003 with the objectives to encourage cooperation in innovation and technology between the two places and enhance the productivity and competitiveness of industries. Starting from 2004, the

Expert Group launches the Guangdong/Hong Kong Technology Cooperation Funding Scheme (TCFS) every year to support applied R&D projects in technology areas of mutual interest. Over the past two years, the governments of Guangdong Province and HKSAR have supported nearly 200 R&D projects with total funding of about \$660 million. A new round of TCFS has been launched this year and the two sides have earmarked \$800 million to support R&D projects under six technology areas. It is expected that the assessment will be completed at the end of 2006.

Inputs from Industries and Co-operation between Research Institutions

31. In addition to Government's efforts, the business sector has been laying more and more emphasis on innovation and technology in recent years. According to surveys conducted by the Census and Statistics Department, 43% of the responding enterprises had carried out innovation activities in 2004, representing a drastic increase when compared with 16% in 2001. The R&D expenditure by the business sector only accounted for 29% of the total R&D expenditure in Hong Kong in 2001, and the figure rose to 48% in 2004. The total R&D expenditure in Hong Kong also rose from \$7.1 billion in 2001 to \$9.5 billion in 2004, while the number of researchers (in full-time equivalent) increased from 11,000 in 2001 to 19,000 in 2004. Although Hong Kong's total R&D expenditure as a percentage to GDP grew from 0.56% in 2001 to 0.74% in 2004, it was still relatively low when compared with those of the nearby regions such as the Mainland (1.23%), Taiwan (2.54%), South Korea (2.85%) and Singapore (2.25%). Besides, the R&D expenditure by the business sector accounted for less than 50% of the total R&D expenditure, which was still much lower than the level of about 60-70% in other regions. Against such background, many organizations have put forth the need to further encourage the business sector to increase investment in R&D.

32. On the other hand, local research institutions and tertiary institutions are proactively building up closer partnership with the relevant organizations in the Mainland. For example, the HKSTPC, ASTRI and HKPC have separately signed agreements or memoranda with the industrial parks, R&D bases or research institutions in Beijing, Shanghai, Guangdong and Shenzhen to join hands in carrying out R&D on various areas including integrated circuit design, automobile electronics, digital entertainment, information technology, mobile communication and environmental

conservation.

Information Services

33. The HKSARG will keep up its efforts to promote the development of the IT and telecommunications sectors. It will also provide support on various fronts to help the local IT sector to expand into the Mainland market, strengthen Hong Kong's role as China's service centre, and promote Hong Kong as the two-way platform for Mainland enterprises to "bring in foreign investment" (引進來) and "go global" (走出去).

34. On IT, the HKSARG supports the development of a secure and reliable IT infrastructure and a set of common standards. We also seek to develop an information infrastructure with an open common interface, such as developing a common Chinese language interface, facilitating mutual recognition of electronic certification authorities, and developing the next generation internet.

35. The HKSARG is also committed to promoting e-commerce. We have, since 1997, phased in various electronic services for the submission of major trade documents. This is part of our efforts to encourage the business sector to optimize the use of IT to enhance their competitiveness. All major trade documents (including cargo manifests in the air, rail, ocean and river modes of transport, import and export declarations, dutiable commodities permits, certificates of origin and production notifications) are now lodged to the Government electronically. As at end 2005, about 20 million trade documents were submitted and processed through electronic means.

36. On communications, Hong Kong's telecommunications market is fully liberalized by being completely open to competition. The HKSARG will keep up efforts to promote effective competition and put in place regulatory and policy framework as and when required to encourage the industry to invest in a competitive, advanced and high bandwidth telecommunications infrastructure. Hong Kong telecommunications services providers possess considerable experience in the international market and sharp market sense. If they are allowed to operate in the Mainland (especially in the adjacent Pan-PRD region), this will not only create new markets for the industry, but also bring innovative and diverse product choices to the Mainland telecommunications services market.

37. The IT and related services sector has been making good use of the liberalization measures under CEPA. To date, four enterprises and ten individuals from the sector have obtained the computer information system integration qualification and relevant project manager qualification in the Mainland respectively, while another 19 Hong Kong people have obtained Mainland professional qualifications in computing technology and software.

38. Members from various professional institutions and trade associations of the local IT sector have set up the “Hong Kong/Guangdong Software Industry Cooperation Hong Kong-side Working Group” under the “Hong Kong/Guangdong Expert Group on Cooperation in Informatisation”. The Working Group aims to promote joint efforts of both places to explore the software outsourcing market and increase software export. The HKPC and the Hong Kong Information Technology Federation have launched an “IT Solution Directory”, with the integration of the directory with the “Guangzhou Software Enterprise Resources Network”, to form an information sharing and cooperation platform for the IT industries in the Pan-PRD region. This facilitates sharing of software resources, technology exchange, trade cooperation and promote software export. In addition, digital entertainment is one of the key cooperation areas under the Hong Kong/Guangdong Expert Group on Cooperation in Informatisation. The industries of both sides will jointly promote the cooperation and development of digital entertainment in the two places. The Hong Kong Cyberport Management Company Limited and the Shenzhen High-tech Industrial Park have already signed a strategic partnership agreement, with main collaboration areas on the exchange of information, business, and professional talent.

Way Forward

39. With the objective to further promote the development of innovation, technology and information services in Hong Kong so as to complement the 11th Five-year Plan and help strengthen Hong Kong’s position as an international finance, trading and shipping centre, the HKSARG has the following initial recommendations. Members are invited to offer comments on the recommendations and suggest other measures for further consideration.

