

# Bringing the Vision to Life

## Hong Kong's Long-Term Development Needs and Goals

Commission on Strategic Development



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## **FOREWORD**

*This document provides an overview of the work of the Commission on Strategic Development. This is a group of public and private sector leaders in our community who were brought together two years ago, at my request, to advise me on the long-term development needs and goals of the Hong Kong Special Administrative Region. Throughout this period, the Members of the Commission have carried out this responsibility very ably and they have also played a role in supporting the development of a number of policies and programmes that have been initiated by Government policy bureaux and departments. Some of their recommendations and views are also reflected in my 1998 and 1999 Policy Addresses.*

*While the Commission's task was advisory and directed at supporting the work of my office, I have asked the Commission to prepare an overview of its thoughts on the issues that will impact on the development of our community over the next 30 years. It is the hope of everyone associated with the Commission that this overview will serve to encourage discussion within the community about the important issues that are driving Hong Kong's future.*

*This overview is by no means a comprehensive report on the issues impacting on Hong Kong's future. It is, by design, a document that focuses on introducing, in broad terms, the general issues that the Commission believes need to be addressed by the public and private sectors and others in our community.*

*The positions of the Commission have been developed through discussions amongst the Commission's distinguished Members and through extensive interviews with a broad cross-section of the community carried out by the Commission Secretariat and consultants engaged by the Commission. In this regard, the work of the Commission has been consultative and the views of the members of the Executive and Legislative Councils, the media, academia, the business sector and others have been reflected in the discussions the Members of the Commission have had as they developed their positions.*

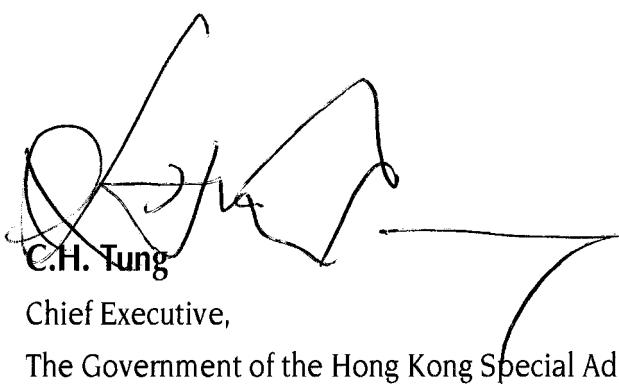
*The work of the Commission was meant to complement, not duplicate, the work of other bodies such as the Commission on Innovation and Technology, the Education Commission, the Government policy bureaux, and even private sector organisations. As such, it leaves detailed recommendations to these and other groups.*

*The Commission has reviewed a number of social, technological, economic, environmental and political issues that will impact on Hong Kong's long-term development needs and goals and the most important of these, as determined by the Commission, are represented in this document. The Commission has also looked closely at our relationship with the Mainland. There is no question on the part of the Members of the Commission that this relationship is key to Hong Kong achieving its full potential both as Asia's World City and strengthening its position as a major city in China - a theme that figured prominently in my recent Policy Address.*

*While the Commission has helped to provide a focus to use in planning Hong Kong's future, ultimately, it is up to the Government, the private sector and the community to jointly create and carry out the specific policies and programmes that will enable Hong Kong to meet future challenges and capitalise on future opportunities.*

*As noted above, the Members of the Commission hope that this document will help to drive the dialogue that will ultimately generate those policies and programmes that will ensure a positive future for our children and grandchildren.*

*In providing their valuable counsel and in serving as a catalyst for community-wide discussion of important issues, I want to thank the Members of the Commission for their service and their commitment to the long-term development of Hong Kong. I look forward to their continued counsel.*



C.H. Tung  
Chief Executive,  
The Government of the Hong Kong Special Administrative Region

# EXECUTIVE SUMMARY

Ever since the Commission on Strategic Development was established two years ago to advise the Chief Executive of the Hong Kong Special Administrative Region on Hong Kong's long-term development needs and goals, its members, who include distinguished individuals from the public and private sectors and elsewhere in the community, have been actively engaged in the provision of counsel to the Chief Executive and other senior government officials. These efforts contributed to the development of the vision articulated by the Chief Executive in his 1998 and 1999 Policy Addresses.

## Extensive Research and Review

The work of the Commission has been very interactive, including an analysis of interviews with over 180 stakeholders from the Hong Kong community regarding their views on Hong Kong's long-term development needs, extensive research carried out by consultants on a range of subjects related to Hong Kong's development and a benchmarking of Hong Kong against other leading international cities. It also included a series of meetings and workshops providing opportunities for the Commission Members to discuss the challenges and opportunities facing Hong Kong and to exchange views regarding these subjects with the Chief Executive and other senior government officials.

The Mandate of the Commission focuses on contributing to the development of a long-term vision for Hong Kong, providing an assessment of Hong Kong's key strengths and weaknesses, analysing the major opportunities and challenges it faces in realising its long-term vision, and consulting with the Chief Executive on a strategic framework for Hong Kong's long-term development.

## Supporting the Vision of Asia's World City, a Major City in China

This document presents a brief overview of the key areas that the Commission believes can or will impact, positively or negatively, on Hong Kong's aspiration of becoming Asia's World City in addition to its role as a major city in China. It also includes an outline of the initiatives the Commission believes would need to be pursued by all sectors of the community if Hong Kong is to succeed in achieving its long-term development objectives.

The document begins with an outline of the goals and objectives that are integrated into Hong Kong's vision, the issues that will influence their achievement, and the steps that should be taken to drive that process. The Commission notes that it has only been since China's resumption of sovereignty over Hong Kong that Hong Kong has been able to expand its planning horizons and truly begin to develop a holistic long-term development strategy. It also notes that the rapid growth of the global knowledge economy will play a major role in the development of the Hong Kong economy and this must be a key consideration in any planning process. And lastly, the Commission believes that the public and private sectors and others in the community must continue to embrace the free-market principles that have been so much a part of Hong Kong's success.

## **Sustainable Development Must Continue as a Key Focus**

It is important that Hong Kong's approach to long-term development continues to focus on the achievement of high levels of economic prosperity and an improved quality of life for the people of Hong Kong. This approach should not, however, overlook a need to also focus on supporting initiatives that promote sustainable development to ensure that future generations will have the resources they require to maintain both a prosperous society and also a community with a high quality of life.

The implementation of Hong Kong's long-term vision should also be guided by a number of overarching goals, including enhancing income and living standards for all members of society; ensuring that Hong Kong becomes the most attractive major city in Asia in which to live and work; developing a socially cohesive and stable society that recognises that the community's diversity strengthens its cosmopolitan outlook; contributing to the modernisation of China while also supporting Hong Kong's long-term development; and ensuring that a process of political development is put in place that meets community aspirations and is in line with the pace and provisions of the Basic Law. In addition, these long-term goals should include initiatives to retain and enhance features such as the rule of law, freedom of the press and protection of the freedoms and rights of the individual provided for in the Basic Law, an economic system with a level playing field and transparent business regulations, a clean and efficient civil service, effective and efficient public institutions and an outward looking and cosmopolitan society, all of which have contributed to Hong Kong's vitality and success.

The Commission believes that achieving these goals will enable Hong Kong to become Asia's World City and to maintain its position as a major city in China, which are interrelated. Ultimately, Hong Kong's ability to leverage and strengthen its unique position as a gateway to China will support its efforts to significantly enhance its international role and status, and vice versa.

## **Successful World Cities Have Similar Characteristics**

The Commission, in developing its positions on Hong Kong's drive to become Asia's World City, has drawn on the results of a benchmarking of other major international cities and other research. That benchmarking identified a number of characteristics common to successful world cities. They include such things as a strong internationally oriented service industry structure and access to a workforce with specialised skills and knowledge that, in turn, attracts other skilled people and specialised resources that reinforce a city's competitive position. These cities also have excellent infrastructure including such "hard" infrastructure as transportation and telecommunications and such "soft" infrastructure as world-class education and training, as well as a commitment to responsible urban planning.

The quality of key institutions such as universities, the media and civic organisations is also fundamental to determining whether cities have reached world-class levels. Less tangible features including commitment to the rule of law, freedom of expression and association, free flow of information, and openness and diversity also determine whether they can be classified as world cities. World cities are, by definition, very cosmopolitan and, because of this, they attract the international capital, business and skilled individuals that make them centres for global commerce.

World cities also develop close and effective relations with their hinterlands; this has supported the emergence and development of powerful "city-regions". In this regard, Hong Kong's development will continue to be linked closely with that of the Mainland and there is an excellent opportunity for Hong Kong and other cities of the Pearl River Delta Region to create a strong city-region that will support Hong Kong's drive to become Asia's World City. That opportunity is made possible, in part, by the success that has already been realised in implementing the principle of "one country, two systems" that has guided Hong Kong since China's resumption of sovereignty over Hong Kong and strengthened cooperation with the Mainland.

## **People, Infrastructure, Networks and Track Record are Key Advantages**

Key features of Hong Kong's success have been the strong work ethic and entrepreneurial spirit of its people, as well as its excellent hard and soft infrastructure.

In addition, Hong Kong's traditional position as the gateway to China and its influence with the large overseas Chinese network will continue to be important areas of competitive advantage as Hong Kong seeks to capitalise on the opportunities arising from rapid globalisation. The Commission also notes that success in rapidly adapting to changes in the global economic environment are traits of all of the world's most successful cities and that Hong Kong has an excellent record in that regard.

## **The Mainland Will Continue to Provide Major Opportunities**

Hong Kong's successful economic growth has been linked with, and will continue to benefit from, the Mainland's rapid economic development. The Mainland's anticipated accession to the World Trade Organisation will increase opportunities for Hong Kong companies, particularly those in the service sector, to benefit from expanded trade and investment and economic liberalisation in the Mainland. But, Hong Kong companies should not try to hold onto their traditional roles. They must continue to add value to their Mainland-focused business activities and diversify their activities geographically to take advantage of anticipated growth in such areas as the Yangtze Delta and Basin Region and the central and western regions. They must also aggressively seek so-called "first mover" advantage in key business sectors, building on their unique experience in and knowledge of this important market. In many cases, Hong Kong companies will have to embrace new technologies and new concepts such as e-commerce, to support their roles as a packager, integrator and logistics provider and Hong Kong's position as the gateway to China. They must also ensure that they are aware of and understand the business opportunities created by new Central Government policies as the Mainland moves forward with its own development agenda.

## **Strengthen Key Assets, Promote Unique Identity and Image**

Hong Kong faces some key challenges as it enters the new Century. It must expand its economic base and, because it will never be a low-cost business location, it must seek to build on a highly skilled, productive and creative workforce in order to remain competitive. Given the important role that the quality of the workforce plays in Hong Kong's competitive positioning, the Commission recognises that improvement of education in general and strengthening language and technology skills in particular are vital if Hong Kong is to maintain its position as a global business centre. This will require a commitment to creating and carrying out the education and training programmes that will prepare the Hong Kong workforce to succeed in the knowledge economy.

Hong Kong must also continue to enhance the quality of its environment and continue to expand its science and technology base. These areas are linked by the role that a positive quality of life plays in attracting and retaining the highly sought-after knowledge workers that will support the growth of this new economy.

But, improving Hong Kong's quality of life will require more than a focus on improving the environment. It will also require a continued focus on the creation of high quality and affordable housing and high standard and easily accessible health care services. The Commission believes that all sectors of the community must play a role in this process. Improving the quality of life will also require that Hong Kong remains a safe and corruption-free city governed by the rule of law. A vibrant arts and culture scene can also contribute to improving the quality of life as well as the development of yet another fast-growing economic sector.

Hong Kong must also continue to strengthen its social fabric at a time when other cities around the world are concerned about the strains caused by income disparities between those members of society who are succeeding as part of the knowledge economy and those who are not. The Commission believes that increasing educational opportunities is the best way to narrow income disparities and to facilitate social mobility and harmony. Expanding educational opportunities at all levels and encouraging life-long learning should, therefore, be integral elements of all long-term economic and social development programme planning. Efforts should also continue to be directed at strengthening the sense of civic pride within Hong Kong, based on a commitment to both Hong Kong and China as a whole, as the energy associated with this pride can be a powerful force in underpinning Hong Kong's ability to compete globally.

