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**“Hong Kong and the Asian Economic Landscape  
in the Age of Globalization”**

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Mr Woon, Distinguished Guests, Ladies and Gentlemen,

It gives me great pleasure to participate in this Congress and to address such a distinguished audience.

I am sure all of you have seen those horrific images of the terrorist acts in the US last week. I wish to express to my many friends in the United States my deep sorrow and send my condolences to the family, relatives, friends and loved ones of the victims.

**Introduction**

Given our strategic geographical location, internationalized nature and business-friendly environment, Hong Kong has been a regional service center for trade, finance, communications and other sectors for many years. Our services sector has been growing fast, not only in terms of output, employment and GDP contribution, but also in its diversity.

I am glad that the first World Services Congress of the new century is staged in Hong Kong. It is always thought-provoking to hear the views and ideas from such a wide range of speakers and panelists from all over the world, particularly at this point when the world economy is undergoing some fundamental changes through globalization, and all industries and trades are bound to be affected in one way or another, and to various extents.

## **Globalization and the Internet**

Globalization is a subject which we are never tired of discussing, despite all the talk that has been going on about its pros and cons. Whether you are for, or against it, you must recognize that globalization is now an established trend, and this trend is rendered all the more irreversible by the wide application of information technology in business, and the advent of the Internet. I think few people would dispute that information technology is the key driving force behind globalization.

Today the Internet is one of the most, if not the most, important means of communication in both the business world and our everyday life. The number of regular Internet users is growing at a rate which no one could predict just three or four years ago. Obviously this will have a powerful impact on businesses. Most, if not all, of them would find it necessary to formulate or reformulate their development plans and strategies in such a way as to capture the opportunities that arise from the Internet explosion.

According to some surveys in the US, there are at present nearly 400 million online users worldwide, and it is projected that this number would grow to one billion in 2005. It should be noted that the Internet explosion knows no national or geographical boundaries. It is happening not just in North America or Western Europe, but all across the world. Other surveys have indicated that Internet users will be growing at a faster rate in Asia Pacific than in the US and Europe. This will certainly have far-reaching implications for the economic landscape of the Asia Pacific in the new century.

## **Globalization and China's Entry to WTO**

We understand that trade liberalization is another key factor that accounts for the globalization of the world economy. With liberalization, world trade is allowed to grow and expand. This can only be matched by increased output and enhanced efficiency, which in turn will translate into more jobs and more extensive application of technology. In this process, information technology and the Internet surely play an important role.

Globalization in the 21<sup>st</sup> century will assume a new look with China's imminent entry to the World Trade Organization. We can safely predict that the scale and pace of economic globalization will be given new impetus by this development. So far the main focus of most people has been on a more open market and the opportunities that come with it. That may well happen

but perhaps not in the immediate future. Of course China is obliged to further open up her market to the outside world, but that process takes time and it may not be as quick as some people would wish. The more realistic anticipation would be for this opening to be phased-in over a period of three years or more.

In my assessment, the far more significant impact of China's WTO membership is that her exports to the rest of the world will become vastly more competitive. Discriminatory trade practices and trade barriers now adopted by some countries against China will no longer be possible. Under WTO regulations, China will have immediate redress should she be subject to unfair trade practices or discrimination.

Export economies in the world, particularly in the Asia Pacific, will probably be affected by this change to various degrees. China's competitors in the garments trade would be relatively immune from the impact because of the still existing quotas system. However, for non-quota items, the impact could be quite immediate and drastic. Manufacturers and exporters in Southeast Asia could be severely affected. It is quite possible for Southeast Asian economies to face some degree of disruption in competing against China as a WTO member.

In order to stay in the game, Southeast Asian countries will need to re-position themselves in the market by finding and specializing in some niche items as quickly as possible in order to remain competitive. I would, therefore, envisage a niche hunting game to start in the near future.

On the macro level, China's entry to WTO will bring about some sweeping changes to the whole economic landscape of Asia. As we all know, Asia has not been on the radar screen of foreign investors since the regional financial crisis in 1997. Now that the last hurdles for China's WTO entry have been cleared, I believe the investing world will be looking at Asia in general and China in particular in a different light. Surely multinationals' interest in this region will be rekindled and foreign direct investment is likely to return. In time, not only China but the whole of Asia as well will benefit, though China will probably get a bigger share of the windfall.

### **Trade Revolution Stimulated by Supply Chain Management**

Wider application of IT and the Internet has enabled the old economy to merge with the new. With the help of IT and the Internet, supply chain management now plays a vastly more important role in the process of

globalization by enabling the speedy handling of orders and delivery of goods. Trade transactions are no longer location-bound. Global trade is now completely revolutionized, as national and geographical boundaries are no longer major obstacles.

