

**Summary of Views Expressed at the Seminar on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
Held on 2 November 2006**

Session 1: Maritime, Logistics and Infrastructure

Moderator: Professor WONG Siu-lun, Director, Centre of Asian Studies, The University of Hong Kong

Presentations by:

- (I) Professor YEUNG Yue-man, Director, the Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong
- (II) Mr Kelvin LEUNG, Chairman, Hong Kong Association of Freight Forwarding and Logistics

Assisting Mainland Companies to Lower the Logistics-related Costs

It was raised that Hong Kong had expertise in high-value added logistics and supply-chain management. The relevant industries in Hong Kong should make the best use of their advantages to assist Mainland companies in lowering their logistics-related costs, and in turn increasing the competitiveness of the export industry of our country. It was therefore considered a “win-win” situation for both the Mainland and Hong Kong if Hong Kong logistics companies were allowed to participate in the logistics industry in the Mainland.

Shipping Register

- 2. As an international shipping centre, some raised that the Government should enhance the current promotional efforts, with a view to encouraging more overseas companies to register and operate their ships in Hong Kong.

Limited Supply of Land for Logistics Use

- 3. A number of participants had raised that the limited land supply and high cost of land had hindered the development of logistics industry in Hong Kong. It was suggested that the Government should not only consider increasing the allocation of land for logistics use, but also explore how to better

utilise the land and coastline of Hong Kong to develop backup land for logistics services.

Aviation

4. There was a common view that Hong Kong would remain an international and regional aviation hub because of its high efficiency and extensive international air network. Nevertheless, competition from the airports in Shenzhen and Guangzhou were intensifying. There was a view that construction of a third runway might not solve the capacity problem if the problem of coordination and management of congested air space in the region had not been resolved. Participants suggested that Government should expedite its negotiation with the relevant Mainland authorities in order to improve the situation.

Hong Kong-Zhuhai-Macau Bridge

5. It was considered important to further enhance the transport interconnection between Hong Kong and the Mainland to facilitate flow of goods and people between the two places. In particular, construction of the Hong Kong-Zhuhai-Macau Bridge should be completed as early as possible to enhance the connection of Hong Kong with the western part of Guangdong and the South-western part of China.

6. In view of its high construction cost, there were concerns that the toll levels to be charged for using the Hong Kong-Zhuhai-Macau Bridge might be too high when compared with sea transportation. To allow early start of the relevant construction work and maintain the charges at a reasonable level, there was a suggestion that the governments involved should consider financing the project, instead of purely relying on private investment.

Express Rail Link

7. It was raised that a dedicated rail track, instead of a shared track with the West Rail, should be used in linking the Guangdong regional express rail network to Hong Kong. The dedicated track option would significantly increase the efficiency of the express rail link and serve as one of the major link between Guangzhou, Shenzhen and Hong Kong.

New Approach to Planning of Infrastructural Projects

8. It was suggested that Hong Kong should learn from the Mainland's approach in planning of infrastructural projects. Hong Kong should consider

adjusting its “demand-led” development approach to a “supply-driven” approach in planning new infrastructural projects.

Other Views

9. A guest speaker expressed concerns on the possible adverse impact of the introduction of Goods and Services Tax (GST) to the development of logistics industry in Hong Kong. He considered that the introduction of GST might create a number of new and complicated declaration and clearance procedures, which would significantly reduce the efficiency of the logistics sector as well as the attractiveness of Hong Kong as a logistics hub.

Session 2: Financial Services

Moderator: Professor LAU Siu-kai, Head, Central Policy Unit

Presentations by:

- (I) Dr XIAO Geng, Associate Professor, School of Economics and Finance, The University of Hong Kong
- (II) Presentation by Mr Philip LAU, Executive Vice President and Treasurer, Treasury and Markets, Citic Ka Wah Bank Limited

Hong Kong as an International Financial Centre

10. In response to the challenges and opportunities arising from the China's 11th Five-Year Plan, the guest speakers reviewed the strengths and weaknesses of Hong Kong as an international financial centre. Guest speakers opined that Hong Kong had been providing a platform for Mainland companies to “go out” and for foreign companies to invest in Asia, including the Mainland. However, the role of Hong Kong in the Mainland's domestic financial market was still limited at the moment.

11. It was raised that China could have more than one financial centre in future in view of its huge domestic market. There could be division of labour among various financial centres in China, like New York and Chicago in the US. The former being a centre of stock exchange and the latter being a centre of commodities exchange.