The Commission believes that intense global competition will also require that Hong Kong continues to be aggressive in promoting its unique image and identity to key international audiences. Hong Kong must communicate clearly that it remains an ideal location for investment, tourism, trade and living.

## **Traditional and Non-Traditional Sectors Will Drive Success**

A number of sectors and areas have been identified as key to Hong Kong's long-term success. These include sectors such as financial and business services, multinational corporation regional headquarters, tourism, information services and telecommunications and trade, transportation and logistics, all of which have long been associated with Hong Kong's economic success. It also includes the innovation and technology sector, an area that has only recently begun to demonstrate that it will have a major role to play in Hong Kong's long-term development. Creative and cultural activities are also being recognised more and more for the contributions they can make to Hong Kong's long-term development. The Commission has outlined its thoughts on some of the initiatives that should be undertaken to strengthen Hong Kong's competitive advantage in each of the above areas.

In providing a strategic framework to support Hong Kong's long-term development needs and goals, the Commission has focused on four themes. These include continued efforts by the public and private sectors and others in the community to strengthen links with the Mainland; ongoing steps to enhance Hong Kong's competitiveness; support for current and proposed actions to improve the quality of life throughout Hong Kong; and efforts to promote a positive image of Hong Kong to both local and external audiences. An external promotion programme should be complemented by efforts to promote a greater sense of community commitment to realise the long-term vision. The Commission believes that these efforts can only succeed if they represent actions carried out by the public and private sectors and others in the community.

## **Realising the Vision, A Community-Wide Responsibility**

The implementation of the vision articulated by the Chief Executive for Hong Kong's long-term future will require regular reviews of policies in all areas to ensure that they are in keeping with rapidly changing challenges and opportunities. It is also important that policies and guidelines continue to be shared regularly with the

community to ensure that there is an ongoing dialogue regarding Hong Kong's long-term development needs and goals and agreement on strategic approaches to the implementation of the vision for Hong Kong.

Ultimately, the Commission believes that action plans should be drawn up to realise Hong Kong's long-term vision. Such plans will require contributions from the Government, the private sector, and individuals and organisations throughout the community.

The Commission has reviewed the challenges facing Hong Kong in meeting its long-term development needs and goals. In doing so, it recognises that a solid foundation has already been created for Hong Kong and that it has a strong competitive position as it enters the 21st Century. It is for this reason that the Commission firmly believes that Hong Kong will achieve its goal of becoming Asia's World City, in addition to being a major city in China, well within the 30-year time frame that is the focus of its review.

# 1 THE COMMISSION'S MANDATE

## A TWO-YEAR INTERACTIVE PROCESS

- 1.1 The Chief Executive announced in his Policy Address in October 1997 the establishment of the Commission on Strategic Development (the Commission) to advise him on the long-term development needs and goals of the Hong Kong Special Administrative Region (SAR). The Commission's terms of reference are included as Appendix A.
- 1.2 The Chief Executive is the Chairman of the Commission and its Members have been drawn from various sectors of the community. The list of Members is included as Appendix B. The Central Policy Unit provides secretariat support to the Commission. External consultants, listed as Appendix C, have assisted the Commission by carrying out research related to this important assignment.
- 1.3 The Commission, which first met in February 1998, held a total of 15 meetings and workshops.

## THE COMMISSION'S FOCUS: THE NEXT 30 YEARS

- 1.4 The Commission was asked by the Chief Executive to focus its efforts on a broad review of the period encompassing the next 30 years. In carrying out this assignment, the Commission reviewed the global and regional trends that have guided Hong Kong and the Mainland's past as well as those that they see driving Hong Kong and the Mainland's future. This process included interviews by the Commission Secretariat and international consultants with over 180 stakeholders from the Hong Kong community (a list of interviewees is included as Appendix D) and the benchmarking of Hong Kong against other leading cities across a range of quantitative and qualitative factors. The Commission's primary mandate centred on the following main tasks:
  - contributing to the development of a long-term vision for Hong Kong;
  - providing an assessment of Hong Kong's key strengths and weaknesses and analysing the major opportunities and challenges it faces in realising the long-term vision; and
  - consulting with the Chief Executive on a strategic framework for Hong Kong's long-term development.

- 1.5** The Commission's objective has been to look ahead 30 years in order to provide suggestions regarding a broad framework for Hong Kong's long-term goals that can be used by various Government policy bureaux and others in the formulation of detailed strategies and policies for Hong Kong's development. It is expected that this broad framework would be reviewed and updated on a regular basis.
- 1.6** Following the presentation of the long-term vision and future positioning of Hong Kong in the Chief Executive's 1998 and 1999 Policy Addresses, a wide range of views about Hong Kong's future direction and the priorities for action have been expressed by a number of community representatives. This document builds on that vision and positioning and, as such, should serve to generate further discussion within the community regarding specific actions that can be taken by the public and private sectors to make that vision a reality. The Government, for its part, will ensure that this input is reviewed by all policy bureaux in the development of specific policies and programmes.

## DRIVING THE VISION FOR THE FUTURE

- 1.7** This document is organised into four sections. The first is an outline of the Commission's Mandate. The second is a review of what has made Hong Kong so successful and the challenges it faces in continuing that success over the next 30 years. The third section is a presentation of the Commission's views regarding specific issues and areas that need to receive attention by both the public and private sectors in order to support Hong Kong's aspiration of becoming Asia's World City as well as strengthening its position as a major city in China. The last section of this document outlines the approach that the Commission believes needs to be taken to turn the long-term vision into reality.

## 2 HONG KONG'S FOUNDATION FOR THE FUTURE

### A STRATEGY BASED ON A CLEAR VISION

- 2.1 The first step in developing any successful strategy is to articulate a clear vision. The Commission has therefore considered what Hong Kong's aspirations might be over the next 30 years, and it has then sought to integrate these goals into the overall vision as already outlined by the Chief Executive. This expanded vision is important for three main reasons.
- 2.2 First, China's resumption of sovereignty over Hong Kong represented a momentous and positive change for Hong Kong. Hong Kong people are now running Hong Kong with a high degree of autonomy. The problem of limited planning horizons that inevitably characterised the period prior to this historical event has been removed and it is vital that Hong Kong now considers how it will chart its longer-term development. The vision needs to map out a common set of goals which will help to galvanise the public and private sectors and the community as a whole.
- 2.3 Second, a number of key developments are shaping a New World Order. These include further reductions in barriers to international trade and investment and the application of new communications and information technologies that are driving further globalisation and the development of the knowledge economy. In order to respond effectively, it is important to anticipate these developments so that the responses actively exploit opportunities rather than merely respond to challenges. Again, a long-term vision can provide the context for Hong Kong's response to these developments. Equally important, it can also stimulate new and innovative ideas and thinking within the community.
- 2.4 Lastly, community support for a long-term vision for Hong Kong will ensure greater coherence for Government policy development. In this regard, it will encourage those responsible for policy development to consider whether or not existing policies will meet Hong Kong's future needs and, if not, to identify potential gaps and issues and to develop policies to address them. It is particularly important in those areas where long-term planning is essential - for example, in education, health and welfare, science and technology, culture and infrastructure development. It does not, however, imply that Hong Kong should depart from its long-established policy of relying on free market principles which the Commission believes should remain central to Hong Kong's economic development. Rather, it encourages a forward-looking and proactive approach to the policy-making process.

## LONG-TERM VISION IS LINKED TO SUSTAINABLE DEVELOPMENT

**2.5** The Commission believes that Hong Kong's long-term vision should centre on achieving very high levels of economic prosperity and quality of life for the people of Hong Kong without compromising the resources and needs of future generations. That vision incorporates the concept of sustainable development, an issue that will be a major factor in Hong Kong's ongoing development.

## GOAL-DRIVEN PLANNING PROCESS

**2.6** In order to support the achievement of this long-term vision, the Commission believes that the following goals should drive the planning process carried out by the public and private sectors and others in the community:

- (a) to continue to enhance per capita income, at least in line with advances in other world cities, and to ensure that all members of society have the opportunity to benefit;
- (b) to be widely recognised as the most attractive major city in Asia in which to live and work, particularly judged in terms of overall quality of life;
- (c) to develop a socially cohesive and stable society with a recognition that Hong Kong's diversity strengthens the cosmopolitan outlook of the community;
- (d) to contribute to the modernisation of China in a way which also benefits Hong Kong's long-term development;
- (e) to ensure that a process of political development is put in place which meets community aspirations and is in line with the pace and provisions outlined by the Basic Law; and
- (f) to retain and enhance those distinctive features, which have been critical to Hong Kong's vitality and success in the past, including:
  - i. a society underpinned by the rule of law;
  - ii. freedom of the press and protection of the freedoms and rights of the people of Hong Kong provided for in the Basic Law;

- iii. a free market economy providing a level playing field with clear, unobtrusive and transparent business regulations;
- iv. a clean and efficient civil service and other public institutions; and
- v. an outward looking and cosmopolitan society.

## ASIA'S WORLD CITY, A MAJOR CITY IN CHINA

- 2.7** The above goals are both ambitious and challenging and in order to achieve them, two fundamental requirements will need to be met. First, Hong Kong must clearly establish itself as one of the world's truly great international cities and a leading city in Asia - Asia's World City - as it has been termed. Second, as a major city in China, Hong Kong must understand and make best use of its developing relationship with the Mainland. The two requirements are interrelated and reinforce each other. Hong Kong's success as a truly great international city allows it to play a unique role in the development of the Mainland and, similarly, Hong Kong's role as a major city in China is a unique strength in developing its international role and status.
- 2.8** In his 1998 Policy Address, the Chief Executive drew upon the Commission's work in this area and set out his thinking on the sort of city that Hong Kong should aspire to become : "We have studied the roles of New York and London, which are not only the most cosmopolitan cities in America and Europe respectively, but are also international financial centres, tourism destinations, homes for the headquarters of multi-national corporations and international communication and transportation centres. I believe that Hong Kong, too, has the potential to become, not only a major city within one country, but also the most cosmopolitan city in Asia, enjoying a status similar to that of New York in America and London in Europe."
- 2.9** The Chief Executive further elaborated on his thinking on Hong Kong's long-term vision in his 1999 Policy Address: "Hong Kong already possesses many of the key features common to New York and London. For example, we are already an international centre of finance and a popular tourist destination and hold leading positions in trade and transportation. These are all pillars of our economy. If we can consolidate our existing economic pillars and continue to build on our strengths, we should be able to become world-class. Then like New York and London, we will play a pivotal role in the global economy, be home to a host of multi-national companies, and provide services to the entire region....We have the thriving Mainland next to us. We are a melting pot for Chinese and Western cultures. We are a highly liberal and open society. Our institutions are well established. With such a strong foundation, we should be able to build on our strengths and develop modern and knowledge-intensive industries, erect new pillars in our economy and open up new and better prospects."

**2.10** The Commission fully endorses the positioning outlined by the Chief Executive and believes that this will support the achievement of Hong Kong's long-term development. This positioning was also why the Commission, in its work, carried out an extensive review of the concept of a "world city" and how it might be linked to Hong Kong's role as a major city within China.

## UNDERSTANDING WHAT MAKES WORLD CITIES SUCCESSFUL

**2.11** The idea of a world city is not new. The concept was first advanced more than 30 years ago and it has generated widespread discussion ever since. Although there is no agreed definition as to what constitutes a world city, there is general agreement that, contrary to the expectation that advances in technology would diminish the importance and relevance of major cities, in practice the reverse appears to have happened. As economic activity has globalised, particularly in the financial and services sectors, a few major cities - world cities - have become vital centres for managing and co-ordinating economic activity on a global basis. Furthermore, successful world cities appear to share a number of common characteristics.