Innovation and Technology

- To improve the Guangdong-Hong Kong Technology Cooperation Funding Scheme (TCFS) – The projects funded by the TCFS in the past two years are scheduled for completion starting from the end of this year. Guangdong and Hong Kong will review whether these projects achieve the expected results and, taking into account the experience gained, will explore how to improve the mode of operation and vetting procedures of the TCFS, so as to strengthen the cooperation of R&D institutions and enterprises in both places. At the same time, Guangdong and Hong Kong can explore the feasibility of extending the TCFS to the Pan-PRD region to foster technology cooperation and exchange between various provinces/SARs in the region;
- To establish technological innovation platforms for Guangdong and Hong Kong – In order to provide more effective support for the development of new technologies in both places, Guangdong and Hong Kong can explore the possibility of establishing technological innovative platforms, which could be based on the current R&D institutions and facilities as well as those under construction, and consolidating and coordinating the existing technological resources. The platforms can conduct R&D, provide technology exchange service, facilitate technological information exchange, attract and nurture talents and promote technology collaboration among local and foreign organizations. Since the Hong Kong R&D Centres are performing similar functions, as a first step, both sides can consider making them the R&D platforms for Guangdong and Hong Kong to enhance the technology levels in the region;
- To establish closer cooperation with Shenzhen – Given the geographical proximity, Hong Kong and Shenzhen have developed close economic relationship and there are frequent exchanges between people in the two places. There is much room for innovation and technology cooperation between the two places. Shenzhen and Hong Kong can set up a regular liaison mechanism to explore how to enhance technological

cooperation. During the discussions on concrete measures to establish the “Shenzhen-Hong Kong Innovation Circle” (深港創新圈), the two governments can explore the possibility of strengthening the exchange of talents, information and resources; promoting cooperation of R&D institutions in both places; sharing resources and fortifying IP protection;

- To increase participation in Mainland’s technology development plans and the formulation of national standards – The MOST and the Ministry of Information Industry are implementing various key technology development plans including the National Hi-Tech Research and Development Programme (863 Programme), the National Basic Research Programme (973 Programme), the National Key Laboratories Programme, and formulating National Standards for RFID, AVS, WAPI, etc. There are already collaborations in some of these areas between the Mainland and Hong Kong. Based on the current collaborations, consideration can be given to appealing to the relevant Mainland authorities for stepping up the cooperation in these programmes, such as inviting experts from Hong Kong to join the management structure of the 863 Programme and the 973 Programme; allowing Hong Kong universities and R&D institutes to launch projects under the name of “National Key Laboratory”; and appointing Hong Kong experts to participate in the formulation of national standards; and
- To further promote cooperation of R&D institutions and professional organizations in the Mainland and Hong Kong – given the mutual interest in many technology areas (e.g. information and communications, Chinese medicine, logistics, automotives and new materials), there is great potential for cooperation between Hong Kong and the Mainland. Hong Kong can work with Mainland provinces and cities, such as Beijing, Shanghai, Guangdong and Shenzhen, to organize more promotional activities including thematic seminars, exhibitions and forums to provide opportunities for exchange and communication for the R&D institutions and professional organizations from both sides, and to encourage them to embark on extensive cooperation.

Information Services

- Suggest appealing to the Mainland to allow Hong Kong enterprises to engage in more informatisation development projects in the Mainland and to use Hong Kong as an international exhibition and transaction platform for showcasing and promoting IT products and services of Mainland enterprises to the world. The IT and related services sector could also grasp the opportunities under the existing platforms, including CEPA, the Pan-PRD Regional Cooperation Framework Agreement and the Hong Kong/Guangdong Cooperation Joint Conference, to actively participate in informatisation projects in the Mainland;
- The IT and related services sector could work with the research institutes and universities to seek to participate in national planning in relation to the development of the information and digital content industries, and formulation of IT standards. This will help them keep abreast of the focus of the relevant R&D activities in respect of IT and digital media technology as well as the market trend in the Mainland. In addition, electronic trading service providers could provide more value-added services, in particular developing more effective and efficient options for traders to deal with trade documents of the two places, so as to promote e-commerce between the two places;
- Suggest strengthening cooperation in the provision of telecommunications services, including basic and valued-added services, in the Pan-PRD region. If the local industry can provide these services by wholly-owned enterprises in the Mainland ahead of its overseas counterparts, this will not only speed up the expansion of the telecommunications markets and benefit the operators and consumers of the two places, but also help the Mainland telecommunications industry gain further experience on the operation of the free market. This can enhance their competitiveness and prepare for full implementation of their WTO commitments and opening up of the domestic market in future; and

- Suggest industries should upgrade themselves, build up their brand names, develop service in line with the needs of the Mainland and the specific markets, and pitch their performance at a higher technical and servicing level, with a view to staying competitive when faced with the low-cost services of the Mainland.

Issues for Discussion

- Whether the above analysis on Hong Kong's competitiveness in terms of innovation, technology and information services in the global arena is sufficiently thorough and in-depth? Are there any aspects that need to be supplemented?
- Whether the above analysis on the opportunities and challenges concerning innovation, technology and information services in the national 11th Five-Year Plan is sufficiently thorough and in-depth? Are there any aspects that need to be supplemented?
- Whether the above analysis on the opportunities and challenges concerning innovation, technology and information services in the Guangdong 11th Five-Year Plan or regional development is sufficiently thorough and in-depth? Are there any aspects that need to be supplemented?
- Whether the responses and actions taken by the Government and the public sector to further strengthen and develop innovation, technology and information services as mentioned above can aptly address the present situation? Are there any strategies that need to be adjusted?
- Whether the recommendations and issues for further consideration as set out above in relation to the development and enhancement of innovation, technology and information services are appropriate?

Commerce, Industry and Technology Bureau
September 2006

For Focus Group Discussion

Paper Ref.: 2006ES/10

- Professional Services, Information &
Technology and Tourism

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”**

Tourism

Executive Summary

(Translation)

This paper presents a preliminary analysis of the challenges and opportunities for Hong Kong’s tourism development under the 11th Five-Year Plan from the perspective of the Government and public sector, with a view to triggering discussion among different sectors in the community. This will facilitate preparation of a practicable action plan by the Summit in the following months. Key areas of tourism highlighted in the 11th Five-Year Plan include comprehensive development of domestic tourism, development of inbound tourism, regularisation of outbound tourism development and market order, and speeding up the consolidation and restructuring of tourism enterprises. The 11th Five-Year Plan unequivocally “supports Hong Kong’s development on fronts such as financial services, logistics, tourism and information services, and the maintenance of Hong Kong’s status as an international centre of financial services, trade and shipping”. These interlocked economic activities foster the development of one another and are beneficial to the promotion of tourism. While the 11th Five-Year Plan recognises Hong Kong’s strengths in tourism, vigorous development of tourism in the Mainland

poses many challenges to Hong Kong, such as the competition for visitors from different places in the Mainland and overseas. We believe that to turn these challenges into opportunities, Hong Kong needs to improve continuously its tourism facilities and service quality, and implement supporting measures, namely stepping up publicity and promotion to open up new source markets, and fostering our culture of hospitality.

