

## CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

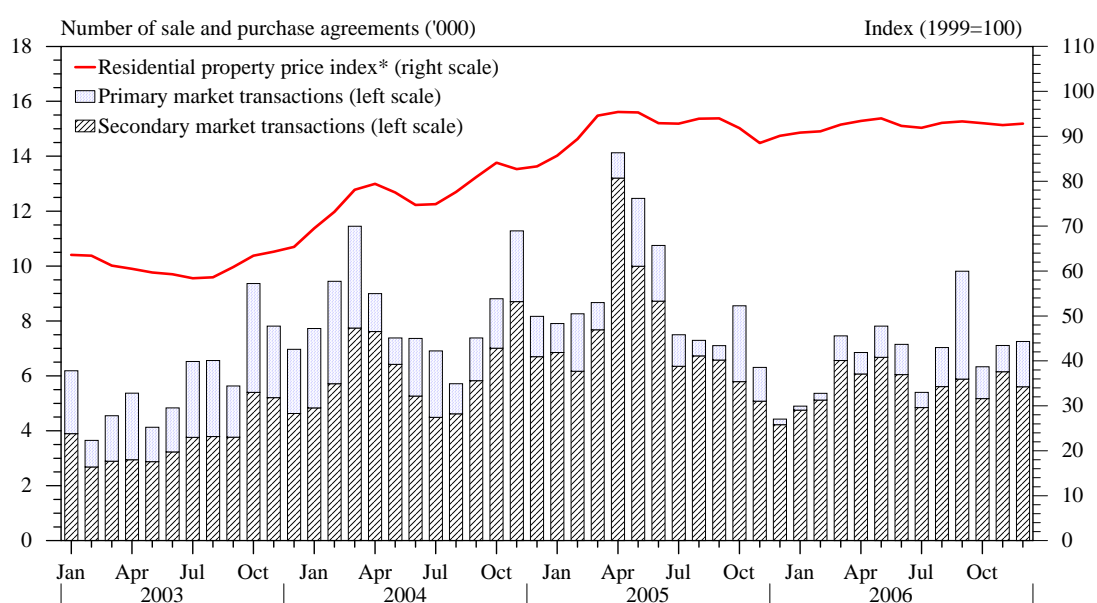
- *The residential property market went through a healthy consolidation in 2006, adjusting further to the earlier hectic situation till mid-2005. Sales activities were less hectic than in the preceding two years. Flat prices edged up only modestly. Yet market sentiment was largely positive as the longer-term outlook was well underpinned by improving economic fundamentals. The non-residential segment kept faring well amidst the general trend of business expansion.*
- *On-going efforts are made by the Government towards more efficient external transport network that fosters smoother flows of people and goods with the rest of the world. This is particularly so for the cross-boundary link with the Mainland where transport facilities are being developed fast, with a view to extending the hinterlands of Hong Kong's port and airport.*
- *Inbound tourism advanced further, with visitor arrivals rising to a new record high in 2006. Arrivals from the Mainland continued to increase, albeit at a moderated pace in the latter part of the year. Meanwhile, the growth in arrivals from other major markets stayed solid in general.*
- *The logistics sector showed a steady performance, with further expansion in both air and water cargo traffic. In face of keener competition in the region, the industry players have increasingly shifted their focus towards high value-added logistics instead of carriage of goods alone.*
- *Many professional and business services sectors have capitalised on the opportunities presented by market expansion and liberalisation in the Mainland over the past few years. This reinforces the competitiveness of Hong Kong as the platform for Mainland enterprises to "go out" and also for foreign enterprises to expand into the Mainland market.*
- *The tendency of the business sector to engage in innovation and technology activities is echoed by continuous policy support and public-private sector collaboration. A major challenge ahead for the community as a whole is how to leverage on the market potentials of the Mainland to raise our innovation capacity, upgrade our technology level and explore new business opportunities.*

## Property

4.1 The sales market for *residential property* went through a healthy consolidation in 2006, adjusting further to its earlier hectic situation till mid-2005. Trading activities were less hectic than in the preceding two years as home buyers turned prudent after the earlier price surge. Also contributed was the more uncertain interest rate outlook in the earlier part of 2006 that curbed acquisition interest. Yet trading activities revived modestly in the second half of the year upon the pause in US interest rate hike and intensified mortgage competition amongst the banks. For 2006 as a whole, the number of transactions for private residential property was 82 472. This was lower by some 20% as compared to 2004 and 2005, whilst exceeding the annual figures hovering around 70 000 during 2001-03.

4.2 Flat prices held broadly stable over the course of 2006. Market sentiment was largely positive as the longer-term outlook was well underpinned by improving economic fundamentals. Comparing December 2006 with a year earlier, overall flat prices edged up modestly by 3.0%, comprising increases of 2.7% for small to medium flats and 3.2% for large flats. Flat prices in December 2006 were 59% higher than the trough in 2003, but still 46% off the peak in 1997.