**2.12** First, world cities have a distinctive economic structure and exert a level of influence which is far greater than their size might suggest. This is because they have developed tremendous strengths in internationally oriented service industries and other high-level corporate service functions, which generate significant levels of added value as well as good employment opportunities. The most important of these include financial and business services, corporate and regional headquarters, news and information services, tourism and creative and cultural activities.

**2.13** This, in turn, perpetuates the emergence of "clusters" which foster higher productivity by offering competitive advantages such as easy access to specialised suppliers, infrastructure and other resources, and easy interchange of information and technology to firms that are part of these groups. Once established, these "clusters" have an inherent strength by virtue of the mass of people and resources they attract over a long period.

**2.14** Second, world cities are typically characterised by an outstanding enabling infrastructure, in terms of both "hard" infrastructure, for example, transportation and telecommunications, and "soft" infrastructure, such as education and training, research and development and urban planning. Rapid economic development has put tremendous pressure on the quality of the environment and world cities have recognised the need to integrate economic, social and environmental development in a balanced way.

- 2.15** Third, key institutions, such as universities, the media and civic organisations, are building blocks of modern societies and underpin the world city concept. In practice, the quality of such institutions, and how they influence the vision, attitude and dedication to knowledge creation of the people in those societies, to a significant extent, determines whether a particular city can achieve world city status.
- 2.16** Fourth, world cities are also underpinned by less tangible features such as the rule of law, freedom of expression and association, free flow of information, openness and diversity. By definition, world cities are cosmopolitan and outward looking. They actively seek to attract international capital, businesses and skilled individuals from around the world. They, therefore, tend to be characterised by ethnically and culturally diverse populations, which are highly mobile.
- 2.17** Fifth, another key feature of world cities is their relationship with their hinterlands. World cities typically enjoy strong links with their hinterlands and they are supported by a free flow of goods and services, people and information. As major cities have expanded, the distinction between "the city" and "the hinterland" has become increasingly blurred, and this has resulted in the emergence of highly integrated and economically powerful city-regions.
- 2.18** Against this background, there is some debate within the community as to whether Hong Kong is already a world city. In that regard, the issue should not be whether Hong Kong currently qualifies as a world city, but rather to understand the characteristics of the world's great cities and what makes them so successful, and then to assess Hong Kong's relative strengths and weaknesses against these characteristics. Only then, can Hong Kong's public and private sectors consider what needs to be done to consolidate Hong Kong's position as one of the great international metropolises.

## LINKAGES WITH THE MAINLAND ARE KEY TO COMPETITIVE POSITIONING

- 2.19** Hong Kong's development, and much of its success, has always been linked with that of the Mainland. Historically, the Mainland has provided the impetus for Hong Kong's economic growth and, similarly, Hong Kong has played an important role in supporting the Mainland's development particularly its increasingly global economic links. Since the 1950s, Hong Kong has developed in two distinct phases. In the first phase between the 1950s and 1970s, Hong Kong developed as a low-cost manufacturing and trading centre. The Mainland was an important source of resources and Hong Kong became a focus for substantial inward investment.
- 2.20** In the second phase, during the 1980s and 1990s, high-labour-content production activities were relocated from Hong Kong to low-cost centres in the Mainland. As a result, Hong Kong's role changed

to become a major international financial, business services and trading centre. Looking forward, it is clear that Hong Kong is now poised to enter a third major phase of development as the Mainland embraces the knowledge economy. The speed of this development will be greatly assisted by the various Mainland market reforms currently planned or underway. Understanding the implications and the associated opportunities of this third wave of development will be vital to Hong Kong's continued success.

- 2.21** Furthermore, within this overall Hong Kong-Mainland relationship, the Pearl River Delta (PRD) Region, discussed later in this document, has special significance. For Hong Kong and the other cities of the PRD to capitalise on the numerous joint opportunities available to them, however, fundamental changes will be needed. Greater emphasis will need to be placed on joint collaboration and co-operation between public and private sector interests to maximise mutual benefits. In the Commission's view, the objective should be to successfully create an integrated city-region in keeping with the world city concept. Achieving this within the context of "one country, two systems" represents perhaps Hong Kong's greatest and most exciting challenge over the next generation.
- 2.22** Hong Kong's relationship with the Mainland is a key element of its competitive positioning and complements the vision of also becoming Asia's World City. The Commission believes that Hong Kong can capitalise on the significant advantages provided by its position as a gateway to China while also building on its position as an international financial and business centre.

## HONG KONG HAS ASSETS AND OPPORTUNITIES

- 2.23** In seeking to achieve the vision described above, Hong Kong has some important strengths and assets to build upon, and a range of long-term opportunities which it is uniquely well-placed to exploit. The most important of these, in the Commission's view, are highlighted below.

### **"ONE COUNTRY, TWO SYSTEMS" MAINTAINS IMPORTANT CONTINUITY**

- 2.24** The principle of "one country, two systems" has guided Hong Kong since 1 July 1997. Under "two systems", Hong Kong's highly successful economic system and its unique way of life have been sustained. In addition, under the Basic Law, Hong Kong has been able to exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power. This represents a very important asset for Hong Kong's long-term development which must be nurtured and safeguarded.
- 2.25** At the same time, within the concept of "one country", Hong Kong has also increased its level of co-operation with the Mainland in a wide number of areas, for example, finance, trade, transportation,

communications, energy, innovation and technology, tourism and environmental protection. With the support of the Central Government, progress has also been made in co-ordinating the planning and development of cross-boundary infrastructure, thus improving travel and transportation between the Mainland and Hong Kong. Again, this represents an important asset and, as indicated earlier, an area where the Commission believes more focus is needed in order to accelerate development.

### ***HONG KONG'S SOFT INFRASTRUCTURE IS A COMPETITIVE ADVANTAGE***

- 2.26** Hong Kong's commitment to free-market principles has long been part of the foundation of its economic success. This, in turn, has been supported by Hong Kong's soft infrastructure, including a clean and efficient government, an independent judiciary, a level playing field for everyone, a simple taxation system, a commitment to the rule of law and the free flow of information. Together these features provide a very strong competitive advantage for Hong Kong. The Commission believes that Hong Kong's long-term planning must not overlook the importance of this soft infrastructure and continuous efforts must be made to safeguard, regularly review, further develop and strengthen it.

### ***WORLD-CLASS PHYSICAL INFRASTRUCTURE***

- 2.27** Hong Kong's world-class physical infrastructure, particularly in transportation and telecommunications, is responsible for much of Hong Kong's success as an international business location. The international airport at Chek Lap Kok, Hong Kong's container port, an increasingly advanced and sophisticated telecommunications network and other elements of Hong Kong's hard infrastructure are critical to Hong Kong's future.

### ***STRONG WORK ETHIC AND ENTREPRENEURIAL SPIRIT***

- 2.28** A strong work ethic, complemented by an ability to successfully adapt to changing conditions and a willingness to accept innovation in both ideas and products, has been critical to much of Hong Kong's economic success. In addition, an entrepreneurial spirit, driven by Hong Kong's adherence to free-market principles, has generated a substantial small and medium-sized enterprise sector that has been able to contribute significantly to Hong Kong's rapid economic growth. A strong work ethic and spirit of entrepreneurship should continue to be nurtured and strengthened.

## **A COSMOPOLITAN CITY WITH A DISTINCTIVE CULTURE**

- 2.29** Hong Kong's cosmopolitan outlook and its character as both a Chinese and international city are important elements of strength. The fact that so many of its people have been educated overseas or have lived or travelled abroad, the widespread use of English and the ease of access Hong Kong people have to information have all contributed to making Hong Kong an international city with a distinctive culture.
- 2.30** Given the importance of English as the global business language, every step must be taken to preserve and further enhance English language skills. At the same time, it is important to ensure that Hong Kong people gain a high level of proficiency in the Chinese language.
- 2.31** Moreover, Hong Kong has an opportunity to leverage its distinctive blend of Chinese and Western cultures to become an international centre for cultural exchanges and, in the process, to strengthen its position as a gateway to China.

## **BUILDING ON THE OVERSEAS CHINESE NETWORK**

- 2.32** With the large number of overseas Chinese with direct Hong Kong links spread around the world, there is a tremendous opportunity to strengthen Hong Kong's focus as a trade and investment location for this important network. Hong Kong also has an impressive record as a global culture and fashion trendsetter, with many of the trends it sets directed at overseas Chinese communities. As such, it has tremendous potential influence over the Chinese-speaking world. This influence and this network are enormous potential assets and could and should be more actively mobilised in the future.

## **ECONOMIC GLOBALISATION PLAYS TO HONG KONG'S STRENGTHS**

- 2.33** Hong Kong's history of successfully adapting to international developments, its record as a leading trading economy and its growing importance as an international service centre make it ideally positioned to capitalise on the opportunities provided by the process of economic globalisation. In reviewing research it has commissioned, the Commission has seen that success in adapting to changes in the global economic environment has been one of the traits of all of the world's most successful cities. Hong Kong has shown its ability to do so in the past: the challenge for future generations is to maintain this adaptability and agility.
- 2.34** Economic globalisation is also encouraging mergers, acquisitions and the establishment of strategic partnerships, a trend likely to continue and, perhaps, accelerate over the long term. Some Hong

Kong firms have already recognised the implications of this trend and are joining forces with other local and international corporations to strengthen their competitive positioning globally. It is important that Hong Kong continues to provide an environment in which such activity is encouraged.

## ***THE MAINLAND'S DEVELOPMENT REMAINS A KEY OPPORTUNITY FOR HONG KONG***

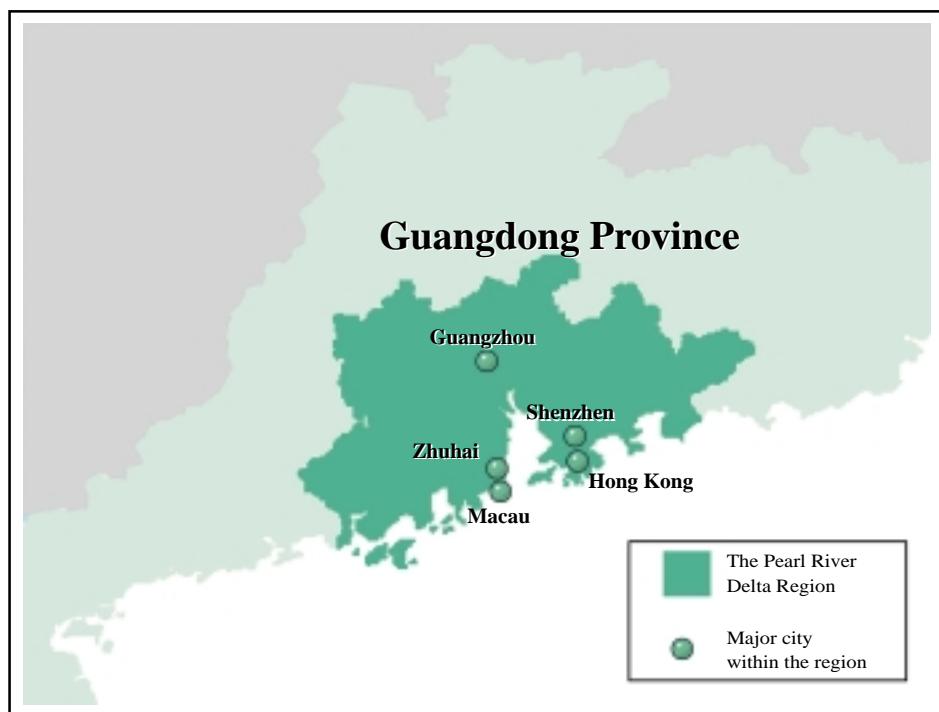
- 2.35** The Mainland's growth from its current position as the world's seventh largest economy to its widely projected move to the second or third largest within the next 30 years will simply make a large market for Hong Kong companies even bigger. In looking at the long-term opportunities that will be generated by the Mainland's growth, the Commission has identified five areas of particular importance.
- 2.36** First, China's accession to the World Trade Organisation (WTO) will create expanded economic growth opportunities through increased import and export demand and through increased foreign direct investment in the Mainland. Growth in the trade sector alone should enable Hong Kong companies to build on their leadership position in providing financial and other services such as transportation, logistics, trade financing and insurance for companies carrying out trade with the Mainland.
- 2.37** Second, Hong Kong's service sector should also benefit from progressive liberalisation of the Mainland's service sector. This group, already very active in the Mainland, will be able to play a role in the development of this and other industry sectors and should see new growth as a result of further liberalisation.
- 2.38** Third, the Mainland is moving forward with the reform of state-owned enterprises (SOEs) and this will provide opportunities both for direct investment and the provision of financial, business and other services. Guidelines that have been established for SOE reform over the next decade and beyond anticipate the promotion of multiple forms of public ownership, continued support for the management of large SOEs while adopting a flexible policy for small SOEs, and continuing steps to encourage SOE restructuring through mergers, liquidations and downsizing. These developments should provide enormous potential opportunities for Hong Kong companies.
- 2.39** Fourth, there is still a significant opportunity for Hong Kong companies to combine their access to Mainland companies and other resources with their international business contacts and experience and their strong project management skills. The opportunities to organise and market these resources internationally are tremendous. However, the rapid development of new information and communications technologies could undermine Hong Kong's traditional strengths as a packager/integrator for Mainland markets if Hong Kong companies are not able to adapt to changing market needs and to continue to add value through the application of these technologies.

