

**Economic Summit on
“China’s 11th Five-Year Plan and the Development of Hong Kong”
(11 September 2006)**

**Summary of Views Expressed at Focus Group Discussion
on Trade and Business**

Overview

Panelists agreed that trade and business sectors were the foundation of Hong Kong’s economy that had been boosting the development of Hong Kong in the past few decades. Hong Kong had become an international centre of trade and business in the Asia-Pacific region. In view of the national 11th Five-Year Plan, panelists agreed that there were opportunities and challenges presented to the trade and business industries in Hong Kong.

2. First and foremost, Hong Kong should strengthen our position as an international centre of financial services, trade and shipping. Hong Kong should grasp without delay the opportunities arising from the speedily growing economy and development of the Mainland.

3. Some panelists pointed out that although GDP growth was critical to Hong Kong’s economy, it was not the only factor to be considered. Panelists emphasized that creation of job opportunities was fundamental to Hong Kong’s stability and sustainability of economic growth. Panelists highlighted that the trade and business sectors could create many job opportunities at all levels directly and indirectly.

Hong Kong as an International Trade Centre

Strategies in Strengthening Hong Kong’s International Advantage

4. Hong Kong as an international centre of financial services, trade and shipping, had been acting as an international gateway for the international investors to “access to” the Mainland. Panelists highlighted

that Hong Kong should also attract Mainland enterprises to take Hong Kong as the gateway to “go out” by making good use of our international advantage. Hong Kong had rich experience in exploring international markets and Hong Kong’s professional services were among the top worldwide. With booming economic and industrial development in the Mainland, Hong Kong should seize the opportunities to attract Mainland enterprises to “go out” through Hong Kong and hence strengthen Hong Kong’s status as an international centre of financial services, trade and shipping.

Brand Hong Kong

5. Panelists agreed that the “Brand Hong Kong” had a lot of potentials and was our important asset. It symbolized high quality, efficient, international and contemporary products and services. It also represented Hong Kong’s image as an international city with a vibrant, trendy, colourful and cosmopolitan lifestyle. Many visitors from the Mainland and overseas were attracted by Hong Kong’s products for their reputations of good quality, such as jewellery, clothes and food. Some local tourism spots were famous worldwide and they were examples of successful Hong Kong’s brands, such as Lan Kwai Fong and the Ocean Park.

6. Hong Kong should build on the “Brand Hong Kong” at full strength and boost the brand among the international and Mainland markets. In particular, Hong Kong had an edge in terms of product design, innovation, improvement of productivity, and upgrading of quality of goods. There were many young talented designers in Hong Kong and more opportunities should be facilitated to promote Hong Kong’s designs and products.

7. Some panelists opined that Hong Kong should also attract more foreign brands to “access to” the Mainland market through Hong Kong. When Hong Kong gathered more experience in exploring the Mainland market, we could make good use of the experience in promoting “Brand Hong Kong” to the Mainland.

Trade and Business Opportunities Arising from the Increasing Domestic Consumption in the Mainland

8. Panelists agreed that one of the priorities at present was to fully make use of Hong Kong's international advantage to "access to" the Mainland market, in particular the domestic market. In the past, China had been relying heavily on a production-led economy. Under the national 11th Five-Year Plan, China had set the goal of further promoting domestic consumption in the country. There would be an increasing demand in goods and services in the Mainland. Consumption would be playing a vital role in China's economic growth. At the same time, ample opportunities were arising with the opening up of the Mainland market. For Hong Kong, we were highly competitive in the international markets and some industries in Hong Kong were ranked top in the world. Furthermore, CEPA provided an important channel that facilitated Hong Kong's companies and enterprises to further open up the domestic market in the Mainland. Hence, we should grasp all these opportunities to explore the Mainland market.

Regional and Local Challenges

The 60,000 Hong Kong-owned Factories in Guangdong

9. Panelists were concerned about the development and sustainability of the 60,000 Hong Kong-owned factories that were based in Guangdong. Panelists were of the view that these 60,000 factories were the vanguard of Hong Kong in the Mainland market. They had been established in Guangdong region for a long time. Now, these factories faced great challenges in view of China's rapid transformation from a production-led economy to a consumption-led economy. Moreover, the reality was that the manufacture of low-end products was now taken up by local enterprises while the opportunities of manufacturing high-end items were eroded by foreign investors. Hence, some factories might not be able to adapt to the change but to move further away from Guangdong or even close down. Panelists warned that Hong Kong's economy, especially the service industries, would be in danger if these 60,000

factories diminished in size and number.

