

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

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Chapter 1 Introduction

Objective

1.01 The Economic Summit calls upon the community to explore the opportunities and challenges arising from the National 11th Five-Year Plan, and the overall strategy we should adopt in the economic development of China amid globalisation, and make concrete responses by working out a package of practical strategic action agenda.

Background

11th Five-Year Plan – Rapid Mainland Development

1.02 The Outline of the 11th Five-Year Plan (the Plan) was endorsed in the fourth session of the 10th National People's Congress in March 2006. The Plan is a blueprint for China's economic and social development during 2006 -2010. It is a very important document with a binding effect on the whole country.

1.03 The Plan was built upon the phenomenal economic growth of the Mainland throughout its 10th Five-Year Plan period, i.e. 2001-2005. During the period, the Mainland's Gross Domestic Product (GDP) grew by an annual average of 9.5% in real terms while its external trade expanded by an annual average of 24.6% in value terms. Its per capita GDP rose to US\$1,700 in 2005. According to the International Monetary Fund, China was the world's fourth largest nation by GDP in 2005 after the USA, Japan and Germany.

1.04 During the 11th Five-Year Plan period, the Mainland's economic development is expected to proceed and deepen further. Its annual real GDP growth is projected to be 7.5% and the per capita GDP is expected to reach US\$2,400 by 2010. The Plan also laid down new development goals and tasks for the Mainland's future development, symbolizing a big step forward into a new stage of continued and sustainable growth of the national economy.

1.05 A summary of the Plan is at Annex 1.

Importance of the Plan to Hong Kong

1.06 Against the Mainland's rapid economic growth background and under the principle of "One Country, Two Systems", the Plan unequivocally supports Hong Kong in the development of our services industries such as financial services, logistics, tourism and information services, and the maintenance of our status as an international centre of financial services, trade, and shipping. This recognizes our dominant industries and their important function in the Mainland's development. Amongst all the Mainland cities, Hong Kong's role is unique and irreplaceable.

Our Response to the Plan – The Economic Summit

Economic Summit Process

1.07 As a positive response to the Plan, the Chief Executive of the HKSAR announced in May 2006 the holding of the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong". A total of 33 prominent members of the business, professional, labour, and academic sectors have been invited to participate in the Summit on 11 September 2006 and its four Focus Groups, i.e. Trade and Business; Financial Services; Maritime, Logistics and Infrastructure; and Professional Services, Information & Technology and Tourism, with government officials. A list of the members is at Annex 2. The initial outcomes of the Summit meeting are at Annex 3. The four Focus Groups have been tasked to submit to the Chief Executive an action agenda with clear and practical objectives by the end of 2006 or early 2007.

Community Engagement Process

1.08 The Focus Groups have adopted a collaborative approach of pulling government bureaux / departments; experts from the business, academics, professionals and grassroots sectors; and the wider community together in preparing their action agenda. The four Focus Groups have either expanded their membership by co-opting new members, or formed further sub-groups to give an in-depth examination of specific issues concerned. Details of the community engagement process of each Focus Group are reported in their respective reports at Attachments A - D.

1.09 In parallel, the Central Policy Unit held a public seminar - “China’s 11th Five-Year Plan and the Development of Hong Kong” on 2 November 2006. The seminar was co-organised with the Asia-Pacific Institute of the Chinese University of Hong Kong and the Centre of Asian Study of the University of Hong Kong. Over 100 participants from the chambers of commerce, trade associations, small and medium size enterprises, professional sectors, academia, grass-roots, middle-class and youth groups, etc. have exchanged views on the subject. A summary of the views of the participants expressed at the seminar have been conveyed to the relevant Focus Groups for their reference and uploaded to the website of the Central Policy Unit (www.cpu.gov.hk).

Chapter 2 Overview of Hong Kong's Strategic Positioning at Global, National and Regional Levels

2.01 In preparing for the Summit, we have adopted a “global – national – regional” framework in assessing Hong Kong's position as international financial, trade and shipping centres. We started with a benchmarking exercise of Hong Kong's global position and identifying our weaknesses and strengths. It is followed by exploring our opportunities and challenges arising from the anticipated development of the Mainland both at national and regional levels under the Plan. Through such a rigorous exercise, we can provide a solid basis for charting the way forward for the development of Hong Kong in a sustainable manner.

Strategic Overview

(a) Trade and Business Services

2.02 Hong Kong as a free market and trading place have long been the distinguishing marks and the foundation of our economy. In 2005, Hong Kong's total trade in goods reached HK\$4,579.6 billion (US\$588.9 billion), which ranked eleventh in the world and third in Asia. The trade sector has directly contributed 22.3% of GDP and employed over 600 000 people in Hong Kong.

2.03 The trade in services has been playing an increasingly important role in the Hong Kong economy in recent years. In 2005, the total value of export of services reached HK\$483.5 billion (US\$62.2 billion) and ranked 10th in the world, while the total value of import of services was HK\$251.8 billion (US \$32.4 billion) and ranked 20th globally. The Mainland market is the largest market for Hong Kong's export of services.

2.04 There are enormous business opportunities to Hong Kong in the midst of the Mainland's development into the “world's factory” and growing domestic market during the Plan period. Many foreign trading and retail firms of all sizes have long made use of Hong Kong as their centres of sourcing, merchandising, procurement, logistics, and regional headquarters taking advantage of our status and experience as a gateway to the Mainland. Our vast 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. Demand for such services should grow further as the Mainland continues its development.