- 2.40** Fifth, the momentum of growth in the Mainland is likely to spread from the coastal regions to the central and western regions in the years ahead. Again, this will provide opportunities for the business sector to diversify their investments across a wider geographical area.
- 2.41** The fundamental challenge in all of these areas will be to create a business environment which-both over the short and longer term - supports and, where appropriate, acts as a catalyst for these developments.

### ***THE PEARL RIVER DELTA REGION IS INTEGRAL TO HONG KONG'S LONG-TERM VISION***

- 2.42** Hong Kong's vision of strengthening its position as Asia's World City is inextricably linked to further economic integration with other major cities of the PRD Region including such cities as Guangzhou, Macau, Shenzhen and Zhuhai (Figure 1). The increasing economic strength of this region will provide the impetus for a significant part of Hong Kong's future growth as well as creating a highly prosperous city-region that would be far more competitive globally than each city would be individually.

FIGURE 1: THE PEARL RIVER DELTA REGION



**2.43** The PRD Region has not only attracted the manufacturing operations of a large number of Hong Kong companies, an increasing number of Hong Kong residents have also been attracted to its opportunities for shopping and recreation. With living costs significantly lower than that of Hong Kong, the other cities in the PRD Region are also attracting some Hong Kong people to live there and to commute to work in Hong Kong. This trend, of further strengthening the integration of the PRD city-region, will intensify with improved cross-boundary accessibility and will spur further economic growth both for Hong Kong and for the other major cities of the PRD Region.

## HONG KONG FACES SOME CHALLENGES

**2.44** As the regional economic crisis - and the adverse impact it generated within the Hong Kong economy - has shown, Hong Kong's traditional assets alone will not guarantee that it can continue its impressive record of economic growth. Hong Kong faces a number of key challenges that, if not addressed robustly and quickly, could significantly undermine achievement of its long-term vision. The most important of these are highlighted below.

### ***THE ECONOMIC BASE MUST BE EXPANDED***

**2.45** The recent Asia-wide financial crisis has highlighted the potential consequences of Hong Kong's narrow economic base with its heavy reliance on real estate development. Broadening Hong Kong's economic base is clearly a key long-term challenge.

### ***COSTS OF DOING BUSINESS REQUIRE FOCUS ON SKILLS, PRODUCTIVITY, RELIABILITY AND CREATIVITY***

**2.46** The costs of doing business in Hong Kong are still high. While the recent regional financial crisis has forced down property prices substantially, Hong Kong still cannot claim comparative advantage in terms of business and living costs as other cities in the region have experienced similar or even greater reductions in their costs. There is still a danger, therefore, that these high costs of doing business may become a long-term feature of Hong Kong and undermine overall competitiveness.

**2.47** Similarly, wage costs in Hong Kong have also dropped due to the regional financial crisis but these reductions have been less than most other major cities in the region. While greater wage flexibility is important, the long-term objective must be to focus on ensuring that Hong Kong's workforce has the relevant skills, productivity levels, reliability and creative flair needed to meet future market requirements in a knowledge economy and to maximise added value.

## ***THE SCIENTIFIC AND TECHNOLOGY FOUNDATION MUST BE EXPANDED***

**2.48** While technology will play an increasingly important role in the growth of the new economy, Hong Kong does not have a long tradition of science and technology development to drive this growth. However, there has been a fundamental and positive change in the attitude of the community towards technology in the past two years - and much of that change can be attributed to the work of the Commission on Innovation and Technology. The Government's initiatives to strengthen the tertiary education sector and to develop the Cyberport and the Science Park have also contributed to this change. The Commission supports these and other efforts in providing the necessary foundations for increasing Hong Kong's capacity to harness and utilise the potential of technology.

## ***HONG KONG'S GROWTH INCREASINGLY LINKED TO THE KNOWLEDGE-BASED ECONOMY***

**2.49** It is clear that industries of the future will be based increasingly on the application of knowledge to create competitive advantage. There is no question that the knowledge-based economy will require the Hong Kong workforce to adopt new skills. In many cases those skills will come from Hong Kong people who have developed them through formal education programmes or through direct work experience. In other cases, where the required skills cannot be found in Hong Kong, they will have to be imported from the Mainland or from overseas. Therefore, it will be important for Hong Kong to continue to anticipate the skills requirements of the new knowledge economy and to expand programmes that ensure continuous development of knowledge-based skills.

**2.50** Technological research and development will also be important factors in Hong Kong's ability to meet the long-term needs of the knowledge-based economy. Hong Kong's success in this area will also require support from high quality universities and research institutions and other supporting infrastructure such as science and technology facilities.

**2.51** E-commerce and the application of information technology will also be critical to the long-term success of Hong Kong's business sector in a knowledge-based economy. Steps must be taken to ensure that companies throughout Hong Kong are aware of and understand the future challenges and opportunities provided by these technology developments. A marriage of Hong Kong's traditional entrepreneurial spirit and the potential of the rapidly expanding technology sector could produce outstanding commercial success for Hong Kong companies.

## ***CREATING A POSITIVE QUALITY OF LIFE***

- 2.52** Hong Kong's ability to achieve its goal of becoming Asia's World City as well as strengthening its position as a major city in China will also depend on its success in creating a positive living environment. This will require action across a broad agenda for example, providing a clean and attractive physical environment, quality and affordable housing, high standard and accessible health care services, a safe and corruption-free city that is governed by the rule of law and a vibrant arts and culture sector.
- 2.53** Hong Kong's environment has been negatively impacted by years of fast economic growth. Hong Kong's air is becoming increasingly polluted due in part to increasing concentrations of vehicles in Hong Kong as well as booming industrial activities elsewhere in the region. Pollution, in both inland and coastal waterways, is also a serious concern as is the reliance upon landfill. Limits on landfill capacity make the growing volume of waste a matter of grave concern.
- 2.54** The Government has proposed various initiatives to improve Hong Kong's physical environment, including programmes carried out in co-operation with the Mainland to address pollution problems and programmes in Hong Kong to reduce the number of diesel-fuelled vehicles and other initiatives to reduce air emissions at their source. Further efforts to improve environmental quality should concentrate on environmental cleanup and strict enforcement of environmental laws. But, while these measures are important, the real challenges for Hong Kong in this area will be in strengthening the available environmental science and technology resources and in generating greater community commitment to the protection of the environment and in raising community awareness of the costs of neglecting environmental protection. Over the longer term, more will undoubtedly need to be done if Hong Kong is genuinely to become the most attractive city in Asia in which to live, work and visit.
- 2.55** Hong Kong's ability to provide high quality and affordable housing is probably the single most important livelihood issue. In order to address this issue, Hong Kong faces a number of important longer term challenges, for example, the need to provide an adequate supply of land and housing, thus encouraging greatly increased levels of home ownership while at the same time providing a "safety net" for those in genuine need.
- 2.56** Good health is a pre-requisite for a good quality of life. Hong Kong's health care system has served the local population well for many years and infant mortality and life expectancy rates are among the best in the world. Through a highly subsidised public health care sector, good quality medical services are easily accessible to everyone in the community. The system is also relatively

cost-effective, with the combined total of public and private sector spending representing only 4.6% of GDP compared with a median 7.6% for OECD countries.

- 2.57** Like many other health care systems, Hong Kong's system is constantly evolving. Increasing medical costs arising from a growing and ageing population, advances in technology and rising community aspirations have put a lot of pressure on the public health sector, which currently provides 93% of Hong Kong's in-patient services. In the years ahead, the major challenge in this sector will be to ensure that, despite pressure from escalating costs, the health care system will remain accessible and affordable and continue to provide high quality service.
- 2.58** To sustain and further enhance the quality of life in Hong Kong, it is essential that the impact of economic, political and social changes on social development and social welfare is assessed. The globalisation of the world economy and a move in Hong Kong towards knowledge-based industries are having a profound impact on employment opportunities particularly for the segment of the community unable to compete in job markets requiring specialist skills. Changing demographic patterns with an ageing and more dependent population will present increased challenges to social services and welfare. Divorce and separation of families arising from immigration have also increased the number of single parents with an increased need for social services.
- 2.59** Hong Kong remains one of the safest cities in the world. The challenge will be to maintain this record during a time when many of the world's cities are concerned that widening income disparities within their populations are creating increased social tensions.
- 2.60** Hong Kong must ensure that it develops a vibrant arts and culture sector, a common feature of successful world cities. Such a sector, with a focus on providing access to a diverse range of cultural attractions at an affordable price, can support an improved quality of life, foster community development and provide another potentially fast-growing economic sector in its own right. While Hong Kong's arts and culture sector is lively and has important areas of excellence, it is also still relatively limited in scope.

### ***STRENGTHENING THE SOCIAL FABRIC AND SENSE OF CIVIC PRIDE***

- 2.61** Hong Kong's social fabric, while challenged by widening income disparities during the 1980s and 1990s, and, more recently, the Asian financial crisis, has benefited tremendously from Hong Kong's rapid growth and long-term economic prosperity. But, there is concern that the traditional strengths of adaptability and resilience of the Hong Kong people have gradually been eroded by the "bubble economy" created in the early 1990s. Some in the community believe that it has generated a "get rich quick" mindset that could seriously undermine the strong work ethic that has long been

associated with the Hong Kong workforce. There is also concern that, in some quarters, a dependency culture has developed and with it, increasing and sometimes unrealistic expectations as to both the role of the Government and its ability to provide additional services.

- 2.62** Success in developing a knowledge economy may well result in increased pressures on Hong Kong's social fabric from widened disparities in incomes between highly skilled knowledge workers and others who do not have knowledge skills and the well-paid job opportunities that go with them. It can, however, if it is associated with significant economic growth also generate broad-based prosperity due to a cascading effect that has the potential to generate secondary wealth. As noted earlier in this document, skills development within the Hong Kong workforce must be approached in a way that keeps pace with the demands of the new economy. At the same time, Hong Kong should continue to provide a safety net that serves to protect those members of the society who are in genuine need. The Commission believes that, ultimately, increasing educational opportunities is the best way to narrow income disparities and to facilitate social mobility and harmony. For this reason, expanding educational opportunities at all levels and encouraging life-long learning should be integral to all long-term economic and social development programmes.
- 2.63** The development of a greater sense of civic pride, based on a commitment to both Hong Kong and to China as a whole, will greatly support the achievement of Hong Kong's long-term development goals. A key challenge is to ensure that the people of Hong Kong have the ability to communicate and interact with the people of the Mainland. Improving the quality of language training in Hong Kong should, therefore, be a firm ongoing commitment of both the public and private sectors.
- 2.64** This sense of civic pride should be strengthened by an appreciation by the people of Hong Kong of Chinese history and culture and traditional values. These values include such things as trust, respect for families and elders, a commitment to self-improvement, a sense of obligation to the community and a focus on consultation rather than confrontation. They may also include diversity, openness, individual creativity, competitiveness and volunteerism. Recognising and building on these values can support the strengthening of links between Hong Kong and the Mainland and can ultimately play a role in Hong Kong's successful development as Asia's World City as well as a major city in China.

