

December 10, 2003

Mr. Francis Ho
Permanent Secretary
Communications and Technology Branch
Commerce, Industry and Technology Bureau
2/F, Murray Building,
Garden Road,
Hong Kong

Dear Mr. Ho,

Public Consultation Paper on 2004 Digital 21 Strategy

I would like to respond to the above paper, which was released by your office in October 2003.

Enclosed with this letter is a paper containing comments and suggestions for the 2004 Digital 21 Strategy for your consideration.

For enquiries, please contact Miss Samantha Chan at 2509 3211.

Yours sincerely,

Sin Chung-Kai
Legislative Councillor (IT)

Encl.

Hon. Sin Chung-kai, Legislative Councillor (IT)

Submission to Public Consultation Paper on 2004 Digital 21 Strategy

December 10, 2003

Introduction

1. In this submission, I would like to provide my views on the Public Consultation Paper on 2004 Digital 21 Strategy, which was released by the Commerce, Industry and Technology Bureau in October 2003. My views and suggestions are as follows.

Creation of a new statutory body with responsibility for overall policy, planning, coordination and monitoring of IT and telecommunications development

2. As we enter the 21st century, information technology has become one of the main drivers of economic growth. In order to harness the benefits of IT and telecommunications for Hong Kong, the Government requires not only a long-term strategy with clearly defined targets and initiatives, but also a more efficient and effective framework to respond to the rapid changes in technological development. To this end, there is a need to transform the existing role of Information Infrastructure Advisory Committee (IIAC) from an advisory body into **a new statutory body** with executive support from the Information Technology Services Department. (ITSD)

Areas of concern

3. Currently, the IIAC is an advisory body to advise Government on issues relating to the IT and telecommunications in Hong Kong. The IIAC comprises various stakeholders from the IT and telecommunications industries, leading academics in the related field and representatives from relevant Government departments. To deal with the wide spectrum of IT and telecommunications policy, the IIAC had set up a number of task forces to advise Government on issues like Cyberport, e-commerce, IT development and promotion of wireless services, etc.

4. When the IIAC was established in 1997, it was meant to facilitate better coordination of the development of Hong Kong's information infrastructure. While the IIAC has proved useful in recommending many IT-related initiatives over the years, the committee's capacity was only limited to offering piecemeal advice. Due to its purely advisory nature, the IIAC was prevented from formulating and monitoring strategic policy issues for the overall development of IT and telecommunications in Hong Kong. Given the current structure, it is also difficult for the IIAC to make greater contribution in defining clear policies and deciding on appropriate priorities in

IT and telecommunications policy.

5. Recognizing the review of the terms of reference and operation of the IIAC is one of targeted actions in the updated Digital 21 Strategy, I urge the Government to consider the following possible areas for change with a view to strengthen the role and structure of the IIAC.

Recommendations

6. To put in place an enabling structure conducive to IT development in Hong Kong, I propose to establish a high-level IT statutory board to advise all matters pertaining to IT and telecommunications policy. The new authority should work along a similar line like the Infocomm Development Authority (IDA)¹ of Singapore and the Information Industries Bureau (IIB)² of Queensland in Australia. To ensure that this new authority would be able to deliver expert opinion and advice, it should comprise largely experienced members of the IT and telecommunications community.

7. The key tasks of the new IT authority would be to draw up and oversee the implementation of the IT policy. Major areas of its responsibility include –

- to formulate policies and overall strategy for the development of IT and telecommunications in Hong Kong;
- to advise on funding decisions regarding development priorities;
- to explore and develop areas of improvements which may help local IT industry expand regionally and internationally;
- to develop a strategic alliance within the IT industry and between IT industry and other business sectors so as to facilitate the wider use and application of technology solutions in business community;
- to promote IT adoption in the community.

8. To ensure that there is adequate support to meet the demands of the expanded role of this new authority, the functions of ITSD should be strengthened as an executive agency of this new authority. In addition to its existing functions, the ITSD shall be responsible for providing administrative and technical support for the statutory body as well as coordinating activities and projects which aim at supporting the IT industry. As appropriate, resources should be earmarked to assist the statutory body in discharging the expanded role in a professional manner.