Listing of Mainland Companies in Hong Kong

12. Guest speakers pointed out that Hong Kong was a major centre of Initial Public Offering (IPO) for Mainland enterprises. There were numerous Mainland enterprises that had potential to launch IPO. A guest speaker suggested that Hong Kong should develop cooperative relationships with other Mainland cities, such as Shanghai and Shenzhen, in attracting companies to launch IPO.

Renminbi's Business

13. Some participants were concerned that further liberalization of renminbi might significantly affect Hong Kong's economy. In view of the complicated economic conditions of the domestic and international markets, some participants opined that further liberalization of renminbi should be carried out in gradual, controllable and proactive manner.

14. A guest speaker suggested that with the experience of operating renminbi's business since 2004, Hong Kong should examine how to further develop renminbi's business, such as developing a renminbi offshore centre in Hong Kong.

Development of Equity and Bond Markets

15. A guest speaker opined that Hong Kong lacked sophisticated wealth management products. Besides, the size of Hong Kong's bond market was relatively small, compared with the size of Hong Kong's stock market. Hong Kong should attract more investment fund managers by further developing hedge funds, real estate investment trust and commodities futures market.

Other Views

16. Some participants pointed out that a mature financial market should provide a convenient channel for small and medium size enterprises (SMEs) to raise funds and facilitate their business operations. By providing financial services to SMEs, banks could also diversify their financial risks.

17. A participant considered that the development of the Growth Enterprise Market (GEM) in Hong Kong had not been satisfactory. Guest speakers suggested that the lack of delisting proceedings in Hong Kong might have impaired the confidence of investors and therefore hindered the development of the GEM.

Session 3: Professional Services, Information & Technology and Tourism

Moderator: Professor YEUNG Yue-man, Director, the Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong

Presentations by:

- (I) Professor Paul CHEUNG, Managing Director, Versitech Limited, The University of Hong Kong
- (II) Presentation by Mr Samson TAM, Chairman, Group Sense (International) Limited

Development of Information Technology and Related Professional Services

18. A guest speaker considered that Hong Kong faced a number of challenges in the development of the information & technology (IT) industry. They included: (i) insufficient investment, (ii) lack of talents, (iii) poor capability in technological innovation, (iv) insufficient recognition of the importance of developing IT in the community, and (v) poor financial support from the Government. To promote IT development in Hong Kong, he recommended the following strategies: (i) to significantly increase investment in IT, (ii) to provide more training for IT talents and professionals, (iii) to encourage more research and development in innovation & technology, (iv) to raise public awareness of the significance of developing IT, and (v) to strengthen financial support in IT development.

19. Another guest speaker suggested that in view of the competition of the Mainland cities and other neighbouring countries, Hong Kong should strive for developing high-technology (Hi-tech) industries in order to avoid being marginalized. He identified some areas in which Hong Kong was highly competitive and could develop independently, such as information services industry.

20. There was a suggestion that the Government might consider setting up an IT development zone in cooperation with Shenzhen. A guest speaker suggested that Hong Kong should strive for more cooperation with the Mainland

authorities and companies in view of the rapid technological development in the Mainland.

Human Resources in IT Industry

21. Most of the participants and speakers agreed that talent was the most important factor in promoting IT development in Hong Kong. A participant opined that it was also important to develop hi-tech manufacturing industries in Hong Kong thus creating job vacancies to attract local and overseas IT talents to work in Hong Kong.

22. A participant suggested that apart from attracting talents from the Mainland, the Government should also try to attract those Hong Kong IT talents who were working in overseas countries to return to Hong Kong. He added that IT professionals who had overseas working experience had better international perspectives and would be beneficial to the development of IT in Hong Kong. A guest speaker added that the air quality and the education system in Hong Kong should be further improved in order to attract overseas talents to work and live in Hong Kong.

23. A participant remarked that the younger generations in Hong Kong were not interested in science and applied science. He considered that the Government should explore ways to raise the status of scientists, stimulate young people's interests in studying and pursuing academic research in sciences, and help establish a culture in research and development in science, particularly in applied science.

Strengthening IT Research and Development

24. A participant, who was a university student, opined that even though some young people in Hong Kong were creative in technological aspects, it was difficult for them to gain support and recognition from the society. He noted that Hong Kong lacked a culture of carrying out research and development and this had discouraged many young people to engage in IT and engineering fields.

25. In general, participants suggested that the Government should increase investment in research and development and training in IT areas. A participant cited the experience of Singapore government who had implemented a number

of policy measures to nurture local IT talents. He suggested that the Government should deploy more resources in supporting research in pure science.

