The Industrial Policy of Hong Kong

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References

• (4) “產業經濟學”，李悅等編著，中國人民大學出版社，2008。
• (5) “產業經濟學”，王傳榮主編，經濟科學出版社，2009
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(a) Economic Theories for Industrial Policy (1)

• (1) Do we have a coherent theoretical framework for formulation and assessment of “Industrial Policy”—No:
  • --Industrial Economics and Industrial Organization Theory
  • --Classical Theory
  • --Austrian School
  • --Chicago School
  • --Porter’s Theory of Industrial Cluster
  • --Economic Geography and Regional Economics
  • --City’s Growth Theory
  • --Theory of Public Choice and Public Policy
  • --Economic Growth and Development Theory
  • --Cost/benefit analysis and general equilibrium analysis
(a) Economic Theories for Industrial Policy (2)

• (2) The HKSAR government spent billions and billions of public money on new industrial policies, but there have been little serious academic research interest on the subject. Why??

• --theories inadequate for comprehensive policy analysis;
• --complicated and not-transparent policy decision process;
• --insufficient data and information for vigorous quantitative analysis, and
• --HKSAR government is not active in promoting research in this important, but political sensitive, area.
(a) Econ Theories for Industrial Policy—Industrial Economics (3)

• (1) Industrial economics is best defined as the application of microeconomic theory to the analysis of behaviour of firms, markets and industries. IE gives overriding emphasis on empirical work and on implementations of policy. primary or tertiary sectors should not be included.)

• (2) Though the terms IE and Industrial Organization (IO) are often used interchangeably, IE has developed with a wider context, encompassing both IO and Industrial Dynamics (ID). ID primarily concerns with evolution of industry as a process at both the sector level and the firm level.
(a) Econ Theories for Industrial Policy—Industrial Economics (4)

• (3) IO analyses theoretical and actual market behaviour of monopoly, oligopoly, firms under monopolistic competition and perfect competition. These are mainly static and comparative static analysis, towards equilibrium. Conditions for short-term & long-term equilibrium are examined. Game theory has introduced interactions among market players.

• (4) ID primarily concerns with evolution of firm/industry as a process and impacts/rationales of various government policies upon this process.

• (5) E.g. many countries adopted policies to liberalize monopolies in last 20 years, including airlines, telecom, electricity supply, public transportation. These markets turned into oligopolies. What were public policies and market processes involved? How social/consumer welfare, economic efficiency, firms/political decisions were affected?
(a) Econ Theories for Industrial Policy—Industrial Economics (5)

• (6) E.g. some sectors turned from perfect competition to monopolistic competition to oligopoly, probably including convenient stores, books publishing, banking, tourism. Public policies and processes are key factors under study.

• (7) The aim of industrial economist is essential the same as other economists. It is to describe, explain and to draw inferences about the effectiveness with which scarce resources are used; and to comment on policies which might improve the situation.
(a) Econ Theories for Industrial Policy—Other Theories (6)

- (1) According to Classical Economics, Industrial Development of a country would depend on comparative advantage of its factors of production, e.g. labour, capital and natural resources.

- Industrial Development involves changes in quantity and quality of various economic activities within an economy. These included changes in relative importance of various economic sectors and their spatial distribution. Industrial Development reflects their natural development process under market forces and results of human planning efforts.

- According to development economists, industrialization is the major force behind a country’s economic development. Appropriate Industrial Policy would make a great difference of economic development (experience of Japan, Korea and China) and human resources are more important than natural resources.
(a) Econ Theories for Industrial Policy—Other Theories (7)

- Overtime, relative importance of traditional factors of production (labour and machinery) would be declining. Instead, technological & scientific innovation and entrepreneurship are the key for further Economic Development.

- (2) Whereas Classical Theory concentrates on the costs of production, more recent work has sought to add greater realism by stressing importance of transaction cost, defined by Arrow as “the cost of running the economic system”. Such costs contain two main elements. There are costs involved in acquiring information and those involved in effecting transactions.

- (3) The Public Choice Theorists argued that motivations and objectives of politicians and bureaucrats are not always altruistic, so government intervention cannot be guaranteed to improve economic welfare.
(4) **Austrian economics** provides a more satisfactory theoretical framework. Their prescriptions would be limited to removing impediments (e.g. promoting competition, removing market barriers) to the operation of the competitive process and their benefits would be widely distributed and hence fairly invisible.

(5) The types of Industrial Policy that are more acceptable politically are those directed at improving the dynamic performance (higher education, government funded R&D) of the economy. Even such policies cannot be justified under traditional theory.
(a) Econ Theories for Industrial Policy—Other Theories (9)

• (6) There are 6 major areas of Market Failure which may warrant government intervention with an active Industrial Policy:
  • --monopoly/oligopoly (regulation required);
  • --public goods, such as police services,
  • --externalities, differences between private and social returns, such as education, pollution, congestion;
  • --differences between private and social time preference rates, such as mandatory pension schemes;
  • --high transaction cost/information cost (is this a market failure?); and
  • --other related concepts: incomplete contract, asymmetric information, rent seeking, etc.
(a) Econ Theories for Industrial Policy—Other Theories (10)

• (7) **Economic Geography** is a sub-field in Geography, mainly analyzing the location, distribution and spatial organization of economic activities across regions. It has taken many approaches to study different subjects, including location of industries, economies of agglomeration, transportation, core-periphery theory, economics of urbanization, etc. Many economists have also tackled similar issues in the economics discipline.

• (8) Thus, industrial policy involves spatial distribution and coordination of various economic activities as well, including transportation, logistics, housing, infrastructures, labour supply, etc. The government could provide favourable conditions to reduce transportation costs so as to attract and allocate resources for most efficient productions to benefit the economy. In developing countries, it is vital to have a comprehensive understanding of the spatial elements for successful economic development.
Three types of industrial policy:

1. **Neutral (Generic) Industrial Policy** -- seeking to improve the market framework within which economic agents operate. This aims to reduce market failure and is generally consistent with both Austrian and mainstream views which explicitly recognise the presence of transaction costs. Reasons are:
   - Reducing transaction costs and uncertainty for private property rights (clear-assigned property rights would eliminate many cases of market failures);
   - Promoting competition (Competition Law);
   - Enhancing education (public education, vocational training);
(a) Econ Theories for Ind Policy
—3 Types of Industrial Policy (12)

• --promoting international trade & capital flows (efficient use of resources);
• --enhancing rule of law (reducing transaction cost, reduce uncertainty);
• --improving public health (public/private partnership, health insurance);
• --promoting SMEs (creating employment, credit insurance);
• --promoting labour mobility (transportation subsidy, import labour).
(a) Econ Theories for Industrial Policy —3 Types of Industrial Policy (13)

• (2) **Accelerative Industrial Policy**--The objective of accelerative IP is to actively speed up the innovation process by providing financial support to most promising firms, markets or technologies. The premise behind such a policy is that an economy benefits from adopting innovations ahead of its trading rivals. This owes little to traditional arguments about intervention to correct market failures. (Eg., Industrial Reorganisation Corporation of UK and Ministry of International Trade and Industry of Japan are classic example of an active approach to IP.)