In global trade, supply chain management will generate better results and value by synergizing with the Internet, therefore achieving greater sophistication in the process and generating higher value for customers. And higher value for customers is exactly what is demanded of the service sector of the world. I can see a new economic order emerging in the trade sector where competition between economies would be tantamount to competition between supply chains. There will emerge a “supply chain versus supply chain” paradigm where success depends on the ability to dissect the manufacturing value chain and optimize each link.

One of the key benefits of supply chain management is the drastic reduction of inventory. With supply chain management, the retail sector will be able to reduce inventory to a minimum, especially during economic uncertainties or downturns, thereby improving inventory control and achieving better cash flow. Swings in inventory that used to impact on economic cycles would virtually disappear. Time will become the key factor for success as businesses compete on how quickly and effectively they can respond to customers’ needs. Geographically dispersed supply chains will be competing with each other on both regional and global scales. Under such circumstances, global supply chains with the right flexibility and efficiency will be driving the globalization process.

I must point out here that the economic order described is not going to allow only the big guys to dominate the market. On the contrary, it will be highly conducive to SMEs. First, it has become increasingly common for companies to focus on their core activities while outsourcing the rest to achieve higher cost-effectiveness and better resource utilization. The inherent flexibility of SMEs will make them good service providers or even outsourced partners for the big guys. Secondly the application of IT will empower SMEs to integrate with, and play their respective but significant roles in the global market. I am therefore confident that SMEs will have more opportunities in the globalization process.

### **Hong Kong’s Positioning and Economic Links with the Mainland**

So much for globalization and world trade. Let me now turn to another topic that has more regional significance and that is Hong Kong’s positioning in

response to globalization and China's WTO membership.

I think Hong Kong's continued success as a major player in the global economy depends on two factors: (a) our ability to harness IT; and (b) our continued integration with the Pearl River Delta in Southern China. I have already spoken about the first, let me now spend a little time on the second factor.

Two decades of economic reform has turned the Pearl River Delta into an economic powerhouse in the Asia Pacific region as well as a key supplier of manufactured goods to North America, Europe and other parts of the world. This process continues into the 21<sup>st</sup> Century and will be given new impetus by China's imminent entry to the WTO.

To remain a key player in the region, Hong Kong is transforming itself into an information center that coordinates and integrates service providers in the Chinese Mainland and the Asia Pacific. That calls for a greater degree of economic integration with the Pearl River Delta.

The HKSAR Government has recognized that need, and is determined to enhance the infrastructural links between Hong Kong and the Mainland, and to facilitate the increasing flow of economic and social activities. One of its priorities is to improve inter-modal transport between Hong Kong and the Mainland to ensure the smoother flow of goods and people, thus enhancing the efficiency and competitiveness of both Hong Kong and the Pearl River Delta.

### **HKIA as Hong Kong's Engine of Growth**

Hong Kong International Airport is a key element of Hong Kong's infrastructure. It plays a prime role in Government's efforts to improve infrastructural links between Hong Kong and the Pearl River Delta. The Airport Authority's focus is on strengthening cooperation with other airport operators in the Pearl River Delta region. We recognize that this is highly important for developing Hong Kong into an air cargo hub servicing international and regional freight that will in turn generate more business and employment opportunities in the supporting services.

I have said on other occasions that Hong Kong International Airport will be an engine of growth for the Hong Kong economy. With China's imminent entry to the WTO and a higher degree of integration between Hong Kong and the Pearl River Delta, I think that prediction is becoming more real. And we are

actively positioning ourselves to play that role. Let me show you a couple of initiatives that we have taken.

The on-airport Marine Cargo Terminal opened in March this year has enabled HKIA to become one of the world's leading inter-modal transport hubs. This Terminal now provides one-stop service, including round-the-clock on-site customs clearance and truck delivery services between the Terminal and air cargo handling facilities at the airport. Strategically the Marine Cargo Terminal is of great importance to Hong Kong as we reinforce our position as the premier gateway of Southern China and as we aspire to become a logistics service management center for the region.

In addition to the logistics center which is being constructed at the airport, we have also proposed development of a logistics park at North Lantau in close proximity to the airport. This facility targets high-value and time-sensitive products such as computer parts and components and pharmaceuticals. The idea is to create a hub for such products which can be handled or processed in Hong Kong before their onward transfer to the Pearl River Delta by air, sea or land. Similarly goods from the Delta can be handled in the same manner in the logistics park before re-export by air to regional and international destinations.

## **Conclusion**

To the services sector, the 21<sup>st</sup> Century promises to bring more challenges especially in technology application and the restructuring of global competition. However, we must remember that alongside these challenges, opportunities will also abound. The key to success for individual economies as well as business organizations will be correct positioning and doing what they can do best.

Thank you

**Ends**