**Diagram 4.1 : Flat prices continued to move narrowly over the course of 2006, sustaining the healthy market consolidation since mid-2005**

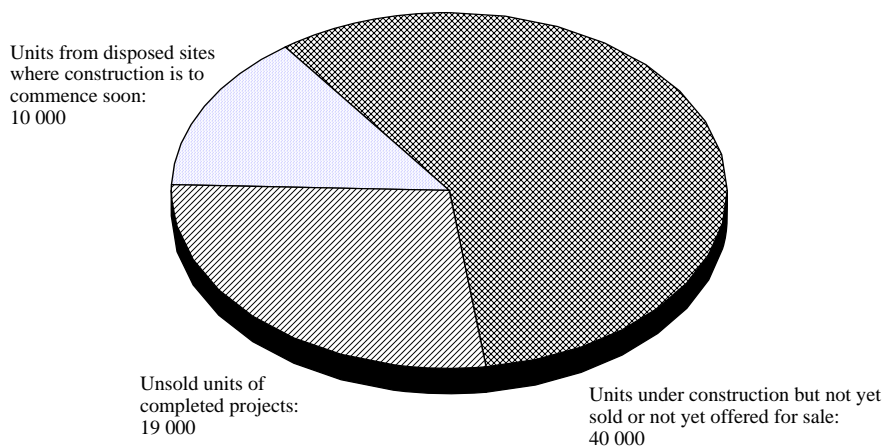


Note : (\*) Residential property price index pertains to secondary market transactions only.

4.3 Leasing of residential flats performed steadily throughout 2006, along with a progressive build-up in user demand. Compared with a year earlier, flat rentals rose further by 6.1% in December 2006.

4.4 Affected by the slow-down in primary sales, completions of new private residential flats registered a larger-than-expected decline of 4.3% to 16 600 units in 2006. Yet according to the latest official estimate, the potential supply of new private residential flats would be some 69 000 units in the next 3-4 years. This is more than triple the average annual primary sales in the past five years.

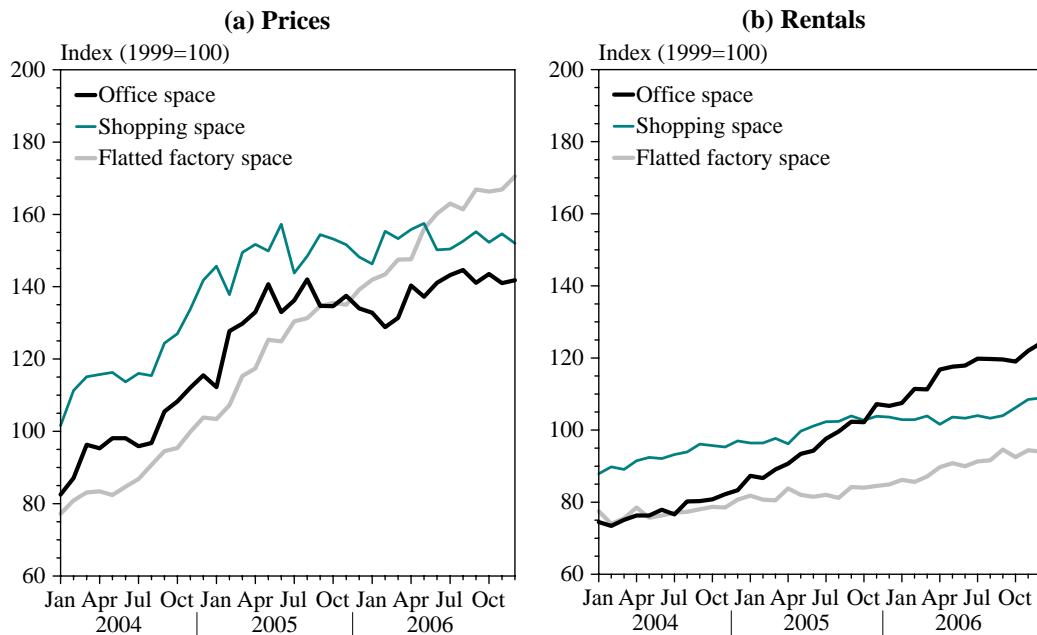
**Diagram 4.2 : Supply of new private residential flats\* remains quite abundant**



Note : (\*) Represented by unsold flats of completed and to-be-completed projects according to the administrative record of Housing, Planning and Lands Bureau as at December 2006.

4.5 The *non-residential* segment continued to fare well in 2006. Leasing demand kept strengthening extensively amidst the general trend of business expansion. Comparing December 2006 with a year earlier, the rentals of office and industrial spaces soared further by 16.3% and 10.7% respectively. The rentals of shopping space also rose as retail sales stayed strong, though the increase narrowed to 5.1% after the earlier surge. For office and shopping spaces, leasing of quality premises in prime locations was particularly buoyant. The sanguine leasing outlook, together with attractive market yield, underpinned the price performance against the restraint of interest rate uncertainty. The prices of office and shopping spaces rose moderately further by 5.8% and 2.6% respectively during 2006, while the prices of industrial space leaped by 22.5%.

**Diagram 4.3 : Current business upturn providing a solid support to the prices and rentals of non-residential properties**



## Land

4.6 Following a quiet state in the first half of 2006, property developers turned more active in land acquisition through the *Application List* in the second half as sentiment improved and more prime sites on the List were released for disposal. The number of applications rose from 7 to 19 between the two periods. For 2006 as a whole, five residential sites totalling 3.4 hectares were successfully triggered from the List for sale through auction. The market response was generally favourable, with prices fetched all exceeding the trigger prices by a considerable margin.