• (i) It is still doubtful whether such government intervention to accelerate introduction of desirable new products and processes is worthwhile:
(a) Econ Theories for Industrial Policy — 3 Types of Industrial Policy (14)

- Uncertainty and information costs make correct anticipation of market trends, tech developments and new market opportunities very difficult. (This is particularly difficult for HK as a very open economy with small market.)

- Proportion of new products which are commercial failures and relatively high rate of closure testify such difficulties.

- In an uncertain environment, the greatest chance of success comes from those which are best able to gather relevant information and so reduce uncertainty. These are the entrepreneurs most closely involved with a particular area.

- Government agencies are less likely to have the necessary specialist information about particular market developments.
(a) Econ Theories for Ind Policy — 3 Types of Industrial Policy (15)

- (ii) How to select firms for financial support? Firms with a successful record may not be successful in the future? How to select new firms (from proposals)?
- (iii) Opportunity costs involved.
- (3) “Re-vitalizing” industrial policy—the most frequent justification for support to “failure” firms is that their collapse will lead to adverse effects on economic welfare (AIA and GM in US in 2009). Or the industry still has a future (garment and film industry in HK?)
(a) Econ Theories for Industrial Policy—Porter’s Theory (16)


• (2) Industry competition is region against region. In order for a certain industry to be successful, an “industrial cluster” needed to be established. A successful “industrial cluster” in a certain location is having following characteristics:
(a) Econ Theories for Industrial Policy—Porter’s Theory (17)

• --a successful industry must have acquired certain “core competence” (special tech, system, cultural, value, etc.) & evolved as an integrated & sustainable learning & innovative system.

• --a complete supply chain, forward & backward linkages;

• --with nec professional suppliers and services providers;

• --with strong trade association, university cooperation;
(a) Econ Theories for Industrial Policy—Porter’s Theory (18)

• --keen competition among local firms to enhance efficiency and innovation, maintaining superiority;
• --mechanism for promoting synergy and cooperation among firms & public institutions;
• --mechanism & platform for new knowledge and tech to disseminate through industry (learning system);
• --tech expertise and management moving around private and public sectors for knowledge exchanges;
• --a successful industry must have acquired certain “core competence” (special tech, system, market, cultural, value, etc.) & evolved as an integrated & sustainable learning & innovative system.
(a) Econ Theories for Industrial Policy—Porter’s Theory (19)

- (3) An “industrial cluster” in a certain location would be self-sustaining, out-competing industry in other locations:
  - attracting more firms and new investment;
  - more talents joining the industry;
  - more inflow of foreign talents;
  - more related services providers;
  - expanding network and market;
  - accumulation of information & knowledge;
  - competition promoting innovation, maintaining comparative advantage;
  - academic institutions providing professional training and policy research;
  - establishment of professional and trade associations;
  - enhancing political and social impacts.
(a) Econ Theories for Industrial Policy—Porter’s Theory (20)

• (4) Porter’s theory told us what a successful industrial cluster looked like. But he did not tell us how to get there from zero.

• (5) Is Porter’s theory relevant for assessing HK’s new industrial policy? How to apply it??

• (6) Based on the theory of “industrial cluster”, do the new initiatives/industries implemented by the HKSAR Govt have a future? How about other policies proposed by various political parties? Why??

• (7) Let’s examine the latest industrial/sectoral policy of London, New York, and Singapore. What can HK learn from them?
(b) Industrial Policy of Other Cities

--Introduction (1)

• (1) Services account for about 93% of Hong Kong’s GDP. There have been many comments suggesting that Hong Kong’s economy is not stable and sustainable. In particular, Hong Kong’s economic structure was frequently compared with S. Korea, Taiwan, Singapore, Israel, Sweden, etc.

• (2) However, Hong Kong’s economic structure should be compared with other metropolitan cities instead, e.g. London, New York, Tokyo, and not with countries. Manufacturing activities are having the strong tendency to move out of metropolitan areas into other parts of the country (or even beyond the border), mainly because of high operating costs.
(b) Industrial Policy of Other Cities

--Introduction (2)

• What is the contribution of manufacturing sector (2013):
  • --Hong Kong: 2% manufacturing; 93% services
  • --London: 2% manufacturing; 92% services
  • --New York: 7% manufacturing; 88% services
  • --Shanghai: 34% manufacturing; 62% services
  • --Singapore: 19% manufacturing; 76% services
  • --Taipei: 15% manufacturing; 80% services
  • --Tokyo: 7% manufacturing; 87% services
(b) Industrial Policy of London (3)

• (1) Services accounted for about 92% of the London’s economy, very similar to that of Hong Kong. In 2011, “The London Plan” (2011-2031) report was announced by the Mayor of London. Suggested industrial policies included the following:
  • --supporting innovation and research, promoting London as the centre for research and commercialization of R&D;
  • --supporting the development of higher education in London, focusing on the demand for dormitory and other special regional needs;
  • --ensuring adequate land supply for innovation and R&D activities, including provision of industrial and commercial premises;
  • --supporting development of green industry (including renewable energy, low-carbon technology, waste reduction and recycling, etc.); and
  • --promoting development of the innovation and R&D cluster, fostering cooperation among industries, firms, high education institutions and research institutes.
(b) Industrial Policy of London (4)

- (2) Between 2011 and 2031, promoting the cluster of innovation and research in London is the key for development.
- (3) Furthermore, London aims at developing as a “Connected Economy”, given the rapid development of information and communication technology.
- (4) The promoted industrial policies for London are mainly generic in nature (e.g., promoting innovation and R&D activities) and supportive to pillar industries (e.g., application of information and communication technology), not specific for promoting certain new industries.
(b) Industrial Policy of London (5)

• (5) Moreover, according to an earlier report published by the Government in 3/2006, it stated that under many circumstances, government could not effectively resolve problems of “market failure”.

• (6) The report recommended that the London Government should only intervene in certain industry if the following two conditions could be met: (i) intervention could mitigate “market failure” and (ii) intervention could significantly improve operation of industry.

• (7) Thus, it is obvious that the London Government initiated very few sector-specific policies, except information and communication technology and bio-tech.
(b) Industrial Policy of London (6)

- (8) Furthermore, based on the “London Plan”, the Mayor is having the responsibility to formulate an “Implementation Plan” for the “London Plan”, which would be revised overtime.

- (9) Transparency is the key for the private sector, other stakeholders and the public to understand the objectives of the Government.

- (10) Regarding the effectiveness of the “Implementation Plan”, the Mayor formulated comprehensive standards and targets for policy assessment. A set of 24 “Key Performance Indicators” has been adopted. The results will be incorporated in to the “Annual Monitoring Report”. 
(b) Industrial Policy of New York (7)

- (1) Services also achieved dominance in New York City, at about 88% of its economy.
- (3) Additionally, the City is also responsible for R&D projects assigned by the New York State Government.
(b) Industrial Policy of New York (8)

• (4) In the selection of “Emerging Industries”, the New York City Government understood the reality and limitations faced by the City.