### ***HONG KONG MUST PROMOTE ITS IMAGE AND IDENTITY GLOBALLY***

- 2.65** Since China's resumption of sovereignty over Hong Kong, there appears to be some confusion internationally about Hong Kong's image and identity. There is concern that the perception of Hong Kong as a bustling cosmopolitan city has been weakened in the process. An image built around "business as usual", while accurate, has not been sufficient to present the image of a Hong Kong that

is dynamic and exciting and a location that is ideal for tourism, trade, investment and living. For this reason, there is an urgent need to ensure that Hong Kong's image and unique identity are clearly and consistently communicated both in Hong Kong and internationally. Success in this area will support success in the achievement of Hong Kong's short and long-term economic objectives.

## A NUMBER OF SECTORS AND AREAS ARE KEY TO HONG KONG'S LONG-TERM DEVELOPMENT

- 2.66** Several sectors and areas have been identified as key to Hong Kong's long-term development and to Hong Kong maintaining its strong regional and international competitive advantage. These include sectors such as financial and business services, tourism, multinational corporation (MNC) regional headquarters, information services and telecommunications, and trade, transportation and logistics, all of which have been associated with Hong Kong's past economic success and are key to its continued future development. It also includes innovation and technology, which in the Commission's view, will have a major role to play in Hong Kong's long-term development. Creative and cultural activities are also being recognised for the contributions they can make to Hong Kong's long-term development.

### ***INTERNATIONAL FINANCIAL AND BUSINESS SERVICES CENTRE***

- 2.67** There is no question that New York and London are currently the two most prominent financial and business services centres in the world. Each has a concentration of a diverse range of financial and business services, including banking, insurance, loan syndication, project finance, trading of securities, fund management, accounting, legal and advertising and other communications services. Hong Kong has also developed as a major international financial and business services centre. With the continuous opening of the Mainland, Hong Kong has the capability and opportunity to further develop its own resource base and, in the process, strengthen its position as one of the leading international financial and business services centres.
- 2.68** Developments in technology, combined with the global consolidation of the financial industry, suggest that both the nature and the role of the world's financial centres are already changing rapidly and that these changes are likely to accelerate over the medium to long term. Seeking to capitalise on these changes, Hong Kong must continue to be innovative and efficient in providing the services that the market demands.

## ***LOCATION-OF-CHOICE FOR REGIONAL HEADQUARTERS***

- 2.69** Hong Kong has long been the regional headquarters location-of-choice for many of the world's leading MNCs. Hong Kong must be aggressive in its efforts to retain and attract more of the Asia-Pacific headquarters functions of MNCs as they expand their regional business activities. Complementary to this, Hong Kong should also seek to attract the international operations of Mainland companies who are expanding their global activities.
- 2.70** Hong Kong faces a number of challenges in seeking to increase the number of MNCs who base their regional headquarters in the SAR. This is due in part to the fact that the needs of foreign direct investors are changing and that other cities in the region are aggressively pursuing these companies. In addition, many new companies, particularly those in the information services sector, are moving into a virtual world that may not require a traditional regional headquarters structure. These and related issues must be addressed if Hong Kong is to maintain its position as the leading Asia-Pacific location for MNC regional headquarters, a position that brings with it significant direct and indirect economic benefits.

## ***TOURISM CAN CONTINUE AS A KEY ECONOMIC SECTOR***

- 2.71** Tourism is another sector in which Hong Kong has a very strong position. It is expected that the tourism market will grow quickly with the end of the Asian financial crisis and the development of new tourist attractions such as the Disney theme park and a wetland conservation park and that it will continue to be a significant contributor to Hong Kong's economic growth over the longer term. In analysing this sector, the Commission has identified three key opportunities that should be explored further to secure the sector's long-term growth.
- 2.72** First, business travellers represent an important and attractive market for Hong Kong. Not only do these travellers generate high yields, but the market for business travel is expected to expand greatly. Hong Kong's success in strengthening its position as the region's leading business centre and the MNC regional headquarters location-of-choice will support an expansion of this segment of the market. Hong Kong's ability to attract large numbers of business travellers is also helped by its well-developed convention and exhibition facilities.
- 2.73** Second, the number of leisure travellers from the Mainland is expected to increase dramatically over the next 20 to 30 years. While a potentially large source of revenue for Hong Kong's tourism sector, this growth also presents major challenges in ensuring that the pace and nature of Hong Kong's tourism infrastructure development are sufficient to accommodate this growth and also ensuring that the tourism industry workforce has sufficient proficiency in Putonghua to meet the needs of these tourists.

**2.74** Finally, Hong Kong is well-positioned to become a tourism gateway not only to China but also to the rest of Asia. Some progress has already been made in this area and long-term success in exploiting this opportunity will require a major co-operative effort on the part of the public and private sectors and the implementation of innovative forms of joint international promotion.

## ***INFORMATION SERVICES AND TELECOMMUNICATIONS***

**2.75** It is vital for Hong Kong to move quickly to ensure that it capitalises on the emerging opportunities provided by the information services industry. The Commission recognises that a number of important initiatives have already been planned or are underway to make this possible.

**2.76** If Hong Kong is to develop its opportunities in this sector, it needs to address four long-term challenges. First, and most importantly, it should increase the quantity and quality of its human resources in this sector, both by upgrading the existing skills base and by attracting skilled Mainland and international professionals to meet needs that cannot be sourced locally. Second, Hong Kong must further develop its hard and soft infrastructure to attract investments from both local and international information technology companies. Third, Hong Kong needs to recognise that this is a sector that will continue to experience intense international competition both between companies and between countries and cities seeking to attract investment from these companies.

**2.77** Fourth, the Commission believes that Hong Kong must continue to maintain a world-class telecommunications infrastructure which is fundamental to the development of the information services industry. This investment is also important to the continued development of Hong Kong as an international financial centre and a centre for MNC regional headquarters.

## ***INNOVATION AND TECHNOLOGY***

**2.78** While the Chief Executive set a target of making Hong Kong an innovation centre for the region in his 1997 Policy Address, there was a recognition that this initiative faced a number of challenges. Chief amongst these is the fact that Hong Kong does not have a long tradition of science and technology research. The appointment of a Commission on Innovation and Technology following that Policy Address has been instrumental in generating greater awareness of and support in Hong Kong for innovation and technology. The Hong Kong business sector has also been extremely supportive of efforts to promote innovation and technology. The Commission on Innovation and Technology has made a number of recommendations in its two reports, all of which have been accepted by the Government. Implementing those recommendations will contribute to turning the vision of Hong Kong as a regional centre of innovation and technology into reality.

**2.79** The challenge for Hong Kong in its development as a knowledge-based economy over the longer term is not only the provision of the necessary supporting infrastructure. Equally important are the fostering of a science and technology culture and the creation of an enabling business environment that facilitates the growth of firms leveraging on the application and upgrading of innovation and technology.

**2.80** The Mainland has adopted a development policy that places great emphasis on science and education as drivers of economic growth. This has encouraged cities such as Beijing, Shanghai and Shenzhen to rapidly develop their technology sectors. At the same time, there has been increasing co-operation in research and development between Hong Kong companies and educational institutions and their counterparts in the Mainland. It is important that Hong Kong finds ways of fostering even greater collaboration between Hong Kong and the Mainland. In this regard, Hong Kong should continue its existing development focus on information technology, but it should also explore new opportunities including those associated with the integration of new technologies and traditional industries.

### ***TRADE, TRANSPORTATION AND LOGISTICS***

**2.81** Despite its relatively small size, Hong Kong has long been an important global trading centre. This has been driven in part by the opening up of the Mainland and the vital packager/integrator role that Hong Kong companies have played in expanding Mainland trade with the rest of the world and as the Mainland's largest source of foreign direct investment. Developments in e-commerce will dramatically change the way trade will be carried out internationally. This presents Hong Kong with both opportunities and challenges that must be addressed if it is to maintain a leadership position in world trade. The major challenge for Hong Kong companies will be ensuring that they stay competitive by continuously upgrading their products and adding more value to their services. For Hong Kong companies to rely solely on their traditional roles risks being by-passed by changes in global trade, particularly the role e-commerce will play in that process.

**2.82** Hong Kong's position as an international transportation hub has been enhanced greatly by the growth in international trade in general and the development of the PRD Region in particular. Hong Kong should build on this strength by deriving greater value from its investment in infrastructure. In the air cargo business, for instance, Hong Kong has the opportunity to build on its strategic location at the centre of East Asia and as a leading international cargo centre. While other cities in the region have similar ambitions, arguably no other city has Hong Kong's strategic location and infrastructure advantages.

**2.83** Hong Kong's position as one of the busiest container ports in the world faces increasing challenges from ports elsewhere in Southern China, given the significant cost advantages they offer customers.

Hong Kong's long-term development in this area must focus on the provision of higher value-added services which complement rather than compete with the lower cost services provided by other ports, particularly elsewhere in Southern China.

## ***CREATIVE AND CULTURAL ACTIVITIES***

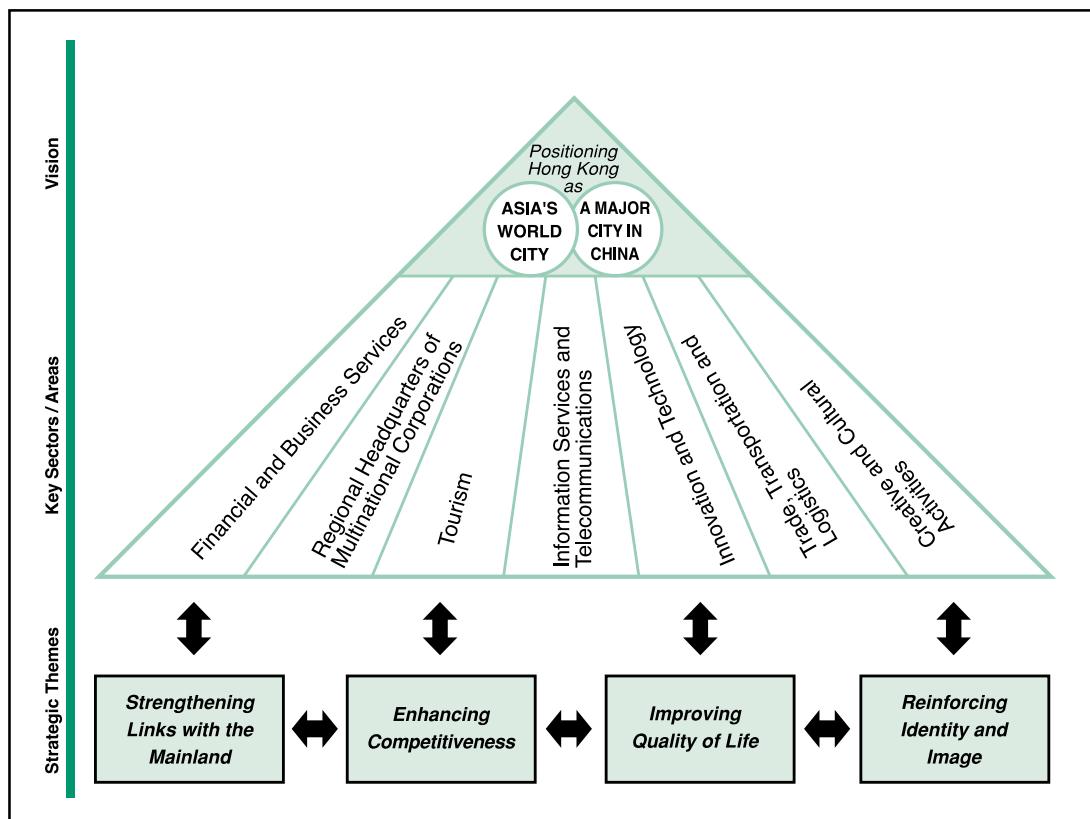
- 2.84** Hong Kong should continue to invest in improving the range and quality of its creative and cultural activities and the infrastructure that supports them. World cities have world-class cultural activities that can improve the quality of life of their residents and also promote tourism. Hong Kong has strong creative and cultural foundations on which to build. The challenge is that of developing and implementing a coherent long-term development plan for this area.