4.7 Sale of *new railway sites* keeps drawing considerable market attention due to location advantages, and should constitute an important land supply for property development in the next several years. In 2006, one MTR site and two KCR sites were tendered and awarded after receiving good response. Totalling 12.9 hectares, these three sites are expected to provide about 10 500 residential units upon completion. Regarding *modification of lease* on existing developed and developable land and *exchange of land* in the private sector domain, 53 sites totalling 18.9 hectares and 49 sites totalling 0.9 hectare were approved for private residential and non-residential property developments respectively in 2006.

## **External transport**

4.8 To cater for the fast expansion in passenger and cargo traffic with the rest of the world, the Government has been striving to enhance Hong Kong's external transport network and connectivity. This includes in particular the cross-boundary connection with the Mainland where both internal and external transport infrastructures are being developed rapidly.

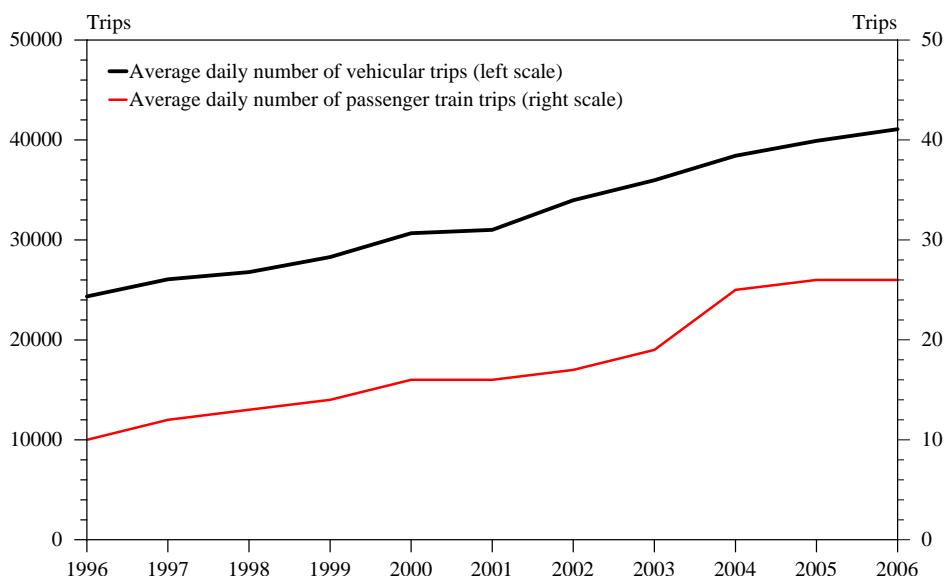
4.9 On *road transport*, Hong Kong and Guangdong are working towards commissioning the Hong Kong-Shenzhen Western Corridor, which will be the fourth vehicular boundary crossing, in mid-2007. At present, works of the Hong Kong section have been completed and those of the Shenzhen Bay Control Point are in progress. On the eastern part of the boundary, Hong Kong and Shenzhen commenced a joint study in December 2006 to establish the need, function and benefits of a new control point in Liantang/Heung Yuen Wai. The Government also embarked on an internal planning study in January 2007 to examine the planning, environmental and engineering issues related to the proposed new control point and the connecting roads within Hong Kong. The two planning studies are scheduled for completion in late 2007 and early 2008 respectively.

4.10 As regards the proposed Hong Kong-Zhuhai-Macao Bridge (HZMB), the governments of Guangdong Province, Hong Kong Special Administrative Region and Macao Special Administrative Region have already reached agreement on the alignment and landing points of the bridge, and are now tackling the outstanding issues of the feasibility study, including the locations of boundary crossing facilities and financing arrangements. The State Council has recently established the HZMB Task Force which is led by the National Development and Reform Commission to help push the project ahead. The first meeting of the Task Force was held in early January 2007.

4.11 On *rail transport*, the Sheung Shui to Lok Ma Chau Spur Line is scheduled for operation in the first half of 2007. Upon commissioning, the Spur Line would help alleviate the prevailing congestion at Lo Wu and significantly enhance the passenger handling capacity of rail crossings. As regards the Guangzhou-Shenzhen-Hong Kong Express Rail Link (ERL), it is being developed to form part of the national high-speed rail network. Through the ERL, Hong Kong will be connected to the major Mainland cities via the Beijing-Guangzhou Passenger Line, Hangzhou-Fuzhou-Shenzhen Passenger Line and the Rapid Transit System. The Hong Kong section is currently under active planning. The Kowloon-Canton Railway Corporation (KCRC) is now