2. We consider that our key priority will be to strengthen our “cooperation” (i.e. cooperation & competition) with the Mainland and make good use of collaborative opportunities. For example, we should further strengthen the planning and overseas promotion of thematic “multi-destination” itineraries to benefit more from the complementary strengths of both sides and achieve a win-win situation. Such efforts will accentuate Hong Kong as an international metropolis, providing a convenient interchange for overseas visitors to the Mainland. In addition, we should seek to promote the exchange of talent, so that Hong Kong’s tourism industry, with its rich experience, can help our Mainland counterparts upgrade their service quality and standards, and related industries raise their long-term competitiveness. To improve the service quality of tourism industry, we have to promote “Honest and Quality Travel” in line with the policy of the China National Tourism Administration (CNTA). We also need to implement the measures under the CEPA.

Tourism Commission
Economic Development and Labour Bureau
September 2006

For Focus Group Discussion

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- Professional Services, Information &
Technology and Tourism

Economic Summit on “China’s 11th Five-Year Plan and the Development of Hong Kong”

Tourism

(Translation)

Preamble

This paper presents a preliminary analysis of the challenges and opportunities for Hong Kong’s tourism development under the 11th Five-Year Plan from the perspective of the Government and public sector, with a view to triggering discussion among different sectors in the community. This will facilitate preparation of a practicable “action agenda” by the Summit in the following months.

Purpose

2. This paper looks into the development framework for tourism development in the 11th Five-Year Plan with a view to exploring how best the Hong Kong Special Administrative Region (SAR) Government and local tourism industry should meet the challenges and grasp the opportunities ahead, in order to further enhance co-operation with the Mainland in the field of tourism, promote continuous development of local tourism, consolidate the status of Hong Kong as a premier destination for visitors in the region, and thereby complementing our development in the fields of international finance, trade, shipping, etc.

Background

I. Global Tourism Overview

3. Despite facing various impacts and challenges in the past few years, international tourism as a whole has been developing with the continued growth of global economy. According to the World Tourism Organization, the number of visitor arrivals worldwide increased from 697 million in 2003¹ to 766 million in 2004, registering a 10% growth. However, affected by various global challenges, such as rising oil prices, a potential avian flu pandemic, tsunami and terrorist attacks, the number of international visitors arrivals in 2005 (totalling 808 million) showed a slower growth of 5.5% as compared to 2004.

4. According to the World Tourism Organization, the three most popular tourist destinations in 2005, in terms of the number of inbound overnight visitors, were France, Spain and the United States. They received 76 million, 55.6 million and 49.4 million overnight visitors respectively. With its vigorous development of tourism in recent years, China's visitor arrivals ranked fourth in the world in 2005 when 46.8 million overnight visitors were received. China was the only Asian country ranked among the top ten. Over the past few years, Hong Kong has faced various challenges. For instance, the outbreak of Severe Acute Respiratory Syndrome (SARS) led to a 6.2% drop in visitor arrivals in 2003. With the concerted efforts of various sectors in Hong Kong, visitor arrivals still rose from 13.7 million in 2001 to 23 million in 2005, representing an annualised increase rate of 14%. This demonstrates that Hong Kong tourism has been enjoying a steady and sustainable growth. In 2005, the number of overnight visitors to Hong Kong reached 14.8 million, ranked 14th among the countries/regions in the world in terms of overnight visitor arrivals. And Hong Kong topped the list of the most popular cities².

5. Many countries and destinations in the world have endeavoured

¹ International tourism in 2003 was seriously affected by Severe Acute Respiratory Syndrome (SARS).

² In 2004, Hong Kong was ranked the seventh major tourist destination in the world by the World Tourism Organization on the basis of its total number of visitors (21.81 million). In 2005, the World Tourism Organization amended the methodology of statistic and calculated only the number of overnight visitors in ranking the destinations.

to develop tourism by aggressive development of tourism infrastructure and major promotions. We believe that this trend will continue in future. Hong Kong is facing keen international competition with neighbouring tourist destinations, e.g. Singapore and Malaysia will open airport terminals for low cost carriers in 2006. While Malaysia has stepped up promotion for its 2007 Visit Malaysia Year global campaign, Thailand has also launched its Thailand Grand Invitation campaign to celebrate the 60th anniversary of the Thai King's accession to the throne. Dubai, an emerging destination, has implemented Festival City Phases 1 and 2, and the whole tourism project will be completed in December 2006.

6. While an increasing number of countries and places have been striving to develop tourism, the continued development of the global economy has led to the rise of many new economic powers which have in turn become new visitor source markets. For example, the rapid economic development of China and India in recent years has brought about a continued growth in the number of their outbound travellers. Many countries aspire to tap into these new markets. To ensure our share in these new markets, Hong Kong has to study the needs of these markets and to formulate suitable market development and promotion strategies.

(II) Tourism Development in Hong Kong

7. Hong Kong has developed into a mature tourist destination over the years, with both its hardware (including aviation network, city infrastructure and tourist attractions) and supporting software (including the quality of services and management, hotel accommodation, dining and shopping) having reached world-class standards. Hong Kong's cosmopolitan image, free and open atmosphere as well as perfect blend of East and West have made it a unique city of China. As the trendsetter in various fronts such as fashion, dining, electrical appliances and technology products, Hong Kong attracts visitors from all segments to come for shopping and sightseeing. With a prime location and world-class air, land and marine transport network, we are readily accessible to visitors from all corners of the world. In addition, we are committed to making entry/exit quick and easy for visitors. Currently, nationals of some 170 countries are allowed visa-free visits to Hong Kong for periods ranging from seven days

to 180 days. These are Hong Kong's strengths in the promotion of tourism.

