

**Speech by Mr. Stephen IP, GBS, JP  
Secretary for Economic Development and Labour  
at Seminars to be held in Slovakia  
21 – 27 April 2007**

**“Hong Kong – Your Premier Intermodal Logistics Hub”**

Mr Mojs, ladies and gentlemen,

Good afternoon. Thank you for coming today and for your interest in Hong Kong. I am delighted to be here in Bratislava – a charming city with a rich cultural heritage and a history of vibrant commerce.

As you may know, I’m here with Hong Kong’s logistics industry leaders. We’re very keen to look at your logistics developments, and to explore opportunities for further co-operation between us.

We have come to Slovakia partly to promote Hong Kong’s strengths as a global logistics hub, and also because we see great potential in enhancing our relationship. Since 2002, the bilateral trade volume between Hong Kong and Slovakia has been increasing at an average of 35.5% per annum. Last year, the value of trade between us reached Euro 57 million, of which Euro 45 million was trade between Slovakia and

Mainland China routed through Hong Kong. We are well aware that the huge growth of Mainland China's economy also offers exciting possibilities for building greater trade links between Hong Kong and Slovakia.

For many years, Hong Kong has served as the main gateway for international enterprises entering the Chinese market. Last year, around 80% of cargoes handled by Hong Kong were going to, or coming from, South China. Around 20% of China's total imports and exports are handled by Hong Kong. In recent years, neighbouring ports in South China have been gearing up their logistics capabilities and offering services at lower costs. Competition is a fact of life for Hong Kong, and I believe the same applies here in Europe.

In Hong Kong, these challenges keep us on our toes in our efforts to maintain our position as the springboard to Mainland China. By moving up the value chain, and leveraging on the business-friendly environment created by the Hong Kong SAR Government, our logistics companies are able to stay ahead and to capitalise on the flourishing Chinese economy. To a considerable extent, Hong Kong's continuing advantage as a preferred logistics centre is due to the ongoing

modernization of our operations, and the constant efforts to offer improved and value-added services.

Nowadays, global sourcing is prevalent. Supply chains often cover various parts of the same country, different countries, or countries in different continents. Sourcing, manufacturing, consolidation and transportation are highly specialized, and interwoven. A small hiccup in any one part of the supply chain can cause any number of big problems: missed berthing slots, re-adjusted schedules, production bottlenecks, extra warehousing costs, and worst of all, missed delivery deadlines and tarnished credibility. In view of this, logistics companies are specialising more and more in the provision of supply chain management services. Speed, efficiency, reliability and transparency are key success factors for these value-added logistics services, and have increasingly become the profit drivers for all kinds of businesses.

Recent developments in the logistics industry play to Hong Kong's strengths. So, I'd like to take the opportunity to brief you on some of these points.

Firstly, we have a strong transportation network, which offers maximum flexibility and efficiency in supply chain management. Our air, sea and road links are well developed and well connected. Our airport is the world's busiest for international air cargo and operates around-the-clock. Last year, it handled 3.58 million tonnes of cargo.

On the maritime side, Hong Kong's port saw record high container throughput of 23.5 million TEUs in 2006 – the second highest in the world.

Our port and airport are supported by a smooth flow of road traffic between Hong Kong and Mainland China. We have a highly efficient and transparent Customs regime, which provides round-the-clock service at control points. Around 90% of our cross-boundary goods vehicles can complete all clearance procedures within one hour.

We recognise that, to fully exploit the advantages of inter-modal transportation, then state-of-the-art information technology is required. Given the complexity of modern logistics operations, and the large number of parties involved, the adoption of information technology is all the more

important because it allows for seamless information connectivity between all those concerned.

Hong Kong is a technologically advanced city. Our digital inclusiveness ranks 5<sup>th</sup> in the world. Our mobile penetration rate of 129% is one of the world's highest – there are actually more mobile phones than people in Hong Kong. Our broadband networks cover virtually all commercial and residential buildings, while household penetration of broadband is about 67%.

Our logistics industry is striving to build on these peripheral strengths through increased automation. For instance, the Digital Trade and Transportation Network System, launched in 2005, provides an open, neutral and secure electronic platform for logistics players to exchange information in an efficient, reliable and low-cost manner.

All of this infrastructure, physical or electronic, contributes to making Hong Kong a leading logistics hub. Yet, as I mentioned earlier, neighbouring ports in Southern China are fast catching up with us. So, we constantly need to innovate to stay ahead of the pack. Aside from moving up the value chain,

there are other factors that give Hong Kong an edge and underpin our past and future success.

We have a clean and efficient government with strong respect for the rule of law and an unwavering commitment to creating a business-friendly environment. We have a tried and trusted legal system, upheld by an independent judiciary. Our common law system provides a secure environment and a level playing field for business. Hong Kong has also been developing its role as a regional centre for dispute resolution. Certainly, since China's accession to the WTO, Hong Kong has become **the** venue for regional arbitration. Today, awards made in Hong Kong can be enforced in more than 130 jurisdictions, while awards made in Hong Kong or Mainland China are reciprocally enforceable.

Our business environment is welcoming and friendly. Hong Kong has been rated the world's freest economy by the Heritage Foundation every year since the index was first published in 1995. We believe in free trade and the free flow of capital. We do not have any foreign exchange control and our currency is freely convertible. Our taxes are low and our tax system simple. Profits tax is only 17.5%, while salaries tax

is on a sliding scale capped at 16%. We don't have any value-added or sales tax, nor any capital gains tax. And, only Hong Kong-sourced income is taxable.

Hong Kong is not just a platform for international businesses wanting to enter the China market; we are also the location of choice for Chinese enterprises wanting to enter the global market. So, you get the best of both worlds in Hong Kong. We have a huge pool of entrepreneurs with experience in Mainland China and a strong international business network; they are ready and able to bring together Chinese enterprises and foreign trading partners, and create opportunities for both parties.

Another advantage that only Hong Kong offers is our enhanced access to the Mainland in terms of goods and services. In 2004 we implemented a Closer Economic Partnership Arrangement with China, commonly known as CEPA. This is just like a free trade agreement between Hong Kong and China. Under CEPA, Mainland China imposes zero tariffs on Hong Kong manufactured goods, and enhanced access in 27 services areas. Because we have a level playing field for business, CEPA is 'nationality neutral'. For

manufactures, you can set up a company tomorrow and send in goods tariff-free immediately. For services, certain time limits apply. But, if you seek out a Hong Kong-based partner – and that can be any Hong Kong incorporated company from any country meeting the criteria – you can gain enhanced access that way.

Ladies and gentlemen, Hong Kong has a lot to offer any international company wishing to get a foothold in Asia. We're here because we want you to come and explore the opportunities in Asia, and especially China. And we're here because I believe that Hong Kong offers you the best platform in Asia to explore those exciting markets. We'd warmly welcome your presence in Hong Kong, Asia's world city.

Thank you very much.

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