26. A participant opined that senior officials of the Hong Kong Government, compared with their counterparts in the Mainland and other neighbouring countries, were less conversant with IT development.

27. A guest speaker responded that the universities in Hong Kong had already conducted a lot of researches in science and technology. He believed that the problem appeared to be a mismatch between the types of researches being carried out and needs of the market. In particular, most of the companies in Hong Kong were SMEs. More should be done to improve the understanding of the needs of these SMEs.

Other Views

28. A participant suggested that the Government should re-structure the Growth Enterprise Market (GEM) in Hong Kong making reference to the successful experience of NASDAQ in the US. IT companies in the US actively participated in NASDAQ and effectively made use of NASDAQ as a platform for raising capital for further developing their IT products and services. It was hoped that the GEM in Hong Kong could provide similar functions as NASDAQ. Another participant, however, commented that instead of listing in the stock market, some companies found it more suitable to expand their businesses through merger and acquisition. This could be a reason for companies preferring not to go listing on the GEM in Hong Kong.

Session 4: Trade and Business

Moderator: Professor LAU Siu-kai, Head, Central Policy Unit

Presentations by:

- (I) Professor LAU Pui-king, Associate Professor, School of Accounting and Finance, The Hong Kong Polytechnic University
- (II) Presentation by Mr Stanley LAU, Managing Director, Renley Watch Group

Current Position of Hong Kong in Trade and Business

29. A guest speaker pointed out in her presentation that Hong Kong as an entrepot, was a leader in sea and air transport. Hong Kong also played an important intermediary role in supplying materials, products, technology, and equipment to the Mainland. This intermediary role was complemented by Hong Kong's strengths in information, legal system, and intellectual property rights protection. Hong Kong also led in introducing innovative manufacturing technologies, creating brands, and safeguarding product quality.

30. In view of the keen competition from other neighbouring cities, Hong Kong should improve its competitiveness by building more infrastructural facilities and enhancing the productivity of the trade-support services.

Hong Kong Enterprises in Guangdong

31. Another guest speaker mentioned in his presentation that according to a survey carried out by the Federation of Hong Kong Industries (FHKI), there were about 85,000 Hong Kong enterprises in Guangdong, with 57,000 factories concentrated at nine cities of PRD (29% in Dongguan, 28% in Shenzhen, 19% in Zhongshan, 11% in Jiangmen, 3% in Guangzhou, and others in Huizhou, Zhuhai, Foshan and Zhaoqing.). These factories employed a total of 9.6 million people, of which more than 2 million people worked in factories in Dongguan and Shenzhen respectively.

32. According to the guest speaker, many Hong Kong manufacturers in the PRD still maintained offices or regional headquarters in Hong Kong. However,

more and more activities such as sales, research and development, IT, material procurement, financial management, transportation, storage and manufacturing had been moved to the Mainland where these companies could benefit from the lower labour costs, lower land costs and ample opportunities.

33. A guest speaker remarked that under the 11th Five-year Plan, China had changed its policies. High energy-consuming, high polluting, resources-consuming and low-value added manufacturing activities were not welcomed. These policies had great impact on Hong Kong-owned factories in the Mainland. For instance starting from 15 September 2006, export tax rebate rates for certain goods would be adjusted whilst the revised list of prohibited category of processing trade would be effective. The new policy would greatly affect the manufacturing industries, such as paper manufacturing, metal casting and smelting, which were on the list of prohibited category of processing trade.

Research and Development

34. A participant asked about the progress of a research project on the design and manufacture of movements of mechanical watches. The project was jointly funded by the Government and the watch manufacturing industry. The guest speaker responded that there were only four places producing movements of mechanical watches among the world, namely Switzerland, Japan, China and Russia. If Hong Kong could successfully manufacture movements of mechanical watches with reasonable quality, there should be good sales prospects.

Other Views

35. Some participants suggested that Hong Kong should try to attract some Hong Kong-owned SMEs in the PRD to move back to Hong Kong. A guest speaker responded that Hong Kong Government had launched various funding schemes for SMEs. He supported the suggestion to set up an industrial zone near the border. Hong Kong should develop high-value added industries or industries that leverage on advanced technologies.

Closing Remarks

36. Professor LAU Siu-kai, Head, Central Policy Unit, thanked the guest speakers and participants for attending the Seminar. The Secretariat would prepare a summary of views expressed at the Seminar.

Central Policy Unit
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