

Speech by SEDL at Posidonia Maritime Policy Forum

Following is the speech by the Secretary for Economic Development and Labour, Mr Stephen Ip, at the Posidonia Maritime Policy Forum today (June 7) (English only):

Distinguished guests, ladies and gentlemen,

It is a great pleasure to join you today for this major event on the maritime industry calendar. I would like to thank the organisers for giving me the chance to provide you with an overview of economic and maritime developments in Asia, particularly the impact of China's economic ascendancy and Hong Kong's role as an Asian shipping centre. One of my highest priorities is to promote Hong Kong's development as a maritime hub and events such as Posidonia allow me to do just that, as well as tap into the experiences of, and developments in, other major shipping economies.

For centuries, Hong Kong's excellent deep-water harbour has been used by mariners for shelter, replenishment and trade. This natural advantage has been put to maximum use. Today, Hong Kong is the world's busiest container port and a premier shipping centre. And that is because we have not just been blessed with a fantastic deep-water anchorage, but also because of our strategic location at the doorstep of southern China. We have thrived as an entrepot to the Mainland market, and offer unparalleled maritime services and access to Southeast and East Asia, the Asia-Pacific, and indeed to North America and Europe from our corner of the globe. We have also played a crucial role in the development of what is now one of the world's most important manufacturing centres and supply chains, and that is the Pearl River Delta. I will come back to this a little later.

But first, allow me to provide a broad overview of general economic developments in Asia. The outbreak of SARS, and the war in Iraq, caused a noticeable slowdown in most Asian economies in the first half of 2003. With the exception of Japan and Thailand, growth in most Asian economies eased or actually declined. By the third quarter of 2003, there had been a distinct upturn in the region. This was mainly due to an improved external environment and an upturn in export demand, as well as the successful containment of SARS and the revival of those industries most affected by the disease including aviation, business and leisure travel, accommodation and hospitality and retail spending. Asian economies play a vital part in world trading. Last year, total trade value of the Asian economies amounted to US\$3,587 billion accounting for about a quarter of the total global trade. Intra-Asian trade alone grew by 23% in 2003 amounted to US\$1,863 billion.

This year, the East Asian economies are on track for further recovery, although the momentum may ease towards the latter part of the year. ASEAN economies are expected to maintain strong growth this year. Exports will continue to grow and private consumption and fixed asset investment also appear to have gathered a sustainable momentum.

Without a doubt, the biggest single factor in Asia's economic development is China. Last year, China's economy grew by 9% in real terms, compared to 8% in 2002. In 2003, China's imports grew by an astounding 40% in dollar terms, while its exports expanded by 35%. As the WTO notes, these are remarkable levels of growth for a country with such a substantial volume of trade. China now ranks number three among the world's merchandise importers, after the US and Germany, leapfrogging France, Britain and Japan in the space of one year. As for merchandise exports, China is catching up quickly on Japan for the third spot.

In the first quarter of this year, the economy grew by 9.7%, which has prompted the World Bank, IMF and ADB to revise upwards their 2004 growth forecasts to between 7.7% to 8.5%. The Mainland government had set a target growth rate of 7% for 2004 and is actually taking steps to cool this rapid growth and expansion, particularly over-investment in over-heated sectors. These cooling measures appear to be working, with many leading economists (including IMF) predicting they will help China achieve a soft landing, with consolidation in those over-heated sectors such as real estate, automobile and related industries like steel, cement and aluminum.

China's rapid and strong economic growth has had a flow-on effect on the maritime and shipping industry. That has meant Asian economies are playing an increasingly important role in global maritime development and ship management. The Review of Maritime Transport 2003, published by the United Nations, shows that six Asian economies - Japan, China, Hong Kong, South Korea, Taiwan and Singapore - were ranked among the 10 most important maritime economies in terms of ship owning. Shipowners in these six Asian economies together own over 38% of the world's total tonnage. China and Korea are also strong in shipbuilding. Rapid growth in China has fuelled the heavy demand for raw materials such as iron ore and coal, which has resulted in unprecedented high volumes of shipping to and from China's many ports.

The importance of major maritime clusters in Asia is increasingly being recognised. The public and private sectors in each country are working to upgrade port, maritime and logistics services. And although trade with the US and Europe is still very important, intra-Asian trade has helped to significantly boost transshipment volumes using medium-sized vessels that can dock at the many relatively smaller ports in the region. Both

bulk and container ships are witnessing a boom in business. And the ongoing development of maritime services such as insurance, arbitration, brokerage and ship management further highlights an accelerating trend.

In Hong Kong we are eagerly riding on this wave of maritime and shipping development. My government is determined to not just sustain but improve our position as an international maritime centre. As I mentioned earlier, we are fortunate to have one of the most strategic locations in the world - at the heart of Asia and at the mouth of the burgeoning Pearl River Delta region in Southern China. The Pearl River Delta - or PRD as we call it - is the world's largest manufacturer of consumer products. Every day, more than US\$300 million worth of goods are produced in the PRD and Hong Kong handles about 80% of the PRD's imports and exports. Hong Kong's prime location has been instrumental in the development of this dynamic economic entity, as well as our own development as a leading port and as the world's busiest international air cargo centre, transport and logistics hub for the region, as well as an international financial and business centre.

