

Remarks by Helen Lindsay Peterson
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Thank you, Johnson, for your kind introduction.

It is a great pleasure for me to be in Hawaii and I thank the Hong Kong China Hawaii Chamber of Commerce and the co-sponsors, the Hawaii Technology Trade Association, The Office of Economic Development, City and County of Honolulu, the Hawaii Technology Development Corporation, the US Department of Commerce in Honolulu, the Hawaii Department of Business, Economic Development and Tourism and the Chamber of Commerce of Hawaii for inviting me to address this gathering.

Today, I would like to talk with you about how China's entry into WTO will contribute to our own economic development and attraction as an investment destination, provide ideas for investment opportunities in Hong Kong – particularly in the technology-related sectors and, briefly explain Invest Hong Kong and how we can help companies like yours. Before I elaborate on Hong Kong and China's accession to the WTO, however, I would like to say a few words about our existing links with the Mainland.

Hong Kong and China Today

The Hong Kong of today is a far cry from the former manufacturing based economy of the “Made in Hong Kong” era. Hong Kong has long since relocated its manufacturing base to the nearby Pearl River Delta in Mainland China, where Hong Kong companies now employ five million people. Our activities are not limited to the Pearl River Delta alone for Hong Kong has 120,000 enterprises with interests operating throughout the Mainland. We are – and been for a long time – the largest external investor in the Chinese Mainland, accounting for about 49% of the US\$170 billion in cumulative direct foreign investment. Our investments are spread throughout the country but primarily in the Guangdong, Shanghai and Beijing regions. The Chinese Government has recognised Hong Kong's contribution to the development of the Mainland's economy through their proposal that Hong Kong assist with the development of China's vast Western Region.

The Hong Kong of today is a service-based economy rapidly making the transition to a knowledge-based economy. Only Japan exports more services in Asia than we do. Our FDI for the year 2000 places us in the number two spot in the world, with US\$64.4 billion, an increase of a staggering US\$40 billion over 1999.

One of our strengths is in the number of multinational corporations that have a regional presence in Hong Kong either through an Asia Pacific Regional Headquarters or Regional Office. According to our annual survey, the number of Regional Headquarters and Regional Offices increased by almost 8% to an all time high of 3,237 companies as at the 1st June last year. Over 80% the Regional Headquarters and Regional Offices use Hong Kong as a base for their company's China operations. The US has the largest number of RHQs and the second largest number of Regional Offices.

We have a vision of becoming “Asia's World City” and had a very busy year last year on the international stage. Hong Kong hosted the prestigious FORTUNE Global Forum in May, which brought top-level business executives together from around the world. And in October we hosted the World Economic

Forum's East Asian Economic Summit, the Asian Davos. Our role in such activities is always underpinned by our business and economic relationships with the Mainland and with other economies in the Asia Pacific region and the rest of the world.

China and WTO

The latest official statistics predict China's economic growth for 2001 will be around 7% and similar growth is forecast for 2002. In these globally challenging economic times, it is not surprising that investors are targeting China and its entry into the World Trade Organisation.

China's WTO accession is not only a major milestone in the Mainland's economic development but will have a great impact on Hong Kong's business and trade as well as the rest of the Asia Pacific region. China opened up her economy in the early 1980s and 1990s but this was limited to certain geographic areas and economic sectors. As a result, international enterprises had to rely heavily on Hong Kong's established financial, trading and shipping systems to support their China operations. This was the basis for the extensive development of Hong Kong's position as the "Gateway to China" as other functions were developed in Hong Kong for the Mainland market.

In a nutshell, China's entry into the WTO, will further open and liberalise Mainland markets. Tariffs will come down and business opportunities will increase. Under the Sino-EU Agreement on China's Accession to the WTO, European countries have secured a reduction in tariffs to an average of 10.9% for 150 specific products, varying from gin to building materials. These reductions are in addition to those already covered by China's previous bilateral agreements and apply to all. Similar gains have been secured for the agricultural sector.

Restrictions on domestic sales by foreign manufacturing companies (including Hong Kong companies) will be lifted. Additionally foreign companies will be permitted to engage in the full range of distribution services over a three year phased-in period. A World Bank estimate states that the growth in China's share of world imports will jump from 3.4% in 1999 to 7.2% by 2005.

And Goldman Sachs believes that China's attraction of Foreign Direct Investment (FDI) will more than double from US\$40 billion to US\$100 billion by 2005.

One of the big changes will see wholly-owned ownership and majority ownership by foreign companies in most industries over a three to six year period.