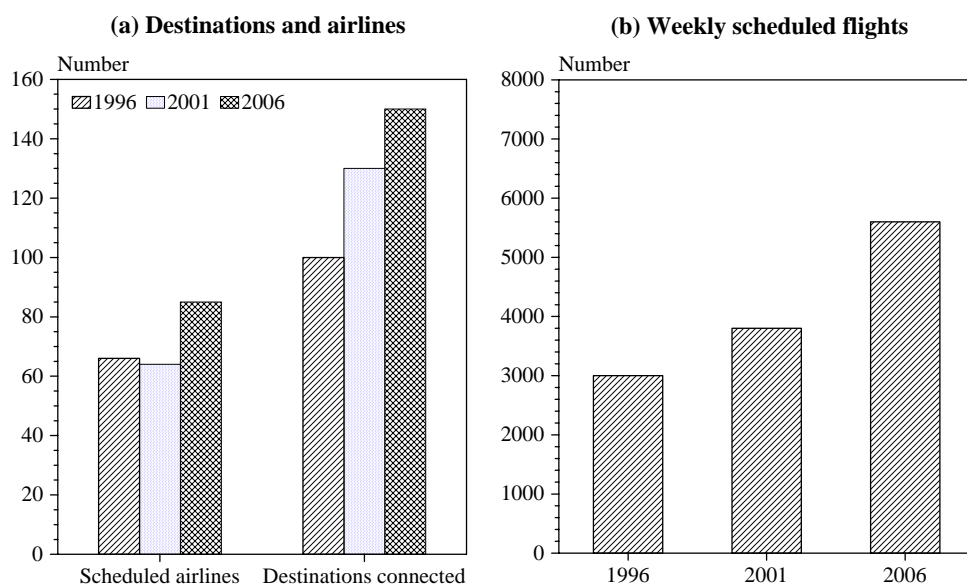
conducting the engineering and operational study, as well as the preliminary site investigation of the project. The Government will decide on the choice of corridor options for the Hong Kong section of the ERL, having regard to the Mainland's latest planning parameters and the report to be submitted by the KCRC.

**Diagram 4.4 : Cross-boundary vehicular and train traffic on a distinct rise over the past decade**



4.12 In respect of *air transport*, infrastructural projects worth of \$8.1 billion are due for completion in the next few years to further expand the facilities of the Hong Kong International Airport (HKIA). In December 2006, Hong Kong Airport Authority started the tendering process for a new air cargo terminal targeted for completion by 2011, and announced that it would commission a study on the technical and environmental feasibility of a possible third runway for HKIA. Infrastructure apart, the Government will work closely with the civil aviation authorities of the Mainland and Macao to optimize the use of airspace in the Pearl River Delta and open more flight paths. The Government will also keep up efforts to expand air services arrangements with our aviation partners to provide opportunities for airlines to add new routes and increase services.

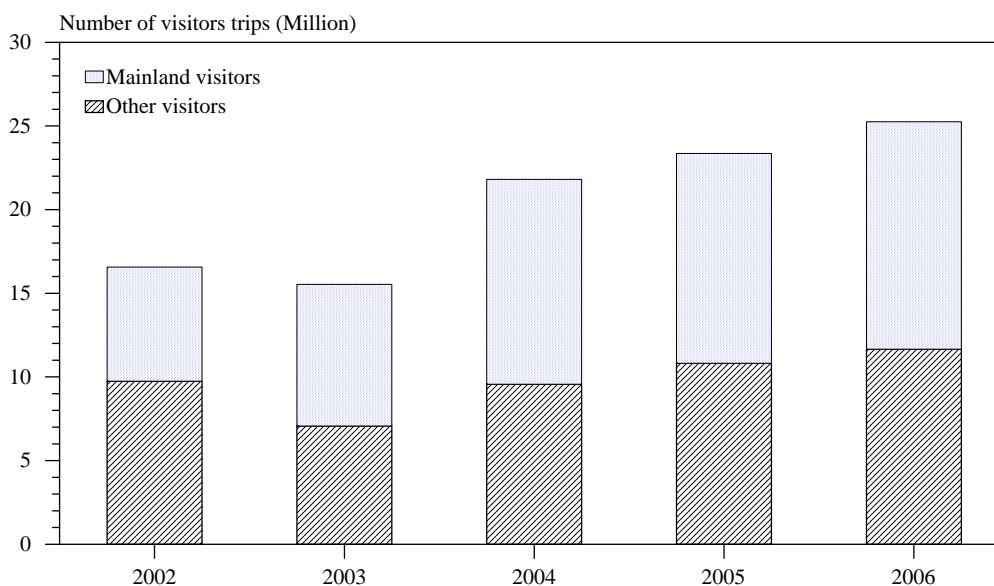
**Diagram 4.5 : Progressive enhancement of flight connectivity and frequency underlying the competitiveness of Hong Kong as an aviation hub**



