Speech by SEDL at HKIA 2025 Summit (English only)

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Following is the speech by the Secretary for Economic Development and Labour, Mr Stephen Ip, at the HKIA 2025 Summit: "Vision for Hong Kong SAR in 2025" -- Connectivities and Opportunities today (February 28):

Victor, Vice-Minister Gao, distinguished guests, ladies and gentlemen,

I am very pleased to join you today at this luncheon for the Hong Kong International Airport 2025 Summit.

Looking into the future is a tricky business, particularly for someone who has not got a crystal ball. Twenty years ago, who would have thought that Kai Tak airport could be so quickly replaced as a Hong Kong icon by a new international airport built on one of our outlying islands? It is equally difficult to predict the future gold price, oil price or the Hang Seng Index tomorrow. I am still looking for a crystal ball that can give me all this information.

I am sure you will all have enjoyed quite a bit of crystal-ball gazing from different angles this morning and will have found the new insights and perspectives of our expert speakers on our airport and the aviation industry stimulating and thought-provoking. Perhaps I should now take some time to share with you my view on the broader Hong Kong economy and how I see the near future unfolding.

A Solid Foundation

But first, let me recap on the things that have made Hong Kong the diverse and dynamic city we are today. Put simply, these are: our commitment to free enterprise and fair competition; respect for private ownership; the rule of law; clean and efficient government; freedom of speech and the free flow of capital and information; a simple tax regime; and a high level of personal safety.

These are our institutional strengths. They are valued and upheld by the Hong Kong community, and are enshrined in our Basic Law. Regardless of the changes in global economic trends in future, we will not move away from these fundamentals. They serve us well and will continue to support the development of Hong Kong up to 2025 and beyond. As the great philosopher Alfred Whitehead once put it: "The art of progress is to preserve order amid change". This is an art at which Hong Kong has
always excelled.

For many years, Hong Kong has been known to the world as an "entrepot". But we have moved on from the days of transporting goods between their origin, mostly the Mainland, and the rest of the world. With our heavy investment in creating value-added services, Hong Kong has become recognised internationally as a thriving logistics hub.

In the logistics industry, the most important word is "connectivity". There are several features that distinguish Hong Kong from our competitors in the region. First, is our sophisticated transport infrastructure that provides inter-modal connections for both people and goods between Hong Kong and over 150 international destinations by air and 500 by sea. Our vast aviation and maritime network weaves seamlessly into our land and sea connections to the Mainland market, and has enabled us to capitalise on the enormous market opportunities.

Second, is our geographical advantage of being located adjacent to the Pearl River Delta – the Factory of the World. Every day, over $500 million worth of goods are being produced here for export to prospective consumers all over the world.

Third, is the vision of our business leaders in converting a transportation service into a strategic management service up the supply chain. In layman's terms, such value-added services have, for example, enabled a retail store in the desert of the mid-western USA to time precisely when the next bottle of shampoo will arrive on its shelf from its factory in the Mainland; and in that process, removing layers of intermediaries and the costs that go with them.

This is the value our logistics industry offers. But this is not rocket-science technology. Unless we continue to innovate and create new value, our competitors will not only quickly provide similar services to compete with us, before long they will do so many times better and cheaper.

We are therefore acutely alive to challenges and competition around us. Within the region, we are witnessing the development of magnificent airports such as Baiyun in Guangzhou and the new Bangkok Airport which will open later this year. There are many others expanding their terminals or adding new runways. Much the same is taking place on the port front with huge investment pouring into the new Container
Terminals and port facilities north of our boundary.

So how can we maintain our competitive edge?

