

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

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

Innovation, Technology and Information Services

Executive Summary

(Translation)

This paper provides an initial analysis of the 11th Five-Year Plan and the opportunities and challenges concerning the development of Hong Kong from the perspective of the Government and public sector, with a view to stimulating discussions among various sectors in the community on this front and facilitating the Economic Summit to formulate a concrete and practicable “action agenda” in the coming months.

Present Position, Opportunities and Challenges

2. The Hong Kong industries have relocated most of their production lines northwards, taking advantage of the low production cost in the Mainland. The majority of them are engaging in original equipment manufacturing (OEM). In the face of competition from other regions and in order to maintain Hong Kong’s competitive advantages in the global arena, innovation and technology are the crucial factors for promoting sustainable economic development and industry upgrading.

3. The national 11th Five-Year Plan puts emphasis on implementing the “Outline Plan on National Long-term and Medium-term Science and

Technology Development” (國家中長期科學和技術發展規劃綱要) which focuses on autonomous innovation (自主創新) and upgrading the overall hi-tech capability and technology level of the industries. Many Mainland provinces and municipalities have devised their own strategies for promoting innovation and technology. In particular, Guangdong Province has pledged in its 11th Five-Year Plan to speed up the course of acquiring autonomous innovation capacity, to develop high value-added and hi-tech industries, and to enhance regional cooperation. Shenzhen has also proposed to build a “Shenzhen-Hong Kong Innovation Circle” (深港創新圈), with a view to promoting overall economic development and competitiveness.

4. Hong Kong possesses many favourable elements that are conducive to the development of innovation and technology. We can play an active role in supporting national technological development by providing services in research and development (R&D) and technology transfer, technological information exchange and exchange of intellectual property (IP). On the other hand, the technology level of the Hong Kong industries is generally low and many of them are still engaging in high input but low value-added (高投入, 低增值) production activities. With globalization and the growing concern of the Mainland (particularly the Guangdong authorities) about environmental protection, enterprises need to respond to these challenges through strengthening their R&D efforts, using design effectively and progressing to higher value-added activities.

5. At the same time, as the Mainland economy continues to enjoy vigorous growth, there is an increasing demand by Mainland enterprises for information technology (IT) and related services. The Mainland has also been actively promoting the development of the digital content and animation industries in recent years. With our strength in the provision of information services, Hong Kong is well-placed to support the development of these industries in the Mainland. Moreover, as Mainland enterprises are gradually implementing the “Go Global” (走出去) policy, Hong Kong can act as the launching pad for them to expand overseas.

6. While recognizing our advantages and opportunities ahead, we also need to face the challenges arising from the implementation of the 11th Five-Year Plan. Generally speaking, human capital is relatively more costly in Hong Kong as compared with the Mainland. With the development of the Mainland in recent years, the comparative advantages of our IT professionals in global vision, technical skills and English

proficiency are under threat.

Responses/Actions taken by the Government and other sectors

7. The Hong Kong Special Administrative Region Government (HKSARG) has been striving to strengthen our technological infrastructures and funding support programmes including the Innovation and Technology Fund, the Hong Kong Applied Science and Technology Research Institute, the Hong Kong Science Park, the DesignSmart Initiative and the InnoCentre, etc. The HKSARG has recently implemented a new strategy to further promote innovation and technology development by setting up five new R&D Centres to focus on technology areas that Hong Kong has competitive edges and has the potential to meet market needs. These technology areas include automotive parts and accessory systems, logistics and supply chain management enabling technologies, nanotechnology and advanced materials, information and communications technologies, and textiles and clothing. The five R&D Centres together with the existing Hong Kong Jockey Club Institute of Chinese Medicine provide one-stop services including undertaking industry-oriented applied R&D, promoting technology transfer and commercialization, providing technology and market information, and establishing an exchange platform for IP and technology. The R&D Centres will work closely with the industries in the Greater Pearl River Delta (PRD) region in conducting applied R&D projects, with a view to facilitating them to upgrade their technology level, develop new products and services, and move up the value chain.