The service sector is also a big winner with widespread liberalisation of the China market. The changes are numerous, but to name a few, the mobile telephone market will be opened up two years ahead of schedule and insurance brokers will have access to the Chinese market through local establishments for the first time. China has given specific commitments to phasing out legislation that gives unfair advantages to domestic producers in the areas of pharmaceutical pricing, after sales services of imported goods and chemical import registration requirements. The Central Government has also agreed to full transparency and non-discrimination in government purchases.

The list goes on.

Impact of China's WTO entry

China's recent accession to the World Trade Organisation means that we must further strengthen co-operation to achieve a 'win-win' situation for both Hong Kong and the Mainland. This is a key aspect of

consolidating and enhancing Hong Kong's position as an international centre for finance, trade, transport and logistics, as well as a premier tourism destination. We provide a range of special services infrastructure and a fully convertible currency. No other city on the Mainland will be able to overtake this position for many years to come.

Hong Kong is developing and expanding the transport, economic and political infrastructure to consolidate her strengths. This not only involves encouraging and facilitating closer business links between private sector partners, it also involves working closely with our government counterparts in Guangdong Province to map out strategies to deal with cross-boundary flows of people, cargo and vehicles. The task we face is to establish a framework of arrangements that facilitates seamless interaction within "One Country" while not in any way compromising the high degree of autonomy we enjoy under "Two Systems".

How can Hawaiian companies benefit from all this?

I believe Hong Kong has a unique combination of strengths which makes it a superb partner for Hawaiian firms eager to do business with China.

Hong Kong has state-of-the-art telecommunications services that can be readily transferred to the Mainland. Moreover, with the amount of fibre optic cable, including broadband connections to the Mainland, and satellite circuits that have been made available in Hong Kong, we are wired to just about every major city in the world. All this capacity permits Hong Kong to add to her traditional role as the Gateway to China for telecommunications traffic to and from the Mainland. Due to high capacity broadband connections, value added services will definitely be a growth area for this industry sector.

Mobile and wireless technology are second to none in Hong Kong. Considering China's vast distances and scattered population mobile and wireless services will definitely boom. Hong Kong's advanced expertise in mobile telecommunications networks and services and strengths in wireless and satellite technologies offer many opportunities for joint cooperation in the Mainland. Most Hong Kong companies in this area are already providing consultancy services and technical support to Mainland companies.

Internet, e-commerce and IT services are another potential area for growth. Not only are these services currently strongly established in Hong Kong, they are available in both English and Chinese. This places Hong Kong in a unique position to provide Internet, e-commerce and IT applications, content and delivery services to the Mainland due to our existing business capabilities as well as our strong cultural and linguistic links. Additionally we can do this both ways. Not only can we work with Hawaiian companies interested in the China market, we can also work with Chinese companies interested in international markets as well. Hong Kong firms have already been active in many and various Internet-related and ASP projects in Mainland China. Our companies have also already invested in Mainland companies that provide e-commerce services.

On the content side, Hong Kong's well established reputation as a leading film centre in Asia and longstanding infrastructure provides opportunities to joint venture with Hong Kong companies to develop and produce multimedia and film content which is linguistically and culturally appealing across China, not to mention the Asia Pacific region.

In a more general sense Hong Kong can capitalise on her strengths in marketing, logistics and trading to help Hawaiian partners be successful in the Mainland market. Hong Kong is the leading marketing location in the Asia Pacific region. Thirty-six percent of Hong Kong companies have created their own brands and more than 60% benefit from original design manufacturing (ODM). In terms of logistics, we have the world's busiest container port and the world's busiest airport for air cargo. In keeping with the "One Country Two

Systems” agreement with the Mainland, Hong Kong is a completely autonomous and separate customs territory which enables both international and Chinese companies to benefit from two-way trade. We clear import/export declarations in 30 minutes and fully loaded container lorries enter into Hong Kong at the speed of one per minute. Our banks are open five and a half days a week and clear letters of credit within 24 hours. And most importantly, all of our logistics and trading arrangements are fully integrated to ensure speed and reliability.

Services in the Mainland are expected to grow exponentially. Currently less than 40% of China’s GDP is in services while for Hong Kong’s GDP, services account for 85%. Due to having the same Chinese cultural background, not to mention an excellent service infrastructure, Hong Kong is in a very strong position to benefit from the growth to fill this gap.

Moreover you may recall that earlier I mentioned Hong Kong’s dominant position in the Pearl River Delta. The Delta is the most prosperous region in China with a combined population of 47 million people. In five to 10 years the Pearl River Delta will be a major consumer market and the signs are already there.

