

香港工業總會  
Federation of  
Hong Kong Industries

10 December 2003

Miss Adeline Wong  
Principal Assistant Secretary for  
Commerce, Industry and Technology  
Government Secretariat  
2/F, Murray Building  
Garden Road  
Central  
Hong Kong

Dear Miss Wong,

**Draft 2004 Digital 21 Strategy**

Thank you for your letter of 10 October 2003 inviting us to comment on the Draft 2004 Digital 21 Strategy.

A point-by-point response to the eight main areas covered in the consultation document is proffered in the attachment for your consideration. They essentially reflect the collective views and suggestions of our Council members who represent a prestigious line-up of experts from the academia, public and the private sector, as well as from both local SMEs and multinational IT firms.

We would also like to highlight below three key issues which are of utmost concern to our members, and our thinking on how they could best be addressed by the SAR Government.

1. Fostering a vibrant IT industry

For an industry to thrive and maintain its vibrancy, there must be new jobs created and companies can see a reasonable return on their investments. Yet, since 2000, the local IT employment pool has shrunk from a high point of over 200,000 to the current figure of slightly over 60,000. Accordingly, the salary level of our IT professionals, particularly the new recruits, has dropped drastically.

Despite the Government's commitment to outsourcing the bulk of its IT jobs to the private sector, we find that the tender documents and specifications are often

constructed in such a manner that they virtually preclude most local SMEs from participating in the process, especially where sizable projects are concerned. In most cases, these projects end up being awarded to multinationals. Worse still, these multinationals tend to bid for projects at incredibly low prices, quite often against market forces. Once contracts are awarded, the big boys do not deliver themselves. Instead, they subcontract the job to several tiers of local IT firms, with prices so cut-throat that there is hardly any margin in those sub or sub-sub contracts, resulting in a great disincentive to the local IT industry. Obviously, this is quite contrary to the original intention of outsourcing, which presumably is to foster the local IT industry.

More often than not, local companies are left out of major projects, as our SMEs can hardly fulfil the onerous financial requirements. At this time when the Government is facing serious deficits, upfront payments are no longer guaranteed in government contracts; neither are progress payments made promptly. Without active participation in major IT projects even on our home turf, our IT workers and engineers do not have the much needed chance to sharpen their skills. Whatever innovative software solutions or IT skills will only remain good on paper without the chance of being adopted or commercialized.

Another worrying trend of outsourcing is that many of the jobs have gone to government-subsidized organisations or statutory bodies at the expense of the more entrepreneurial SMEs.

This situation has been with the IT industry for some time and is countering the Government's objective of nurturing an environment conducive to enhancing the competitiveness of our IT talent and skill-set. In our view, something must be done urgently to address these issues; otherwise, Hong Kong's IT industry might fall behind our competitors.

### ***Remedial Action***

The Government must re-examine the way it outsources its IT projects. While we are fully aware of the tenets of the Government's procurement policy, that is fairness to all parties, be they international or local, it must avoid any categorical preferences in its tendering process that might have the effect of favouring international players at the expense of our home-grown talent. We suggested that the terms of conditions that form part of any future tender requirements should specify local content, local experience, local language, and local support if they are relevant to the successful completion of a local project. *The Mainland is a good case in point. Its procurement directive clearly states that unless special approval is obtained, all domestic projects must use locally-produced software.*

## 2. Economy of Scale

The Digital 21 Strategy must recognize the lack of economy of scale in Hong Kong. There is no question that we must expand our reach, but the target must be realistic. After so many years and several IT policy blueprints, it is unfortunate that Hong Kong still cannot define its IT focus or core competence.

CHPA is a godsend. It provides the timely incentive to help the industry realize a critical mass as we stretch across the border to integrate with the Pearl River Delta (PRD) and the rest of the Mainland. It makes a lot of sense for us to focus on our immediate neighbours, who are already familiar with the Hong Kong style of doing business, and where significant Hong Kong and foreign investment has been established. The export-oriented industry within the PRD as well as its telecommunications industry can benefit from Hong Kong's technological innovation, substantial investment, and above all, international experience.

To achieve closer integration and expanding our IT frontiers, it is imperative that we establish standardization of technological protocol to drive compatibility and interoperability of currently diversified systems and application platforms between the two places. This is a high level proposition, and requires proactive initiatives from the SAR Government to establish a continuing dialogue and reach consensus with its mainland counterparts for both parties to commit to a mutually agreed schedule.