2.05 The increasing affluence and growing consumption of the Mainland consumers also offers huge market potential for our trading businesses. There is a growing demand in the Mainland consumer market, which includes the demand for importing quality consumer goods from all over the world. The Plan encourages the expansion of domestic consumption, and Hong Kong is well positioned for the expanding business in the Mainland consumer market. Our services sector with a strong pool of talents and professionals, experience in international markets, and sound legal and business system and practices, is also well poised to serve the growing Mainland economy. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has provided preferential market access to Hong Kong products and services alongside the well received Hong Kong brands among the Mainland consumers.

2.06 However, many labour-intensive small and medium-sized enterprises of Hong Kong-invested enterprises in the Mainland may not be able to meet the strategic requirements of the Plan for industrial upgrading, environmental protection and energy conservation, etc. It remains a challenge for these enterprises in making the necessary adjustments to survive and to reap the benefits of the expanding consumer market in the Mainland. On our services sector, we have to continue to enhance our service quality to meet the emerging competition from the major Mainland cities which also target to expand and modernise their services sector under the Plan.

(b) Financial Services

2.07 Financial services industry is one of the most important and promising one amongst our major industries. It is of paramount importance to preserve our competitiveness vis-à-vis other places in the region so as to provide the crucial impetus for Hong Kong's economic development.

2.08 After years of development, Hong Kong has become a major international financial centre in the Asia-Pacific region. The financial services industry has directly contributed about 12.2% of GDP and employed about 180 000 people in Hong Kong.

2.09 The development of the 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. Other cities in the Asia-Pacific region are also expanding their financial services rapidly, including Shanghai, Tianjin, Singapore, Sydney and Seoul. Hong Kong has not yet been able to stay ahead of the global race to become a financial hub at a scale similar to that of New York or London.

2.10 The rapid economic development and the reform of the financial services sector of the Mainland during the Plan period have provided enormous opportunities to Hong Kong's financial services. At the same time, the rapid development and gradual integration of the Asian economies have also brought new opportunities, in particular in developing asset and wealth management in the Asian region.

2.11 However, we should not overlook the challenges as the Mainland is moving towards financial reform and liberalization. One should not take for granted that the Mainland enterprises will continue to make use of Hong Kong as their fund-raising platform. When the Renminbi (RMB) becomes fully convertible, international investors could enter the Mainland market directly and would no longer be necessary to use Hong Kong as a springboard for their Mainland investments. It would also be possible that 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. Other financial centres in the region will also become Hong Kong's competitors in the provision of RMB-denominated financial products and related services.

(c) Logistics and Maritime Services

2.12 The maritime, shipping and logistics industries are closely related with each other. In the global arena, our maritime and logistics industries are amongst the leading positions in terms of gross tonnage of vessels registered, container throughput, international air cargo volume, and international passenger throughput that underpins a substantial cargo traffic by passenger aircrafts. The logistics sector (covering the relevant maritime services as well) has directly contributed 5.3% of GDP and employed about 198 000 people in Hong Kong.

2.13 The Plan presents enormous opportunities for and challenges to the maritime and logistics industries of Hong Kong. The Mainland's industrial production, consumer spending and external trade are expected to grow at a fast pace and with an increasing proportion of high-value and time-sensitive items. This will generate vast business opportunities for the logistics industries in Hong Kong and will be positive to our development as a maritime centre in parallel.

2.14 On port and maritime services, Hong Kong Port, which handled throughput of over 22 million TEUs in 2005, has been one of the world's busiest container ports. However, with the emergence of major ports in the Mainland, including Shanghai and Shenzhen, in recent years, there is a great potential that they will overtake Hong Kong and Singapore in terms of throughputs in the years ahead. The development of Hong Kong's port cargo traffic is somewhat restrained by our limited land resources and higher overall through costs than the Mainland major ports. In view of this, 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.

2.15 There is a healthy growth of Hong Kong as the international shipping register centre. Hong Kong Shipping Register crossed the 32 million gross tonnage mark (over 1130 vessels) in October 2006 and stood in the top ten shipping registers in the world. Nevertheless, we have been facing competition from other international shipping registers. There is a need for Hong Kong to continue our efforts in enhancing the quality, standards and scope of our shipping registration services, and to conduct promotion overseas.

2.16 On air services, Hong Kong has been the world's busiest international air cargo centre during the last decade. Hong Kong excels in terms of connectivity and networking with the rest of the world, though our domestic connections with the Mainland require further improvement. From 2000 to 2005, the air freight transport registered the fastest growth among different modes of freight services in Hong Kong, and the average annual growth rate of air cargo volume reaches 8.7% during the period. The continuous liberalization of the civil aviation industry and development of the airport facilities in the Mainland are expected to undermine Hong Kong's position as the major gateway to rest of the world. Nevertheless, these developments also bring lots of opportunities for Hong Kong to build up closer air links with the Mainland and expand our air

connectivity, to the benefit of reinforcing our position as an air services hub. Another challenge relates to the limited airspace for civil aviation within the Pearl River Delta Region. This may hinder the further expansion of Hong Kong's air handling capacity over the long term.