## Tourism

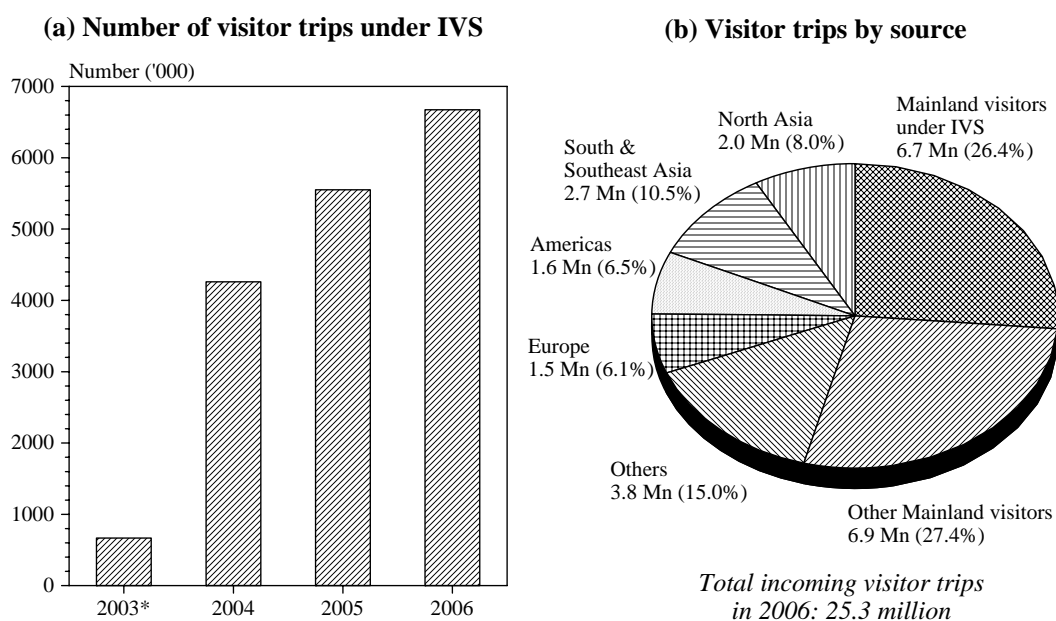
4.13 Inbound tourism advanced further in 2006. The total number of *incoming visitor trips* rose by 8.1% to a new height of 25.3 million, following an increase of 7.1% in 2005. Arrivals from the Mainland rose visibly further by 8.4% in 2006, though the growth pace moderated in the latter part of the year. The growth in arrivals from other regional and long-haul markets generally stayed solid in 2006, under the combined stimulus of global economic growth, intense airfare competition, and weaker US dollar against many currencies.

**Diagram 4.6 : Incoming visitor arrivals rose to a new high in 2006**



4.14 The tourism industry has continued to benefit from the Individual Visit Scheme (IVS) that enables Hong Kong to better capture the fast-growing outbound tour market in the Mainland. In 2006, the number of visitor trips to Hong Kong under the Scheme rose markedly further by 20.2% to a new high of 6.7 million, with their share in total Mainland arrivals reaching 49%. Following its further extension in January 2007<sup>(1)</sup>, the Scheme now covers 49 cities in the Mainland with a population exceeding 250 million.

**Diagram 4.7 : Around one quarter of incoming visitors to Hong Kong are now Mainland visitors under the Individual Visit Scheme (IVS)**



Note : (\*) IVS was first implemented in July 2003.

4.15 In recent years, Asia's tourism market has been thriving with more intra-regional and long-haul travels. The vast market potentials have induced other major destinations in the region to step up efforts for attracting tourists, thereby intensifying the competition. In order to maintain our competitiveness, the Government has been devoting concerted efforts to launch promotional programmes and uphold service standard through collaboration with the industry. Also, it has been investing heavily in tourism infrastructures. Following the opening of the Disneyland theme park in September 2005, the Hong Kong Wetland Park and Ngong Ping 360 commenced operation in 2006. Looking ahead, the redevelopment of the Ocean Park and construction of a new cruise terminal are in the pipeline.

4.16 Apart from leisure and visits to relatives/friends, the high-yield business visitor segment also constitutes an important portion of incoming visitor trips to Hong Kong, at some 24% in 2006. Increasingly, participation in convention and exhibition activities is a cause of business trips to Hong

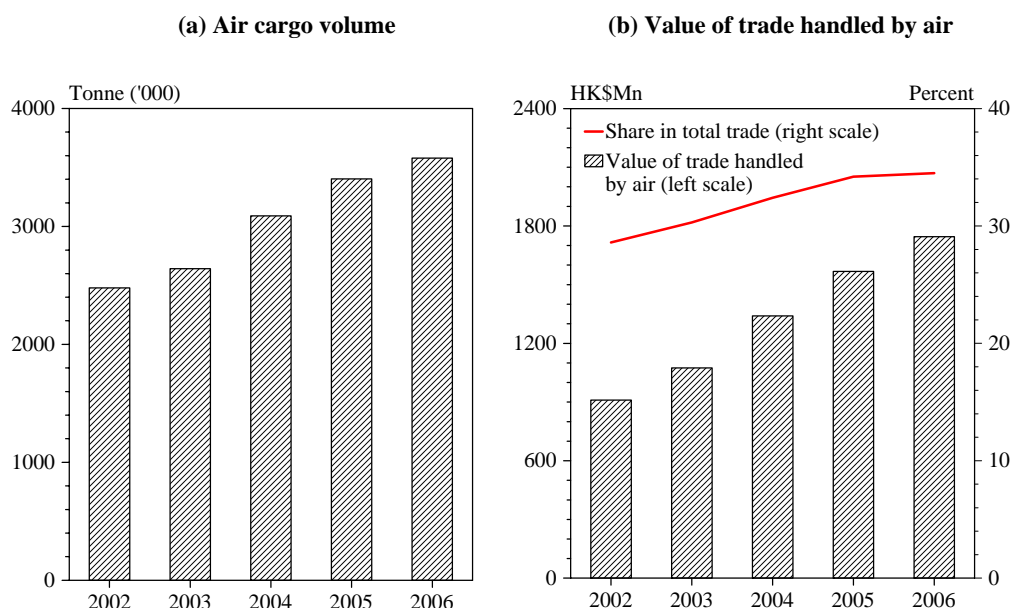
Kong. In 2006, non-domestic participants in conventions and exhibitions surged further by 11% to about 700 000. One growth impetus was provided by the new AsiaWorld-Expo (AWE) which commenced operation in December 2005. Over 40 exhibitions and events have since been held at AWE, and more than 90% of them are held in Hong Kong for the first time. To enhance Hong Kong's position as an international convention and exhibition centre, the Government is pursuing with AWE an early commencement of AWE Phase 2 project. Also it is liaising with the Hong Kong Trade Development Council on further expansion of the Hong Kong Convention and Exhibition Centre.