We would like to propose the setting up of a dedicated body within the Government to monitor progress and ensure smooth integration with the Mainland on the different aspects of the IT front. CHPA does not stop here. It is a continuing process, and we must not let it lose momentum.

## 3. Privatization of ITSD

Over the past few years, a number of major IT projects within the Government have already been awarded, leaving not so many in the pipeline or the drawing board in the domestic scene. Moreover, the outsourcing model has been quite well established, where future projects can follow the same pattern readily. In these circumstances, we believe the time is right for the Government to review the ongoing existence of the ITSD.

Instead of merging the ITSD into the Communications and Technology Branch of the CITB as proposed in the consultation document, we would like to recommend its privatization.

Hong Kong rightly prides itself on its long-held free market philosophy of encouraging the private sector to maximize its participation and investment in our economy. The evidence of this is widespread in our daily life. There are,

however, instances in which private sector investment at the outset is not feasible. The ITSD has throughout the years established an efficient operating framework and built a strong pool of competent administrators. Moving forward, the ITSD should examine functioning on a commercial basis, and be subject to private-sector disciplines. Privatisation would reinforce the ITSD's commitment to competitiveness and efficiency, and the proceeds from the sale of its shares would also provide a useful boost to public finances over the medium term.

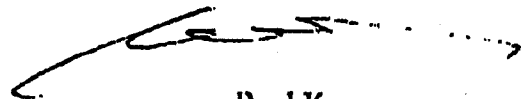
While the Government will remain the majority shareholder, it must ensure that an adequate budget be allocated to the privatised ITSD for continuing research and development, in order to help foster industry innovation and technology transfer.

We fully understand that even if our proposal is adopted, privatisation of the ITSD will not take place overnight. Much needs to be done and the Government has to strike a sensible balance in our regulatory framework to reconcile the different interests of investors, employees, and industry participants, and to ensure that in the process there is no diminution of quality or service standards.

We hope the Government will give our views and suggestions due consideration, and look forward to joining hands with the Government to build a better IT environment for a more prosperous Hong Kong.

Should you require further elaboration or clarification on the points just made, my fellow members and I would be happy to oblige.

Yours sincerely,



Paul Kan  
Chairman  
Hong Kong Information Technology  
Industry Council

**Comments and Suggestions on the Draft 2004 Digital 21 Strategy**

Policies on main areas	Comments
<p><b>Government leadership</b></p>	<p>There is no short cut to accelerating Hong Kong's transition to a knowledge-based economy. The spending on promoting e-government is a prerequisite and should not be reduced even though we are facing budgetary constraints. The business sector has achieved a great deal in getting the infrastructure ready for e-community. Now, the determining factor for e-success depends on the readiness of our citizens. The policies on e-government and education should go hand in hand with such transformation. Policies should involve both enforcement and encouragement. For instance, the public should have the incentive of using e-government services which promise greater convenience in terms of time and costs involved. The e-commerce policy is highly welcomed as this brings real benefit to both the business sector and the general public. If e-commerce is successful here in Hong Kong, we believe that there are great business opportunities brought about by the CHPA.</p> <p>E-commerce has not so far fulfilled its underlying potential mainly because of unfamiliarity with its use, and concerns over security.</p> <p>1323 e-commerce should be further encouraged, as trading is one of the main business activities of Hong Kong. Government should work together with the business sector to establish a mechanism to build trust and ensure security.</p> <p>Nevertheless, priorities, timetable and budgets have to be well defined, well planned and clarified for any policies to be carried out, so that our citizens can get maximum value for our tax money.</p>
<p><b>Sustainable e-government programme</b></p>	<p>The e-government programme is definitely a move that will receive full support from the public because it facilitates our interactions with the government. It is encouraging to learn that the Government plans to further enhance and improve the service quality and efficiency of its programme. This is a triple- WIN strategy for the parties concerned:</p> <ul style="list-style-type: none"> <li>• citizens get better services; hopefully, government departments could make available integrated services to avoid complicated application processes.</li> <li>• commercial IT companies receive more outsourced contracts from the Government.</li> <li>• SAR Government gains international recognition for its work to showcase a dynamic digital city.</li> </ul> <p>In order to receive full support from the local community, the</p>