2.17 On transport infrastructure, Hong Kong has always maintained a superior position in providing a world class transportation system and network. It contributes to the competitiveness of our city and complements our hub functions as an international centre of finance, trade and shipping. To further strengthen our hub functions, Hong Kong should seize the opportunities brought about by the improved transport network in the Mainland so as to enhance its connections with the Mainland hinterland. In this respect, it is necessary for Hong Kong to strengthen the co-ordination and co-operation with the neighbouring cities on cross-boundary transport infrastructure development to facilitate unimpeded flow of people and goods. This is highly relevant as the Mainland, in particular our immediate hinterland, under the 11th Five-Year Plan, is undergoing a rapid transformation in modernising and upgrading their road, rail and air-based transport infrastructures.

(d) Professional Services, Information & Technology and Tourism

2.18 Hong Kong provides a comprehensive range of essential professional services to support our international financial, trade and business, and logistics hub functions. Our services industry accounts for 91% of our GDP, and the professional services sector is a high value-added component of the industry. At the global level, the niche of our professional services sector is that local practitioners share the same culture and language with potential clients in the Mainland, and have vast experience in conducting business in the Mainland. Our professional services providers are also equipped with the knowledge and expertise on par with international standards. The CEPA has provided a useful trade facilitation platform enabling our professional services providers to enter the Mainland market earlier. It has brought some noticeable benefits to our service providers over the years. Whilst there are still considerable room for improvement of CEPA at the implementation level, our other challenge is higher manpower and other operational costs than in the Mainland.

2.19 On information and technology, the Plan puts emphasis on autonomous innovation and upgrading the overall hi-tech capability and

technology level of the industries. Hong Kong possesses many favourable elements for the development of application and commercialization of innovation and technology, including our robust intellectual property (IP) protection regime, sound financing environment, strong international market experience, free information flow, and close connection with overseas universities and research institutes. Hong Kong is well-positioned to play an active role in supporting national technological development by providing services in research and development, technology transfer, technological information exchange and IP exchange. However, human capital is relatively more costly in Hong Kong as compared with the Mainland, and the comparative advantages of Hong Kong's information technology professionals in global vision, technical skills and English proficiency are under threat in view of the rapid development of the Mainland in recent years.

2.20 On tourism, Hong Kong has benefited from the Individual Visit Scheme and its further extension to other Mainland cities. However, we are faced with competition with other Mainland cities both as the destination for the Mainland travellers and overseas travellers. In view of the increasing number of countries granted Approved Destination Status by the Mainland authority for outbound group travels and more direct air links between the Mainland and the rest of the world, the Mainland residents are provided with more choices for outbound tourism. Moreover, with the continuous development of tourism in the Mainland, some places or cities may emerge as Hong Kong's competitor in tapping overseas visitor markets. Yet the vibrant growth in inbound and outbound tourism also presents business opportunities for Hong Kong. Due to our own attraction and convenient linkage to the rest of the world, many Mainland and overseas travellers would still prefer to include Hong Kong as part of their itineraries.

(e) Cross-cutting Factors Supporting Development of our Economy

2.21 Hong Kong thrives on providing efficient and quality services such as financial, logistics, trade and business, etc. Yet these services do not prosper on their own independently, and have to be underpinned by the following integrated set of factors covering many aspects of the community:-

- (a) availability of a substantive pool of high quality talents;

- (b) unimpeded and efficient flow of goods, people, capital and information;
- (c) high quality of professional services, and information and technology support;
- (d) balance social and economic developments with environmental protection for sustainable development; and
- (e) strengthening interaction with the Mainland authorities.

2.22 Reinforcing our strength in the above cross-cutting factors is necessary to enhance our competitiveness and sustain the development of the “three international centres” of finance, trade and business, and shipping that we aspire to excel.

Chapter 3 Strategic response as proposed by Focus Group on Trade and Business

3.01 The Focus Group on Trade and Business convened by Dr Victor Fung has set up four sub-groups to look into different aspects to strengthen Hong Kong's trade and business. These relate to Hong Kong's branding, Hong Kong-invested factories in Guangdong, CEPA-related matters, and attracting and nurturing talents. An ad hoc group meeting was also convened to discuss the issue of maintaining clean air in Hong Kong.

3.02 This Chapter summarises the policy directions and strategic proposals proposed by the Focus Group. The Report prepared by the Focus Group is at Attachment A.

Proposed Policy Direction

3.03 The Focus Group on Trade and Business recommends the following policy directions: (i) that a "Brand Hong Kong" culture should be inculcated throughout the whole community, with commitment and leadership from the top; (ii) that assistance should be given to Hong Kong-invested factories in Guangdong to help them adjust or shift their focus from export processing to domestic sales and/or relocate to the "less developed" areas in Guangdong and adjacent provinces; (iii) that the potentials and benefits under CEPA should be optimised, so as to make use of the talents, investments and resources in Hong Kong; and (iv) that talents should be nurtured and our talent pool enlarged, thereby raising the quality of our human capital.

3.04 Internationally, "Brand Hong Kong" has a lot of potentials and is our important asset. It symbolises high quality, efficient, international and contemporary products and services. It is therefore important to strengthen Hong Kong's image as an international city with a vibrant, trendy, colourful and cosmopolitan lifestyle. Successful efforts could turn Hong Kong into an even more effective conduit for overseas information, technology, human and financial flow to enter the Mainland, and a springboard for the Mainland enterprises to reach the international markets.