You have heard from both Victor and David on the fairly aggressive expansion plans for the airport, such as the SkyPlaza, the SkyPier, additional cargo and passenger terminal facilities and all the rest of it. I am therefore not going to repeat them here. I would simply emphasise the importance of the necessary software that unleashes the potential of the hard infrastructure. On the part of the Government, we will do our best to further liberalise our air services regime. This will create opportunities for airlines to develop new markets and services. With the encouraging remarks made by Vice Minister Gao regarding the Mainland's aviation policy, which we have heard earlier in the morning, we have got to keep up our liberalisation efforts. The Mainland will surely be our priority market.

On the maritime side, connectivity is less of a problem than cost. We have therefore been streamlining entry procedures for river trade vessels, reducing port fees and charges and establishing more service anchorages to increase mid-stream cargo-handling capacity. All these efforts will ensure that we can provide fast, reliable, just-in-time cargo services that are essential to support the continual growth of our logistics sector. Hong Kong is the seventh largest maritime centre in the world, with the Hong Kong-Shipping Register breaking its 30 million gross tonnage record this year. Putting aside our 1,000-vessel strong fleet, what makes Hong Kong a truly international maritime centre is the reliable and high-quality maritime-related services that over 900 Hong Kong shipping-related companies provide, ranging from marine insurance, maritime law, arbitration, and finance, to brokerage, ship surveying services, etc. These are our strengths and we will continue to work on them.

But the strengths in our aviation and maritime sectors will not serve us well unless they are integrated fully into the Pearl River Delta market that we serve. This brings me back to the point about inter-modal connectivity. I cannot emphasise enough the importance we attach to it, hence our investment in the Hong Kong-Shenzhen Western Corridor and the Hong Kong-Zhuhai-Macau Bridge and the continued expansion of our cross-boundary ferry, coach and bus services into the hinterland.

Looking 20 years down the road, the Pan-Pearl River Delta has a lot to offer. The potential of this vast hinterland, particularly PRD-West, has yet to be fully
explored. The future development of this region could possibly bring about fundamental changes to the flow of people and goods within the Pearl River Delta, much as Shenzhen did from 1979, when it first benefited from the Open Door Policy. The Government has taken the first step in providing the infrastructure and I trust our business leaders will play their roles in converting these opportunities into reality.

The other significant driver in escalating our logistics industry to a totally new level is information technology. Two months ago we launched the Digital Trade and Transportation Network (DTTN), which provides an electronic data exchange platform connecting all players along the supply chain. It goes beyond reducing paperwork, shortening processing time, and removing the need for repeated data entry. The DTTN is a precursor to a completely new way of doing business and conceiving new value-added services. As timely and seamless information flow across transportation modes and along the supply chain makes a world of difference in competitiveness, DTTN goes a long way to supporting our logistics industry to compete on value, and not just on cost. It provides the platform for our industry to extend their business reach and improve effectiveness and efficiency through the use of e-commerce. The DTTN further creates an environment that stimulates the development of the logistics and supply chain software sector, and induces continuous improvement in the IT literacy of the existing workforce. These will support the capacity-building of our logistics industry, which we believe will be the trend-setter in the e-logistic development in the PRD regional economy.

By 2025, I see Hong Kong developing into an international transportation hub and a model logistics centre that will set the standards against which other major centres will be measured.

Trade and trade related support services

Our logistics and transportation services have developed through the vital role that they play in supporting our trade sector, for which Hong Kong has long been renowned. We are the 11th largest goods trader and 15th largest services trader in the world.

Rapid economic development in China over the last two decades has provided huge opportunities for businesses the world over. Hong Kong has responded by leveraging our geographical, business and cultural connections with the Mainland. Apart from serving as the gateway for the Mainland's international trade, we are also
the largest source of foreign direct investment in the Mainland with a total of some US$238 billion. Looking globally, we are home to more than 1,100 regional head-quarters and 2,600 regional offices of multinational corporations, many of which see Mainland as their key market.

To enhance our natural advantage in seizing the opportunities offered by the developing economy in the Mainland, we have signed the Closer Economic Partnership Arrangement, or CEPA. In its third year, CEPA provides tariff-free treatment for all Hong Kong products, and gives preferential treatment to Hong Kong companies in 27 of our strongest service sectors, including accounting, legal, medical, financial and logistics services.

