

## Message from the Chief Executive



The Hong Kong Special Administrative Region celebrates its fifth anniversary on July 1, 2002. Five years on, the 'One Country, Two Systems' concept has been successfully implemented. Hong Kong people now have a better understanding of the motherland and have affirmed their new identity with the reunification. With the commitment of Hong Kong people and the support of the Central Government, Hong Kong remains an open, free and vibrant society.

The greatest challenges we have faced have been in the economic realm, rather than the political arena. We have had to cope with not one, but two economic downturns in the past five years. Asset prices have tumbled to half of what they were at the peak of the market at end-1997. The stock market has tested new highs and lows. Consumer prices have declined for more than three years. And we remain very concerned about unemployment, which has reached record levels.

There has been some recent good news. Tourism numbers are up. Cargo throughput at both the container terminals and the airport is up. Real estate transactions are picking up, and prices remain stable. We expect a strong pick up in the number of companies to be listed in Hong Kong in the second half of this year. More and more international companies are establishing regional operations in Hong Kong. Emigration is at a 20-year low.

At the same time, Hong Kong's economy has been undergoing difficult restructuring. This will go on for some time to come but I believe we are beginning to see the start of a slow, modest recovery. In addressing the challenges ahead, there are a number of things the government can do.

First of all, we will constantly, carefully and thoroughly review the changing external environment. We will carefully review our competitive advantages, our strengths and our weaknesses, especially in regards to cities and regions competing with us.

If you fully consider our competitive advantages, we have many reasons to be confident. We are a very successful international financial centre. We are a centre for trade, transport and logistics. Our tourism business is moving up well and will achieve new heights following the opening of Hong Kong Disneyland in 2005. We are the premier centre for multi-national companies doing business in Asia and also the Mainland of China.

Hong Kong remains very strong in our 'traditional' industries such as the manufacture of garments, watches and clocks, electronic consumer products and toys. These are successful businesses by international standards. The question now is how to help them move up the value chain to take a larger portion of the world market.

All of these strengths and advantages are supported by the institutional framework of the rule of law, a level playing field, the free flow of capital and information, and of course, a very low tax structure. We have, additionally, an unrivalled geographical location and a clustering of some of the best professional talent in the world in areas such as finance and accounting, banking, insurance, legal services, management, marketing, design and logistics.

What we need to do is to leverage all of these advantages. Particularly, we need to make full play of our competitive advantages in the Mainland, especially the rapidly developing and increasingly affluent Pearl River Delta. We can move up the value chain by constantly striving to provide high value-added content to the services and products we provide for ourselves and the rest of Asia. By doing so we can position ourselves not only as a major city in China, but as the world city of Asia.

As a government, we will improve and promote a business-friendly environment. We will enhance the efficiency of government, promote the use of IT, ensure the maintenance of a low and simple tax regime, and create an environment that allows individuals and corporations to build wealth. We will continue to invest heavily in hard and soft infrastructure. By soft infrastructure, I mean education. We will invest a lot in education to make sure that for generations to come, we will be able to compete successfully in world terms as a value-added city.

Apart from education, the government has emphasised the role that innovation, technology and science can play in helping us to move up the value chain and with economic restructuring.

Our objective is to use science and technology to enhance innovative capabilities to strengthen the competitiveness of industry, and to create knowledge-based, high value-added industries. Through the acquisition of knowledge in science and technology, we will also be able to help individuals move up the value chain.

Over the past five years, we have done a great deal in this regard and, as a result, have seen the continuing development of a respectable science base in Hong Kong. The successful development of science and technology is about finding local talents, nurturing them and developing them. It is also about attracting world-class scientists and scholars to come to live and work in Hong Kong. We have been increasingly successful in such efforts and are determined to maintain this momentum.

New infrastructure to support innovation and technology is progressing well. Phase I of the Cyberport has an occupancy rate of 80%. Our Science Park is up and running. Occupancy there is very satisfactory, with 16 tenants from Hong Kong and overseas, notably Silicon Valley, signed up and more in the pipeline. We are beginning to see a clustering of electronics and integrated circuit design companies there. The research capability of our universities is also being enhanced through the Applied Science and

Technology Research Institute to be housed at the Science Park.

The promotion of entrepreneurship is a cornerstone of our innovation and technology programme. Good technological developments are only worthwhile if they are commercialised and applied to industry. The Hong Kong Science and Technology Parks Corporation will increase the uptake of its incubation programme to 100 annually.

We also need to improve the quality, design and creativity of products or services provided to the local market, as well as markets around the world, including the Mainland. Branding is important, as is design. Good design is essential for successful branding. Hong Kong has been a regional leader in the design field. In September, we will open a Hong Kong Design Centre that will help our design professionals to promote their work and talent and raise our international profile in this area.

The restructuring taking place will not be easy. But it is worth remembering that Hong Kong has faced such challenges twice before – in the 1960s and 1980s – and both times Hong Kong people have proved to the world we have the drive, talent and entrepreneurial flair to succeed and further improve our lives.

We are now faced with a third economic restructuring that is probably the most difficult yet. But we have our strengths and our competitive advantages. I and my colleagues will push forward our policy initiatives to ensure that a successful restructuring can be completed in the shortest possible time. I have no doubt that we will once again be successful in overcoming the challenges and difficulties that lie ahead to lay the foundations for an even brighter future.



Tung Chee Hwa