

**Commission on Strategic Development's Workshop**  
**“The future of Hong Kong: Enhancing competitiveness amidst**  
**challenges”**

**香港的發展：提升競爭力及面對挑戰**

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## **I. Introduction**

- 1 I am happy to be here today to share with you some of my thoughts and insights on Hong Kong's competitiveness. Competitiveness is not invented overnight; but rather, it is built over long periods of time and hence the factors underlying competitiveness needs to be maintained.
- 2 Recently, there have been lots of discussions on whether Hong Kong is being marginalized. I personally believe that Hong Kong is far from being marginalized - some of its pillar industries are indeed gaining advantages. Yet, Hong Kong needs to recognize its potential threats and challenges and be well prepared for the future.
- 3 Today, I will try to anchor the analysis on what all of you are familiar with – the three pillars of Hong Kong, namely financial services, logistics and business services. I will give my own insights on Hong Kong's competitive edge in each of the pillar industry and what we need to do to maintain their competitiveness.

## **II. Hong Kong's pillar industries**

### **1 Financial services**

- (1) There is no doubt that Hong Kong is a leading international financial centre in Asia-Pacific region. Nowadays, Hong Kong is increasingly becoming a market for IPO. Last year, Hong Kong Stock Exchange raised a total of USD 21.2 billion of new capital; and it is predicted that funds raised through IPO will reach USD 25.6 billion in 2006.
- (2) Last year Hong Kong Stock Exchange overtook London Stock Exchange

for the first time, which raised USD 18.47 billion of capital. The total market capitalization of the Main Board was USD 1,040.2 billion at end-2005, against USD 849.9 billion at end-2004.

- (3) Some prominent businessmen and economists predicted that Hong Kong would become the world's largest stock market in 15 years, based on the assumption that Mainland's state-owned enterprises will continue to use Hong Kong market to IPO.
- (4) I believe that Hong Kong has a well-regulated market with sensible regulations, which make fund managers willing to come and invest. Last year, many Mainland companies listed in Hong Kong. A well-known example is China Construction Bank, which raised over USD 9.2 billion, the ever-largest IPO in Hong Kong.
- (5) On the other hand, private equity market is beginning to play a critical role as it attracts fund management and is instrumented in directing a cash flow.
- (6) There are many initiatives to be undertaken in order to maintain Hong Kong's position as a leading international financial hub. Some priorities include: upgrading the quality of financial markets by enhancing the regulatory regime and promoting good corporate governance; putting more efforts in promoting the development of the bond market and fund management business, and further promoting the asset management industry.

## **2. Logistics**

- (1) When we talk about logistics services, there are two aspects to consider – hardware and software.
  - a Hardware
    - i In terms of hardware, we are actually talking about 1) Physical connectivity to China's transportation and logistics; and 2) connectivity to the rest of the world.
    - ii Continuous infrastructure development is necessary to maintain Hong Kong's vitality as a world-class city. It is important for

Hong Kong to be considered as an integral part of the Mainland's transportation system; otherwise, this will be an area in which we can easily be marginalized.

iii Hence, the development of the following infrastructures are critical:

- A well-coordinated PRD airport system (Hong Kong needs to be part of the PRD air system)
- HK-Zhuhai-Macao bridge
- High speed railway to Guangzhou

b Software

i In terms of software, Hong Kong is facing fewer challenges as compared to hardware. It has already established itself as the centre for global supply chain management and is the centre of important global distribution network.

ii Hence, it is important for Hong Kong to take advantage of its edge in software to integrate into the Mainland economy, even though it is not perfectly connected by hardware.

(2) Hong Kong's port and sea trade sector has long enjoyed a considerable advantage through its privileged position as the gateway to and from the Mainland. Today, however, we are facing growing competition from the development of South China ports. Yet, Hong Kong is still having an important edge in air forwarding and airport management. This is vital as the proportion of Hong Kong's total trade moving via air is increasing year after year. For instance, in 1999, 24% of total trade in Hong Kong was moved by air, and the figure was up to 32% in 2004.

(3) To further strengthen its role as a domestic and international transport hub as well as the leading logistics center in the Asia-Pacific region, Hong Kong needs to get itself well prepared for all the potential challenges.

In the face of the rapid infrastructure development in the Chinese Mainland, particularly in the PRD, it is necessary for Hong Kong to plan for

cross-boundary infrastructure at a higher level and from the angle of overall regional development. Examples include:

i      ***Mass transit railway network***

**Guangzhou-Shenzhen-Hong Kong Express Rail** – this express rail link will cut the travel time between Hong Kong and Guangzhou from the current 100 minutes to less than an hour.

**Intercity-city high speed rail** - Guangdong has been putting great efforts in constructing several inter-city high speed rail links and city metro trains, with a hope to create an “one hour economic and living sphere” in the PRD.

Hong Kong shall better coordinate infrastructure planning to enable itself to converge with the Mainland railway networks. Meanwhile, it shall better utilize the one hour economic and living sphere - if Hong Kong becomes part of the one hour economic and living sphere, the 40 million population in PRD will become Hong Kong’s population and will benefit Hong Kong and its various trades.

ii      ***Hong Kong-Zhuhai-Macao Bridge***

The Bridge, upon completion, will certainly expedite the development of the western PRD and encourage deeper economic integration between Hong Kong and the PRD. While the concerned parties have agreed on the landing points, I hope the construction can kick-start as so as possible.

iii      ***New control point at Liantang***

To cope with the tremendous further facilitate passenger and cargo flow between Hong Kong and the PRD, the idea of building a new control point at Liantang can strengthen Hong Kong’s connection with eastern Guangdong, Jiangxi and Fujian

*iv Cooperation among the PRD airports*

The PRD region is experiencing phenomenal economic growth. Coupled with the implementation of CEPA and Pan-PRD cooperation initiatives, the demand for air services within the PRD region is expected to grow significantly, thereby providing tremendous business opportunities for the 5 PRD airports.