8. As mentioned in paragraph (4) above, tourism around the world is subject to uncertainties such as economic or political changes, terrorism and contagious diseases. Inevitably, these factors have an impact, be it positive or negative, on the tourism in Hong Kong. With efforts made by the SAR Government and the industry in the development and promotion of tourism over the years, visitor arrivals continue to break new records. Total tourism expenditure is also encouraging. Visitor arrivals in 2005 increased to 23 million, up 7% from 2004. The growth was mainly led by the good performance of overseas markets. Long haul markets including Europe, the Americas, Australia and New Zealand all recorded a double-digit growth. Compared with 2004, for instance, visitor arrivals from Europe, Africa and the Middle East increased by 25%, while arrivals from Australia and New Zealand rose by 28%. Short haul markets with great potential, such as South Korea, the Philippines and Thailand, also witnessed strong performance with an increase of visitor arrivals by 19%, 16% and 20% respectively, while Singapore recorded a 24% growth (statistics at Annex I).

9. The growth of outbound tourism in the Mainland slowed down from 42% in 2004 to 7% in 2005. This, notwithstanding Mainland visitor arrivals in Hong Kong in 2005 increased by 2.4% over 2004. Other tourist destinations, such as Malaysia, Singapore and Thailand, recorded a decrease of 36%, 2.5% and 2.3% of Mainland visitors respectively. The Mainland was the largest visitor source market for Hong Kong with more than 12.5 million arrivals in 2005, accounting for 54% of the total visitor arrivals. In the first half of 2006, Mainland visitor arrivals recorded a strong growth of 14% to 6.7 million.

10. The Individual Visit Scheme (IVS) was first introduced in four Guangdong cities in July 2003 under the Mainland and Hong Kong Closer Economic Partnership Agreement (CEPA). The number of Mainland cities covered by the Scheme has since increased to 44 and over 220 million Mainland residents can visit Hong Kong under the Scheme (statistics at Annex II). The IVS has become increasingly popular. In

the first half of 2006, the number of Mainland visitors travelling to Hong Kong under the Scheme reached some 3.16 million or about 48% of the total Mainland visitor arrivals. Among them, more than 80% came from Guangdong. According to statistics, other Mainland visitors with permits for group tours and for visiting relatives, as well those on business visas accounted for about 11%, 13% and 14% respectively.

(III) Tourism Development in the Mainland

11. Among the tasks set out under Section 17.3 in the 11th Five-Year Plan are comprehensive development of domestic tourism, promotion of red tourism and active development of inbound tourism, which include rational development and protection of tourism resources, upgrading infrastructure, pushing ahead with the development of key travel zones, tour routes, sightseeing tourism, leisure vacationing and thematic tourism, as well as encouraging the development of special tourism products. Other tasks include regularisation of outbound tourism development and market order, as well as speeding up the consolidation and restructuring of tourism enterprises.

12. With a relatively short history, Mainland tourism has caught the attention of the world with its high-speed development. The industry has been expanding for twenty years and has become one of the fastest growing sectors of the national economy, and also one of the industries that possess clear competitive edge in the international market. Since China implemented the reform and opening-up policy, notably during the 10th Five-Year Plan period, the Mainland tourism industry has adopted the market strategy of “vigorously developing inbound tourism, actively developing domestic tourism and moderately developing outbound tourism”, resulting in a rapid expansion of tourism with inbound, domestic and outbound travel flourishing concurrently. In respect of inbound tourism, China is now the fastest growing and most vibrant tourist destination in the world.

13. In 2005, China received 46.8 million inbound overnight tourists and earned US\$29.3 billion in foreign exchange, ranked fourth and sixth respectively in the world. In respect of domestic tourism, the Mainland has become the largest domestic tourist market in the world. The number of domestic tourists stood at more than 1.2 billion in 2005, generating an income of RMB 528.6 billion yuan or 69% of the country's total tourism receipts. Thriving domestic tourism has given domestic demand a major boost, stimulated consumption and led the development of related industries. As for outbound tourism, the Mainland is emerging rapidly as a new source market. The growth of China's outbound tourism has far exceeded the world's average. China is now the largest source market of outbound tourists in Asia. According to the World Tourism Organization, the number of tourists worldwide totalled 800 million in 2005, representing an increase of 18% over 2000. The statistics of the CNTA indicate that more than 31 million Mainland residents travelled abroad in 2005, a rise of more than 196% over 2000.

(IV) Tourism Development in Guangdong Province

14. The 11th Five-Year Plan of Guangdong Province proposes to seize the opportunities arising from Pan-Pearl River Delta (PRD) co-operation to forge ahead with regional collaboration in tourism development; improve tourism facilities and infrastructure; steer the development of tourism industry in the direction of chain operation, economies of scale and brand building; actively promote co-operation among Guangdong, Hong Kong and Macau in such areas as logistics, tourism, finance, referral and consultancy, technology, education, culture, hygiene, information, environmental protection and immigration clearance; and facilitate the expansion of services industries which enjoy a competitive edge, namely tourism, information services, real estate, and wholesale and retail business. Key tourism projects include the construction of convention and exhibition facilities, notably the Phase 2 development of Guangzhou International Convention and Exhibition Center, as well as the Danxia Mountain scenic area in Shaoguan.

15. The Guangdong, Hong Kong and Macau Tourism Marketing Organisation was established back in 1993 to promote tourist attractions in the PRD to overseas markets in a structured manner, and to develop thematic “multi-destination” itineraries (e.g. dining, golfing, leisure and entertainment) for different markets and segments. Guangdong is rich in natural resources and tourist attractions, and is geographically close to Hong Kong. These constitute favourable conditions for Guangdong to further develop with Hong Kong on thematic “multi-destination” itineraries for different segments.

16. The 11th Five-Year Plan of Guangdong Province calls for active promotion of co-operation between Guangdong and Hong Kong in many areas, including tourism. This complements a new measure under the CEPA, i.e. allowing Hong Kong travel agents to operate “Hong Kong and Macau Tours” in Guangdong under a pilot scheme. According to a survey conducted by the Hong Kong Tourism Board (HKTB), it was estimated that some 9.15 million visitors to Hong Kong in 2005 were from Guangdong, accounting for about 70% of total visitor arrivals from the Mainland. Among them, about 340,000 (3.8%) visited Hong Kong on group tours, while other visitors came to Hong Kong mostly under the IVS. The IVS provides Mainland visitors, especially residents of the neighbouring Guangdong Province, with greater convenience and flexibility to plan their visits to Hong Kong. Despite their relatively short stay, they tend to visit Hong Kong more frequently. According to the findings of a study made by the HKTB, before the introduction of the IVS, the average number of visits to Hong Kong made by visitors from Guangzhou and Shenzhen per year was 1.3 and 3.3 respectively. After the introduction of the IVS, the figures rose significantly to 2.7 and 5.6 respectively. These visitors came to Hong Kong mainly for shopping and entertainment.

