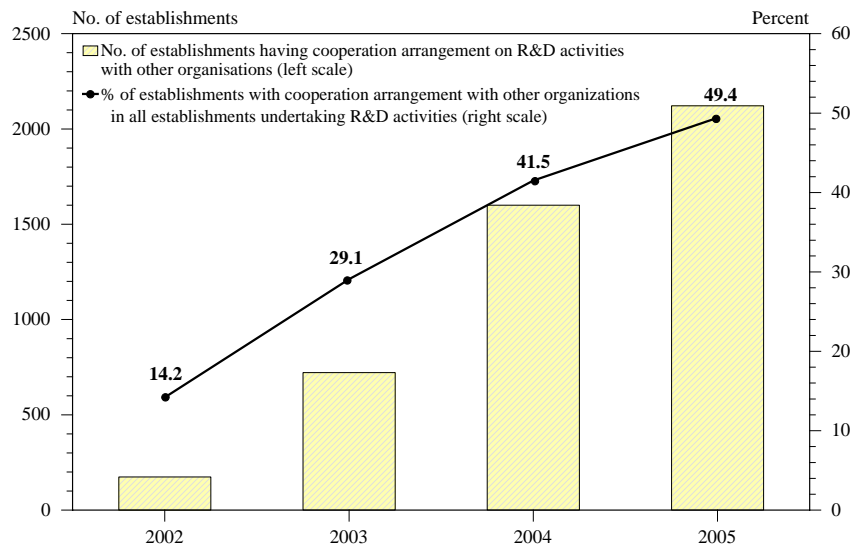


Box 3.1**Rising tendency for business enterprises to engage in collaborative activities on research and development**

Inter-organizational collaboration is more and more common for research and development (R&D) activities due to the substantial synergy thus generated. The inducement tends to be greater when a R&D project involves various expertises and intellectual properties possessed by different companies and organizations. By exchanging knowledge, information and resources, the collaborative parties often find it more efficient and effective to generate new ideas, resolve technical constraints, develop new technologies and commercialise them into valuable ends.

In Hong Kong, a rising number of business enterprises with R&D activities have engaged in collaborative projects on R&D in recent years. Latest indications show that the number of business enterprises concerned leaped from less than 200 in 2002 to more than 2 000 in 2005, with their share in all business enterprises with R&D activities ballooning from 14% to 49%.

Business enterprises in Hong Kong having cooperation arrangement on R&D activities with other organizations locally and abroad

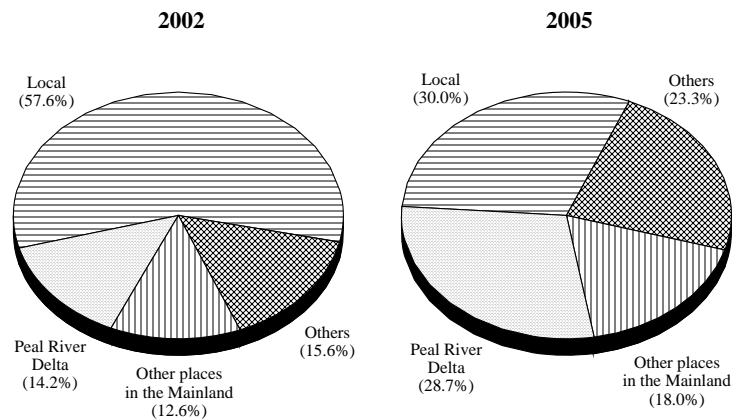
Analysed by location of cooperation organization^(a), Hong Kong, the Mainland and other places in the world respectively accounted for 30%, 47% and 23% of the total in 2005. Compared with the corresponding figures of 58%, 27% and 16% in 2002, the portfolio of partnership in R&D activities has apparently become more externally-oriented especially with the Mainland. This is not surprising in view of the closer economic relations between Hong Kong and the Mainland over the years. Moreover, there is a great deal of complementary strengths between the two economies. For example, Hong Kong has an established intellectual property rights system and sound knowledge in technology transfer and commercialisation, while the Mainland possesses an abundant supply of resource, a solid industrial base and a giant domestic market. Furthermore, the policy support is likewise substantial in Hong Kong and the Mainland as promotion of innovation activities forms part of the overall strategy to upgrade economic structure in both economies.

(a) The locations are counted separately for the total if the cooperation organization has presence in more than one location.

Box 3.1 (cont'd)

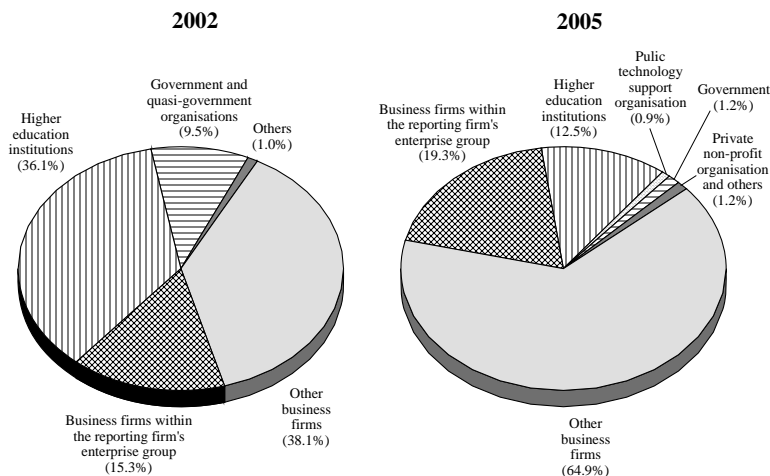
Given our geographical proximity to Pearl River Delta and the fact that it is the major recipient of Hong Kong's outward direct investment, Hong Kong companies have a greater tendency to cooperate with organizations in this region. In 2005, about 60% of the cooperation organizations in the Mainland had presence in Pearl River Delta.

Cooperation organizations with Hong Kong business enterprises in R&D activities – breakdown by location



Another development worth of note is that there is a growing tendency for Hong Kong companies to seek partnership within the private sector. This reflects that market force has become a more important driver of R&D activities as the business environment for innovation activities turns more conducive. From 2002 to 2005, the share of private companies (excluding business firms within the same enterprise group and private non-profit organizations) in all the cooperation organizations with Hong Kong companies in R&D activities went up sharply from 38% to 65%^(b).

Cooperation organizations with Hong Kong business enterprises in R&D activities – breakdown by organization type



(b) The cooperation organizations are counted separately for the total if a Hong Kong company has more than one cooperation organization.