• (5) On one hand, it is very important to centralize the utilization of limited resources. On the other hand, although innovation is vital for the future development of the City, it should be aware that a strategy attempting to promote a new technology or industry may not be successful.

• (6) It is the responsibility of the City Government to design detailed development targets for these new industries and set up monitoring and assessment mechanism.

• (7) For these new industrial programmes, these targets should cover GDP, employment, tax revenue, environmental impacts, energy consumption, spatial distribution of the industry, technology level, investment intensity, etc. Additionally, the Government would also establish assessment and monitoring mechanisms.
(b) Industrial Policy of Singapore (9)

• (1) The economic structure of Singapore is a hybrid of a nation and a metropolitan city. Its industrial sector still accounted for about 24% of GDP (18% for manufacturing), including petroleum and petro-chemical industry, military-related industry, heavy industries, electronics, electricity, ship building, other high-tech, etc.

• (2) Services accounted for the other 76%.

• (3) In the next ten years, Singapore is aiming at increasing the total productivity by 2% to 3% annually. Given the anticipated lower growth in the labour force, the productivity increase would guarantee a GDP real growth rate of 3% to 5% annually.
(b) Industrial Policy of Singapore (10)

• (4) The seven development strategies adopted by the Government are:
  • --applying innovation and technology to support growth;
  • --establishing Singapore as a Global-Asia Hub;
  • --building a Vibrant and Diverse Corporate Ecosystem;
  • --innovating business operation and enhancing commercialization of R&D;
  • --developing Singapore as a Smart Energy Economy;
  • --increasing land productivity; and
  • --becoming a unique international city with excellent living environment.
(b) Industrial Policy of Singapore (11)

• (5) The industrial policies of Singapore are:
  • --supporting the existing pillar industries: high-tech, finance, services, tourism, trading, etc.; and
  • --promoting three new industries: water-related tech, bio-tech and multimedia.

• (6) The Singapore Government plays a more active role and participation in the formulation of industrial policy. The Porter’s Theory has been seriously explored. Other than employment targets, the Government also sets targets on total productivity, R&D expenditure and importation of labour.
(c) Overviews of HK’s Ind Policy --Generic Industrial Policy (1)

• (1) The Generic (or Neutral) Industrial Policy as described above seeks to improve the market environment within which economic agents are operating. These policies are not sector specific, but would benefit all types of economic activities.

• (2) There are many types of generic industrial policy adopted by the Hong Kong Government over the years (market liberalization, protection of intellectual property, strengthening the rule of law, promoting international trade and investment, promoting capital market development, enhancing education, promoting financial stability, rationalizing the housing market, improving public health, etc.).
(c) Overviews of HK’s Ind Policy -- SME Supporting Policies (2)

• (1) SMEs accounted for 98% of firms and 50% of the employment in Hong Kong. Hong Kong Government had a long history to provide supports to SMEs, despite their business nature.

• (2) In 1960, Hong Kong Government established the Hong Kong Export Credits Insurance Corporation, and then the Trade Development Council and Hong Kong Productivity Council in 1966. These are semi-government organizations providing financial, market information, technology and management services to SMEs.

• (3) In 2000, Hong Kong Government set up InvestHK to attract foreign investment, including foreign SMEs.
(c) Overviews of HK’s Ind Policy
--SME Supporting Policies (3)

• (4) Since 1997, the Government established many specific Funds to support the development of SMEs in Hong Kong.

• (5) Each of the schemes is designated to meet different business needs, such as guarantee for bank loans, sponsorship for export marketing activities, funding for SMEs’ development projects & commercialization of innovation and technology ideas. Major Funds established by the Government include the following.

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(c) Overviews of HK’s Ind Policy --SME Supporting Policies (4)

• (i) In the early 2000s, the **SME Development Fund** was set up to provide financial support to non-profit organizations to implement projects which aimed to enhance the competitiveness of Hong Kong’s SMEs.

• --Projects could include seminars, workshops, conferences, exhibitions, research studies, award schemes, codes of best practices, databases, service centres, support facilities and technology demonstration, etc.

• --The maximum amount of funding support for each approved project is HK$5m, or 90% of the approved project expenditure. The applicant has to contribute the remaining 10% of the project expenditure.
(c) Overviews of HK’s Ind Policy  
--SME Supporting Policies (5)  

• (ii) The **SME Export Marketing Fund** aims at providing grants to SMEs to encourage them to participate activities for export promotion. The Fund can be used for trade fairs, business missions, advertisements, export promotion, etc.

• (iii) A **SME Loan Guarantee Scheme** was set up in 2001 and aimed to help SMEs securing loans from banks for (i) acquiring business installations and equipment, and (ii) meeting working capital needs of general business used. The amount of guarantee for an SME is 50% of the approved loan, subject to a maximum amount of HK$6m. The Scheme has been extended and expanded several times.

•
(vi) In fact, another **Specific Loan Guarantee Scheme** was set up in 2008 to help firms securing loans from banks for meeting general business needs to tide over the liquidity problem during the global financial crisis, with the Government acting as the guarantor.

--The loans should not be used for repaying, restructuring or repackaging other existing loans. The Government provides a guarantee of up to 80% of the approved loan.

--The maximum loan amount for each firm is HK$12m. Within this limit, a firm may obtain a revolving credit line of up to HK$6m. The maximum guarantee period for each loan is 60 months.
(c) Overviews of HK’s Ind Policy --SME Supporting Policies (7)

• (v) In recent years, a “Small Entrepreneurs Research Assistance Programme” was established, providing dollar-to-dollar matching grants up to HK$2m per project to help small start-ups to turn innovation and technology ideas into commercially viable products, processes or services.

• --The funding ceiling increased to HK$6m in 2012.
(c) Overviews of HK’s Ind Policy
--SME Supporting Policies (8)

• (vi) The Government also set up a “Dedicated Fund on Branding, Upgrading and Domestic Sales” of HK$1b in 6/2012.

• --The Fund aims to provide funding support to assist firms in exploring and developing the Mainland market through developing brands, upgrading and restructuring operations, and promoting domestic sales in the Mainland.

• --Funding will be provided on a matching basis, i.e. the Government will cover a maximum of 50% of the total approved project cost and the firm has to contribute no less than 50% in cash. The total cumulative funding ceiling per firm is HK$500,000.
(c) Overviews of HK’s Ind Policy
--Tung’s 4 Pillar Industry (9)

• (1) Since CE Tung in late 1990s, the concept of 4 “pillar industry” was introduced by the Government: (i) financial services (15.4%), (ii) tourism (4.4%), (iii) trading and logistics (25.5%), and (iv) professional services and other producers services (12.8).

• (2) Many public policies are geared towards sustainability of these sectors. Some are generic in nature (e.g. competition policy, policies supporting SMEs, education). Some are specific in nature (e.g. Islamic bonds, HK-Shanghai Stock Connect, deposit insurance, CEPA, 3rd Runway, high-speed rail, etc.)
(c) Overviews of HK’s Ind Policy --Tung’s New Initiatives (10)

• (1) Many academics, political parties & trade associations asked to restructure economy & develop high-tech industry.