	<p>Government should provide a certain level of support such as opening up the existing government network to local SMEs; encouraging SMEs to have web presence and actually conducting business via e-commerce. Government can contribute to these activities by providing technical assistance or tax incentive.</p>
<p>Infrastructure and business environment</p>	<p>The liberalization of telecommunications market was indeed a smart and timely decision made by the Government that speeded up the development of IT and raised our telecommunications infrastructure to world class. Hong Kong is now acclaimed for its state-of-the-art communications network and high efficiency. The open market environment and free competition should be allowed to continue in order to attract both local and foreign investment. Hong Kong does not specialise in R&amp;D, and it is not practical, at least not in the short term, to expect many new inventions of our own. However, Hong Kong is strategically located and has ready access to the latest technologies and applications from around the world. Hong Kong is therefore able to leverage on its vantage position and IT talent to develop practical IT services and solutions for its local industry. These IT skills and proven solutions could be exported to our neighbouring and international markets through collaboration with global partners, further boosting Hong Kong's image as an IT hub.</p> <p>Broadcasting is another fast growing area that provides the public with information and entertainment. The Government is well aware of the convergence of broadcasting and telecommunications industries. It should therefore maintain an open market environment and continue to play the role of a facilitator in ensuring that market conditions remain wholesome to free and fair competition.</p>
<p>Institutional review</p>	<p>Instead of integrating ITSD with CITB, as suggested in the consultation document, the privatisation of the ITSD is recommended. This would give rise to a leaner and more efficient government alongside with other benefits commonly associated with privatization. As an independent and financially self-sustainable entity, it would be better able to balance and integrate different commercial interests with government directives.</p> <p>The head of the privatized ITSD (or the Chief Information Officer as proposed in the Paper) will take up the leadership and visionary role in propelling the full involvement, integration and development processes.</p> <p>The case for a unified regulatory body is also recommended, as tasks and responsibility differentiation are getting blurred</p>

	<p>because of the convergence of telecommunications and broadcasting industries. A unified regulatory body avoids the redundancy of resources and eliminates grey overlapping areas.</p>
Technological development	<p>Technological development should continue to be supported and funded by the government. However, on top of funding new and innovative technology or application development, we suggest that the Government should also contribute to the promotion and industry deployment of developed products and technologies. It would be a waste of resources if some innovative solutions were invented but they were never put to use or nobody knows the inventions. The Government does not have to carry out the marketing itself but it can provide an environment to bridge potential commercial partners and the inventors.</p>
A vibrant IT industry	<p>It is indisputable that Hong Kong already has had considerable advantage in terms of its infrastructure, service economy and related domain knowledge.</p> <p>A vibrant IT industry adds value to Hong Kong's economy. In sustaining a vibrant IT industry, we should not emphasize too much on innovative IT applications development. Putting these applications to practical use and deploying the same in the industry is equally important. Practical IT applications provide support and add value to our existing financial services, trade and commerce, and transportation and logistics, and offer us better competitive advantages.</p> <p>Moreover, the government should play both a direct and indirect role in building the vibrancy of the IT industry. In terms of indirect role, the Government can provide incentive to the business sector in fostering IT utilization and development. In terms of direct role, the Government should provide funding to development projects, and better still, the Government should take the initiative to award contracts to IT developers with local experience and who are locally trained.</p>
Human Resources in a knowledge economy	<p>The Government should avoid pumping the supply of IT professionals by subsidizing more IT courses at the university level. Increase in supply without a corresponding demand will only result in mismatch of valuable HR resources. It would be more practical to first build up the demand for IT services and then start to boost the talent pool. Local demand can be lifted through community-wide education and IT adoption in parallel with the introduction of our e-government policy. Our education policy should focus on the provision of IT knowledge at the user level rather than at the tertiary level, in order to expand</p>

<b>Bridging the digital divide</b>	<p>the adoption base.</p> <p>In driving up the demand for IT services, the Government should more actively involve the business sector in using e-government services and in collaborating with Government projects and development. This may involve a subsidising scheme in the early stage, but the objective should be to encourage local SMEs to develop e-systems on their own and to hire more people, which in turn will boost employment as well as the adoption rate of e-services.</p> <p>Bridging the digital divide and putting different people on a level playing field is an important step towards bringing about a widespread adoption of IT. Once the roadmap is decided, detailed steps and milestones need to be considered in order to ensure smooth implementation and that the desired results are achieved.</p>
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