According to Hong Kong Airport Authority, 4 out of the 5 PRD airports had witnessed tremendous growth last year in terms of the air passenger and air flights. The number of passenger and cargo flights is forecast to yield an annual growth rate of 6.5% in the coming 15 years.

On competitiveness, Hong Kong International Airport is the dominant airport in terms of air cargo, and the region's pre-eminent cargo hub. It also enjoys considerable advantage in terms of service offerings, including international connections, efficient customs, security, etc. Yet, there is no room for complacency as the development of PRD airport infrastructure is rapid and continuous.

For Hong Kong to sustain its present position as a regional hub, it shall enhance cooperation and develop strategic alliances with the PRD airports, enlarge air route network, open skies, improve the efficiency of air traffic management in the PRD.

### **3 Service industry**

(1) Today, 90% of Hong Kong's GDP is derived from service industry, of which 30% comes from trade related services. Unlike the US, Hong Kong is producer service oriented and not consumer service oriented.

(2) In Hong Kong, both trading and business services are keys to its success.

a Trading

i Both physical trade (as well as re-export) and offshore trade.

- ii Hong Kong shall make good use of CEPA as well as its good IPR regime and so on.

- b Business services

- i Professional services (e.g. Hong Kong lawyers can provide legal advises on WTO/International Trade law, arbitration, etc.)
- ii Hong Kong as the headquarters for i) multinational enterprises targeting the Mainland market and ii) Mainland companies seeking to go-global. There is in fact a two-way flow.

- (3) In the Mainland, only 40% of its economy is derived from service industry. Although some Mainland cities have a higher proportion (e.g. 65% in Beijing and 55% in Shanghai), there is still a big gap between Hong Kong and the Mainland cities. It may take a generation for China to move towards a service-dominated economy. With its know-how and experience, Hong Kong can play an important role in assisting China to make this transition.

### **III. The importance of Human Resources**

- 1 It is inevitable for Hong Kong to consolidate its leading position in the key pillar industries so as to sustain its long-term competitiveness. However, at the end of the day, Hong Kong's competitiveness lies very much with its people.
- 2 A larger pool of talent will increase Hong Kong's competitiveness, attract more capital and create more jobs. Hence, maximum circulation/flow of a diverse range of talents through the territory is crucial – be it students, professionals, entrepreneurs, visitors, etc.

Comparing with other cities, Hong Kong's circulation of talents is limited. Although it adopts an open door policy towards talent and professionals from overseas, the policy on the entry of Mainland talent and professionals is still rather restrictive. The restrictions have been blamed for the very small number of successful admissions so far.

Other cities like New York and London have been very successful in attracting talents from elsewhere. Even cities in China such as Beijing, Shanghai, Guangzhou and Shenzhen, with their dramatic immigrant flows in recent years, are increasingly catching up with the flow.

- 3 Hence, it is inevitable for Hong Kong to expand and build its talent pool so as to maintain its long-term competitiveness. Human resources are built in 2 ways:

- (1) Education system

- a Short-term focus is on the English standard of its people – Hong Kong needs to preserve its lead in English language proficiency, which is essential in connecting to the rest of the world;
- b Long-term focus is on the entire education system, particularly the tertiary sector. Our universities are world class and comparable with the best universities in China.

To enlarge the human resources pool in Hong Kong, the higher institutions in Hong Kong can certainly play a pivotal role by absorbing more international students. To do so, we need the following support:

- i Policy support from the government (e.g. relaxing the visa restrictions).
- ii Efforts from the institutions and the government to promote Hong Kong universities and Hong Kong as a whole.
- iii Support from the community to set up scholarships to attract quality international students to ensure that they would not be prevented from coming on financial ground.
- iv Funding support from the government and the community to provide the hardware (e.g. students hostels, welfare facilities) needed for a larger number of international students.
- v Assistance and support from the international communities (including consulate generals) in Hong Kong.

- c In fact, there has been an increasing percentage of student intake from the Mainland. The government has increased the quota from 2 to 4% and to 8% in the 05-08 triennium. The Mainland students can help train the local students. Although not all Mainland students would stay and work in Hong Kong after graduation, for those who chose to go back to the Mainland, their educational experiences would make them valuable brokers.

(2) Attract and retain talents

- a A larger pool of talents will increase our competitiveness, attract more capital and create more jobs. Hence, we need maximum circulation/flow of a diverse range of talents.
- b I fully support the recently announced “Quality Migrant Admission Scheme” and I hope this can help build our talent pool.

#### **IV. Conclusion**

- 1 There are two other important issues to note in our discussion about the competitiveness of Hong Kong – the rule of law and internal distribution of income.
- 2 The rule of law is fundamental to Hong Kong's success. All are equal before the law. Hong Kong's legal system is separate from that of the Mainland of China, and English common law prevails. The upholding of the rule of law is important for maintaining Hong Kong's competitiveness.
- 3 Another important issue regarding competitiveness is the internal distribution of income. External competitiveness has a close link with many internal issues. Reduction in competitiveness as a whole will hamper internal distribution.
- 4 Last but not least, we also need to consider the competitiveness for different segments of the society. In his article “Is the US losing competitive edge”, Adam Segal stated that it was the U.S. labour which is losing competitiveness, not the U.S. as an economy.