• (2) Chief Executive Tung Chee-hwa took active steps to initiate new economic activities in 1997.

• (3) His “Commission on Innovation and Technology”’s Final Report published in 6/1999. Major recommendations were:
• --need stronger institutional arrangements, e.g. university-industry link;
• --need to foster a culture of innovation;
• --tapping human capital talent from Mainland;
• --need to set up innovation and tech funds for research.
(c) Overviews of HK’s Ind Policy
--Tung’s New Initiatives (11)

• (4) In CE’s 1997 Policy Address, he advocated:
  • --Centre for Product Invention;
  • --International Centre for Chinese Medicine.

• (5) In CE’s 1998 Policy Address, he advocated:
  • --Leading global city in developing and applied IT Tech, especially maintaining leading position in electronic business & software development;
  • --World’s 1\textsuperscript{st} Class Design and Fashion Centre;
  • --Asia’s Multimedia and Entertainment Centre;
  • --International Chinese Medicine Centre, especially in drugs and health food production;
(c) Overviews of HK’s Ind Policy
--Tung’s New Initiatives (12)

• --World’s major Supply Centre for high value-added products and components;
• --Asia’s Centre for Professionals & Technology Experts, and Services Centre;
• --Best Market for Technology Transfer between the Mainland and other countries.
• -- Policies clearly moving away from “positive non-interventionism”.
• (6) In Tung’s 2005 PA, he advocated:
  • --Developing cultural & creative industries;
  • --Promoting entrepreneurial & innovative spirit.
(c) Overviews of HK’s Ind Policy -- Tsang’s 6 “New” Industry (13)

• (1) 2009-2010 Policy Address by Tsang:
• Para 21 “Apart from the four pillar industries, the six industries are crucial to the development of our economy. At present, the private sector part of these six industries directly contributed about 7% to 8% of GDP, and employs around 350,000 workers. or about 10% of the total workforce.”
(c) Overviews of HK’s Ind Policy --Tsang’s 6 “New” Industry (14)

• (2) 2010-2011 Policy Address—only 1 paragraph:

• Para 97 “Last year, I accepted the recommendations of the Task Force on Economic Challenges for the development of six industries where HK enjoys clear advantages. They are medical services, environmental industries, testing & certification, education services, innovation & technology, cultural & creative industries. We are gradually implementing the relevant measures. This is a long-term industrial development plan which can put HK on a path towards diversified and value-added economy. We will continue to monitor the development of these six industries, with emphasis on integration with the Mainland market, so as to inject new impetus into our economy.”
(c) Overviews of HK’s Ind Policy -- Tsang’s 6 “New” Industry (15)

• (3) Regarding Tsang’s 6 “new” industries (in which most of Tung’s efforts have been also incorporated into them), the following Table provides a comparison with other metropolitan cities. Indeed, all the following five industries, namely cultural and creative industry, innovation and technology industry (mainly on information and communication, bio-technology), education, medical and environmental (green) industry, are being promoted by every city.

• (4) Among these five selected cities, the industrial policy by London and New York are mostly market driven. There are more government-led participations in Singapore and Taipei, and Hong Kong is somewhere in between. In the following Table, we provide the theoretical backgrounds adopted by various governments to assist them to formulate their respective industrial policies.
### Tsang’s 6 “New” Industries and Comparing with Other Cities

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<th>Industry</th>
<th>Hong Kong</th>
<th>New York</th>
<th>London</th>
<th>Singapore</th>
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<tr>
<td>Cultural &amp; Creative Industry</td>
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<td>Existing</td>
<td>existing</td>
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<tr>
<td>Innovation &amp; Technology Industry</td>
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<td>Focus on: (i) I&amp;C Tech (ii) Bio-tech</td>
<td>Focus on: (i) I&amp;C Tech (ii) Bio-tech</td>
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<td>Theoretical Reference on Industrial Policy by Various City Governments</td>
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<td>Regional competition</td>
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<td>✓</td>
<td>△</td>
<td>✓</td>
</tr>
</tbody>
</table>

Notes:
✓: making detailed reference
△: some reference
✗: no reference
(d) Industrial Policy on 4 Pillar Industry (1)

• (1) Since CE Tung in late 1990s, the concept of 4 “pillar industry” was introduced by the Government: (i) financial services (15.4%), (ii) tourism (4.4%), (iii) trading and logistics (25.5%), and (iv) professional services and other producers services (12.8). Many public policies are geared towards sustainability of these sectors.

• (2) Financial services’ contribution to GDP remained rather stable at about 15/16% between 2006 and 2010, except 2007 (19.3%) due to a very strong share market (6.3%). But employment increased gradually from 5.4% to 6.3% (high income jobs).
(d) Industrial Policy on 4 Pillar Industry (2)

• (3) Tourism had a very strong year in 2010 (4.4%), otherwise it’s contribution was about 3%. Moreover, employment share increased from 5.1% to 6.2% (labour intensive services).

• (4) Trading and logistics declined from 27.1% in 2006 to 25.5% in 2010, while import/export trade accounted for about 20%. Employment share declined continuously from 24.3% to 22.4% as well (losing comparativeness?).

• (5) Professional services increased gradually from 11% in 2006 to 13% in 2010, with employment share increased continuously from 12.2% to 13.3%.