### 3 THE WAY FORWARD

#### A RECOMMENDED STRATEGIC FRAMEWORK

**3.1** As noted in the previous section, the Commission believes that a number of themes, key sectors and areas will play significant roles in Hong Kong's long-term development. The Commission has outlined a strategic framework (Figure 2) that demonstrates how those themes, sectors and areas serve as both pillars of the Hong Kong economy and keys to Hong Kong's positioning as Asia's World City and a major city in China. The remainder of this section outlines in more detail the Commission's thinking on the overall strategic framework which, it hopes, will help to provide a catalyst for the detailed action planning which needs to follow.

FIGURE 2 : RECOMMENDED STRATEGIC FRAMEWORK



## STRATEGIC THEMES

### THEME 1: STRENGTHENING LINKS WITH THE MAINLAND

- 3.2** While progress has been made in the strengthening of Hong Kong's links with the Mainland, particularly after China's resumption of sovereignty over Hong Kong, the Commission considers that accelerating, broadening and deepening such links are pivotal to realising Hong Kong's long-term vision. The Commission has identified a number of proposed areas of focus for the longer term.

#### ***BENEFITING FROM "ONE COUNTRY, TWO SYSTEMS"***

- 3.3** The unique principle of "one country, two systems" is a major asset for Hong Kong. Hong Kong should continue to maximise the resultant benefits while ensuring that there is mutual advantage in this arrangement for both Hong Kong and the Mainland. If Hong Kong is to maintain its distinctiveness under this principle, it must continue to enhance its own strengths including reinforcing its legal institutions, building on the English language capability of its people, maintaining and enhancing its cosmopolitan outlook and character, and upholding the free-market principles that have made it so successful.

#### ***"FIRST MOVER" ADVANTAGE***

- 3.4** China's entry into the WTO, coupled with other ongoing market reforms, provides a unique opportunity for Hong Kong-based companies in both the services and industrial sectors. Hong Kong companies have potential "first mover" advantage which refers to the benefits that can accrue to companies who secure an early foothold in new markets and use this to create competitive advantage. This advantage can come from a number of areas such as making early investments, forging strong client relationships, establishing brand awareness and developing integrated supply chains.

#### ***CENTRAL GOVERNMENT POLICIES***

- 3.5** Many Central Government policies could have positive business implications for Hong Kong companies. For example, under the "Ninth Five-Year Plan" the Central Government is giving increased support to the development of the country's central and western regions. This will provide significant business opportunities for Hong Kong investors beyond the coastal regions that have received the bulk of their investments to date. The Hong Kong Trade Development Council (HKTDC) has played an important role in disseminating information regarding these

opportunities to the business community. Over the longer term, consideration should be given to further supporting the efforts of the HKTDC and others involved in linking the business sectors of the Mainland and Hong Kong.

### ***THE PEARL RIVER DELTA REGION - THE EMERGING MULTI-CENTRED CITY-REGION***

- 3.6** Hong Kong has long had a close relationship with the rest of the PRD Region. Apart from those locations supplying many of Hong Kong's basic needs such as potable water, food and energy, there has been rapid and increased economic co-operation and integration between Hong Kong and other parts of Southern China in the past 20 years. Since China's resumption of sovereignty over Hong Kong, cross-boundary movements have surged indicating further social and economic integration. Spurred by massive infrastructure development and rapid economic growth, a multi-centred city-region is gradually taking shape.
- 3.7** One of the challenges to the development of a multi-centred city-region is the question of governance. Under "one country, two systems", Hong Kong and the rest of the PRD Region have responsibility for the planning and development of their own jurisdictions. In the process, there has been good co-operation in many areas from high-level contacts to cross-boundary infrastructure development, environmental protection and immigration and customs procedures. The Commission believes that continued co-operation is needed to foster better regional planning and economic development under "one country, two systems", including better understanding of the respective roles of the Government, non-governmental organisations, the private sector and professional institutions, on how the strengths of Hong Kong and the rest of the PRD Region can best be enhanced for the multi-centred city-region to compete successfully in world markets.

### ***OTHER REGIONS***

- 3.8** The Commission has studied the development plans of other economic regions in the Mainland from the perspective of location, transportation facilities, economic development, availability of skills, technology and supporting facilities and business interests. In addition to the PRD Region, the Commission considers that the Yangtze Delta and Basin Region and the central and western regions offer promising opportunities for business expansion and notes that the private sector is already pursuing such opportunities in those regions.

## ***ROLES OF THE GOVERNMENT, NON-GOVERNMENTAL ORGANISATIONS AND THE PRIVATE SECTOR***

- 3.9** Hong Kong needs to develop a new and better understanding of the importance of its Mainland links. This is true of all sectors in the community including the Government, non-governmental organisations and the private sector.
- 3.10** The private sector should continue to take the lead in capitalising on business opportunities in the Mainland. With its market knowledge, the private sector, rather than the Government, is best placed to seek out business opportunities.
- 3.11** Notwithstanding the above, the Hong Kong SAR Government has a vital role to play in facilitating and supporting the private sector in its business development activities in the Mainland. In this connection, there is a need to regularly review the adequacy of the institutional mechanisms and resources devoted to liaison and collaboration with the Central Government, provincial governments and other relevant Mainland authorities on areas such as infrastructure development, environmental protection and entry and exit procedures.
- 3.12** Quasi-governmental organisations, such as the HKTDC and the Hong Kong Productivity Council, can assist the Government in providing information and services to Hong Kong people regarding their business operations in the Mainland. Also, the role of tertiary institutions in fostering better understanding and co-operation between Hong Kong and the Mainland should not be overlooked.
- 3.13** The Commission believes that efforts should be made to ensure continuous co-ordination between the public and the private sectors and other organisations involved in promoting private-sector initiatives between Hong Kong and the Mainland.

## **THEME 2: ENHANCING COMPETITIVENESS**

- 3.14** Although Hong Kong is regularly rated by independent analysts as amongst the most competitive economies in the world, its position, especially with regard to the costs of doing business, has been under threat and there is no reason for complacency in the future. While Hong Kong's success is closely associated with its links with the Mainland and its quality of life, the Commission believes that over the longer term Hong Kong must continue to improve in six major areas if it is to maintain and enhance its relative competitiveness.

## **HIGHEST QUALITY HUMAN RESOURCES**

- 3.15** World-class human resources are critical if a location wants to enhance its competitiveness. One of the major policy priorities, therefore, is to ensure that Hong Kong people are fully equipped for the knowledge economy of the 21st Century by expanding their access to education and training.
- 3.16** A fundamental overhaul of Hong Kong's education and vocational training system is needed to meet the community's changing needs. This process must take into account the best international practices. This would include providing an education system that stimulates innovative and creative thinking and enhances information technology skills as well as English and Chinese language skills. It is also essential for the Hong Kong community to recognise the importance of life-long learning. The Commission notes that the Government has been implementing a number of major initiatives to improve the quality of education and vocational training and welcomes the Education Commission's review of the education system.
- 3.17** In addition, the financing of education and training needs to be reviewed to ensure that greater personal and organisational incentives are injected into the education and training systems. In the process, opportunities will be created for greater private-sector involvement in education and training. In addition, closer links need to be forged between business and education and training institutions, particularly in terms of collaborative research, co-operative education programmes and the training of entrepreneurs.
- 3.18** It is very important that a set of policies be developed to readily attract highly skilled knowledge workers and other skilled professionals both from the Mainland and overseas. The Commission welcomes the steps which the Government has already taken to attract skilled professionals from the Mainland and overseas and expects this policy to be further developed and broadened to address the likely longer term requirements. However, sound policies alone will not be sufficient to attract these knowledge workers as they are highly sought after and highly mobile. Success both in attracting these workers and retaining locally trained knowledge workers will also require the provision of an attractive overall environment in which to live and work.

## **MOST SUPPORTIVE ENVIRONMENT FOR INNOVATION AND TECHNOLOGY**

- 3.19** The Commission's work has highlighted the importance of improving innovation and the use of technology in the future development of Hong Kong's economy, particularly in broadening its economic base and improving the productivity and competitiveness of various sectors of the economy. To do this, the Commission has identified two issues. First, it is important to continue to protect intellectual property rights to attract new investments from technology-based companies. The

second is to continue to attract and nurture high-calibre talent. For the latter, the Commission believes that a good quality of life, cutting-edge research and easy access to state-of-the-art equipment will play an important role.

## ***BEST PHYSICAL INFRASTRUCTURE***

- 3.20** Although Hong Kong's physical infrastructure is already one of the most advanced in the region, Hong Kong cannot afford to be complacent. In particular, it must develop a strategy to strengthen its position as a transportation hub for the Mainland, in particular the PRD Region, as well as for the rest of Asia. Only then can it effectively leverage this infrastructure to support the development of Hong Kong's economy.
- 3.21** There are three main components for such a strategy. First, as previously noted, Hong Kong needs to accelerate and broaden its physical links with the rest of Southern China and create closer co-ordination with Mainland authorities in a number of key areas concerning future infrastructure planning and development.
- 3.22** Second, Hong Kong needs to continue to facilitate investments in technology infrastructure, such as the development of a state-of-the-art broadband network and expanded satellite connections, in order to establish itself as not only Asia's World City, but also a leading "intelligent city".
- 3.23** Finally, Hong Kong should maximise the use of its limited land, through, for example, the application of innovative urban design concepts, examining the potential contribution that urban renewal can make to competitiveness and to the quality of life and reassessing the allocation of land for industrial and commercial uses.

## ***FREEST AND MOST OPEN ECONOMY***

- 3.24** Hong Kong has consistently been ranked as the freest economy in the world. This is recognition of Hong Kong's success in its continuous effort to uphold a commitment to free enterprise, free trade and free competition as well as fiscal prudence and small government. However, Hong Kong, again, should not be complacent and it must ensure that effective competition continues to be fostered throughout all sectors of the economy. Where necessary, this could be supported by legislation in the individual sectors identified to avoid monopolies or market domination that impact on economic efficiency and hurt the interests of consumers. Areas that require attention include the strengthening of the regulatory framework for key sectors of the economy and further opening of the non-tradable sectors of the economy.

## ***MOST FAVOURABLE BUSINESS ENVIRONMENT***

- 3.25** One of Hong Kong's long-standing sources of competitive advantage has been its friendly business environment. Hong Kong needs to improve its business environment still further in order to retain its distinctiveness and its strong competitive advantage over the long term. As part of this process, Hong Kong needs to improve its cost competitiveness. The key areas requiring attention are labour costs and property costs, which are affected by policies related to long-term land supply and the conversion of land use.

## ***MOST RESPECTED AND EFFECTIVE PUBLIC INSTITUTIONS***

- 3.26** As indicated earlier, Hong Kong has been endowed with a number of valuable fundamental assets, including the rule of law, a clean and efficient administration, freedom of the press and protection of the freedoms and rights of individuals. All of these assets have contributed to Hong Kong's economic success. Hong Kong needs to continue to be vigilant in its efforts to protect and enhance these assets.
- 3.27** While Hong Kong's public institutions are well-respected for their efficiency and effectiveness, the Commission feels that these institutions need to continue to update and upgrade their systems and services in order to continue to be world-class.
- 3.28** In assessing Hong Kong's long-term development, a crucial area requiring attention is the ongoing development of Hong Kong's political system. The Basic Law set out the method for the selection of the Chief Executive and the formation of the Legislative Council up to 2007. The challenge, moving forward, is how to map out a path that can best accommodate the divergent expectations and aspirations of the people of Hong Kong.