Challenges and Opportunities

17. The Mainland visitor source has an important impact on the development of tourism in Hong Kong. As the Mainland steps up its efforts to develop tourism, Hong Kong is faced with many challenges. First, with the rapid development of domestic tourism in the Mainland, our largest visitor source market, Hong Kong has to compete with various

Mainland provinces and cities for visitors because first-time travellers may prefer domestic attractions. In 2005, the number of domestic tourists in the Mainland reached 1.21 billion, up about 10% from 2004. The domestic tourism market is expected to grow further in 2006. Meanwhile, the number of countries granted Approved Destination Status (ADS) for outbound tourism has gradually increased, thus providing the Mainland residents with more choices. As at March 2006, the number of countries approved for outbound tourism by the Mainland authorities reached 81, a significant increase over 2000 when only 14 countries were granted ADS. Many other tourist destinations want to tap into the huge visitor source market in China. With the introduction of non-stop air service from a number of overseas destinations to Mainland cities, the competition will become even keener. Moreover, with the continuous development of tourism in the Mainland, some places or cities such as Shanghai and Shenzhen may emerge as Hong Kong's competitors in tapping overseas visitor sources.

18. The IVS has brought about limitless opportunities to Hong Kong's tourism industry. We should seize these opportunities and explore how best to leverage on the convenience provided under the Scheme to attract Mainland visitors. Given the fact that many Mainland visitors have visited Hong Kong, we need to further enhance the appeal of Hong Kong (including tourist attractions and the quality of services) so as to entice repeated visits. While the Mainland visitor arrivals have been on the rise, it may pose potential risks to local tourism development if Hong Kong, an international tourist destination, relies too much on one single market. Therefore, while striving to increase our market share, we have to maintain a diversified market as well.

19. Hong Kong and the Mainland are the primary visitor source market to each other. As an important gateway to China, Hong Kong received nearly 4 million overseas visitors (including business and leisure visitors) who destined for the Mainland. Hence, one important goal of Hong Kong and Mainland tourism industries in their co-operation is to promote cross-border visitor flow. In 2006, significant breakthroughs have been achieved in many areas following the review of the Air Services Arrangement with the Chinese Mainland (the Arrangement). Under the

Arrangement, the number of air routes between Hong Kong and Mainland cities will increase from 11 to 56, covering most major cities and tourist hot spots in the Mainland, e.g. Xishuangbanna, providing more visitors with non-stop air service to and from Hong Kong. The Arrangement will reinforce Hong Kong's position as an aviation hub and attract more overseas visitors to travel to and from the Mainland via Hong Kong. This will help the tourism industries of both sides develop new itineraries and strengthen their advantages in developing "multi-destination" itineraries. However, the continuous expansion of economic activities in China will give rise to an increase of non-stop air service between the Mainland and overseas destinations. This trend may dampen Hong Kong's role as an aviation interchange to the Mainland. How to establish Hong Kong's status as a must-visit destination for overseas visitors to China is a major challenge to us.

20. Hong Kong has put in place a regulatory regime for local tourism services, including a statutory licensing scheme and codes of practice. Nevertheless, there exist unscrupulous business practices in local market targetted at Mainland visitors, such as "zero-fare" and "negative-fare" tours, tourist purchase rebates, and travel agents not paying wages to tourist guides. In such cases, travel agents on both sides try to make more profits by forcing Mainland visitors to make purchases during the tour. This has given rise to visitors' complaints and resulted in their loss of confidence in the tourism industries on both sides. Moreover, their confidence in visiting Hong Kong on group tours has been affected. After reviewing the situation, the CNTA has taken measures to strengthen the regulation of travel agents and practitioners: first, to regulate the Mainland tourism market in accordance with existing rules and regulations; second, to carry out a nation-wide policy of ensuring a high standard of professional ethics in the industry ("Honest and Quality Travel"), that is, travel agents, tourist shops and related trades are required to maintain their integrity in business operations; and lastly, to educate tourists on sensible spending. In the light of the CNTA's vigorous promotion of "Honest and Quality Travel" and their call for protection of tourists' rights, we consider that it is necessary to explore how best Hong Kong can complement the CNTA's policies (please refer to para. (38)).

21. Under the relaxation measures announced in the latest phase of the CEPA, wholly-owned or joint-venture Hong Kong travel agencies set up in Guangdong can apply for operating group tours to Hong Kong and Macau for Guangdong residents under a pilot scheme. This measure enables local stakeholders to expand their businesses and at the same time bring their well-established modes of corporate management and human resources development to the Mainland, thereby enhancing gradually the quality of tourism services as a whole.

Responses/Actions of the Government and Other Sectors

(I) Investment in Tourism Infrastructure

22. Hong Kong boasts a state-of-the-art international airport, a globe-girdling aviation and maritime network, an extensive road and railway network, and convenient public transport services. These infrastructures are the cornerstones of a metropolitan city. They not only provide Hong Kong with advantages in economic development, but also satisfy the basic requirements for the continuous development and promotion of tourism in Hong Kong. To maintain a diversified market, Hong Kong has endeavoured over the years to tap into the international visitor source market and attract visitors from all over the world. To maintain the appeal of Hong Kong to visitors from the Mainland and other places, the SAR Government has stepped up its efforts in recent years by investing heavily in new tourism projects and enhancing existing tourist hot spots to bring about a fresh look for visitors. The Hong Kong Disneyland, opened in September 2005, introduced this summer a trio of new attractions, namely Autopia, Stitch Encounter and UFO Zone. The Hong Kong Wetland Park, a green tourism attraction with edutainment facilities for both the old and the young, was opened in May 2006. The Ngong Ping 360, comprising the Ngong Ping Skyrail and Ngong Ping Village, will come into operation shortly. In addition, A Symphony of Lights Phase II launched in Christmas last year, which covers 33 buildings along the waterfront of the Victoria Harbour, has been well received by visitors and local citizens.