### **Logistics and maritime**

4.17 The logistics sector showed a steady performance in 2006. Despite intensified competition in the region and on-going structural shift towards offshore trade, both the airport and the port recorded expansion in cargo traffic for the fifth consecutive year. This was underpinned by the sustained vibrancy in Hong Kong's external trade particularly with the Mainland. Besides, frequent services, worldwide network, efficient cargo handling system, and simple and clear customs clearance procedures continued to make Hong Kong an appealing gateway for cargoes.

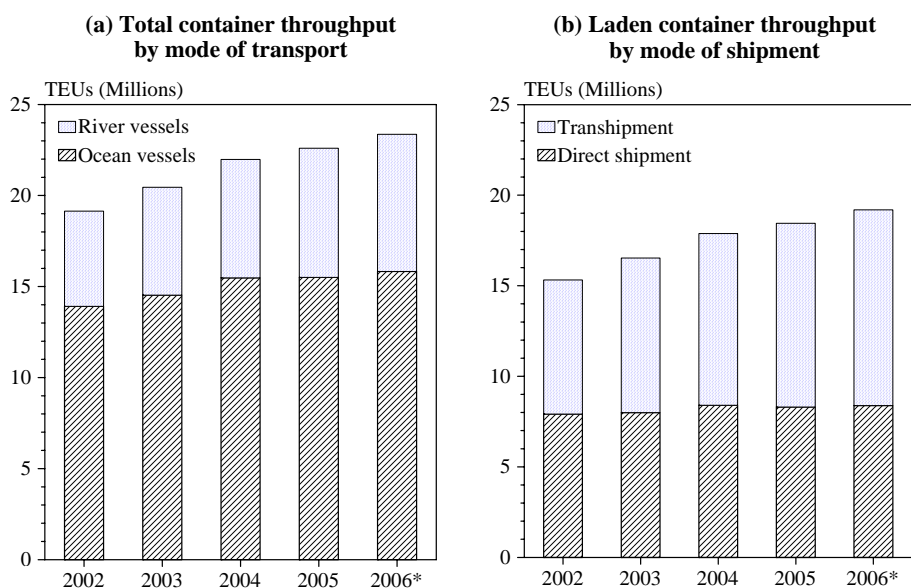
4.18 After two years of double-digit expansion, *air cargo* throughput settled at a slower yet still solid growth of 5.2% to 3.6 million tonnes in 2006. Concurrently, the value of trade (excluding transshipment cargoes) handled by air continued to rise distinctly, by 11.3%. This reflected a rising share of high-value merchandise in air freight, particularly in relation to the Mainland. Of the total value of trade (excluding transshipment cargoes) handled by air, 16.1% was either sourced from or destined for the Mainland in 2006, up markedly from the corresponding figure of 9.4% in 2001.

**Diagram 4.8 : Air freight expanded further as it handled more high-value and time-critical merchandise**



4.19 On *port cargo*, overall container throughput handled by the Hong Kong port went up by an estimate of 3.1% to 23.3 million TEUs in 2006, following an increase of 2.8% in 2005. Within the total, direct shipment cargo movements recorded a modest increase of 1.0% in the first 11 months of 2006, mainly attributable to a further surge in those cargo flows with the Pearl River Delta handled by the river trade vessels. Meanwhile, transshipment cargo movements expanded steadily by 6.4%.

**Diagram 4.9 : River trade and transshipment activities providing the major source of growth in port traffic in 2006**



Note : (\*) Total container throughput for 2006 is the preliminary estimate by Hong Kong Port Development Council. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first 11 months of 2006.

4.20 To cope with intensified competition in the region, there is an urge for the logistics industry to move up the value chain. An important move in this direction is greater focus towards high value-added logistics to support supply chain management instead of carriage of goods alone. In this connection, the Government has responded by implementing various measures to promote the development of e-logistics and the use of information technologies in logistics activities, such as the radio frequency identification technology. It is also assisting the industry to provide training for logistics practitioners in information technology and automation techniques (see **Box 4.1** for details).

4.21 Hong Kong's maritime industry has all along enjoyed a healthy growth amidst the expansion in local logistics activities and development of the Mainland's shipbuilding industry. As at 1<sup>st</sup> January 2007, Hong Kong Shipping Register stood amongst the top ten registers in the world, with a total tonnage of 32.5 million gross tonnage and 1 150 registered vessels. However, Hong Kong faces keen competition from other international shipping registers. It is thus necessary to continue efforts in enhancing the quality, standards and scope of our shipping registration services, train up more local talents, seek avoidance of double taxation for shipping income, and actively conduct promotion overseas.

