

**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
Public service, People's life	Forest coverage (%)	18.2	20	[1.8]	Obligatory
	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 <u>throughput</u> (‘000 TEUs)	International air cargo <u>throughput</u> (‘000 tonnes)	International air passenger <u>throughput</u> (‘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