3.05 At the national level, CEPA brings in new business opportunities for both Hong Kong and the Mainland. The inflow of investment and talents to the Mainland would help enhance the professional standards of

service industries in the Mainland. On the other hand, CEPA also strengthens Hong Kong's role as a "springboard" for the Mainland companies to "go out" to explore international markets. CEPA enhances the flow of goods, services, capital and people between the two places, hence fostering greater economic integration.

3.06 Regionally, given that one of the goals of the National Five-Year Plan is to expand domestic consumption, there are many opportunities, particularly for Hong Kong-invested factories in Guangdong to leverage on consumption as an impetus to fuel the Nation's economic development. It would be important for the factories to improve their management, examine new business approaches, and adjust their operation to meet the new environmental standards.

3.07 The Focus Group notes certain common issues such as nurturing and attracting talents, maintaining clean air, and promoting the brand names of Hong Kong. The Focus Group and its Sub-Groups have made some strategic proposals to address them, which are summarized in the following section.

Strategic Proposals

3.08 To inculcate a "Brand Hong Kong" culture, the Focus Group proposes that a high-level "Brand Hong Kong Group" should be established by the Government to take forward the "Brand Hong Kong" message on a sustained basis. As a start, the Group may consider activities such as leveraging on the 10th Anniversary of the HKSAR establishment in 2007 to launch a revitalised "Brand Hong Kong" publicity campaign to showcase Hong Kong's vibrancy ten years after the re-unification. The promotional campaign could be two-fold. On the one hand, it could be a marketing campaign outside Hong Kong. On the other hand, there could be local programmes aiming to promote a spirit that we are proud of Hong Kong.

3.09 As the issue of maintaining clean air is essential in retaining talents and attracting international investment, the Focus Group also proposes that a high-level mechanism should be established to address this issue. A comprehensive policy and enforceable measures should be adopted to reduce air pollution. This could include developing a master plan with both short-term deliverables that are quick to implement and

long-term objectives not only on air quality, but also issues relating to urban design, transport policy, land use policy and energy policy; launching a consensus-building campaign in both the business community and the community at large; introducing measures to reduce Hong Kong's home grown pollution; and strengthening cross-boundary cooperation efforts.

3.10 On CEPA, the Focus Group proposes that a consultative arrangement should be established with major business associations to provide a platform for exchanges on trade and investment facilitation measures and problems encountered relating to CEPA implementation, and for gathering views. More research on the benefits of CEPA should be conducted to facilitate CEPA promotional work, and ways should be explored to safeguard Hong Kong's trade interests in the light of the Mainland's trade and investment liberalisation arising from multilateral trade negotiations and new trends in world trade.

3.11 On the Hong Kong-invested factories in Guangdong, the Focus Group proposes that assistance should be provided to them to tap the Mainland consumer market and to comply with the Mainland rules and regulations, including the tightened environmental protection requirements. Cross-boundary infrastructure should be improved and the intellectual property protection regime should be strengthened.

3.12 On the manpower front, the Focus Group proposes that ways to further promote the various admission schemes administered by the Immigration Department should be explored, such as launching an international promotion campaign to publicise our open and flexible regime for admitting different types of talents, professionals and investors to Hong Kong, repackaging the various admission schemes, and organising a forum to identify room for improvement in the application procedures. The Focus Group also proposes to establish platforms for industry-academia-government collaboration to prepare local talents for the key industries, and explore ways to attract more non-local students to study in Hong Kong, to develop Hong Kong into a regional education hub.

Action Agenda

3.13 The Action Agenda with specific actions recommended by the Focus Group is consolidated at [Annex 4](#).

Chapter 4 Strategic response as proposed by Focus Group on Financial Services

4.01 The Focus Group on Financial Services convened by Dr. the Hon David Li has set up three Sub-groups to study the further development of the financial markets in the light of the opportunities and challenges arising from the 11th Five-Year Plan, namely Sub-group on Securities Market, Sub-group on Foreign Exchange and Commodities Futures, and Sub-group on Insurance, Reinsurance and Asset Management. Hon. Ronald Arculli, Mr. He Guangbei, and Dr. Tse Sze-wing, Edmund are the Convenors of the three Sub-groups respectively. The Focus Group through the Sub-groups has consulted the industries concerned and discussed the response that Hong Kong is going to make.

4.02 This chapter summarizes the policy directions and strategic proposals proposed by the Focus Group. The Report prepared by the Focus Group is at Attachment B.

Proposed Policy Direction

4.03 The Focus Group has adopted two complementary approaches in its deliberations: a macro, strategic perspective and a micro, market-specific perspective. The Group recommends a series of strategic proposals on how HKSAR can contribute to the economic development and financial reform of the country in a more significant manner.

Macro, strategic perspective

4.04 From an institutional perspective, China is unique in having two financial systems in the country under the “One Country, Two Systems” principle. The Focus Group considers that the two financial systems should establish a complementary, cooperative and interactive relationship. Mainland can make better use of the financial system of the HKSAR in helping to enhance financial intermediation efficiency and to implement financial reform. Developing Hong Kong to be an international financial centre of global significance will further help enhance China’s status and competitiveness in the world. As the international financial centre of the country, the HKSAR has the responsibility to assist in ensuring the country’s economic and financial stability and in strengthening the country’s resilience to risks.