• (6) What happened to HK’s property sector? (Should property be considered as a pillar industry for HK?)
### Table 1  Value added of the Four Key Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>2003</th>
<th>2008</th>
<th>2012</th>
<th>2013</th>
<th>Average annual percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value added at current prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1. Financial services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td>163,300</td>
<td>277,100</td>
<td>319,300</td>
<td>346,000</td>
<td>+8.3% +7.8% +4.5%</td>
</tr>
<tr>
<td>(a) Banking</td>
<td>(13.3%)</td>
<td>(17.1%)</td>
<td>(15.9%)</td>
<td>(16.5%)</td>
<td></td>
</tr>
<tr>
<td>(b) Insurance &amp; other financial services</td>
<td>67,000</td>
<td>119,500</td>
<td>123,200</td>
<td>127,400</td>
<td>+3.4% +6.6% +1.3%</td>
</tr>
<tr>
<td><strong>2. Tourism</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism</td>
<td>28,900</td>
<td>44,700</td>
<td>94,600</td>
<td>105,900</td>
<td>+11.9% +13.8% +18.8%</td>
</tr>
<tr>
<td>(a) Inbound tourism</td>
<td>(2.4%)</td>
<td>(2.8%)</td>
<td>(4.7%)</td>
<td>(5.0%)</td>
<td></td>
</tr>
<tr>
<td>(b) Outbound tourism</td>
<td>8,600</td>
<td>7,500</td>
<td>15,400</td>
<td>16,800</td>
<td>+9.1% +6.9% +17.4%</td>
</tr>
<tr>
<td><strong>3. Trading &amp; logistics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading &amp; logistics</td>
<td>322,200</td>
<td>414,700</td>
<td>495,400</td>
<td>500,500</td>
<td>+1.0% +4.5% +3.8%</td>
</tr>
<tr>
<td>(a) Trading</td>
<td>(26.3%)</td>
<td>(25.6%)</td>
<td>(24.6%)</td>
<td>(23.9%)</td>
<td></td>
</tr>
<tr>
<td>(b) Logistics</td>
<td>58,700</td>
<td>63,000</td>
<td>67,100</td>
<td>67,900</td>
<td>+1.2% +1.5% +1.5%</td>
</tr>
<tr>
<td><strong>4. Professional &amp; other producer services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional &amp; other producer services</td>
<td>130,800</td>
<td>197,600</td>
<td>257,600</td>
<td>260,200</td>
<td>+1.0% +7.1% +5.7%</td>
</tr>
<tr>
<td>(a) Professional services</td>
<td>(10.7%)</td>
<td>(12.2%)</td>
<td>(12.8%)</td>
<td>(12.4%)</td>
<td></td>
</tr>
<tr>
<td>(b) Other producer services</td>
<td>88,600</td>
<td>136,700</td>
<td>162,900</td>
<td>160,500</td>
<td>-1.5% +6.1% +3.3%</td>
</tr>
<tr>
<td><strong>Four Key Industries</strong></td>
<td>645,300</td>
<td>934,100</td>
<td>1,166,800</td>
<td>1,212,500</td>
<td>+3.9% +6.5% +5.4%</td>
</tr>
<tr>
<td><strong>Gross Domestic Product (GDP)</strong></td>
<td>1,227,100</td>
<td>1,620,000</td>
<td>2,013,000</td>
<td>2,097,500</td>
<td>+4.2% +5.5% +5.3%</td>
</tr>
</tbody>
</table>
### Table 2  Employment in the Four Key Industries

<table>
<thead>
<tr>
<th>Employment</th>
<th>Number</th>
<th>Number</th>
<th>Number</th>
<th>Number</th>
<th></th>
<th></th>
<th>Average annual percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2008</td>
<td>2012</td>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. 金融服務  (Financial services)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 銀行  (Banking)</td>
<td>71,300</td>
<td>93,500</td>
<td>97,800</td>
<td>97,500</td>
<td>-0.3%</td>
<td>+3.2%</td>
<td>+0.8%</td>
</tr>
<tr>
<td>(b) 保險及其他金融服務  (Insurance and other financial services)</td>
<td>96,600</td>
<td>112,500</td>
<td>131,000</td>
<td>134,200</td>
<td>+2.4%</td>
<td>+3.3%</td>
<td>+3.6%</td>
</tr>
<tr>
<td>2. 旅遊  (Tourism)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 入境旅遊  (Inbound tourism)</td>
<td>114,900</td>
<td>161,200</td>
<td>218,800</td>
<td>237,800</td>
<td>+8.7%</td>
<td>+7.5%</td>
<td>+8.1%</td>
</tr>
<tr>
<td>(b) 外訪旅遊  (Outbound tourism)</td>
<td>24,900</td>
<td>33,600</td>
<td>32,100</td>
<td>31,900</td>
<td>-0.6%</td>
<td>+2.5%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>3. 貿易及物流  (Trading and logistics)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 貿易  (Trading)</td>
<td>571,700</td>
<td>619,300</td>
<td>581,700</td>
<td>579,400</td>
<td>-0.4%</td>
<td>+0.1%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>(b) 物流  (Logistics)</td>
<td>181,500</td>
<td>200,800</td>
<td>183,200</td>
<td>187,800</td>
<td>+2.5%</td>
<td>+0.3%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>4. 專業服務及其他工商業支援服務  (Professional services and other producer services)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) 專業服務  (Professional services)</td>
<td>139,000</td>
<td>178,100</td>
<td>195,400</td>
<td>203,600</td>
<td>+4.2%</td>
<td>+3.9%</td>
<td>+2.7%</td>
</tr>
<tr>
<td>(b) 其他工商業支援服務(1)  (Other producer services(1))</td>
<td>246,500</td>
<td>279,000</td>
<td>287,600</td>
<td>292,000</td>
<td>+1.5%</td>
<td>+1.7%</td>
<td>+0.9%</td>
</tr>
<tr>
<td>四個主要行業  = 1+2+3+4  (Four Key Industries = 1+2+3+4)</td>
<td>1,446,400</td>
<td>1,678,100</td>
<td>1,727,600</td>
<td>1,764,200</td>
<td>+2.1%</td>
<td>+2.0%</td>
<td>+1.0%</td>
</tr>
<tr>
<td>總就業人數</td>
<td>3,200,500</td>
<td>3,509,800</td>
<td>3,657,100</td>
<td>3,728,500</td>
<td>+2.0%</td>
<td>+1.5%</td>
<td>+1.2%</td>
</tr>
</tbody>
</table>
(d) Industrial Policy on 4 Pillar Ind
--Logistic Industry (3)

• (1) Trading and Logistics accounted for 23.9% of GDP in 2013 (trading 20.6% and logistics by 3.3%), which was down from 26% in 2006. Total employment accounted for 20.6% in 2013, down from 24.3% in 2006.

• (2) This is still the most important sector for Hong Kong, but there has been a clear declining trend in the last few years, mainly due to declining international trade and increasing regional competition. Total international trade rebounded very rapidly in 2010 (24% by value) and moderately in 2011 (11%).

• (3) Trade was very weak subsequently, increased only by 2.8% in real terms in 2013, and 2.1% in 2014.
(d) Industrial Policy on 4 Pillar Ind – Logistic Industry (4)

- (4) We would focus the subsequent analysis on the logistics sector (using 2013 statistics, the contribution of logistics industry was 5.3% (3.3% for the core activities) in GDP and 7.4% in employment) because it is the main driver for the trading activities. Its “industrial cluster” consists of 3 parts:
  - (i) transport services—including air, water and land freight transports; and freight forwarding services;
  - (ii) warehousing and distribution services—facing regional competition, high operating cost, insufficient land; and
  - (iii) other high-value added services: information-technology platforms, e-commerce, regional supply and distribution center, maritime services, training, etc.
(d) Industrial Policy on 4 Pillar Ind
--Logistic Industry (5)

- (5) The “core competence” of the industry includes:
  - --free port and efficient custom services;
  - --excellent connectivity: sea, air and land;
  - --good location: China and Asia high growth areas;
  - --strong government policy supports;
  - --strong supporting services: finance, information technology, legal; and
  - --diligent work force and flexible operating environment.
(d) Industrial Policy on 4 Pillar Ind
--Logistic Industry (6)

- (6) Hong Kong Government established many statutory bodies, infrastructure and other platforms to promote international trade which would benefit logistics directly:
  - Export Credit Insurance Corporation in 1960;
  - TDC (many overseas offices) and HK Productivity Council (with offices in Mainland as well) in 1966;
  - many chambers of commerce (AmCham, HKGCC, HKFI, etc), bilateral trade promotion platforms, APEC, Pan-PRD;
  - many offices in major international and Mainland cities;
  - setting up co-operative arrangements with Guangdong and Shenzhen governments, CEPA, etc.;
(d) Industrial Policy on 4 Pillar Ind --Logistic Industry (7)