8. Meanwhile, the HKSARG has established collaboration mechanisms with the Mainland at different levels, including the Mainland/Hong Kong Science and Technology Cooperation Committee, the Pan-PRD Joint Conference on Regional Cooperation in Science and Technology, and the Guangdong/Hong Kong Expert Group on Cooperation in Innovation and Technology. In particular, the HKSARG and the Ministry of Science and Technology have agreed to enhance cooperation in four technology areas, namely radio frequency identification (RFID) technologies, automotive parts and accessory systems, integrated circuit design and Chinese medicine. The Pan-PRD Joint Conference is taking forward the Planning Study on Pan-PRD Cooperation in Science and Technology for 2006-2010, while the governments of Guangdong Province and HKSAR have launched the Guangdong/Hong Kong Technology Cooperation Funding Scheme to support applied R&D projects in

technology areas of mutual interest. Furthermore, enterprises are putting more and more emphasis on the development of new technologies and design, while research institutes are proactively enhancing technology cooperation with the relevant organizations in the Mainland.

9. The HKSARG will also keep up its efforts to promote the development of IT and telecommunications sectors. It will provide support on various fronts to help the local IT sector expand into the Mainland market, strengthen Hong Kong's role as China's service centre, and promote Hong Kong as the two-way platform for Mainland enterprises to "bring in foreign investment" (引進來) and "go global" (走出去).

10. On IT, the HKSARG supports the development of a secure and reliable IT infrastructure and a set of common standards. We also seek to develop an information infrastructure with an open common interface. The HKSARG is also committed to promoting e-commerce. On communications, Hong Kong's telecommunications market is fully liberalized by being completely open to competition. The HKSARG will keep up efforts to promote effective competition and put in place regulatory and policy framework as and when required to encourage the industry to invest in a competitive, advanced and high bandwidth telecommunications infrastructure. Hong Kong telecommunications service providers possess considerable experience in the international market and sharp market sense. If they are allowed to operate in the Mainland, this will bring innovative and diverse product choices to the Mainland telecommunications services market.

11. Besides, the IT and related services sector can make good use of the liberalization measures under CEPA. With the help of the Hong Kong/Guangdong Expert Group on Cooperation in Informatisation, the IT and related services sector can also promote joint efforts of both places to explore the software outsourcing market and to foster the development of digital entertainment.

Recommendations

12. To enable Hong Kong to seize the opportunities in innovation and technology development, we recommend the following measures from the Government's perspective: to improve the Guangdong/Hong Kong Technology Co-operation Funding Scheme and explore the feasibility of extending the scheme to the Pan-PRD region; to establish joint

Guangdong/Hong Kong technological innovation platform to provide more effective support for the development of new technologies in both places; to establish closer cooperation with Shenzhen and formulate concrete measures for the establishment of the “Shenzhen-Hong Kong Innovation Circle”; to increase participation in Mainland’s technology development plans and the formulation of national standards; and to further promote cooperation of R&D institutes and professional organizations between the Mainland and Hong Kong.

13. On IT and related services, we recommend the following measures: to allow Hong Kong enterprises to engage in more informatisation development projects in the Mainland and to promote using Hong Kong as an international exhibition and transaction platform for showcasing and promoting IT products and services of Mainland enterprises to the world; to work with research institutes and universities to seek to participate in national planning in relation to the development of the information and digital content industries and formulation of IT standards, which will help them keep abreast of the focus of the relevant R&D activities in respect of IT and digital media technology as well as the market trend in the Mainland; industry to pitch their performance at a higher technical and servicing level and to build up their own brands so as to be competitive when faced with the low-cost services of the Mainland; and to strengthen cooperation in the provision of telecommunications services, including basic and valued-added services, in the Pan-PRD region, so as to speed up the expansion of the telecommunications markets and help the Mainland telecommunications industry prepare for full implementation of their WTO commitments and opening up of the domestic market in future.

14. Members are invited to offer comments on the aforesaid recommendations and suggest other measures for further consideration.

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