4.05 From a practical perspective, HKSAR can contribute to the Mainland's financial reform and development in three aspects. First, our established financial platform, by offering diversified financial services to the Mainland, can help raise the efficiency of financial intermediation and support the financial system reform and development in the Mainland. Second, HKSAR as an international financial centre can facilitate two-way cross-boundary fund flows of the Mainland, which will help address the increasing concern of external imbalances in the economy. Third, Hong Kong is also well positioned to serve as a testing ground for RMB to become fully convertible.

4.06 Specifically, the Focus Groups recommends a five-pronged strategy to pursue the policy direction :

- to enhance the presence of Hong Kong financial intermediaries in the Mainland to provide financial services on location;
- to enhance the outward mobility of Mainland investors, fund raisers and financial intermediaries;
- to allow financial instruments issued in Hong Kong to be marketed in the Mainland;
- to enhance the capability of Hong Kong's financial system in handling financial transactions denominated in RMB; and
- to strengthen financial infrastructural linkages between the Mainland and Hong Kong.

4.07 From a strategic perspective, the Focus Group proposes to further develop Hong Kong as China's international financial centre of global significance. Strategically, this policy direction is of national interest important to China as her economy has become one of the largest in the world and is growing rapidly. It is also a natural development of Hong Kong's existing status as a premier international financial centre in Asia. Through the policy, it will also complement the development of other financial centres in the Mainland. Different financial centres can play their own role based on their respective comparative advantages.

Micro, market-specific approach

4.08 Hong Kong has established itself as one of the leading securities market in the world with unique advantages. On securities market, the Focus Group proposes to strengthen high level liaison with the Mainland in order to facilitate continuous capital formation for Mainland enterprises. As an international financial centre, our securities market should also extend its reach to potential quality issuers outside Hong Kong and the Mainland. Efforts should be made to establish a more flexible regulatory and operation infrastructure for local, Mainland and overseas financial intermediaries and investors. It is also necessary to ensure the smooth and efficient operation of the markets.

4.09 Mainland is moving towards achieving RMB convertibility for capital account transaction in a gradual manner. The Focus Group considers that the development of RMB futures and options market can consolidate Hong Kong's lead in offshore RMB trading and expand the range of non-deliverable RMB products. It will also consolidate our lead in offshore RMB trading, and as RMB hedging and derivatives centre.

4.10 On commodities futures market, Mainland is one of the world's largest consumers and suppliers of commodities, precious metals and other raw materials. The Focus Group considers that development of a commodities futures market in Hong Kong is a worth pursuing initiative. As a first step, the Group proposes to conduct an independent consultancy study on the market potential, conditions, and requirements, and make concrete proposals for developing the commodities market.

4.11 An effective insurance market and asset management sector provide the necessary risk management, financial intermediation, and wealth preservation tools for the sustainable development of the Mainland economy. The Focus Group proposes that liaison be made with the Mainland with a view to enabling Hong Kong insurance institutions to make more contributions to meeting the needs of the Mainland in the above aspect while at the same time promoting the development of international captive insurance market in Hong Kong, furthering training and qualification enhancement of insurance practitioners, and fostering the further development of asset management.

Action Agenda

4.12 The Action Agenda with specific actions recommended by the Focus Group is at Annex 4.

4.13 The Focus Group recognizes that many of the proposed action agenda items involve policy initiatives and liberalization of restrictions in the Mainland, particularly in relation to capital account control and RMB convertibility. The financial reform process in the Mainland will be prudently managed to limit risks and safeguard financial stability. The Focus Group considers that the HKSAR Government and relevant regulatory entities should carefully assess the benefits, risks and feasibility of the specific action items. Priority should be given to those that help resolve pressing issues on the Mainland or that are easier to implement at this stage.

Chapter 5 Strategic response as proposed by Focus Group on Maritime, Logistics and Infrastructure

5.01 The Focus Group on Maritime, Logistics and Infrastructure convened by Mr. Tung Chee-chen was tasked to look into the strategic direction and proposals to enhance Hong Kong's position as the international and regional hub in air transport, sea transport and logistics in response to the 11th Five-Year Plan. Against this background, the Focus Group puts forward a series of strategic proposals and has consulted relevant advisory bodies on the proposals. The industry and academic sectors were also consulted through discussions, seminars, etc.

5.02 This chapter summarizes the policy directions and strategic proposals proposed by the Focus Group. The Report prepared by the Focus Group is at Attachment C.

Proposed Policy Direction

5.03 In the National 11th Five-Year Plan, the Central Government unequivocally supports Hong Kong in the development of our logistics industry and in maintaining our position as an international maritime centre. Under the auspices of the 11th Five-Year Plan, the Mainland economy and its import/export trade will continue to grow steadily, which will bring about ample business opportunities for the logistics industry of Hong Kong. Thus, strengthening further Hong Kong's position as an international maritime centre and a logistics hub will not only provide growth impetus for the local economy, but also complement economic development of the country. Yet along with the rapid South China port development and continuous liberalisation of the air transport service industry in the Mainland, Hong Kong's logistics industry will face intense competition. In the face of these opportunities and challenges, Hong Kong should make appropriate adjustments in its relevant policies and measures, with a view to providing infrastructure conducive to the development of the logistics industry and improving their business environment in order to enhance the competitiveness of the whole industry.