• --establishing Industrial Parks, data centres, testing & certification laboratories, Port Authority, HKAA, planning for logistic parks, etc;

• --strengthening connectivity with Mainland and the World: HK-ZH-M Bridge, Speed Rail Link, cross-border Road Links, sea links, aviation Links, building the 3rd Runway, etc.; and

• --upgrading custom services--GPS technology, other supply-chain technology, etc.
(d) Industrial Policy on 4 Pillar Ind
--Logistic Industry (8)

• (7) But Hong Kong’s logistics industry is facing many challenges, mainly from regional competition:
  • --high cost of operation in Hong Kong;
  • --logistics is land-intensive operation, but land supply is very limited;
  • --long lead-time for infrastructure constructions in Hong Kong: 3rd Runway, Container Terminal 10, etc;
  • --rapid ports (Yantian, Nansha) and airports (2nd Runway in SZ Airport by 2011, 3rd Runway in GZ Airport by 2015) development in PRD, competing directly with Hong Kong; and
  • --Singapore and S. Korea are gaining competitiveness rapidly.
(e) Industrial Policy on 6 “New” Industry

• (1) Over the years, the GDP contribution of Tsang’s six Industries did not recorded any significant increase, except the Cultural and Creative Industry (more sub-sectors might have been included in subsequent years’ estimation). Their respective GDP contributions (the private sector side) in 2008 and 2013 were:
  • --Six Industries: 7.5% (2008); 9.1% (2013)
  • --Cultural and Creative: 4.0% (2008); 5.1% (2013)
  • --Medical: 1.4% (2008); 1.5% (2013)
  • --Education: 1.0% (2008); 1.2% (2013)
  • --Innovation and Technology: 0.6% (2008); 0.7% (2013)
  • --Testing and Certification Services: 0.3% (2008); 0.3% (2013)
  • --Environmental Services: 0.3% (2008); 0.3% (2013)
<table>
<thead>
<tr>
<th>Percentage (%)</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Cultural and creative industries</td>
<td>4.0</td>
<td>4.1</td>
<td>4.6</td>
</tr>
<tr>
<td>(2) Medical services</td>
<td>1.4</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>(3) Education services</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>(4) Innovation and technology</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>(5) Testing and certification services</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>(6) Environmental industries</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Six Industries = (1) + (2) + (3) + (4) + (5) + (6)</strong></td>
<td><strong>7.5</strong></td>
<td><strong>8.0</strong></td>
<td><strong>8.4</strong></td>
</tr>
</tbody>
</table>

Notes:
- Refers to direct economic contribution of the Six Industries in the private sector.
- Refers to GDP at basic prices. The contribution of the Six Industries in the private sector is compiled as a percentage share in GDP valued at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, for which taxes on products are included.
- The above total for the Six Industries in the private sector is a simple summation of the figures covering individual industries. Users should note that there may be some degree of overlapping among the Six Industries.

Main data sources: GDP by economic activity at detailed level, Annual Survey of Economic Activities, Survey of Innovation Activities, 2009 Survey of Testing and Certification Activities, Hong Kong's Domestic Health Accounts compiled by the Food and Health Bureau

National Income Section (1)2,
Census and Statistics Department
Table 5: Value added and employment statistics of the Four Key Industries and other selected industries

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th></th>
<th>2011</th>
<th></th>
<th>2012</th>
<th></th>
<th>2013#</th>
<th></th>
<th>Annual percentage change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% share</td>
<td>$Bn in total</td>
<td>% share</td>
<td>$Bn in total</td>
<td>% share</td>
<td>$Bn in total</td>
<td>% share</td>
<td>$Bn in total</td>
<td>2011</td>
</tr>
<tr>
<td>Four Key Industries</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>57.8</td>
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<td>Financial services</td>
<td>16.3</td>
<td>305.3</td>
<td>16.1</td>
<td>319.3</td>
<td>15.9</td>
<td>346.0</td>
<td>16.5</td>
<td>7.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Tourism</td>
<td>4.3</td>
<td>86.2</td>
<td>4.5</td>
<td>94.6</td>
<td>4.7</td>
<td>105.9</td>
<td>5.0</td>
<td>15.5</td>
<td>9.7</td>
</tr>
<tr>
<td>Trading and logistics</td>
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<td>485.4</td>
<td>25.5</td>
<td>495.4</td>
<td>24.6</td>
<td>500.5</td>
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<td>Professional services</td>
<td>12.4</td>
<td>235.9</td>
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<td>257.6</td>
<td>12.8</td>
<td>260.2</td>
<td>12.4</td>
<td>9.1</td>
<td>9.2</td>
</tr>
<tr>
<td>and other producer services</td>
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</tr>
<tr>
<td>Other selected industries</td>
<td>8.3</td>
<td>161.2</td>
<td>8.5</td>
<td>175.9</td>
<td>8.7</td>
<td>190.6</td>
<td>9.1</td>
<td>12.1</td>
<td>9.1</td>
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<td>Cultural and creative</td>
<td>4.5</td>
<td>89.6</td>
<td>4.7</td>
<td>97.8</td>
<td>4.9</td>
<td>106.1</td>
<td>5.1</td>
<td>15.4</td>
<td>9.3</td>
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<tr>
<td>Medical services</td>
<td>1.5</td>
<td>27.4</td>
<td>1.4</td>
<td>29.5</td>
<td>1.5</td>
<td>32.4</td>
<td>1.5</td>
<td>4.9</td>
<td>7.5</td>
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<td>1.1</td>
<td>22.6</td>
<td>1.1</td>
<td>24.2</td>
<td>1.2</td>
<td>13.9</td>
<td>13.1</td>
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<td>Innovation and technology</td>
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<td>12.4</td>
<td>0.7</td>
<td>13.4</td>
<td>0.7</td>
<td>14.7</td>
<td>0.7</td>
<td>5.1</td>
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<tr>
<td>Testing and certification</td>
<td>0.3</td>
<td>5.4</td>
<td>0.3</td>
<td>5.8</td>
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<td>6.0</td>
<td>0.3</td>
<td>4.1</td>
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<tr>
<td>services</td>
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<tr>
<td>Environmental industries</td>
<td>0.3</td>
<td>6.5</td>
<td>0.3</td>
<td>6.8</td>
<td>0.3</td>
<td>7.1</td>
<td>0.3</td>
<td>16.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Nominal GDP at basic prices</td>
<td>100.0</td>
<td>1,901.0</td>
<td>100.0</td>
<td>2,013.0</td>
<td>100.0</td>
<td>2,097.5</td>
<td>100.0</td>
<td>9.4</td>
<td>5.9</td>
</tr>
<tr>
<td></td>
<td>2010</td>
<td>% share in total</td>
<td>2011</td>
<td>% share in total</td>
<td>2012</td>
<td>% share in total</td>
<td>2013¹</td>
<td>% share in total</td>
<td>Annual percentage change (%)</td>
</tr>
<tr>
<td>------------------------------</td>
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<td></td>
<td>Number ('000)</td>
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<td>Number ('000)</td>
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<td>Number ('000)</td>
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<tr>
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<td>Four Key Industries</td>
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<td>47.7</td>
<td>1 727.6</td>
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<td>1 764.2</td>
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<td>226.3</td>
<td>6.3</td>
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<td>6.3</td>
<td>231.7</td>
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<td>6.2</td>
<td>235.9</td>
<td>6.6</td>
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<td>Trading and logistics</td>
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<td>22.4</td>
<td>774.4</td>
<td>21.6</td>
<td>764.9</td>
<td>20.9</td>
<td>767.2</td>
<td>20.6</td>
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<td>Professional services and</td>
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<td>13.2</td>
<td>469.4</td>
<td>13.1</td>
<td>483.0</td>
<td>13.2</td>
<td>495.6</td>
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<td>Other selected industries</td>
<td>406.7</td>
<td>11.7</td>
<td>420.7</td>
<td>11.8</td>
<td>435.0</td>
<td>11.9</td>
<td>450.3</td>
<td>12.1</td>
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<td>Cultural and creative</td>
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<td>200.4</td>
<td>5.5</td>
<td>207.5</td>
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<td>Medical services</td>
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<td>13.1</td>
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<tr>
<td>services</td>
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<td>Environmental industries</td>
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<td>38.4</td>
<td>1.1</td>
<td>39.5</td>
<td>1.1</td>
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<td>Total employment</td>
<td>3 478.6</td>
<td>100.0</td>
<td>3 579.5</td>
<td>100.0</td>
<td>3 657.1</td>
<td>100.0</td>
<td>3 728.5</td>
<td>100.0</td>
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</table>
(e) Industrial Policy on 6 “New” Ind --Inno & Tech Industry (2)