¹ www.ida.gov.sg

² www.iib.qld.gov.au

Review the implementation of Information Technology Professional Services Arrangement (ITPSA)

9. Information Technology Professional Services Arrangement (ITPSA) is part of the Government's IT outsourcing programme which was launched in 2002. The purposes of the programme are to enlarge the capacity for IT services delivery, to accelerate the delivery of IT solutions and to create a market of sufficient size to encourage the further development of the IT industry locally. Under the ITPSA, 23 Standing Offer Agreements (SOAs) were awarded to 12 companies who are allowed to bid for service contracts of government IT projects during a 30-month contract period with effect from 27 June 2002. To encourage local IT-related SMEs bidding for government IT service contracts, these 12 contractors are further supported by other 70 subcontractors.

Areas of concern

10. Since these agreements have been in force last year, 180 work assignments with a total value of HKD142 million have been awarded. Despite its success, there are a number of concerns about that this programme does not bring in genuine benefits to the local IT industry, for example -

- as the tender price is one of major criteria for selecting IT service contractors, the programme appears to run in favour of multi-national companies who are, in financial terms, much more capable of bidding the projects at lower price than their small- and medium-sized counterparts (SMEs);
- participation of IT-related SMEs in this programme was relatively limited. Since the ITSD did not set out a clear guidance on what circumstances the contractors should subcontract out the projects, whether those subcontractors could take part in this programme is highly subject to decisions of main contractors according to their outsourcing needs;
- the programme lacks mechanism in penalizing or replacing those IT service contractors/subcontractors who fail to demonstrate a sufficient standard of service or participate passively in bidding government IT projects. In addition, there is also no appeal channel to hear and adjudicate challenge on tender assessments.

Recommendations

11. To address the concerns outlined above and to encourage greater participation of IT-related SMEs in Government tenders, I urge the Government to include the following suggestions in the 2004 Digital 21 Strategy.

12. **Review tendering exercise and contracting procedure of ITPSA.** To create more business opportunities to IT-related SMEs, there should be a review of the overall policy, in particular the contracting procedure and tendering exercise of ITPSA with a view to ensure that

IT businesses of any size can access to contracting opportunities with the Government in a fair manner. It is proposed that the ITSD should initiate a roundtable discussion with the industry to collate their views on this issue before the next round of SOAs is entered.

13. Establish a Suppliers Registration System for purchasers in government bureaux/departments to reach and access a wider vendor base. To provide IT businesses of any size to enjoy business opportunities available in the public sector, it is desirable to establish a Suppliers Registration System for purchasers in government bureaux/departments to research and trace potential vendors' track record. Under the proposed registration system, IT business entities of any size wishing to tender for government IT projects may register with ITSD voluntarily. Based on vendors' financial standing, experience, technical expertise and other relevant attributes, ITSD will evaluate, define the registration status of participating vendors and compile a vendor register. Ideally, all government purchasers should have access to the register when they have needs to outsource IT products and services. In order to keep purchasers having the updated information about all potential vendors, ITSD is required to update the register on a regular basis. ITSD may consider to work along a similar model like the Capability Maturity Model (CMM) in assessing the registration status of participating vendors.

14. An appeal channel which provides an unbiased forum for bidders who are dissatisfied with tender assessments should be put in place. There is a need to have an appeal channel, which comprises members of the industry to hear and adjudicate appeals on tender results with a view to improve the transparency of ITPSA. Allied to this, it is also desirable for ITSD to review performance of contractors and subcontractors on a regular basis through out the year. For any contractors or subcontractors who fail to provide high standard of work will be debarred from tendering for all lines of government tender and be struck off the vendor register.

Review of Innovation and Technology Fund (ITF)

15. For the IT sector, Innovation and Technology Fund (ITF) is one of the major sources of funding to finance local enterprises and educational institutions undertaking research and development in information technology. Launched in 1999, the fund aims to finance projects that contribute to innovation or technology upgrading in industry, as well as those that contribute to the development of industry through four programmes with different purposes³. The Innovation and Technology Commission (ITC) is the executive agency to oversee the administration and operation of the fund. The ITC currently has a project vetting committee,

³ At present, there are four programmes under the Fund, namely, Innovation and Technology Support Programme (ITSP), University-Industry Collaboration Programme (UICP), General Support Programme (GSP) and Small

who based on a set of criteria assessing applications for funding. Members of this vetting committee consist of government officials, businessmen, technologists, academics of the relevant sectors.