23. On enhancing existing attractions, the completed projects include enhancement of the Sai Kung waterfront, improvements to Lei Yue Mun, enhancement of the Central and Western District, and the Avenue of Stars which is a joint venture with the private sector. The Tsim Sha Tsui Promenade Beautification Project and the Stanley Waterfront Improvement Project are underway, due to be completed in 2006 and 2007 respectively. Works of the Peak Improvement Scheme and the new transport link in Tsim Sha Tsui East have commenced and are scheduled for completion in 2007. Projects on the drawing board include the Aberdeen Tourism Project to complement the redevelopment plan of Ocean Park. The latter project will commence this year, which aims to turn the 29-year-old Ocean Park into a world-class marine theme park. The Government is considering the proposal on the development of hotels at the Ocean Park from legal, financial, operational and institutional aspects. The hotel development will further enhance the attractiveness of the Park and induce longer stay. Other projects include further enhancement of the facilities along Lei Yue Mun waterfront and the development of a piazza at Tsim Sha Tsui.

(II) Promoting Tourism

24. The HKTB is highly experienced in tourism promotion and has established a comprehensive network for this purpose. To maintain the advantages of Hong Kong's tourism and the diversity of our source markets, the HKTB has drawn up a marketing programme for promoting diversified visitor sources based on its market research. It targets 16 major markets which account for about 93% of the total visitor arrivals, including the Mainland and Japan, and other countries and places in different regions. On the basis of previous researches and studies, we have identified families and business travellers as the visitor groups with great potential. Among the business travellers, many belong to conventions, exhibitions, corporate meetings and incentive groups (known as MICE in the industry). The HKTB wishes to actively leveraging on Hong Kong's advantages as a gateway to the Mainland to reinforce our status as a premier destination for conventions and exhibitions. It has been carrying out wide publicity on the activities and events we have successfully secured for hosting in Hong Kong with a view to enhancing the city's image. To increase the contribution from the business market segment to our tourism, the HKTB

uses the global marketing programme and a number of major events under the Discover Hong Kong Year as a platform to encourage longer stay, companion travel, repeated visits and more spending by business travellers. In collaboration with airlines and with the aid of media institutions and corporate databases targetting the business sector, the HKTb also organises promotion specially for those business travellers who intend to visit Hong Kong. To cater for their demand for easily accessible information, the HKTb has specially developed the service for downloading the information on Hong Kong tourism by portable digital assistance (PDA). In the first half of 2006, the arrivals of all the key visitor groups recorded satisfactory growth, while the number of overnight business visitors increased by 9.9% year-on-year.

25. In addition, the HKTb has been pushing ahead with its promotional efforts in the Mainland and overseas, and co-operates with the industry to further tap into the IVS market and identify second-tier Mainland cities with great potential. Visitors coming to Hong Kong under the IVS make up a large portion of the free independent travellers (FITs) category, although FITs also include visitors on business visas and those with permits to visit relatives. The HKTb is active in stimulating demand across the entire FITs sector. Trade and media briefings were conducted in new IVS cities in April and May 2006 to disseminate information about visiting Hong Kong under the IVS. The HKTb also provides residents of IVS cities with travel information about Hong Kong's control points, transportation as well as shopping and spending tips, etc. to help them decide the most suitable dates and arrangements when planning their trips to Hong Kong. The pre-departure pamphlets for Mainland visitors and the leaflets on shopping and dining tips published by the HKTb have been available for visa applicants at the visa application offices of the Ministry of Public Security. To step up publicity on the IVS to Mainland residents, the HKTb has placed advertisements in major local newspapers in Mainland cities to publicise the IVS policy and the convenience provided, and introduced a series of IVS itineraries in collaboration with airlines and local travel agents. Trade familiarisation visits as well as media and trade briefings have also been conducted by the HKTb to support the promotion work targetting FITs.

(III) Joint Development of Tourism

26. Joint development and promotion of “multi-destination” itineraries is a major area of co-operation between the HKSAR and the Mainland in respect of tourism. The Guangdong, Hong Kong and Macau Tourism Marketing Organisation was established back in 1993 to promote tourist attractions in the Pearl River Delta (PRD) to overseas markets in a structured manner, and to develop thematic “multi-destination” itineraries (e.g. dining, golfing, leisure and entertainment) for different markets and segments. As the Pan-PRD region is rich in tourism resources and its provinces boast different attractions and strengths, the HKSAR wishes to co-operate with the provinces and cities within the region and make use of their rich resources and attractions to plan and promote a variety of thematic itineraries, thereby extending the co-operation framework among Guangdong, Hong Kong and Macau to the Pan-PRD region. In so doing, we can provide overseas tourists with more choices to accommodate their different needs and interests. At the Third Pan-PRD Regional Co-operation and Development Forum held in Yunnan this June, the SAR Government and the Yunnan authorities reached a consensus to jointly design and develop thematic “multi-destination” itineraries to attract more long haul travellers, especially those from Europe and the United States, to visit Yunnan via Hong Kong. It was also agreed that both sides should study the operation of direct flights between Hong Kong and Lijiang to be operated by Hong Kong airlines to enhance visitor flow between the two places.

(IV) Enhancement of Service Quality

27. On regulating tourism service quality, we have put in place a statutory licensing scheme for travel agents offering inbound and outbound travel services, to be complemented by the day-to-day self-regulatory work carried out by the Travel Industry Council of Hong Kong (TIC). To ensure that inbound tour guides’ qualifications and services are up to standard, the TIC fully implemented the “Tourist Guides Accreditation System” in July 2004, under which a tourist guide is required to pass an examination upon completion of relevant training before he receives a “Tourist Guide Pass”. Travel agents are required to employ tour guides who hold a valid “Tourist Guide Pass”.