• (1) Among these six Industries, there has been a lot of interest in the Innovation and Technology Industry in particular.

• (2) Many academics and industry experts have long been advocating for the development of high-tech industry. Indeed, there were two important publications in 1997: (i) “Made by Hong Kong” by Berger and Lester, and (ii) “Technology and Industrial Development in Hong Kong” by Kai-sun Kwong. They had very similar recommendations for promoting the development of technology industry in Hong Kong.

• (3) GDP contribution was only 0.7% in 2013, very little advancement in last 10 years.
(e) Industrial Policy on 6 “New” Ind --Inno & Tech Industry (3)

• (4) Since 1997, different HKSAR Governments continued to promote the innovation and technology industry, by providing funding, land and other hardware; and policy support. Especially, Tsang integrated all related efforts and programmes into one of the six industries for promotion.

• (5) In 1997, the “Innovation and Technology Commission” was set up by Tung under the Communication and Technology Branch of Commerce and Economic Development Bureau, which was “responsible for spearheading Hong Kong’s drive to become a world-class, knowledge-based economy”. Its functions were:
  • --formulating and implementing policies and measures to promote innovation and technology;
  • --supporting applied research and development;
  • -- supporting technology transfers and applications;
  • --promoting technology entrepreneurship;
(e) Industrial Policy on 6 “New” Ind
--Inno & Tech Industry (4)

• --promoting wider use of design;
• --facilitating provision of information technology infrastructure and development of human resources;
• --promoting international standards and conformity assessment services to underpin technology development and international trade;
• --working closely with partners in the government, industry, business, tertiary education and industrial support organizations; and
• --thus offering a range of infrastructure and funding support for applied R&D activities and design-related projects.
(e) Industrial Policy on 6 “New” Ind --Inno & Tech Industry (5)

• (6) All these years, the HKSAR Government provided more than HK$30b for the industry. However, the economic contribution continued to be at a very low level of 0.7% (there were comments alleging that the official estimation was too low and incorrect).

• (7) If Hong Kong’s innovation and technology industry could have produced competitive products, we should have recorded an increase of such products in our domestic exports statistics. When we examine our domestic exports statistics on high-tech products, they declined from HK$21b in 2002 to only HK$7.5b in 2012. This has been a very disappointing development.

•
(e) Industrial Policy on 6 “New” Ind--Inno & Tech Industry (6)

• (8) Under Leung’s Government, he has been attempting to establish a high level “Innovation and Technology Bureau” to promote the industry since he was in office. This has encountered severe opposition in the Legislative Council for almost three years and was eventually approved by the Council in 11/2015.

• (9) Other than coordinating and enhancing existing activities promoted since 1997, it has been reported that the new Bureau would have the new objectives for “re-industrialization” and establishing HK as a “Smart City”.

• (10) We do not know the exact nature of the endeavour and the possible impact would be long term.
(e) Industrial Policy on 6 “New” Ind --App Science & Tech Institute (7)

• (1) In 1/2000, Tung’s Government set up the Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI), with a government budget. The Institute selected and undertook applied research directly by itself.

• (2) In 4/2006, ASTRI launched the “R&D Centre for Information and Communications Technologies”, by focusing on four technology areas: namely communications technology, consumer electronics, IC design and opto-electronics.

• (3) In 3/2007, the Audit Department of HKSAR Government strongly criticized performance of ASTRI, e.g., administrative cost was very high (accounted for 45% of total budget), 60% of projects recouped only 5% or less of government’s direct funding.

• (4) The Chief Executive Officer of ASTRI resigned under severe public criticism and the ASTRI restructured subsequently.
(e) Industrial Policy on 6 “New” Ind --App Science & Tech Institute (8)

• (5) Similarly, the Hong Kong Government established the “Hong Kong Jockey Club Institute of Chinese Medicine Limited” in 5/2001. Hong Kong Jockey Club donated HK$500m to set up the Institute as a subsidiary of ASTRI.

• (6) It coordinated all related activities in and provided strategic support to scientific and evidence-based development programmes in Chinese Medicine.

• (7) The Institute was abolished in 2011 due to many abnormalities and mismanagement. The advisory framework for promoting research in Chinese medicine was also restructured several times.
(f) Assessment and Comments --HK’s Industrial Policies (1)

• (1) Results of the 6 “new” industries:
  • government did not undertake detailed policy analysis (no quantitative targets) before major policy decisions.
  • except Cultural & Creative Industry, other 5 industries recorded no relatively larger contribution to GDP overtime.
  • particularly, no advancement in domestic exports of Chinese medicine and high-tech products.
  • many specific funds recorded poor performance.
  • lacking sustainability for many industrial policies (education, medical and I&T sectors), due to no social consensus.
  • government did not have a systematic assessment mechanism for success or failure of these new programmes.
(f) Assessment and Comments

--HK’s Industrial Policies (2)

• (2) The new industrial policies for the “pillar” industries are usually better perceived, as the advisory bodies and consultative procedures have been well established. Major firms in the industry are well represented and lead the development of new policies under the Government’s support.

• --These “pillar” industries have established their “clusters” and “core competence”. Their sustainability is enhanced by their self-learning ability and innovation capability.