In looking towards the future, CEPA offers us an open platform for expansion into other sectors. This will allow Hong Kong to "move with the times" in helping to service the Mainland's economy, and will in turn create new opportunities for our own further growth.

Tourism

On the subject of CEPA and our ever-stronger links with the Mainland, I can hardly overlook the way in which these connections have contributed to our tourism sector. This continues to be a dynamic area of growth, with visitor arrivals reaching a new record of 23 million in 2005, and with tourist spending increased to an estimated HK$100 billion.

Whilst we welcomed significantly higher numbers of visitors from the Americas, Europe and Australia, Mainland tourists continue to make up the bulk of inbound travellers. The Individual Visit Scheme under CEPA provides the flexibility for citizens of 38 of the Mainland's biggest cities to visit Hong Kong on their own without the need to join tours. We aim to extend the scheme to six more Pan-Pearl River Delta provincial capitals in the near future, thus bringing the number of eligible Mainland residents under the scheme to a staggering 220 million.

We are currently the world's seventh most popular tourist destination, and the only single city destination in the top 10. To build on this encouraging performance, we are continuing to upgrade both our tourism attractions and facilities. Further to the opening of Hong Kong Disneyland last September, we have expanded the scale of our nightly harbour light show, "A Symphony of Lights", and we will soon see the Tung
Chung Cable Car, also known as "Ngong Ping 360" taking visitors up the scenic Lantau hillside to the biggest bronze Buddha statue in Asia. We will also open our first major eco-tourism attraction, the Hong Kong Wetland Park later this year.

With more tourists, we need more high-quality, and yet affordable hotel rooms. We now have 43,900 hotel rooms and by the end of 2007, we will have at least another 10,000 more.

Hong Kong is attractive because there is always something new to see, to do or to buy. I can assure those of you who visit us regularly that we will continue to innovate and to surprise you each time you return in the years between now and 2025.

Financial services

Hong Kong has long been an attractive destination not only for traders and tourists, but also for investment capital. As one of the leading asset management centres in Asia, we play host to representatives of virtually all the major global fund houses. Last October, the United Nations World Investment Report ranked Hong Kong as the second most preferred destination for foreign direct investment in Asia. Our stock market has the highest market capitalisation in Asia and the 8th in the world. We are a prime market for public listings by Mainland enterprises, and the recent IPO of the China Construction Bank here was reported to be the world's largest for four years.

To keep pace with developments in the market, we are dedicated to continuously upgrading our regulatory regime. For example, the Securities and Futures Ordinance now provides a modern regulatory framework for financial markets, with particular emphasis on corporate governance, accountability and guarding against market misconduct. The Hong Kong Institute of Certified Public Accountants has fully aligned its reporting standards with international practice.

To attract more investors to Hong Kong, we have just abolished Estate Duty, and we are now taking steps to exempt offshore funds from profits tax. The sector has received a further boost from the news that the Central Government has in principle approved a proposal to extend the scope of renminbi-based business in Hong Kong.

In the years leading up to 2025 I see Hong Kong's economy continuing to grow steadily, taking its cue from the rapid development of the country as a whole. As we
enjoy the benefits of CEPA and our improved physical links with the Mainland, Hong Kong's entrepreneurs and professionals will be ideally positioned to maximise these advantages by "leveraging the Mainland and engaging ourselves globally".

Over the next two decades, I see us playing an ever stronger role as China's most cosmopolitan city and as the region's leading international financial and business centre. We will provide a firm platform both for Mainland enterprises seeking to enter international markets and for overseas enterprises looking to tap the Mainland market. In so doing, we will contribute strongly to the further growth of our economic hinterland, helping ourselves and helping the whole country as China emerges as the economic powerhouse of the 21st century.

Thank you.

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