## **THEME 3: IMPROVING QUALITY OF LIFE**

- 3.29** The third strategic theme identified by the Commission focuses on enhancing Hong Kong's quality of life and improving the overall living environment. As noted earlier, this covers such issues as housing, the environment, health and welfare and arts and culture. In addition to enhancing the well-being of Hong Kong people, the Commission's analysis suggests that lifestyle issues will become increasingly important in determining whether or not Hong Kong can attract and retain the highly skilled professionals and high value-added businesses it needs to sustain its development in the new economy.

**3.30** In addressing this issue, Hong Kong must be prepared to implement novel, long-term initiatives to improve the quality of life in Hong Kong and adhere to the principles of sustainable development. Hong Kong needs to move quickly to develop its own development strategy in this regard and to draw up measures to communicate that concept and the practices associated with it within the Government and throughout the community. The Commission welcomes the Government's initiatives to undertake the study on Sustainable Development in Hong Kong for the 21st Century, establish the Sustainable Development Council and create a fund to support education programmes focused on such development.

## ***HOUSING***

**3.31** In addressing this area, a key issue - both in the short and long term - is the need to provide adequate land for development when needed. However, rapid development in the past has put tremendous pressure on Hong Kong's environment and one of the major challenges over the next generation, therefore will be to increase land supply without further compromising the natural environment. Given this context, the Commission believes that urban renewal will play an increasingly important role both as a source of land supply and as a means of upgrading urban areas.

**3.32** A second major issue is to define clearly the respective roles of the public and private sectors in the land development and housing arena. The Commission believes that this is an area where the emphasis should be on encouraging the private sector to take a bigger role and to encourage greater home ownership. The Government will continue to have a responsibility to ensure that those in need are provided with adequate housing but this responsibility can be met with increased private-sector participation.

**3.33** In recent years, an increasing number of Hong Kong people have chosen to live in elsewhere in the PRD Region where they can live comfortably at costs that are lower than Hong Kong. The Commission is of the view that this trend will help to reduce some of the pressure for development in Hong Kong. Consideration should be given to facilitating cross-boundary flows for these people by upgrading the physical infrastructure that links Hong Kong with the rest of the PRD Region and by simplifying entry and exit procedures. The Commission believes that the possibility of providing education and community facilities in other parts of the PRD Region to serve those Hong Kong people should also be reviewed for the longer term.

## ***ENVIRONMENT***

**3.34** As noted above, Hong Kong should attach a top priority to developing and implementing policies to improve the state of the environment. The Government has already embarked on a number of

initiatives such as the implementation of the Environmental Impact Assessment Ordinance, the trial scheme for LPG-powered taxis and the implementation of the ten-year Waste Reduction Framework Plan. Other areas requiring attention include:

- (a) improvements in energy efficiency;
- (b) waste management and waste recycling;
- (c) regulation of the number of vehicles to support efforts to address vehicle emissions, noise pollution, urban planning and conservation;
- (d) conservation of Hong Kong's natural resources and wildlife habitats;
- (e) innovative planning and design to provide a more attractive and environmentally friendly city-form; and
- (f) preservation of buildings, precincts and other features of historical and architectural significance.

**3.35** The Government will also need to carry out public information programmes to promote community awareness of, and commitment to, the measures needed to improve the environment. The Commission welcomes the Government's commitments in this area as set out in the Chief Executive's 1999 Policy Address and the important foundation for the long term that they provide.

## ***HEALTH AND WELFARE***

**3.36** One of the main challenges that Hong Kong will need to address in the coming years is the rising demand for health and welfare support, especially from the disadvantaged and the vulnerable and from the growing number of elderly people. These expectations will continue to rise as Hong Kong becomes more and more affluent.

**3.37** Regarding health care services, there are a number of areas that will require attention, including:

- (a) the role of preventive and primary care can be further enhanced for health gains and reductions in overall medical costs;
- (b) the interface between the public and private sectors should be improved through better collaboration and greater use of information technology to ensure continuity of care and optimal utilisation of the resources in the private sector;

- (c) the financing sources for the health care system should be broadened to ensure the long-term financial sustainability of the system;
- (d) greater support should be given to the practice, education and research of Chinese medicine to enhance its efficacy and public confidence in Chinese medicine and to develop Hong Kong into a centre for Chinese medicine; and
- (e) more studies should be carried out on the long-term care needs of the increasingly elderly population and on how these needs can best be met.

**3.38** In relation to social services and welfare, there is a need to explore the development of service industries which will provide employment opportunities for the segment of the community which does not have the educational background and skills needed by knowledge-based industries. While life-long learning and retraining programmes will continuously prepare and upgrade the workforce, changes in technology and community needs will only increase the challenge for workers who do not have the skills to meet those needs.

**3.39** As life expectancy improves and the population ages, there will be comparable improvements in the health of the elderly. There may be a need to review retirement practices to ensure that we maintain a similar proportion of individuals in the productive workforce. Flexible retirement programmes should be explored. Individual planning for retirement should be a priority. Income security in old age should be based on several pillars, including savings and assets, income derived from the Mandatory Provident Fund and by voluntary and private retirement schemes. The Comprehensive Social Security Assistance (CSSA) Scheme will provide the safety net targeted at those who have no other source of income to meet their basic needs.

## ***ARTS AND CULTURE***

**3.40** Arts and culture will play a very influential role in the 21st Century in making cities attractive places in which to live and work as well as to visit. Hong Kong needs to develop and implement a long-term strategy that will ensure that arts and culture can contribute to Hong Kong's ongoing development agenda. This process will require commitment of and partnership between, the public and private sectors and organisations and individuals from throughout the community. It will also require preserving the virtues of Chinese culture, values and history while at the same time integrating the knowledge and experiences of both China and the West.

## THEME 4: REINFORCING IDENTITY AND IMAGE

**3.41** The final strategic theme is intended to reinforce the identity of the people of Hong Kong and promote a positive image of Hong Kong to external audiences. A stronger sense of identity on the part of the people of Hong Kong will create a greater sense of community commitment to Hong Kong's future. That identity should consider pride in the Chinese heritage of the people of Hong Kong and a recognition that a global outlook remains a major strength of this community. In addition, Hong Kong needs to promote its unique position as one of the most cosmopolitan and vibrant cities in Asia to a wide range of international audiences. A successful external promotion programme can have a significant positive impact on Hong Kong's ability to achieve a number of key economic, social and cultural objectives.

### **PROMOTING A SENSE OF COMMITMENT AND BELONGING**

**3.42** Efforts should also be addressed at creating within the people of Hong Kong a greater sense of commitment and belonging and with it, a greater commitment to the achievement of a common vision for Hong Kong's future. This requires community-wide support on Hong Kong's core values and a willingness to accept the diversity in cultures, religions and opinions found in all pluralistic societies. It also requires respect for freedoms and rights which are essential for the development of greater civic pride.

### **MARKETING HONG KONG**

**3.43** Hong Kong needs to proactively and strategically promote its vision and its unique assets to key Mainland and international audiences including, among others, current and potential investors, trading partners and visitors. Major components of such a programme would include:

- (a) the development of a clear overall image for Hong Kong based around a vision that communicates the attractiveness and distinctiveness of Hong Kong and Hong Kong's programmes to realise that vision; and
- (b) establishing a mechanism to ensure that all public agencies deliver a consistent external message, especially those with an international orientation such as the Information Services Department, Overseas Economic and Trade Offices, HKTDC and the Hong Kong Tourist Association, as well as other quasi-governmental organisations. This will require an "umbrella" strategy for promotion,

and the development of processes to ensure ongoing collaboration and communication between all of the relevant organisations and agencies.

## SECTOR AND AREA INITIATIVES

- 3.44** As noted earlier in this document, the Commission has also identified a number of key sectors and areas and various related initiatives that are needed to support the Commission's strategic themes and to help realise Hong Kong's long-term vision. Specific thoughts on the development of these sectors and areas are provided below.

### ***FINANCIAL AND BUSINESS SERVICES***

- 3.45** For Hong Kong to become a truly global financial and business services centre, the Commission believes that it needs to:
- (a) continue to strengthen the existing world-class financial and business services regulatory and technology framework;
  - (b) continue to promote the development of new financial products and services; and
  - (c) ensure that the existing institutional infrastructure is compatible with the development of the region's leading financial centre.
- 3.46** While Hong Kong possesses the advantage of proximity to the Mainland market and to the abundant business opportunities to be found there, if Hong Kong is to strengthen its role as an international financial centre, the support of the Central Government will be essential. The Hong Kong SAR Government should request support from the Central Government for such actions as moving the Mainland's foreign exchange dealings that presently take place in various overseas markets to the Hong Kong market and using Hong Kong as the major market of transaction. Hong Kong should also examine ways to enhance the level of bilateral co-operation with Shanghai in order to facilitate the continued financial development of both cities. Furthermore, China's entry into the WTO should mark the beginning of a gradual liberalisation of the Mainland's financial market and the deepening of SOE reform. These steps can support the development of financial and business services if Hong Kong firms are quick to seize advantage.

## **MNC REGIONAL HEADQUARTERS**

**3.47**

To continue to be an attractive MNC regional headquarters location, Hong Kong should:

- (a) review and assess how leading global companies perceive Hong Kong as a location for their regional headquarters;
- (b) strengthen the means by which Hong Kong attracts potential inward investors by adopting international best practices and developing and implementing a targeted strategy to attract and retain the Asia-Pacific headquarters of leading global companies;
- (c) use its close links with the Mainland to market Hong Kong more effectively to prospective inward investors and to simultaneously target major Mainland companies, particularly technology firms, as potential candidates for the establishment of their international headquarters in Hong Kong; and
- (d) ensure that successful local start-up companies will keep their headquarters in Hong Kong.

**3.48**

We note that the Government has commissioned a detailed study of Hong Kong's inward investment promotion programme and this has included a review of actions Hong Kong should take to maintain its position as a base for regional headquarters.

## **TOURISM**

**3.49**

Further development of Hong Kong's tourism industry is also required to establish Hong Kong as Asia's World City. Hong Kong's existing strategy needs to be reviewed in the light of the effects of the Asian financial crisis and the opportunities arising from China's resumption of sovereignty over Hong Kong. In particular, Hong Kong needs to:

- (a) expand its range of tourist attractions, services and products (the Disney theme park and the heritage trails are good examples of recent initiatives);
- (b) focus on the longer term opportunities for collaboration with the Mainland and other regional destinations;
- (c) promote indigenous arts and culture as well as Hong Kong's natural scenic beauty; and

- (d) assess and respond to the likely implications of a very substantial increase in the number of Mainland tourists to Hong Kong over the next 30 years, particularly in terms of hard infrastructure requirements such as the boundary crossings and soft infrastructure requirements such as the proficiency in Putonghua of the tourism industry workforce.

## ***INFORMATION SERVICES AND TELECOMMUNICATIONS***

- 3.50** To develop as an information services hub, Hong Kong should explore opportunities to develop capabilities in such areas as electronic publishing, e-education, multimedia, the provision of news and business information and computer software development. As a priority, therefore, Hong Kong needs to continue to attract major flagship projects and investments, which will give it critical mass and clusters to support its role in accelerating the information revolution. Hong Kong should continue to encourage the development of information service businesses and to promote greater competition in telecommunications.
- 3.51** To provide an outstandingly attractive business environment, Hong Kong needs to continue to offer high-quality and low-cost telecommunications services. Consideration should be given to developing Hong Kong as a centre for a wide range of value-added telecommunications services by attracting the world's leading players in the communications and media sectors. The presence of these firms will support the expansion of this important sector in Hong Kong.