### **Business services**

4.22 As an international business hub and services centre, Hong Kong provides a comprehensive range of quality business services, including legal, accounting and audit, business consultancy, telecommunications, architecture and engineering, etc. In recent years, these sectors have generally flourished amidst economic upturn at home and increasing external demand especially from the Mainland. In 2006, total exports of miscellaneous services<sup>(2)</sup> (comprising mainly professional and business services) grew further by 8.7% in real terms, following an average annual increase of 8.1% during 2000-05. Latest indications in 2005 showed that the direct contribution of the professional and business service sectors taken together to GDP and total employment in Hong Kong likewise rose to about 11%.

4.23 Under the latest package of CEPA liberalisation measures announced in June 2006, there have been further preferential treatments to Hong Kong service suppliers in a number of service areas when setting up operation in the Mainland as from January 2007. Examples are legal, construction engineering

cost consultancy, information technology, and convention and exhibition services. The measures are expected to foster expansion into the Mainland market by the sectors concerned. The business connections thus resulted would also help to reinforce the competitiveness of Hong Kong as the platform for Mainland enterprises to “go out” and also for foreign enterprises to expand into the Mainland market.

#### **Box 4.1**

### **Value added logistics**

Logistics involves a broad spectrum of activities that mainly covers planning, implementation and control of flows of goods, services and information from the point of origin to the point of consumption. Conventionally, it features most significantly in transportation and cargo forwarding activities. Yet the landscape of the industry has gradually evolved towards greater emphasis on high value added logistics (VAL), essentially an integrative profile that incorporates processes designed to efficiently support and facilitate different elements in the supply chain. This tendency is particularly apparent for more mature logistics hubs like Hong Kong and Singapore where competitive edge has become more by service breadth and depth.

The emergence of VAL is closely related to the growing importance of supply chain management under globalisation. Global market expansion and liberalisation have extended the supply chain to cover more and more regions, as manifested by increased international procurement and marketing activities as well as offshore trade. These developments require more effective supply chain management that has to be built upon an integrative set of specialised logistics services.

#### Examples of specialised services in value added logistics

- Product labelling and packaging
- Light assembling between pickup and delivery
- Transportation management
- Inventory management
- Customs clearance
- Shipment consolidation
- Cargo tracking and tracing
- Supply chain consultancy

Globalisation has also led to intensified competition in the international market that boosts the demand for VAL to cope with the challenge. By enabling an effective supply chain, VAL can lower the transportation and warehousing costs substantially. Moreover, it can uplift the efficiency and flexibility in delivering different bundles of goods to different destinations with unique requirements in terms of quantity, quality and variety. Furthermore, it can help to ensure timeliness in goods delivery and replenishment that have turned more time-critical as the product cycles shorten generally.

VAL should not have prospered as much without technological support. Application of information technology, in particular, has enabled a rapid advancement in the sophistication of logistics services and their effective integration with each other. For example, the distinct improvement in information flows enabled by information technology helps to modernise the inventory management practice and facilitate its convergence with cargo tracing and forwarding activities.

#### Box 4.1 (cont'd)

A related development worth of note is that the sophistication embedded in VAL has bolstered the presence of independent specialised service providers. Many client enterprises, especially those in small to medium size, now opt to outsource part or entirety of their logistics activities to third-party logistics (3PL) companies. The moves are commonly triggered by limitation in internal resources or inclination to focus more on the core part of their businesses. Many of them are also attracted by the value-for-money services by the 3PL companies that excel in cost control and quality assurance through specialisation.

The economic contribution of VAL in Hong Kong is difficult to measure as its ambit cuts across different industries. Yet there is a market consensus that its development has helped our integral sector of trading and logistics to cope with keener competition in the region in recent years, and hence sustain its growth. In particular, VAL fosters the development of offshore trade as a rising source of income in this sector. Latest indications in 2005 showed that the direct contribution of the trading and logistics sector to GDP rose further to 28.6%. The value of goods involved in offshore trade managed or owned by Hong Kong companies was roughly equal to the value of our re-export trade.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Trading and logistics sector				
Direct value added (\$Bn)	308.3	316.9	346.9	384.9
Contribution to GDP (%)	25.0	26.3	27.6	28.6
Offshore trade				
Value of goods involved (\$Bn)	1,458.2	1,666.6	1,835.8	2,087.1
Ratio to re-export in value (%)	102.0	102.8	97.0	98.7

Looking ahead, the Mainland's economic development is expected to present both opportunities and challenges for our logistics sector generally and further development of VAL in particular. On the one hand, the Mainland's robust external trade should provide vast market potentials for specialised logistics services. It is also optimistic that more opportunities would be available for the Hong Kong 3PL companies to develop VAL businesses in the Mainland as its domestic market opens up further. On the other hand, there would be keener competition from logistics service providers of other origins. Competitors also include the indigenous logistics companies in the Mainland that have chased up quickly in service standard through application of technologies and accumulation of market experience.

In order to reap the opportunities and meet the challenges ahead, the logistics industry in Hong Kong must, amongst all, sharpen its competitive edge in VAL. In addition to freight handling efficiency and capacity, continued progress in information connectivity is important. In this regard, the Government has been working closely with the industry towards harnessing the use of information technology in logistics activities. Recently, the Focus Group on Maritime, Logistics and Infrastructures under the Economic Summit on "China's 11<sup>th</sup> Five-Year Plan and the Development of Hong Kong" has recommended an action agenda to promote the application of information technology in the logistics industry. It specifically calls for joint efforts between the Government and the industry to promote the implementation of the Digital Trade and Transport Network System, run a pilot project on an On-Board Trucker Information System, and strengthen the training for logistics practitioners in e-logistics techniques, etc.