Areas of concern

16. Over the years, members of the IT industry have great concerns about the way of which the funds are allocated to applicants. In particular, there appears to be a need to tackle the following issues –

- **the vetting mechanism is not operated in a transparent way.** Some members of the industry hold the view that assessment of applications are currently based on a set of vetting criteria which cannot work effectively and thereby, applications are at all times subject to arbitrary judgement of assessors. Given its vetting requirements are lacked of clarity and certainty, many applicants have great difficulties to initiate proposals in a more focused manner.
- **the funds are confined to researchers of the eight University Grants Committee (UGC)-funded institutions.** Access is denied to others, such as those working for the Vocational Training Council and other institutions at the post-secondary level. To many researchers of these institutions, partnering with UGC-institutions or other local IT companies to conduct collaborative projects is the only way of taking part in the programme. It is understandable that the present funding approach is to preclude researchers from outside the UGC sector from competing for the stringent funding resources. But the result is that it is also un-nurtured and possibly undiscovered talent in other institutions.
- **there is limited publicity channel for promoting the inventions of successful ITF cases to interested industries.** For many inventors who are interested in commercializing their project deliverables, they can only rely on Technology Transfer Offices of some local universities or make use of the TechMark operated by the Hong Kong Productivity Council to help market their research results. While all these are useful channels to disseminate research results to the industries, they are not designed dedicatedly for promoting ITF deliverable to local and overseas markets. As a result, these efforts are fairly small in scale, leading to potential wastage of commercialization opportunities and research efforts of inventors.

Recommendations

17. I suggest that vetting mechanism and criteria should be reviewed to ensure funds are approved according to objective principles and rules. To improve transparency of the vetting mechanism, there is also a need to provide all rejected cases with a report containing reasons for

rejection in detail. Allied to this, it is also desirable to establish an appeal channel to allow applicants disputing outcome of their applications.

18. To promote a more effective use of the fruits of ITF projects, ITC shall step up its measures to help inventors market their research results and transfer technology to local industries. In response to Closer Economic Partnership Arrangement (CEPA) opportunity, ITF should also fully explore ways, such as through business matching programme, marketing events, and other channels in assisting inventors to access potential business partners in the mainland market.

19. To liberalize the eligibility requirements of ITF, allowing researchers from the non-UGC sector to participate this programme.

Establish a Software Centre of Excellence

20. Like many other business sectors in Hong Kong, the local market is too small for the IT industry to flourish and expand, thus undermining the sustainability of the whole industry. Owing to Hong Kong's high operating costs, it is therefore extremely important that we must leverage our strengths, such as success of R&D in IT, strong business and management skills as well as excellent e-commerce infrastructure to penetrate into both the mainland and overseas markets. With the CEPA signed between Hong Kong and China, the mainland market will open further. As trade and investment activities will significantly increase, it is expected that more and more enterprises in the mainland will require proper corporate management systems. This will in turn create a huge demand for software packages to meet their operational needs. Thus, there is a window of opportunity for the Hong Kong software industry in this area to fill the gap.

Recommendations

21. To give an impetus to software development in Hong Kong, we consider that a Software Centre of Excellence would help local software industry increase their competitiveness and seize the business opportunities identified above. Ideally, the Software Centre of Excellence should be set up at Cyberport where the state-of-the-art information infrastructure and facilities could support and facilitate software development in all directions. Broadly speaking, the roles to be played by the Software Centre of Excellence include –

- **localizing international software applications for the mainland market.** The Center shall act as an agency to facilitate Hong Kong's software industry entry into the mainland market. There are two ways to achieve this: first, providing software companies with tailored packages to adapt their software products to the needs of the mainland market; second, promoting services and products of local software companies through marketing and networking activities to increase their visibility and to disseminate product/service offerings effectively to potential business partners in China.