In the past 20 years, since China opened up to the outside world, Hong Kong has gone from handling 6% of the Mainland’s exports to handling 35%. As a result, Hong Kong has unrivalled knowledge about what to do in China.

With China’s entry into the WTO, Hong Kong stands on the threshold of another great opportunity in its remarkable history. We are well placed to play a vital role in the growing Mainland market.

Hong Kong-China Free Trade Agreement

Another recent development, related to China’s accession to the WTO, is the announcement by the Mainland and Hong Kong Governments that they are discussing a Free Trade Agreement. The agreement would be used to guide closer economic integration between Hong Kong and China, in compliance with WTO rules.

For Hong Kong-based companies, including small and medium-sized enterprises, this agreement presents the opportunity to ensure that they can benefit from WTO reforms on the Mainland. For example, an FTA may secure early liberalization of some key sectors covered under WTO as well as accelerated reduction of tariff and non-tariff barriers.

With an FTA, the opening up of the Mainland's service sectors such as trading and logistics, retail, distribution, telecommunications, finance, professional services, and travel and tourism could provide even more substantial business opportunities for Hong Kong.

Appeal to technology companies

Let me now turn to what we have been doing to develop a technology infrastructure to attract companies like yours to Hong Kong.

In his first annual Policy Address in 1997, the Chief Executive of the Hong Kong Special Administrative Region set out the ambitious objective to make Hong Kong a leader in the information world. The Information Technology and Broadcasting Bureau was set up in April 1998 to realise this vision.

Then, in November of that year, the Government announced the first Digital 21 IT Strategy. The aim was to build capabilities and infrastructure to support a thriving information economy, and to create a strong

foundation for growth in the use of IT. Today, Hong Kong has become one of the most advanced digital cities in the Asia Pacific with one of the best IT and telecommunications infrastructures in the world.

But technological advances call for new policies and initiatives. Building on Hong Kong's success in establishing a solid foundation for the use of IT, the objective of the 2001 Digital 21 Strategy is to position Hong Kong as a leading e-business community and digital city in the globally connected world.

Key objectives include:

- To enhance the world-class e-business environment in Hong Kong.
- To complete the liberalisation of our telecommunications market by the end of 2002.
- To develop Hong Kong's workforce for the information economy. It is essential to ensure the provision of a skilled and competent IT workforce to sustain the development of Hong Kong in the information age.
- To leverage Hong Kong's strengths in the exploitation of enabling technologies. Hong Kong has long been recognised internationally for our achievements in commercialising new technology applications. We will continue to build on these advantages.

For example, we have developed a flagship IT project, the Cyberport, at a 24-hectare site along the southwest coast of Hong Kong Island. The aim is to create a strategic cluster of IT, telecommunications and multimedia companies specialising in applications, services and content creation.

Additional infrastructure has been created through the establishment of the Hong Kong Science and Technology Parks Corporation, and more specifically, the Hong Kong Science Park. The Corporation offers a one-stop and comprehensive range of services, from providing premises and services for R&D activities and nurturing technology start-ups through an incubation programme, to offering land and premises in the industrial estates for production.

Both Cyberport and Science Park will begin operation this year.

We also recognise that we need to augment Hong Kong's intellectual talent base, including the attraction of talent from abroad, especially the Mainland. The Hong Kong Government has introduced several new schemes to attract people from the Mainland with expertise and skills not readily available in Hong Kong. At the same time, Mainland enterprises are holding job fairs in Hong Kong to attract qualified Hong Kong professionals to the Mainland.

We are strengthening Hong Kong's capabilities to develop and apply technology for innovative commercial use through the US\$640 million Innovation and Technology Fund which was set up in 1999. The Fund finances applied research and other support projects that contribute to innovation and the technological upgrading of our economy. As part of this effort, the Hong Kong Applied Science and Technology Research Institute (ASTRI) has been established. We have built up an effective network to link ASTRI and our universities with companies and industries to facilitate the transfer and commercialisation of R&D results.

And all this is in addition to the excellent R&D and commercialisation that is already coming out of our universities.

So let's talk about specific opportunities for Hawaiian companies in Hong Kong.

In telecommunications, new licenses for fixed line services will be issued this year with operations starting in 2003. After this event, telecommunications in Hong Kong will have been completely liberalised. Other opportunities include licensing for new Mobile Virtual Network Operators (MVNOs) which are enhanced by the open network access requirement for 3G network licensees. We will continue to have opportunities for non-exclusive licenses for various telecommunications, Internet and value-added services. Finally the wireless LAN, which has not yet really been exploited in Hong Kong, provides potential opportunities for new market players.