Hong Kong has always been proud of its international outlook and as a 'meeting place' of East and West. As a Special Administrative Region of China, we have close geographical, economic and cultural ties with the Mainland. At the same time, under the principle of 'One Country, Two Systems', we maintain our own legal and judicial systems, remain a separate customs territory, maintain our own shipping register and negotiate our own air services agreements. We operate an autonomous maritime administration and shipping register that underpins Hong Kong's position as an internationally reputable maritime centre. On top of these, a strong tradition of the rule of law, coupled with clean government, the free flow of information and a simple, low-tax system has underpinned Hong Kong's development as one of the freest and most business-friendly economies in the world. Taken together, these characteristics make Hong Kong a natural partner for foreign enterprises and investors wishing to break into the vast and promising China market. As an illustration, Hong Kong currently handles 23% of China's total trade with the world, and last year about 26% of Sino-Europe trade was routed through Hong Kong.

The implementation of a Closer Economic Partnership Arrangement (or CEPA) with Mainland China in January this year has provided added impetus to Hong Kong's development. This landmark free-trade pact gives Hong Kong service providers access into the Mainland market in 18 service sectors, including logistics, maritime and road transport, freight forwarding and storage services. Since China has not made any WTO commitments in logistics and maritime transport services, Hong Kong companies in these sectors will enjoy unique advantages over their foreign counterparts. CEPA opens up new and unprecedented opportunities for Hong Kong maritime and logistics companies.

In addition to CEPA, we also have an arrangement for Pan-Pearl River Delta (PRD) Cooperation and Development that would further facilitate Hong Kong investors and service providers to develop and expand their business to nine provinces in China. The region covers an area of more than 2 million km² with a population of 450 million, about one third of China's national total.

The Pan-PRD region is a huge market and fast growing production base with a wide range of resources. These provinces know that they can take advantage of Hong Kong's position as Asia's World City to enhance the region's overall competitiveness in the global market. Through the development of infrastructure within the Pan-PRD region, the role of Hong Kong as the preferred international and regional transport and logistics hub will be further strengthened. There will be improvements to the multi-modal transportation network within the region to induce further economic and industrial development and at the same time provide opportunities for the Hong Kong port to expand its hinterland further.

Hong Kong excels in two kinds of shipping services - international maritime services, and container port services. For maritime services, Hong Kong's shipowners and ship managers control over 8% of the world's tonnage after Greece, Japan, Norway, China, the US and Germany. We offer comprehensive and high quality services to the maritime industry through some 900 shipping-related companies that provide a wide range of services such as ship registration, financing, marine insurance, ship broking, maritime arbitration, ship management, surveying, repair and replenishment. Hong Kong has also entered into 'double taxation' agreements with 11 trading partners, and has a 'preferential port dues' agreement with Mainland China. Excellent services and low tax rates have been well received by the industry. Our Shipping Register continues to attract top quality tonnage and has expanded considerably from 9.3 million tones in 1999 to our present level of 23 million tonnes. We expect that the Register will surpass the 25 million tonne mark by the end of this year. The Hong Kong Maritime Industry Council, which I chair, is also implementing many new initiatives to enhance Hong Kong's attractiveness as a base for international maritime enterprises and services.

On the container side, Hong Kong handled a world-record throughput of 20.4 million TEUs in 2003, and has been ranked the world's busiest container port for 11 of the past 12 years. The container port welcomes more than 400 liner services per week to over 500 destinations. To ensure we remain a vital commercial port, and as one of the most important commercial gateways to China, we have to ensure the timely provision of port facilities. In this regard, we have just completed a study 'Hong Kong Port - Master Plan 2020' - to formulate a competitive strategy and master plan for our port development over the next two decades and beyond. The study indicated that more container terminals would

need to be developed to cater for the continuous growth in trade in South China. Our future terminal will be able to take vessels of any size - be they Suezmax or Malaccamax.

Ladies and gentlemen, Hong Kong has worked extremely hard to become the pre-eminent maritime and logistics centre in Asia and gateway to China. We will ensure that we maintain and enhance this positioning. I sincerely hope that you will consider Hong Kong as not just a viable base, but a necessary one, for future expansion and development and as a register of repute and quality for your ships. Members of our Hong Kong delegation are shipping industry leaders and will be more than happy to share with you their experiences and successes in operating shipping businesses in Hong Kong.

I can assure you that we will strive for even closer co-operation with the local and international shipping industry to fully realise our advantages as a leading international maritime centre. In closing, and since tourism is also one of the areas that fall under my purview, may I take this opportunity to appeal to you and the Greek shipping community to come and experience Hong Kong's cultural and tourism attractions whilst checking out the many quality maritime services that we provide. If you cannot spare the time in the near future, do come and visit the Hong Kong Pavilion at the exhibition. We will be hosting a dim-sum reception tomorrow afternoon where we will offer a little taste of Hong Kong and what we offer as a business and leisure destination.

Once again, I would like to thank the organisers for arranging such an important event on the international shipping calendar. We are glad to be a part of it.

Thank you.

End/Monday, June 7, 2004