## **Innovation and technology**

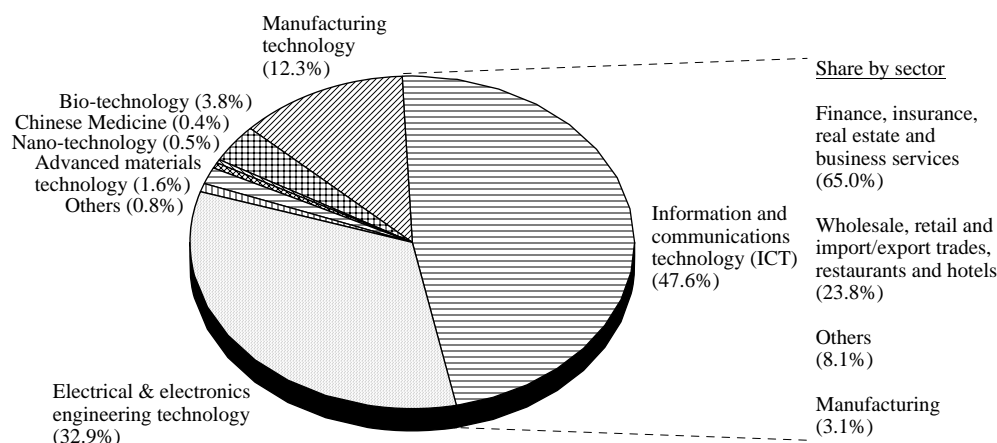
4.24 The Government kept up its efforts on promoting the development of innovation and technology in 2006. Five new government-funded R&D centres and the InnoCentre commenced operation during the year. Funding support from the Innovation and Technology Fund and the DesignSmart Initiative continued. Additional funding would be earmarked for the Hong Kong Design Centre to further promote the use of design. On-going efforts were also made to foster an innovation and technology culture through such programmes as Innovation Festival and Hong Kong Student Science Project Competition. In the area of information and communications technology (ICT), the Government is updating the Digital 21 Strategy, the blueprint for ICT development, with due regard for international developments and Hong Kong's social and economic needs<sup>(3)</sup>.

4.25 The development of innovation and technology not only matches with the restructuring of Hong Kong towards a knowledge-based economy, but also enables it to contribute to the national economic development and seize the opportunities it presents. One of the emphases under the national 11<sup>th</sup> Five-Year Plan endorsed in March 2006 is on autonomous innovation and upgrading of the overall hi-tech capability and technology level of the industries. In response, a focus group under the Economic Summit on "China's 11<sup>th</sup> Five-year Plan and the Development of Hong Kong" has proposed various initiatives for Hong Kong to grasp this opportunity to raise our innovation capacity, upgrade our technology level and promote our innovation, technology and information services to the Mainland market. Examples include more active participation in the process of development and formulation of product and technology standards in the Mainland, closer technological collaboration with Shenzhen, and promotion of Hong Kong as a premium location for data centres in the region, etc.

4.26 With the evolving opportunities and challenges in the market and the supportive policy framework, the business community in Hong Kong has more actively engaged in innovation and technology activities in recent years. Latest indications in 2005 reveal that business expenditure on in-house R&D activities rose markedly further by 22.5% to \$5.6 billion, bringing the total business expenditure on scientific and technological innovations to a new high of \$18.5 billion. The latter represented 1.3% of GDP in 2005, up from 0.5% in 2001. Of the total business expenditure on R&D, about half were related to ICT mainly undertaken by the service sectors, such as finance, trading and logistics. The other half was largely related to industrial production for the

sake of new products and improvement in production methods. Many of these activities were undertaken by Hong Kong companies with their manufacturing base in the Pearl River Delta region.

**Diagram 4.10 : Industrial production apart, business expenditure on R&D are also geared to harness the use of ICT in service activities**



*Total business expenditure on R&D in 2005 : \$5,622 million*

### Notes :

- (1) See Note (3) to Chapter 3 for details on the extended coverage of the Individual Visit Scheme as from January 2007.
- (2) According to the current statistical classification, the figures here cover communications services; computer and information services; royalties and licence fees; personal, cultural and recreational services; construction services; architectural, engineering and other technical services; legal services; accounting services; business and management consultancy services; advertising and market research services etc. However, finance, insurance, transportation, travel, merchandising and other trade-related services are classified elsewhere.
- (3) The Digital 21 Strategy was first published in 1998 by the Government to set out the vision of developing Hong Kong into a leading digital city in a globally connected world. The strategy is aimed to outline how the Government, business, industry, academia and the public can work together to achieve this goal. To take account of advances in technology and changing needs of the community, the Strategy requires constant review. Previous updates were made in 2001 and 2004. Following the two-month public consultation that ended in mid-December 2006, it is aimed to finalise and publish the 2007 Digital 21 Strategy in 2007. The theme underpinning the latest Strategy is “continuing to build on our strengths through technology across the community”, with the objective of strengthening Hong Kong’s position as a world digital city.