28. To protect the consumer rights of visitors, the HKTb launched in 2001 the “Quality Tourism Services Scheme” which aims at improving the overall quality of services in the retail and dining sectors. The Scheme seeks to ensure the attainment of service excellence by participating merchants through annual assessments. The HKTb intends to extend the Scheme to other tourism-related sectors. In addition, to safeguard the consumer rights of group tour visitors in shopping activities arranged by local travel agents, the TIC implemented the “14 Days 100 Percent Refund Guarantee Scheme” in February 2002. According to the TIC’s guidelines, travel agents need to pre-register with the TIC those shops where they would take their group tour visitors for shopping. These “registered shops” must undertake to provide a 100% refund within 14 days of purchase. If group tour visitors who have made purchases at these shops as arranged by the travel agents are dissatisfied and wish to return their purchases, the shops must provide a 100% refund if the relevant conditions are met. The TIC also launched the “Demerit System for Registered Shops” in April 2005 to give demerits to registered shops for violation of their pledges. When the demerits given to a shop have reached a specified threshold, the shop’s registration will be suspended or revoked. In view of the complaints lodged by visitors recently, we believe it is necessary to review and enhance these safeguards so as to promote “smart spending” by Mainland tourists in Hong Kong.

(V) New Opportunities Presented by CEPA

29. With a lower entry threshold, a concession granted under the CEPA, stakeholders in the industry can now tap into the Mainland market to operate domestic travel services. The Government liaises with the industry from time to time to listen to their views on entry into the Mainland market. Meanwhile, the Government is seeking information from the CNTA on details of market access in relation to the measures announced in the latest phase of CEPA (please refer to para. 21), such as vetting mechanism and operation requirements, so as to facilitate the stakeholders to gain access to Guangdong’s outbound travel market by January 2007, in compliance with the CNTA’s rules and other relevant requirements.

Recommendations

30. We would like to seek members' advice on the proposed recommendations set out below and other suggestions that should be further considered.

(I) Maintaining Diversified Source Markets

31. To ensure sustainable tourism development in Hong Kong and reduce the risks posed by the reliance on one single visitor source, we need to diversify our visitor sources. To this end, the HKTB has drawn up an effective marketing programme based on its market research, which targets major markets and also explores new ones in the light of the development trend in the external environment. While committed to maintaining its status as an international financial, trade and shipping hub and furthering co-operation with the Mainland, Hong Kong can create more favourable conditions and an environment conducive to tourism development, in order to attract more visitors and reinforce our status as a premier tourist destination in the region. With our rich international experience, we are able to bring foreign visitors into the Mainland. At the same time we also look forward to the opportunities to take Mainland travellers abroad. In so doing, Hong Kong can give full play to its unique advantages and fulfill its role as a bridge between Mainland and international tourism markets.

(II) Co-operation between Both Sides

32. Geographically connected, Hong Kong and the Mainland differ in many areas such as social environment and cultural activities. The two sides can complement each other's strengths to make the best use of our competitive advantages. Therefore, we consider it important for Hong Kong to strengthen its "cooperatition" (i.e. cooperation & competition) with the Mainland and make good use of collaborative opportunities to benefit more from the complementary strengths of both sides and achieve a win-win situation.

33. Many provinces and cities in the Mainland are rich in tourism resources but vary in their pace of developing tourism hardware and software. Individual provinces aspire to promote their development of such hardware and software with funds and management experience from Hong Kong, thereby boosting the overall development of tourism. Given its experience and strengths, as well as the rich resources and attractions of different regions, provinces and cities in the Mainland, Hong Kong is a position to co-operate with the Mainland in planning thematic “multi-destination” itineraries and organising related overseas promotion activities to provide more choices for both overseas travellers and Mainland visitors in the region, so as to cater to their different needs and interests.

34. This collaborative framework will be instrumental in further strengthening regional co-operation. Looking beyond the PRD region, the Pan-PRD region has even greater potential for development. With the Pan-PRD region catching up in tourism development, the development and promotion of tourism products related to “multi-destination” itineraries will stand to benefit. In line with the co-operation agreement reached with Yunnan this June, we can explore areas of co-operation and initiate discussions with individual provinces and regions, taking into account their different pace of development. In addition, Hong Kong can organise exchange of visits for stakeholders in the Pan-PRD region, including travel agents and hotels, to help them better understand the economic environment and development potential in the region. They then can consider making investment and explore business opportunities. As for the exchange of talent, there is still room for improvement in terms of service quality and the management of tourism facilities in the Mainland. The local industry and tertiary institutions can share their experience in tourism management with their Mainland counterparts, and take part in the exchange of talent and training. We will continue to encourage the TIC, the local hotel industry and the two universities providing specialised tourism training to explore and identify opportunities for such exchanges and training activities. We believe that these efforts will help Mainland’s tourism industry upgrade their service standards and quality, and help related trades raise their long-term competitiveness. Moreover, we consider that the Government can play its part as a bridge between local

tourism industry and relevant Mainland authorities by promoting communication and understanding.

35. In respect of joint overseas promotion, the HKTB will, in the short run, continue to use primarily the Guangdong-Hong Kong-Macau promotion platform and invite provinces in the Pan-PRD region to take part in overseas promotion activities as appropriate. In the long run, the HKTB hopes to discuss with individual provinces to fine-tune the co-operation mechanism with a view to ensuring more effective co-ordination of multilateral joint promotion efforts. The HKTB will also maintain close liaison with various provincial tourism administrations and continue to exchange tourist information. Currently, substantial tourist information is available on the HKTB's official website. The HKTB also maintains a dedicated website for the industry to help them prepare and promote products related to Hong Kong tours by providing related information and statistics. The HKTB can continue to disseminate tourist information on Hong Kong to local and Mainland tourism industries through these channels.

36. The HKTB plans to review from time to time its publicity and promotion strategies in the Mainland and designs tourism products to cater to the needs and tastes of visitors from different regions. As a result, the HKTB had reinforced its publicity and promotion strategies in the Mainland in past years and plans to work out the order of priority for 30 cities identified as key targets where customised promotion will be launched. For example, in Guangdong and the PRD region, the theme of publicity is the latest shopping and dining information to encourage leisure vacationing in a weekend getaway. As for eastern and central China, the emphasis is on experiences in a vibrant metropolitan city, quality travel and consumption itineraries, as well as family tours. Further to the north and in more distant cities, the focus is on Hong Kong's culture and heritage, consumer protection and package tours promoted in co-operation with airlines, etc.