10. In view of the above challenges faced by Hong Kong-owned factories in the Mainland, panelists made the following opinions and suggestions:

- (a) The 60,000 factories had to change their mindsets and explore ways to develop in the domestic market and meet the local demand. It would be important for the 60,000 factories to enhance their competitiveness. The factories should improve their organisations and fix the problems in their operations and business development.
- (b) Hong Kong government and service industries could help the factories by giving them advice and support to overcome the obstacles that they might encounter in selling their products in the Mainland domestic market.
- (c) The Mainland and Hong Kong governments might consider providing infrastructural facilities that could help the companies to lower their initial investment costs and raise their competitiveness. For example, the Mainland and Hong Kong governments could coordinate and improve the cross-boundary transportation networks such that the time and cost for cross-boundary traffic could be reduced.
- (d) Improvement of the design and quality of products would be critical for the companies to transform from Original Equipment Manufacturing (OEM) to Original Design Manufacturing (ODM) and Original Brand Manufacturing (OBM). This would not only add value to their products, but also make it easier to sell the products in the domestic market.

11. Some panelists opined however that the services provided by companies in Hong Kong should not be constrained by geographical distance. They should not just focus on the 60,000 factories in Guangdong. Hong Kong should uphold its position as the stepping stone for investments and business opportunities in the Mainland. Moreover, if some of the Hong Kong-owned factories moved to other cities in the Mainland, companies in Hong Kong should continue to serve these

factories and expand their businesses to other Mainland cities.

Optimization of CEPA

12. Panelists agreed that CEPA could substantially help Hong Kong companies to “access to” the Mainland market and operate their businesses in the Mainland conveniently. CEPA had brought about many business opportunities, particularly in the domestic market. The zero-tariff policy under CEPA had effectively helped Hong Kong products to go into the Mainland market.

13. Panelists pointed out that we should study how we could optimize the effects of CEPA and resolve the problems encountered in the implementation of CEPA. We should also review the operation of CEPA, identify the problems and discuss how these problems should be addressed. Apart from the Pearl River Delta, panelists suggested that Hong Kong’s companies should also explore the business opportunities in other regions of the Mainland.

Research and Development

14. Panelists agreed that research and development (R&D) played significant roles in industrial process and development nowadays. In particular, R&D was an integral element of ODM and OBM. Factories also relied on R&D to advance from labour-intensive to technology-intensive productions.

15. Panelists encouraged companies to spend more resources in R&D projects. Taking into account the small-scale establishments of small and medium enterprises (SMEs), panelists suggested the government consider providing more policy support to SMEs in carrying out R&D projects. SMEs might also consider developing business partnerships with local and Mainland universities and research institutions.

16. Panelists agreed that Hong Kong should strengthen our research capacities, for example, more resources might be provided to local institutions in conducting R&D projects. The government might also consider attracting more researchers and post-graduate students from the Mainland and overseas to work in Hong Kong.

17. In connection with the development of R&D, protection of intellectual property (IP) rights to the highest international standards would be crucial for creativity and technological development to flourish. In addition, protection of IP rights could enhance the development of trademarks and brands in the Mainland and Hong Kong. Panelists suggested the government raising public awareness in the protection of IP rights and liaise with the Mainland authorities on how IP rights could be enhanced in the Mainland.

Talents

18. Panelists agreed that human resources were the most important assets of Hong Kong and were essential in enhancing Hong Kong's long-term competitiveness. To successfully attract and nurture talents was crucial for Hong Kong's future development.

19. Panelists were concerned that the new generations in Hong Kong were not very interested in starting their own business. Young talents in Hong Kong tended to pursue careers in becoming professionals.

