

Comments on Public consultation 2004 Digital 21 Strategy

In response to the Public Consultation Paper on 2004 Digital 21 Strategy, we have the following suggestions regarding the Government's leadership for the Government's consideration.

Analysis on Internet Penetration Rate:

1. As a member of the IT industry, we are pleased to see the remarkable progress of e-services in Hong Kong. As indicated in the Consultation paper, the respective PC penetration rates for Households and Business in 2002 reached 62% (50% in 2000) and 55% (52% in 2000). If we look at the Internet penetration rates for Households and Business, we can see that the respective rates had reached 53% (36% in 2000) and 44% (37% in 2000) in 2002 accordingly.
2. The simple figures had directly reflected how popular Internet usage has grown in the community in recent years. Government's promotion has definitely played a vital and successful role in bringing the community into a digital life. The fast growing Internet population has laid a sound foundation for e-industry development. Given the fast growing Internet usage in the Territory, we would like to highlight that globalization is an unavoidable trend for the business sector to formulate its future strategy, as geographic boundaries no longer exist in e-commerce arena.
3. If we conduct a simple analysis on the above figures, it is not difficult to find that the acceleration rates of Internet usage for Household and Business are not demonstrating a balanced increment: For households, the Internet penetration rate increased from 36% to over 50% in 2 years whereas for business entities, the Internet penetration rate increased only by 7 points to 44%, less than half of the total number.
4. We can therefore deduce that Hong Kong is more ready to be a mature market (spending money) than a mature supplier (earning income) for the global e-commerce industry.
5. Our conclusion: **If resources are to be allocated for local IT development, resources should be directed towards grooming the IT industry instead of grooming the IT population. More than half of the local business entities still need public education and assistance in developing themselves with the Global trend.**

Economies of Scale for e-business operations

1. We understand that Hong Kong, with a limited population, cannot sustain enough local e-service growth for the entire IT industry to survive. This is of no difference to the Telecom market.
2. Let us take the 3G Licencing Auction as an example. The UK Government had captured 4-6 billion pounds (= EUR5.57-8.62 billion approx.) for each 3G licence granted during the auction whereas OFTA could, by granting each 3G licence, only secure HK\$50 million (= EUR6.9 million approx.) as an annual spectrum utilization fee for the first 5 years of operation.
3. Disregarding the changes in the worldwide telecom market during the period 2000-2001 and the technical difference of the auctions, it is still obvious that the huge upfront investment versus the limited demand for the next generation mobile communications in Hong Kong in terms of headcount had prevented the bidders from paying a premium for running 3G operations locally.

4. Similar situation appears in e-business development: Local demand consumption is not sufficient to boost the e-business sector. However, the nature of Internet operations makes the outlook of local e-business more optimistic than the telecom industry.
5. As far as e-commerce is concerned, there are no geographical boundaries for suppliers to reach the consumers and the Internet users. This would in turn enlarge the global customer base for business entities and would help reduce the average cost of completing a transaction through mass production.
6. The only way out is therefore to focus on the global market: By strengthening the competitive edge of the local IT industry, local business entities would have a chance to grasp the profit share of the global market: the earlier the development, the larger the profit-share. For sure, this will help transforming Hong Kong into a knowledge economy, generating stable job opportunities for the younger generation.
7. Our conclusion: **Government's role in this arena, again, is to encourage start-up and development of local e-business. Besides, generating global demand for local e-business and e-operations would be a mission of the Government of the HKSAR. It is just like promoting Hong Kong as a popular tourism spot to overseas countries, the Government's role in this aspect is indispensable.**

ITSD's Role in promoting e-business in Hong Kong

1. Now the question remains in which business sector should the ITSD involve itself.
2. Our answer to this question is simple: Let's leave the answer to the Market, as the market mechanism has fully demonstrated its strengths in all aspects throughout the past few decades.
3. There is no need for the Government to research on how the resources should be allocated in the IT industries and which areas would have the most valuable returns. The Government also need not consider how large the ITSD should be, or whether it has to be combined with CITB, to conduct the necessary IT development in Hong Kong
4. Through **privatization of the Government IT Departments**, the market will function automatically to decide how resources should be allocated and which is the most appropriate course of development. The size and direction of ITSD will be determined accordingly.
5. The Department will be directed to focus on areas which are of values to buyers (business entities or individuals who are willing to pay for the service). Resources will be utilized in the most cost-effective ways. Inefficient workflows will be out-sourced to private firms for cost savings whereas ITSD would be surviving more flexibly to cope with the global market trends.
6. Our conclusion: **Given the budgetary constraints in public and governmental expenses, privatization of ITSD is the most effective way to guarantee proper allocation of IT spending. Although the technical details for the process have to be considered carefully, we trust the direction deserves public attention.**

We hope our views are of use to the Government of HKSAR in relation to its Digital 21 Strategy. We further hope that some of our proposals will be adopted towards

enhancing the future development of IT and e-services industry in Hong Kong.

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