As previously mentioned, IT has taken off in Hong Kong and provides opportunities in the following areas:

---- e-government, B2B e commerce, m-commerce and IT applications such as CRM and SCM.

--- Customisation of software for the Chinese market and development of Chinese applications is another very fertile area, especially with our bilingual population.

--- Hong Kong is also an excellent location for market testing new services and commercialisation of technologies and can serve as the launching pad for such products and services into both the Asia Pacific and Mainland markets.

Media and multimedia have taken off in Hong Kong, especially in the past year. Thus far two Hong Kong based companies have been given the rights to broadcast through cable networks into Guangdong Province. Production for these networks is all being done in Hong Kong. And we will have more to come.

Satellite broadcasting operations, content creation and digital production for broadcasting and multimedia present further opportunities as well. We have no restrictions on the number of Pay TV licenses and the provision of Digital Terrestrial Broadcasting licenses will bring three new opportunities: multiplex services, TV programme content provision and non-programme associated data services.

Our in-house technology group is focusing primarily on electronics and biomedical. For electronics, we have an increasing number of companies coming to Hong Kong to take advantage our strengths as a regional sourcing hub to sell or source critical components. These companies are also using Hong Kong as a base to control their manufacturing activities in Asia. Since Hong Kong is functioning as a command and control centre, such companies are also setting up applications and design centres to tap into local engineering talent and to support customers in the region.

Hong Kong's biomedical strengths lies in acting as a centre for commercialisation of biotechnology drugs and Traditional Chinese Medicine botanicals leveraging on Hong Kong's geographic location, proximity to and affinity with the Mainland, our intellectual property protection, not to mention rule of law, our capital markets and marketing capabilities. Other possibilities include using Hong Kong as a regional services and control centre for clinical trials and as a regional high tech healthcare centre.

The decision by Disneyland to set up a theme park in Hong Kong was certainly a catalyst to promote the further development of tourism in areas such as hotel development and management, catering and entertainment. Other factors that have increased the level of interest in tourism investment in Hong Kong are the abolition of the quota system and the increase in the number of "Hong Kong Tour" mainland travel agencies and the extension of the multiple-entry business visa validity period for Mainland visitors to Hong Kong. It is estimated that Hong Kong will have an additional 300,000 inbound visitors from the Mainland from this month forward. This is over and above our 13 million annual arrivals, 30% of whom are already from the Mainland.

Theme parks have good potential. Although Disneyland will obviously be the largest, there is room for other types of theme parks to successfully operate in Hong Kong. Themed restaurants are another potential area considering their attraction for Hong Kong people and tourists alike.

Cruises have become very popular and Hong Kong is serving as a base for cruise lines. Since currently have some capacity constraints there are plans to build a new cruise terminal which we expect will be located in the West Kowloon area, currently undergoing reclamation.

Role of InvestHK

Having given you some idea of the opportunities in Hong Kong, perhaps now would be a good time to explain who we are and what we can do for you.

In July 2000, InvestHK was set up to promote foreign direct investment into Hong Kong. We are not just another Government department. InvestHK is charged with being a high-profile pro-active investment promotion and facilitation body. We provide all the support you will need to successfully establish or expand your business operations in Hong Kong. Our services are specifically tailored for each investor.

Currently nine priority industry sectors are being targeted for investment. These are telecommunications, media/multimedia, IT, technology (primarily electronics & biomedical), tourism and entertainment (with a subsector for film), financial services, business and professional services, trade related services and transportation. Although we have priority targeted sectors, we are not about to turn away any interested investor. There is a special section that handles all investments that fall outside of the targeted industries. Regional headquarters and regional operations are considered as targets which extend across all industries.

Our staff come from both the public and private sectors and are spread across seven overseas offices and the Hong Kong headquarters. Your contact point would be in the Hong Kong Economic and Trade Office in San Francisco. This might be a good time to introduce some of our staff who are here today. Mr. Lawrence Tang wears two hats as the head of telecommunications and head of media/multimedia and is based in Hong Kong. Ms. Yuemei Chow, who some of you may already know, is an Overseas Consultant with responsibility for Hawaii, based in San Francisco. Please do feel free to speak to any and all of us in regard to what we may be able to do for you.

We look forward to the opportunity to help contribute to the success of your businesses in Hong Kong, China and in the Asia Pacific region. So why not come and join us in The City That Means Business. Let us welcome you to Hong Kong – Asia's World City.

Thank you very much for your kind attention