Strategic Proposals

Strategy 1: To enhance the cost-effectiveness of cross-boundary freight transport

5.04 Cross-boundary freight transport is handled by land or river transport, with each accounting for around half of the total currently. It is thus necessary to examine how the operating environment for these two modes of transport could be improved, in order to enhance the cost-effectiveness of cross-boundary freight transport, thereby strengthening the competitiveness of Hong Kong's port and airport.

Strategy 2: Planning for the provision of port and related infrastructure from a macro perspective

5.05 With Hong Kong port and our neighbouring ports both being gateway ports for South China cargo, it is necessary to take into account the cargo handling capacity of neighbouring ports in planning for Hong Kong's port and supporting infrastructure facilities. If the cost-effectiveness of further port expansion is confirmed, it is necessary to establish a mechanism to co-ordinate the port development in Hong Kong and Shenzhen with a view to avoiding duplication of resources and unnecessary competition.

Strategy 3: To strengthen the development of Hong Kong's maritime industry

5.06 In face of the problem of manpower shortage, particularly those senior managerial posts that require sea-going experience, the Government will encourage the post-secondary educational institutes and other vocational training institutes to devote more resources to maritime courses, and establish a Maritime Scholarship in the first half of 2007. In addition, we will continue to enhance the services of Hong Kong Shipping Register, thereby further strengthening the position of Hong Kong as an international maritime centre.

Strategy 4: To strengthen Hong Kong's position as an international and regional aviation hub

5.07 To enhance Hong Kong's status as a hub for international and regional aviation, we should continue to expand the passenger and cargo handling capacities and related support facilities of the Hong Kong International Airport. We will also need to, as a matter of urgency, strengthen coordination in the use of the regional airspace and enhance our air traffic management capability and runway capacity.

5.08 The Airport Authority will endeavour to introduce an additional air cargo terminal, and will launch a study, in consultation with the industry and relevant government departments, on the various factors affecting the capacity of the Hong Kong International Airport to assess the need for a third runway and to draw up a strategy for further expansion of the Airport's capacity. The Civil Aviation Department will also work closely with the General Administration of Civil Aviation of China and the Macao Civil Aviation Authority to map out long-term solutions to improve the use of airspace, and replace the existing air traffic control system with a view to enhancing the air traffic management capability of Hong Kong and increasing the runway capacity.

Strategy 5: To continue negotiation with major trading partners on avoidance of double taxation arrangements relating to shipping and air income

5.09 Due to the international nature of air transport and shipping operations, airlines and shipping companies are more susceptible to double taxation. The Government will actively negotiate with our trading partners for the avoidance of double taxation on income arising from international air and sea transport operations, in order to enhance the international competitiveness of such companies.

Strategy 6: To fully explore the competitive edges of Hong Kong's logistics industry, and to improve supply chain operation, so as to compete on the reliability and quality of its high-value added services in addition to being competitive in the total cost

5.10 With the rapid expansion of global sourcing and increasing specialization in production over the past decade, there has been rising demand for integrated logistics services. Hong Kong should sharpen its competitive edges, promote the electronic transmission of logistics information, and wider use of the Digital Trade and Transportation Network (DTTN) System, the Radio Frequency Identification (RFID) technology, etc. to improve supply chain operation and to compete not just on cost, but also on the provision of reliable and quality high-value added services in a cost-effective manner.

Strategy 7: Study the establishment of a high-level cross-bureaux/ departments co-ordination mechanism for formulating a comprehensive development strategy for cross-boundary transport infrastructure and co-ordinating various cross-boundary transport infrastructure projects more effectively

5.11 In light of the rapid transport infrastructure development and the new trend of fostering regional co-ordinated development in the Mainland, the Government should examine the establishment of a high-level cross-bureaux/department co-ordination mechanism with a view to formulating a comprehensive development strategy and strengthening the planning and co-ordinating capabilities in the development of cross-boundary transport infrastructure.

Strategy 8: Develop cross-boundary transportation network by adopting a forward-looking perspective on regional development

5.12 Transport demand has always been the determining factor in endorsing transport infrastructure projects in Hong Kong. However, the demand-led approach could mean inadequate consideration of the regional development dimension and of the uncertainty of demand forecast. Coupled with the long lead-time for large infrastructure projects, we are prone to delay in activating the projects. The Government should study how to improve the existing development mode for cross-boundary transport infrastructure and shorten the development lead-time for cross-boundary transport infrastructure projects.

Strategy 9: Optimize cross-boundary transportation networks so as to establish efficient and convenient direct links with neighbouring comprehensive transportation hubs, shorten the spatial distance with the Mainland and extend the hinterlands of Hong Kong's airport and ports

5.13 With the improvement of transport network in the Mainland, Hong Kong should strengthen its links with neighbouring comprehensive transportation nodes so as to shorten the spatial distance to various provinces and cities in the Mainland. Hong Kong International Airport plays an important role in Hong Kong's overall economic development. To strengthen its role as an international aviation hub, the Government should

examine how to improve the regional transport network with a view to enhancing Hong Kong International Airport's connections with the hinterland and facilitating passenger and cargo flows.