20. Panelists suggested that Hong Kong should attract young entrepreneurs from the Mainland to setting up their companies in Hong Kong. These young entrepreneurs were familiar with the Mainland market and had extensive local connections in the Mainland. On the other hand, Hong Kong had rich experience in exploration of markets and could facilitate these entrepreneurs to realize their business plans locally and internationally. Panelists highlighted that Hong Kong served as a very reliable, convenient and effective platform for entrepreneurs to start up businesses. Hong Kong was equipped with the necessary software and hardware for the operations of businesses, including the rule of law, simple tax regime, friendly business environment, international connections, well-developed infrastructures and transportation networks, professional services and supports etc.

21. At the moment, the applications received from Mainland students for studying in Hong Kong's tertiary institutions had been

overwhelming. Nevertheless, admission places were limited. Some panelists suggested that Hong Kong might consider increasing the number of admission places for the Mainland students while not cutting down the admission places for local students. However, Hong Kong had limited land and tertiary institutions could not provide adequate accommodations for non-local students. Some panelists suggested the government study whether more land could be allocated to tertiary institutions for the purpose of building student residence halls.

22. In view of the low fertility rate in Hong Kong, some panelists suggested that Hong Kong might consider attracting talents from the Mainland to study in Hong Kong at teenage. If these Mainland students could study in Hong Kong at a younger age, there were high chances that they would stay in Hong Kong after they grew up and contribute to Hong Kong's long-term development. Panelists noted that Mainland secondary school students were not permitted to come to Hong Kong to study although they could study overseas. Panelists suggested the government discuss with the Mainland authorities and investigate the possibility for allowing a certain number of Mainland secondary school students to study in Hong Kong.

23. Panelists also welcomed the Quality Migrant Admission Scheme to attract talents with work experience to move to Hong Kong. Panelists suggested the government to further promote the Scheme.

Environmental Protection

24. Panelists agreed that environmental protection was a priority issue. The issue was how the authorities would enforce the regulations against the polluters. Better coordination and liaison between the Mainland and Hong Kong governments would be desirable.

25. Panelists shared the view that for the 60,000 Hong Kong-owned factories in Guangdong, they had both the opportunity and responsibility to help improve the environment. Some panelists opined that the Mainland and Hong Kong governments might consider providing assistance to help the 60,000 factories to meet the environmental standards and upgrade the

quality of their operations.

26. Some panelists were of the view that consumers were increasingly aware of environmental protection. In order to establish a good corporate image, companies should give due regard to environmental protection. The market force would also help in this respect.

Other Topics Discussed

Use of New Technology

27. Some panelists suggested the use of a new technology, Radio Frequency Identification (RFID) which Hong Kong had been developing for some time. RFID could be applied in streamlining the custom clearance process at the boundary control points and authentication of real products from fake products. This technology would also be a testimony that Hong Kong was advanced in terms of supply chain management.

Ways Forward

28. Panelists agreed that the Focus Group should develop concrete proposals for capitalizing the opportunities arising from the 11th Five-Year Plan. In addition, panelists hoped that the public awareness in the 11th Five-Year Plan and the challenges and opportunities arising from it could be raised.

29. In the next few months, the Focus Group would discuss and formulate a practical “Action Agenda” for consideration by the government. In this connection, the Focus Group would study the following areas:

- (a) To strengthen Hong Kong’s position as international trade centre and as stepping stone for foreign investors to “access to” the Mainland market and for the Mainland enterprises to “go out” to explore international markets;
- (b) To promote the “Brand Hong Kong” globally and in the Mainland;

- (c) To grasp the trade and business opportunities arising from increasing domestic consumption in the Mainland;
 - (d) To advise and assist the 60,000 Hong Kong-owned factories in Guangdong to cope with the challenges;
 - (e) To optimize CEPA and look into specific cases that companies might have encountered difficulties in entering the Mainland market;
 - (f) To strengthen Hong Kong's research and development capacities;
 - (g) To attract and nurture talents;
 - (h) To enhance environmental protection;
 - (i) To explore the use of new technology, such as RFID; and
 - (j) Other topics as appropriate.
30. The attendance list is attached.

Central Policy Unit
October 2006

商業及貿易專題小組
2006年9月11日

Focus Group on Trade and Business
11 September 2006

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