- **“internationalizing” China developed software applications for international market.** In China, a large number of domestic IT companies have engaged in substantial R&D activities and developed some good software products. However, due to the lack of international exposure, there is still significant room for improvement in various aspects of their software product development. As Hong Kong has strengths in business and management knowledge, as well as experience in managing system development and implementation, our software industry can play a significant role here by commercializing and transforming the research outputs from IT in China into innovative applications in various business and industrial sectors for the overseas markets. I suggest that the Software Centre of Excellence should liaise with relevant mainland parties with a view to promoting the high-valued services offered by Hong Kong software companies, helping them seize the business opportunities available in the mainland.
- **promoting the development of Software Process Improvement (SPI).** SPI is a specialized area in IT that deals with continuous improvement in management and quality of systems developed through the adoption of recognized best practices and quality management schemes such as Capability Maturity Model (CMM), ISO 9000 and Six Sigma etc. To ensure the continuous development and production of high quality software products in Hong Kong, the Center may help promote the adoption of internationally recognized software development/quality assurance standards or models by SMEs and, provide improvement programmes to assess and refine software process of these companies. I believe that this kind of improvement efforts will assist software companies to enhance their productivity gains and thereby, helping upgrade local software industry to a new level of competitiveness in long run.

Develop software outsourcing industry

22. China’s software outsourcing industry has substantial growth in the past years. It is estimated that by the year 2005, the mainland software and software services market will reach US\$30 billion. The export of software is also targeted to reach 10% of the US\$30billion total market size. Many market watchers had already pointed to China as the major rival to India where it has succeed in exploiting business opportunities of software outsourcing industry since the 1980s. While we envisage that there are promising opportunities of software outsourcing industry in China, with more than 400,000 software professionals, only a small portion of them are qualified to do the kind of high-level, systems-integration projects that are so coveted in India. With this constraint, most Chinese software companies are only capable of handling low-end orders, instead of higher-value products and services that comply with market requirements of advanced countries, such as US, Europe and Japan. The lack of ability and experience and, the absence of talent to explore the high-end market clearly are the major obstacles that need to remove if China wants to expand its share in overseas markets. With

strong customer interaction skills and, substantial experience in managing system development and implementation particularly in banking and financial services sectors, I consider that Hong Kong software companies can complement the counter-parts in the mainland for the joint development of an international software outsourcing business.

Recommendations

23. Promote the adoption of internationally recognized software development/quality assurance standards/models. This is to ensure that there will be continuous development and production of high quality software products in Hong Kong. To this end, the government should promote or disseminate the best practices as a requirement to be qualified as a certified software company for bidding of government IT projects.

24. Help local software industry develop the mainland market. I note that the Trade Development Council (TDC) and lately the Hong Kong Productivity Council (HKPC), had demonstrated great success in helping Hong Kong's manufacturing, retail and wholesale industries penetrate the mainland market through business matching service and various trade promotion activities, including seminars, publications, trade shows, exhibitions, website or other media in the past years. I hope that TDC and HKPC will adopt similar measures to promote Hong Kong's software industry as a platform for mainland software enterprises seeking to expand their business overseas and this in turn facilitates local software companies' entry into the mainland market. To help software companies establish business contacts and form strategic alliances with mainland counterparts, TDC and HKPC should also organize more business delegations to major trade fairs on the mainland.

25. Attract overseas enterprises to source software products and services in Hong Kong and the Mainland market. TDC, InvestHK and Overseas Economic and Trade Offices (ETOs) under the Commerce, Industry and Technology Bureau are known to identify potential business investors and promote Hong Kong's products and services in world markets. I consider that these authorities should step up its efforts to promote our achievements and capabilities in IT and communications with a view to help both local software companies and their mainland counterparts to form strategic partnership with overseas enterprises and gain access to their markets. I also hope that through various marketing activities, these authorities should emphasize Hong Kong, not only as centre for high-value-added services, but also as a platform for foreign companies sourcing software products and services in the mainland.

Conclusion

26. Given the rapid international developments of IT and Telecommunications sector, the recent economic difficulties suffered by local IT companies, especially the SMEs, and the huge business opportunities brought by the CEPA and China's accession to WTO, I urge the

Government to further review the draft consultation paper, consider and incorporate the views and recommendations in this submission.