Action Agenda

5.14 The Action Agenda with specific actions recommended by the Focus Group is consolidated at Annex 4.

Chapter 6 Strategic response as proposed by Focus Group on Professional Services, Information & Technology and Tourism

6.01 The Focus Group on Professional Services, Information & Technology and Tourism convened by the Hon LEUNG Chun-ying has set up three Sub-groups, namely Sub-group on Professional Services, Sub-group on Innovation, Technology and Information Services, and Sub-group on Tourism to examine the opportunities and challenges arising from the 11th Five-Year Plan. The Focus Group has consulted the industries concerned and discussed the response that Hong Kong is going to make. Ms LEUNG Oi-sie, Elsie, Mr SO Chak-kwong, Jack, and Mr WONG See-sum, Jackie, are the Convenors of the three Sub-groups respectively.

6.02 This chapter summarizes the policy directions and strategic proposals proposed by the Focus Group. The Report prepared by the Focus Group is at Attachment D.

Proposed Policy Direction

6.03 The 11th Five-Year Plan unequivocally “supports Hong Kong’s development on fronts such as financial services, logistics, tourism and information services, and the maintenance of Hong Kong’s status as an international centre of financial services, trade and shipping”. These economic activities are all interwoven with each other and the issues covered by the Focus Group straddle the areas of the other three Focus Groups. To reinforce Hong Kong’s status as international financial services, trade and shipping centres, we must ensure complementary development in professional services, information and technology, and tourism sectors. Only with this achievement would Hong Kong be able to embrace the challenges ahead, continue to play a unique role as an international gateway to the Mainland and contribute to the national economic and social development.

6.04 As an international financial, trading and maritime centre, Hong Kong provides wide-ranging and high quality professional services on par with international standards. In particular, our professional services sector, including the legal, accounting, construction and related engineering and medical professions, has assumed a leading position in the region. The

proposals of the Sub-group on Professional Services are formulated with a view to (i) developing Hong Kong into a world-class professional services centre, and (ii) maintaining the leading position of the relevant professional services sectors not only at the national level, but also at the global level. The Sub-group also considers measures that contribute to the modernisation of the national economy and its integration with international economic developments during the implementation period of the 11th Five-Year Plan.

6.05 Apart from professional services, the Plan also explicitly supports Hong Kong's further development in tourism. Hong Kong is a popular tourist destination. While the Plan recognizes Hong Kong's advantage in tourism, Hong Kong should further strengthen our cooperation with the Mainland and attract more visitors from the Mainland and overseas. In this connection, the Sub-group on Tourism has examined a variety of proposals to promote tourism development with a focus on the Mainland market so as to maintain and enhance the competitiveness of Hong Kong's tourism industry.

6.06 The 11th Five-Year Plan highlights the importance of autonomous innovation as well. Hong Kong should grasp this opportunity to raise our innovation capacity and upgrade our technology level so as to promote the integration of technology with economic and social development. The Sub-group on Innovation, Technology and Information Services has focused its discussion on how we could strengthen Hong Kong's position as a world-class regional hub for innovation and technology activities and promote Hong Kong's information services to the Mainland and the international community.

Strategic Proposals

(a) Sub-group on Professional Services

6.07 The Sub-group on Professional Services has focused its work on four professional services sectors, namely the legal, accountancy, medical, and construction & related engineering¹ professions, as it notes that the challenges facing other major professional services sectors would be considered by other Focus Groups. Moreover, should our four

¹ Construction and related engineering services include architectural, engineering, town planning, landscape architecture, quantity surveying and other related specialist consultants.

professional services sectors take a proactive role instilling in their Mainland counterparts the concepts of "personal professional services" and "self-governance by the profession", it will lay a good foundation for other professional sectors to promote their services in the Mainland. The Sub-group also believes that its recommendations pertaining to specific professional services, when followed through, should help promote the interests of the professional sectors as a whole.

6.08 The Sub-group recommends that members of our professions should, in conjunction with the Government and the Hong Kong Trade Development Council (HKTDC), adopt a three-pronged strategy in pursuing the further development of our professional services, through making the best use of the CEPA framework (i.e. the Government-to-Government level), riding on HKTDC's promotional efforts in gaining access to the Mainland market (i.e. the Government-to-Consumer level) and actively instilling in their Mainland's counterparts the concepts of "personal professional services" and "self-governance by the profession" (i.e. the Business-to-Consumer level).

6.09 To enhance the leading position of Hong Kong's legal profession, the Sub-group proposes that we should: (i) maintain the strengths of Hong Kong lawyers through such measures as encouraging exchanges with legal professionals from around the world and leveraging on the strengths of our local legal professionals; (ii) improve and enhance the platform for cooperation between the legal services sector of Hong Kong and the Mainland; (iii) reinforce and promote Hong Kong as a regional centre for legal services and the resolution of commercial disputes, in particular, those involving the Mainland and foreign countries; and (iv) explore the feasibility of providing one-stop services to clients with different needs.

6.10 The Sub-group put forward strategic proposals to strengthen the edge of the accountancy profession, including: (i) maintaining Hong Kong's influence in the international professional arena through playing an active role in the formulation of accounting standards by international and regional accountancy bodies; (ii) enhancing cooperation and exchange between the accounting professions in the Mainland and Hong Kong; and (iii) actively transferring knowledge and providing technical support and the necessary training in facilitating the formulation of the Mainland's financial reporting standards and their convergence with international standards.

