

Responses to the Questionnaire on Hong Kong's positioning in our country's economic, social and political development

Issue 1:

There is a definite need for Hong Kong to reposition itself under the rapid opening up and development of China given the SAR's traditional strongholds – such as trade and shipping, and to some extent finance – are gradually losing their competitive edge to the Mainland. In order to maintain Hong Kong's status as an international financial, trade and shipping centre, the following issues need to be addressed:

- In the financial services sector, Hong Kong currently enjoys an overwhelming advantage over other mainland cities due to China's markets remaining relatively closed. Mainland enterprises need access to Hong Kong markets for foreign funding, while foreign enterprises are making use of Hong Kong as a platform for their China operations (with support from its superb financial infrastructure). This could change with the opening up of the mainland market, particularly after further relaxation of control over China's capital account and with the eventual full convertibility of the RMB.

Since currently, Hong Kong has limited access to RMB funds, it is at a disadvantage when developing itself as China's main RMB funding centre. Improving Hong Kong's access to the RMB market is therefore the only way to help narrow the possible future gap with other mainland cities. Although this is subject to the conditions of China's domestic development, Hong Kong should nevertheless seek both better access to and more usage of RMB funds. The SAR should also continue to pursue the eventual establishment of offshore RMB markets for bonds and interest rate/forex derivative products.

- As a trade and shipping center, time-consuming custom clearing procedures and high terminal/transport charges are two key stumbling blocks to Hong Kong maintaining its leading status. With the rapid development of China's local ports and trading practices, Hong Kong is likely to lose its competitive edge to the Mainland due to relatively high operating costs and the long transport distances. Competition on cost (including efficiency gains) appears to be the only way to survive.

The unification of custom procedures would help significantly lower the time-related cost in transporting goods and should be implemented as soon as it is feasible. The lowering of terminal/operating charges is another issue that needs to be addressed promptly. Hong Kong has begun to shift its role as a shipping center, gradually moving from sea freight to air freight. However, even this shift could be undermined as China further opens its air cargo sector to foreign carriers in the near future. Consequently, the need to consolidate the air freight market in the Pearl River Delta has become even more pressing if Hong Kong is to maintain its leading role. Custom clearing is obviously an important element in this process.

Issue 3:

China's enterprises are currently far from the stage of going global, with the exception of a handful of giant manufacturers and financial institutions. Hong Kong, of course, could play a role in helping these entities reach international markets when they become more mature. In the meantime, managing China's huge capital assets is a role Hong Kong can play in the immediate future. With China accumulating a significant trade surplus and considerable amounts of capital also being raised, there is a need to invest and manage these assets more efficiently and proactively. Although there are restrictions on the movement of capital, various forms of investment channels (such as QDII) have been under serious study recently.

While the development of Hong Kong's RMB market remains restricted for now, a bright spot is the expansion of the fund management industry, in which Hong Kong can build on its leading position in line with the gradual loosening of China's capital controls. Hong Kong's strong legal system and its sound financial infrastructure (including custody services) should encourage both international and mainland fund houses who are targeting greater China's market to keep their investment base in Hong Kong.

Issue 4:

As an international city, Hong Kong currently has a large pool of professional expertise coming from various advanced economies. There is no reason why Hong Kong cannot also attract mainland talents to work in Hong Kong given the cultural similarities. Easing the current restrictions on the mobility of mainland residents moving to Hong Kong is an issue that the Hong Kong SAR Government should pursue further. The number of entrants under the new admission scheme as announced in the 2006/07 Budget could be expanded after the first year of review. In the past, the city did not rely solely on its own residents to build up the Hong Kong of today. Likewise, it is unrealistic to believe that Hong Kong's existing pool of professionals is large enough to provide the necessary skills going forward.

Issue 5:

With the repositioning of Shenzhen and the industrial upgrading of Guangdong, there is a need for a large number of business professionals and technical experts to help this transformation, including various product researchers and business professionals. While Hong Kong will likely maintain its role in the provision of financing and business support services, its capability to provide training and exports of educational services is also relatively strong. Consequently, Hong Kong should explore ways to provide more of the types of training and the educational services that neighbouring provinces need to upgrade their industry structures.

Hong Kong should also devote greater effort and resources to product research and development in conjunction with its desire to foster brand management and creative industries. Further upgrading of Guangdong manufacturing will require not only an

advancement of production technology, but also new product development and brand marketing. Hong Kong, due to its greater international exposure and strong marketing/product knowledge, could potentially develop itself as a base for such R&D.