• --However, there are still important areas where the Government could play a more active role, including training of adequate manpower (setting up an Aviation Academy in 2016 Policy Address), easing of importation of labour, provision of infrastructure support (e.g. transportation links), land provision (e.g child-care centres, logistic parks, commercial premises, ), etc.

•
(f) Assessment and Comments --HK’s Industrial Policies (3)

• (3) Generic type of industrial policy and I&T initiatives—implemented in every country, including investment in human resources, supporting SMEs, competitive policy, provision of infrastructures, eliminating market inefficiency, etc.

• (4) Govt selects winners under the 6 “new” industry initiative. This is a very controversial policy. However, all political parties are eager about this.
(f) Assessment and Comments --HK’s Industrial Policies (4)

- (5) Many limitations of Government Intervention --It is crucial to recognise that the case for selecting “winners” in an uncertain environment depends on imperfect information and the presence of transaction costs. Thus the traditional economic theory is an inappropriate basis for policy recommendations.
- (i) Could we have clearly defined objectives for the society?
- (ii) Could we clearly define quantitative targets (GDP, employment, tax, environmental targets, economic and social stability)?
- (iii) Could we clearly identified specific market failures?
- (iv) Could we clearly specified types and options of relevant policies for specific market failures?
(f) Assessment and Comments
--HK’s Industrial Policies (5)

• (v) What are the necessary factors for effective implementation of new industrial policy (co-ordination among various government departments, private sectors, markets)?

• (vi) Government is under pressure and facing rent seeking from interest groups with political influence (vote/support buying) --If government may have objectives other than the enhancement of economic welfare, and also suffer from imperfect knowledge and positive transaction costs, then it becomes even more difficult to provide objective economic rationale for industry policy.

• (vii) How the sustainability issue of “new industrial policy” be resolved (a new Chief Executive in every 4 to 5 years).
(f) Assessment and Comments
--HK’s Industrial Policies (6)

• (viii) Do we need an effective monitoring system: performance appraisal of industrial policy, by LegCo, Audit Committee, media?—intervention itself alters the future state of the world. We need to indentify all the relevant changes for appraisal.

• (ix) Could we measure the opportunity costs of new industrial policy?

• (x) Do we need exit strategies for unsuccessful new policy (minimizing loss)? Would there be any optimal adjustment mechanisms overtime?
(f) Assessment and Comments
--HK’s Industrial Policies (7)

(xi) How could we evaluate the success or failure of each of these new industries promoted by Govt?
• --Based on Porter’s Theory—Govt should examine probability of success of the new industry based on theory of “industrial cluster”. Whether a “cluster” would be developing (5 years, 10 years), given regional competition?
• --Based on London’s experience--identify “market failure” and ask the question whether Govt can effectively resolve “market failure”; should have a vigorous assessment mechanism.
• --Based on New York’s experience—government should be focus, knows its limitations, and with quantitative targets.
(f) Assessment and Comments
--HK’s Industrial Policies (8)

- Based on Singapore’s experience—the government should be focus, only bio-tech, water tech, multi-media; increasing labour productivity is the key.

- Based on Taiwan’s experience--Govt should provide quantitative estimates for GDP contribution, additional employment, tax revenue, etc., for periodic assessment of each newly promoted industry.
(g) HK’s Economic Prospects (1)

• (1) In the last 30 years, HK’s economy slowdown continuously: 1981-1990: 6.6%; 1991-2000: 5.1%; 2001-2010: 4.0%; 2011-2015: 2.7%.

• (2) HK were hit by many external factors (mostly financial), of which HK did not have control. Financial and trading sectors of HK are very open.

• (3) HK’s economy rebounded rapidly, 2000, 2004-2007, and 2010 to 2011, with 6% to 7% real growth rate (high by international standards).

• (4) HK has been becoming a mature economy: with low population growth, slowdown in investment, stable consumption, high social inequality, and affecting by more frequent external shocks. Additionally, the quality improvement in a service economy is difficult to be detected by the GDP statistical framework.
(g) HK’s Economic Prospects (2)

• (5) According to the 2014 report published by the “Working Group on Long-term Fiscal Planning” of the HKSAR Government, the average long-term GDP real growth rate for Hong Kong would only be 2.8% for the next 30 years.

• This estimate has fully taken into account of factors affecting Hong Kong’s future economic development, including the global economic situation, Hong Kong-Mainland integration, economic restructuring, productivity changes, immigration, aging, etc.

• Indeed, the average annual real growth rate was only 4.0% between 2001 and 2010 and would be 2.7% between 2011 and 2015.

• Despite many economic and industrial policies as declared by various governments since 1997, it seems that Hong Kong’s economic performance has been declining structurally.
(g) HK’s Economic Prospects (3)

• (6) HK population projection (excluding foreign household maids):
  • --6.91m (2014); 7.36m (2024); 7.64m (2044); 7.18 (2064).
  • --population will peak around 2044 and then decline.
  • --what about GDP?
• (7) Labour force projection:
  • --3.60m (2014); 3.55m (2024); 3.39m (2044); 3.11m (2064).
  • --total labour force will decline within the next 10 years.
(g) HK’s Economic Prospects (4)

• (8) HK accumulated a fiscal reserves of over HK$829b, again very high by international standards. Reserves could be used during bad times.

• (9) The 4 pillar industries accounted for 60% of GDP. The construction and property sector accounted for another 10%. The public sector accounted for another 20%. These are the most important economic activities in HK. They government should make sure that they could sustain and prosper (these services are all exportable: HKU Medical School, CUHK, MTR, CLP, HKIA, HK Gas, Port operations, etc.) and maintain their comparative advantage.
HK’s Economic Prospects (5)

(10) As for the new industries, no doubt that the HKSAR Government would initiate some more new industrial policies overtime, probably with supports from the Mainland government as well. Hong Kong would continue to have comparative advantage in developing high-end services, e.g. education, medical, designing, etc.

(11) However, as for high-tech manufacturing, Hong Kong suffers seriously from the lack of technology talents, high labour cost, high land cost, absence of a military-base manufacturing, absence of heavy industries, small domestic market, strong neighbouring rivals, etc. Contribution of high-tech manufacturing would be marginal, even in long term.
(g) HK’s Economic Prospects (6)

• (12) In the next 20 years, we are still expecting moderately high growth for Mainland China, average at 5% to 6% real GDP growth annually.
• --It would become the largest economy of the world sooner than expected, particularly under the “purchasing-power-parity” terms.
• --With over US$15,000 per capita, the increasing middle class population could easily be over 500 million people.
• --Further market liberalization and RMB liberalization will continue to propel economic and social development.
(g) HK’s Economic Prospects (7)

• (13) HK is providing services to the entire PRD--HK’s economy should integrate further with the PRD (over 60m population) under further liberalization of services activities in the Mainland.

• (14) But any new policy for integration should be evaluated in details for the benefits of HK as a whole (in terms of GDP, employment, tax revenue and stability). Politically, the local sentiment should also be addressed very carefully.