6.11 For further advancement of the medical profession, the Sub-group proposes to: (i) consolidate and further develop Hong Kong's position as a professional medical centre of excellence in the Region, promote Hong Kong's medical services in the Mainland and facilitate patients from the Mainland to seek medical treatment in Hong Kong; (ii) promote exchanges in medical practice and culture between Hong Kong and the Mainland, enhance each other's professional standard and status, and explore further opportunities for mutually beneficial development; and (iii) foster an environment conducive to Hong Kong medical practitioners practising in the Mainland.

6.12 To promote the development of the construction and related engineering profession, the Sub-group considers that we should: (i) boost the support for the development of the local construction and related engineering services sector in the Mainland and overseas areas; (ii) enhance the cooperation between the construction and related engineering services sectors in Hong Kong and the Mainland; and (iii) target the urban construction and development projects in second-tier cities in the Mainland, thereby creating room for Hong Kong professionals to provide "one-stop" integrated services.

6.13 The Sub-group has also conveyed to the relevant Focus Group and Sub-groups its views on some common strategic issues pertaining to the further development of our professional services, including the need to formulate measures to attract, retain and nurture talents; and to promote the brand name of Hong Kong, including the highly regarded quality and ethical standards of our professional services.

(b) Sub-group on Innovation, Technology and Information Services

6.14 As regards innovation and technology, the Sub-group considers that Hong Kong should participate proactively in the process of the development and formulation of product standards in the Mainland. The Sub-group proposes that the HKSAR Government should appeal to the relevant Mainland authorities to allow Hong Kong enterprises and experts to participate in this work. Another strategic proposal recommended by the Sub-group is that Hong Kong should establish closer cooperation with Shenzhen and work out specific measures for setting up the "Shenzhen-Hong Kong Innovation Circle".

6.15 On the growth of information services sector in Hong Kong, the Sub-group suggests that Hong Kong should strive to be the key data centre in the region and we should actively promote overseas Hong Kong's numerous advantages that are conducive to the development of data services. The Sub-group recommends that the HKSAR Government should review the existing land policy to allow service providers to install relevant equipment or facilities in industrial premises without requiring them to make special application or pay additional fees.

6.16 Moreover, as a pilot project between Hong Kong and Shenzhen, the Sub-group proposes to establish a quality and reliable cross-boundary broadband network for providing e-commerce and digital content transmission services on a business-to-business basis across the boundary.

(c) Sub-group on Tourism

6.17 To enhance Hong Kong's status as a premier destination for visitors and promote the long-term competitiveness of the tourism industry, the Sub-group put forward the following strategic proposals: (i) enhancing our connectivity with the Mainland and introducing more user-friendly visa policy and border control facilities; (ii) further cooperation with the Mainland in promoting multi-destination itineraries and leveraging on CEPA to develop new business opportunities in the Mainland and help enhance service quality in the Mainland; (iii) promoting more exchange of talents with the Mainland with a view to enhancing service quality of the tourism industry of the two places; actively supporting the Mainland's policy of "Honest and Quality Tourism" to improve the overall quality of tourism services and foster the healthy development of tourism in Hong Kong and the Mainland; and (iv) developing more tourism attractions and facilities.

Action Agenda

6.18 The Action Agenda with specific actions recommended by the Focus Group is consolidated at Annex 4.

Chapter 7 Way Forward

7.01 After four months of intensive work, the four Focus Groups herewith submit their reports including their respective proposed action agenda to the Chief Executive of HKSAR for consideration. The action agenda is a response to the strategic positioning of Hong Kong under the National 11th Five Year Plan. It aims to strengthen the international and regional competitiveness of Hong Kong with a view to supporting the development of both the Mainland and Hong Kong. It includes 50 strategic proposals and 207 practical action items covering trade and business; finance; maritime, logistics and infrastructure; and professional services, information and technology and tourism. A consolidated list of the agenda is at Annex 4.

7.02 The proposed action agenda represents the recommendations of the Focus Groups taking account of the views collected through the consultation process. Implementation of the agenda will require concerted efforts of various sectors of the community, including the Government, public regulators and organisations, trade associations, chambers of commerce, academia, practitioners, workers, professionals, etc. In view of the large number of the proposed action items and many of which will require legislative changes or discussion with the Mainland authorities, the Government should therefore have a leading role to play both as an implementation agency and as a coordinator of monitoring the progress of implementation.

7.03 There is a need for the Government to consider the following key implementation issues in taking forward the action agenda :

- (i) conduct an overall assessment and prioritisation of the action agenda having regard to the complexity and practicability of the action items, availability of financial and human resources, government policies and measures, and the need to tie in with the 11th Five-Year Plan period; and
- (ii) refer the action agenda as a reference to the next term of the Government in considering economic policies for Hong Kong.

7.04 Looking ahead, it is worth considering whether and how Hong Kong should be involved in the preparation of the 12th Five-Year Plan (covering the period of 2011-2015) under the “One Country, Two Systems” principle. This will not only facilitate the economic development of the SAR, but also enable our timely and effective contribution to the Mainland’s social and economic development during the 12th Five-Year Plan period.