(III) Capitalising on Opportunities Created by CEPA

37. The CEPA has created numerous business and development opportunities for Hong Kong. Our objective is to step up the promotion of CEPA to encourage the tourism industry to grasp the opportunities arising from the new measures under the CEPA, such as tapping into the Mainland market by operating “Hong Kong and Macau Tours” in Guangdong under a pilot scheme, presenting Hong Kong’s specialist brands to the tourism industry and travelers in the Mainland, strengthening exchange, and offering more diversified and unique tourism products for Mainland visitors. Consumers in the Mainland will enjoy a wider choice. All this will lead to healthy competition which will benefit the operation of the Mainland tourism market.

(IV) Honest and Quality Travel

38. We consider that the SAR Government and the local industry should actively support the CNTA’s policy of “Honest and Quality Travel” to improve the overall quality of tourism services and foster the sustainable development of tourism in Hong Kong. Our proposed efforts include –

- (a) to help Mainland visitors better understand consumer rights, to increase the transparency of safeguard measures, and step up publicity at home and across the border;
- (b) to support the CNTA’s efforts in regularising contracts by informing visitors clearly about the itineraries, accommodation and other charges to encourage sensible spending;
- (c) to urge the TIC to actively publicise and implement the “14 Days 100 Percent Refund Guarantee Scheme” and expedite its review with a view to improving the “Demerit System for Registered Shops” for better consumer rights protection for visitors;
- (d) to request the TIC to actively follow up on visitors’ complaints and impose effective disciplinary sanctions on those travel agents that

have breached its rules. The TIC has already strengthened its communication with the CNTA and will report related complaints;

- (e) on the part of the HKTB, to actively publicise and implement the “Quality Tourism Services Scheme” to help visitors identify reliable retail shops and restaurants, and expand the Scheme to cover more tourism-related trades; and
- (f) to enhance communication between the travel agents and the hotel industry as well as increase the transparency of hotel room supply and room rates, with the aim of facilitating smooth market operation.

39. It is only with the strong support of the tourism industry and related trades in the HKSAR that the above initiatives can achieve the greatest synergy. Our industries are interrelated and exposed to the influence of one another. The 11th Five-Year Plan supports Hong Kong to maintain its status as an international financial, trade and shipping hub, which will help boost other industries like tourism and bring about positive chain effect to related industries. The SAR Government will co-ordinate with, and lend support to, the industries to create favourable conditions and an even more business-friendly environment. Furthermore, in support of the national economic planning and development, the SAR Government will move forward in promoting sustainable and stable development of tourism in Hong Kong and the Mainland, so that both sides will benefit and succeed. This will help us jointly secure a leading position in global tourism development.

Advice Sought

- (a) Is this paper comprehensive and thorough in its analysis of the international competitiveness of our tourism industry? Is supplement necessary?
- (b) Is this paper comprehensive and thorough in its analysis of the opportunities and challenges brought by the 11th Five-Year Plan to our tourism industry? Is supplement necessary?

- (c) Is this paper comprehensive and thorough in its analysis of the opportunities and challenges of our tourism industry in the context of Guangdong's 11th Five-Year Plan and regional development? Is supplement necessary?
- (d) Are the response actions of the government and public sector to consolidate and develop tourism industry relevant? Which strategic directions require adjustment?
- (e) Are the recommended topics for further studies and exploration aiming to consolidate and develop our tourism industry appropriate?

Tourism Commission
Economic Development and Labour Bureau
September 2006

Visitor Arrivals from Major Markets to Hong Kong

Market / Year	2004	2005	2006 (Jan – Jun)	Percentage of Overall Visitor Arrivals in 2006 (Jan – Jun)
The Mainland	12,245,862	12,541,400	6,706,392	55.0%
<i>Year-on-year rate of change</i>	(+44.6%)	(+2.4%)	(+14.0%)	
Taiwan	2,074,795	2,130,565	1,039,810	8.5%
<i>Year-on-year rate of change</i>	(+12.0%)	(+2.7%)	(+2.4%)	
North Asia	1,665,440	1,853,328	959,447	7.9%
<i>Year-on-year rate of change</i>	(+34.8%)	(+11.3%)	(+8.6%)	
South & Southeast Asia	2,077,684	2,412,974	1,239,319	10.2%
<i>Year-on-year rate of change</i>	(+52.8%)	(+16.1%)	(+11.0%)	
The Americas	1,399,572	1,565,350	786,723	6.5%
<i>Year-on-year rate of change</i>	(+51.2%)	(+11.8%)	(+4.6%)	
Europe, Africa & the Middle East	1,379,992	1,725,552	888,619	7.3%
<i>Year-on-year rate of change</i>	(+45.8%)	(+25.0%)	(+9.7%)	
Australia, New Zealand & South Pacific	483,247	620,217	318,115	2.6%
<i>Year-on-year rate of change</i>	(+57.8%)	(+28.3%)	(+9.5%)	
Total Visitor Arrivals in Hong Kong	21,810,630	23,359,417	12,197,245	100%
<i>Year-on-year rate of change</i>	(+40.4%)	(+7.1%)	(+11.1%)	

Note: Figures in () represent year-on-year growth rate.

Source: Hong Kong Tourism Board

Population of Cities Covered Under the Individual Visit Scheme (IVS)

Time	Cities Covered Under IVS	Population (Million)
As at end October 2005	34 (As at end October 2005, the IVS covered 34 cities, including all 21 cities in the Guangdong Province, Beijing, Shanghai, Tianjin, Chongqing, Nanjing, Suzhou, Wuxi, Hangzhou, Ningbo, Taizhou, Fuzhou (municipal district), Xiamen and Quanzhou.)	170
Since November 2005	38 (Since 1 November 2005, the IVS has been further expanded to cover four more cities, namely Dalian, Shenyang, Chengdu and Jinan.)	200
Since May 2006	44 (Since 1 May 2006, the IVS has been further expanded to cover provincial cities in the Pan-PRD region, including Nanchang (Jiangxi Province), Changsha (Hunan Province), Nanning (Guangxi Province), Haikou (Hainan Province), Guiyang (Guizhou Province) and Kunming (Yunnan Province).)	220