## ***INNOVATION AND TECHNOLOGY***

- 3.52** The Commission recognises innovation and technology as a key to Hong Kong's future development. As mentioned above, the Commission on Innovation and Technology has reviewed Hong Kong's potential role as an innovation and technology centre to serve Southern China and other locations in the region. In its Final Report issued in June 1999, that Commission recommended a number of initiatives for the promotion of innovation and the upgrading of existing technology. However, the key factors for successful implementation of these recommendations, as that Commission noted, are a holistic and coherent approach to implementing its recommendations, backed by clear and sustained commitment at all levels of the Government and the acceptance and active support of these plans by industry, academia and the community-at-large.
- 3.53** Hong Kong should continue to make advances in information technology, including but not limited to multimedia, the Internet and software development.

- 3.54** The development of a Chinese medicine-based industry may have great potential. As such, this initiative could benefit from close collaboration between Hong Kong and the Mainland.
- 3.55** In addition, Hong Kong should explore opportunities on other frontiers of scientific knowledge, for example, biotechnology, microelectronics, microelectromechanical systems (MEMS), new materials, energy, the ocean and the environment, all of which offer the potential to drive Hong Kong's future economic growth.

### ***TRADE, TRANSPORTATION AND LOGISTICS***

- 3.56** As one of the world's major trading entities, Hong Kong must retain and build upon this pillar of its economy by exploring new trade opportunities in the Mainland and in other emerging markets and by developing trade-related services, such as logistics, legal and accounting support. At the same time, Hong Kong must fully embrace the likely long-term trends in e-commerce by rapidly developing a suitable infrastructure, the necessary skills and the required legislative and institutional framework to support e-commerce expansion.
- 3.57** Hong Kong has the opportunity to build on the strength of its transportation infrastructure by developing its role as a regional logistics centre. For example, Hong Kong can attract the world's leading logistics businesses to establish local hub operations. It can also provide more efficient and cost-effective transportation links with the Mainland, particularly with other locations in the PRD Region. The Airport Authority's proposal to establish a marine cargo terminal and a logistics management centre at the airport are important initial steps in this direction.
- 3.58** To establish Hong Kong as an international aviation hub, continued negotiation with new aviation partners will be required. Existing regulatory and other operational arrangements will also need to be updated to meet changing market demands. Specifically, Hong Kong will need to progressively liberalise its air services in order to build up its hub functions, while enhancing the quality and the competitiveness of the airport.
- 3.59** The Commission recognises Hong Kong's traditional strength in shipping, and it endorses initiatives the Government has introduced to promote Hong Kong as an international shipping centre. These include improving and promoting Hong Kong's Shipping Register, promoting a hull insurance market and strengthening shipping links with the Mainland.

## ***CREATIVE AND CULTURAL ACTIVITIES***

**3.60** Hong Kong can boost its competitiveness and enhance its quality of life by strengthening its creative and cultural activities. This has two potential benefits: it contributes directly to Hong Kong's gross domestic product and it also helps to enhance the attractiveness of Hong Kong's living environment. With a growing global demand for cultural goods and services, the creative sector also has the potential to become an important and fast-growing part of the Hong Kong economy. While Hong Kong already has strong film, television, music, other entertainment and design industries, measures should also be taken to promote indigenous culture and nurture artistic creativity especially amongst Hong Kong's young people. More resources will be required to develop arts education programmes and additional educational facilities. More innovative means will be needed to provide incentives for young people to pursue careers in creative and cultural activities. Efforts should continue to strengthen public access to diverse and affordable cultural activities. The Government should continue to strictly enforce intellectual property rights for this and other industries.

## **4 IMPLEMENTING THE VISION**

### **PROGRESS ON THE POLICY FRONT**

- 4.1** The Commission has identified many areas where actions are required to enable Hong Kong to realise its long-term vision over the next 30 years. During the Commission's tenure, the Government has already acted on many of these issues and has launched a number of policy initiatives which complement or build on the direction of the strategic framework introduced in this document.
- 4.2** The Commission recognises that steps are being carried out to support both short and long-term development priorities. It also recognises that policy reviews in all major areas need to take place on a regular basis to identify and address any gaps that may still exist. These reviews will ensure that Hong Kong is prepared for future challenges.

### **COMMUNITY SUPPORT IS ESSENTIAL FOR POLICY IMPLEMENTATION**

- 4.3** The Commission believes that its work should be taken forward in two ways. First, it is vital to share with the community the Commission's thinking on the strategic framework for realising Hong Kong's long-term vision so as to encourage healthy discussion in the community.
- 4.4** Second, the Commission's overall thinking now needs to be turned into a programme of actions. As the next step of this exercise, the Commission believes that policy bureaux should undertake a review of existing policies and plans to find out to what extent these are consistent with Hong Kong's long-term vision and the recommended strategic framework and then to map out the necessary programme of actions. There are a number of examples where such action programmes are already underway, such as conducting a detailed study of Hong Kong's inward investment promotion programme, the adoption of measures to facilitate the attraction of skilled knowledge workers from outside Hong Kong and programmes to enhance English-language skills in the workplace. However, the Commission believes that a range of actions will need to be undertaken in other areas addressed in this overview as well.

## ROLES AND RESPONSIBILITIES

- 4.5 Developing a programme of actions to realise Hong Kong's long-term vision will require contributions from all parts of the community.
- 4.6 The Government should assume the key role of managing, overseeing and co-ordinating implementation. Individual policy bureaux will need to take the lead in long-term policy review and formulation and resource management in their respective areas of responsibility.
- 4.7 Responsibility, however, does not rest only with the Government. Other public institutions, the private sector and individuals in the Hong Kong community all have an important part to play if Hong Kong is to realise its long-term vision.

## THE COMMISSION'S PROGNOSIS FOR HONG KONG

- 4.8 The composition of the Commission on Strategic Development includes representatives from a number of key sectors within the community. The perspectives expressed by these Members were also supplemented by a large number of interviews with other leaders in Hong Kong. As such, the Commission was able to base its counsel on the views of many of Hong Kong's stakeholders.
- 4.9 The involvement of the Chief Executive, both as Chairman of this Commission and as the primary target for the Commission's advice, is also critical to ensuring that the work of the Commission is relevant and complementary to the overall Government planning process.
- 4.10 The research and studies that have taken place as part of the Commission's work during the past two years have ensured that the counsel provided by the Commission to the Chief Executive has been based on a detailed and current analysis of the rapidly changing and highly competitive environment in which Hong Kong must operate both short and long-term. The Commission believes that Hong Kong approaches its long-term development from a position of strength. As such, the Commission remains very optimistic that the Hong Kong that will evolve within the next 30 years will indeed be Asia's World City as well as a major city in China.

## **APPENDIX A**

### **COMMISSION'S TERMS OF REFERENCE**

The Commission's terms of reference are:

- to advise the Chief Executive on Hong Kong's long-term development needs and goals; and
- to conduct reviews and studies of Hong Kong's economy, human resources, education, housing, land supply, environmental protection and relations with the Mainland of China to ensure that Hong Kong's resources are well-used, that Hong Kong keeps up with world trends in competitive terms and that the vitality of Hong Kong's economic development is maintained.

## **APPENDIX B**

### **MEMBERSHIP OF THE COMMISSION**

#### **Chairman**

The Chief Executive, the Honourable TUNG Chee Hwa

#### **Members**

The Chief Secretary for Administration, the Honourable Mrs Anson CHAN, GBM, JP

The Financial Secretary, the Honourable Donald TSANG Yam-kuen, JP

The Honourable LEUNG Chun-ying, GBS, JP (since 20 August 1999)

Dr the Honourable Sze-yuen CHUNG, GBM, JP (until 31 January 2000)

Professor Chia-wei WOO

Mr Peter WONG Hong-yuen, GBS, JP

Mr CHENG Yiu-tong, SBS, JP

Professor LIU Pak-wai, SBS

Mr Allen LEE Peng-fei, JP (since 2 June 1998)

Dr York LIAO, JP

Mr David Gordon ELDON (since 1 June 1999)

Dr Victor FUNG Kwok-king, CBE

Mr Victor LI Tzar-kuoi

Mr LIU Jinbao

Sir Gordon WU Ying-sheung, KCMG

Mr Peter SUTCH, CBE (until 30 May 1999)

#### **Secretary**

Miss Nancy LAW Tak-yin, JP

## **APPENDIX C**

### **COMMISSION'S CONSULTANTS**

PricewaterhouseCoopers Consultants Hong Kong Limited

School of Business, the University of Hong Kong

Study Group on "Economic Development in the Mainland and the Relationship with Economic Development in Hong Kong", Academy for Macroeconomic Research, State Development Planning Commission, Central People's Government

## APPENDIX D

### LIST OF INTERVIEWEES

#### COMMISSION ON STRATEGIC DEVELOPMENT

The Hon TUNG Chee Hwa  
The Hon Donald TSANG Yam-kuen, JP  
Dr the Hon Sze-yuen CHUNG, GBM, JP  
Prof Chia-wei WOO  
Mr CHENG Yiu-tong, SBS, JP  
Mr Allen LEE Peng-fei, JP  
Dr York LIAO, JP  
Mr Peter WONG Hong-yuen, GBS, JP  
Dr Victor FUNG Kwok-king, CBE  
Mr Victor LI Tzar-kuoi  
Mr LIU Jinbao\*  
Prof LIU Pak-wai, SBS  
Mr Peter SUTCH, CBE  
Sir Gordon WU Ying-sheung, KCMG

#### EXECUTIVE COUNCIL

The Hon YANG Ti-liang, GBM, JP  
The Hon LEUNG Chun-ying, GBS, JP  
The Hon Mrs Nellie FONG WONG Kut-man, GBS, JP  
Dr the Hon Rosanna WONG Yick-ming, JP  
Dr the Hon Raymond CH'EN Kuo-fung, GBS, JP  
The Hon Charles LEE Yeh-kwong, JP  
The Hon Antony LEUNG Kam-chung, GBS, JP  
The Hon CHUNG Shui-ming, JP

#### LEGISLATIVE COUNCIL

The Hon Mrs Rita FAN, GBS, JP  
The Hon Ronald ARCALLI, JP  
The Hon Bernard CHAN  
The Hon CHAN Kwok-keung  
The Hon CHAN Wing-chan  
The Hon CHAN Yuen-han  
The Hon Gary CHENG Kai-nam, JP  
The Hon Cyd HO Sau-lan  
The Hon Edward HO Sing-tin, JP  
Dr the Hon Raymond HO Chung-tai, JP  
The Hon Emily LAU Wai-hing, JP  
The Hon LEE Cheuk-yan  
The Hon LEE Kai-ming, SBS, JP  
Dr the Hon LEONG Che-hung, JP  
The Hon Mrs Sophie LEUNG LAU Yau-fun, JP  
The Hon Christine LOH\*  
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\* Not interviewed but has provided written comments.

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Prof YEUNG Yue-man, OBE, JP	Department of Geography

### *City University of Hong Kong*

Dr Anthony CHEUNG Bing-leung, JP	Head, Department of Public and Social Administration
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### *Hong Kong Polytechnic University*

Dr Thomas CHAN Man-hung	Associate Professor, Department of Business Studies
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### *Hong Kong University of Science and Technology*

Prof Francis LUI Ting-ming	Director, Centre for Economic Development, School of Business Management
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### *University of Hong Kong*

Prof Nelson CHOW, MBE, JP	Department of Social Work and Social Administration
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## APPENDIX E

### ABBREVIATIONS

Abbreviations used in this document have the following meanings:

CSSA	Comprehensive Social Security Assistance
GDP	gross domestic product
HKTDC	Hong Kong Trade Development Council
LPG	liquefied petroleum gas
MNC	multinational corporation
MEMS	microelectromechanical system
OECD	Organisation for Economic Co-operation and Development
PRD	Pearl River Delta
SAR	Special Administrative Region
SOE	state-owned enterprise
WTO	World Trade Organisation



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