

Consultancy Study on Enhancing Hong Kong's Position as an International Maritime Centre

Executive Summary of Final Report

April 2014



Introduction

This Study has focussed on “*Enhancing Hong Kong's Position as an International Maritime Centre (IMC)*”, and sought to plot a development roadmap and strategy that will enable Hong Kong to remain a successful IMC in an increasingly competitive Region.

The Study was progressed through a series of Working Papers and extensive industry engagement which examined:

- The context and economic significance of the maritime cluster,
- Key challenges facing Hong Kong as an IMC, and
- Proposed strategies to maximise the development potential of key maritime activities and service areas.

At the core of the Study was the review of “contestable” service providers (those activities that can be located wherever the business environment best suits them) which were perceived to have weakened in Hong Kong over recent years.

What is Hong Kong's Maritime Cluster?

Port activities in Hong Kong are vibrant; however the maritime industry extends significantly beyond the purely physical movement of cargo at ports. Hong Kong is home to a vibrant community of shipowners, shipmanagers and other service providers engaged in a diverse range of activities spanning the industry. They generate economic output directly as well as supporting other sectors of the economy – particularly import/export, wholesale and retail trades.

The maritime industry is also closely linked with high value-added services such as the financial and legal industries.



What was the Study Focus?

Other IMCs, notably Singapore and Shanghai which both aim to boost the development of their maritime industries, have been very aggressive in contesting for, and attracting, maritime companies.

To compete and expand Hong Kong's IMC effort must be focussed on both demand and supply. Sufficient critical mass of commercial principals (e.g. shipowners, ship management companies etc.) must be attracted to generate demand for services, while comprehensive support must also be available to supply their needs.

The Study combined rigorous analysis with stakeholder participation to deliver appropriate and achievable recommendations. Careful attention has been paid to understanding the constraints and opportunities facing Hong Kong, both from industry and government perspectives. In particular, implementation issues have received careful attention during the formulation of recommendations.

Why Support Hong Kong's Maritime Sector?

The IMC's cluster position is worth supporting as:

- The maritime market in Asia continues to grow,
- Hong Kong has a long standing maritime cluster and some unique comparative advantages, particularly its connection with the Mainland.
- Hong Kong has world class strength in shipowning/operation, and ship management, and is rated strongly in liner services, industry associations and port infrastructure, and
- The maritime sector makes a significant financial contribution, supporting trade & logistics activity within the city.

Why Act Now?

In 2014, Hong Kong will continue to face keen competition from other IMCs. Singapore has adopted a focussed and comprehensive development strategy for a number of years, and it has targeted many sectors in the maritime industry. Shanghai is also developing in a more strategic manner than ever.

Following the global downturn many shipping organisations are reviewing where their opportunities for growth are located - to maximise competitive advantage.

Hong Kong's role as an IMC is expressly supported in the 12th National Five Year Plan and by the Hong Kong's Chief Executive as an industry with strong potential for economic growth to support economic development and job creation.

We cannot wait.

What Matters for a successful IMC?

A number of factors of competitiveness have been defined to assess the overall competitiveness of Hong Kong's IMC covering both physical and non-physical¹ maritime services. Following brainstorming sessions between the consultants, expert advisors, and over 50 industry stakeholders, 11 factors of competitiveness were agreed:

- A pool of skilled labour
- The presence and depth of shipping commercial principals and intermediary / professional services
- Ease of doing business
- Tonnage owned or controlled within the cluster
- The presence of regulatory bodies
- A proactive government (policies and institutions)
- Quality of life
- Location of market places
- Modern and well managed port infrastructure serving regional and international markets
- Physical proximity of shippers and charterers
- Comprehensive availability of support services

¹ Physical refers to cargo handling, ship repair and so on. Non-physical refers to services, which may or may not relate to the physical: such as insurance, or claims for damage etc.

What is Hong Kong's Position?

Hong Kong's current position can be summarised as follows:

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> - Strategic location - Ties with the Mainland - Highly educated population - Traditional banking capital of Asia - Low and simple tax system - Free flow of capital and information - Stable currency peg to US\$ - Reliable judicial system 	<p style="text-align: center;">Weakness</p> <ul style="list-style-type: none"> - High land and office cost - Strong policy initiatives for manpower development / retention for maritime industry yet to be in place - Industry-specific perspective (institutional arrangement and policy initiatives) in supporting the complex maritime industry yet to be introduced
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> - Support of 12th Five Year Plan for Hong Kong as an IMC - Growing shipping demand and activities in Mainland presents immense business opportunities to Hong Kong - Available channels for Hong Kong maritime companies to tap into the Mainland Market (e.g. CEPA) - Global economy shifting eastward; international companies seeking a new base 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> - Intense competition from other IMCs (particularly those in Asia) - Comparatively less land resources to devote to shipping and port business - More emerging gateways to China in respect of cargo movement - Not enough positive drive for/ perception of the maritime industry and its career prospects to attract new blood

What is Hong Kong's Vision?

The proposed Vision links to practical measures:

Building on its strengths, and taking advantage of changing opportunities, Hong Kong will reinforce its position as a favoured city for maritime business.

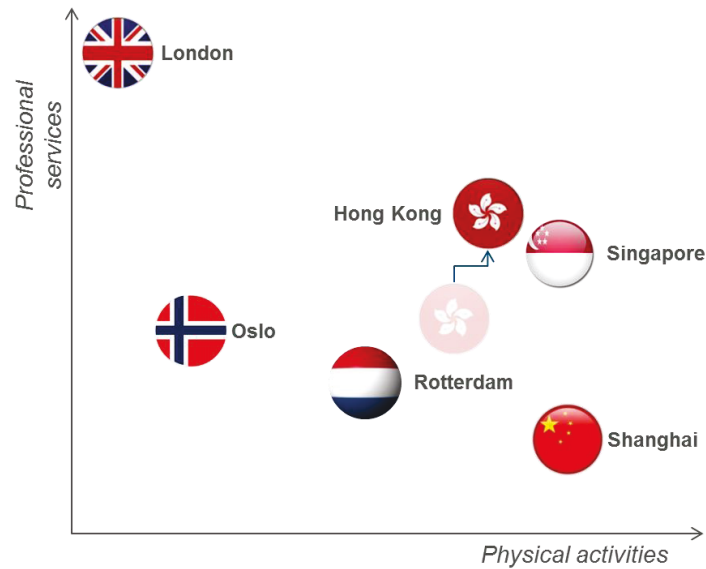
Hong Kong will increasingly be respected for its significant contributions to global maritime affairs, and as an IMC that facilitates competitiveness through effective governance, policies and activities for the maritime cluster.

How should the Industry be Positioned?

The positioning ambitions are set at three levels:

- (1) **Local level:** To expand the presence of commercial principals such as ship managers, owners, operators and traders in Hong Kong; and also enhance capabilities in high value-added maritime services (e.g. ship finance, maritime insurance, maritime law and arbitration).
- (2) **Regional / National level:** To become the preferred location of global (and in particular Mainland China) commercial principals sourcing intermediary services.
- (3) **Global level:** To differentiate Hong Kong from other IMCs by positioning as a maritime service centre and springboard that facilitates Mainland shipping companies to operate internationally, and for foreign shipping companies to expand into the Mainland market.

The future position we seek to achieve can be illustrated as follows:



What are our Objectives?

The Study has developed objectives around four key themes:

- **Government Policy (GP):** Efficient organisations and effective policies and systems that facilitate competitiveness, innovation and best practice in maritime services.
- **People (PE):** An adequate pool of maritime skills and experience available locally and a destination of choice for international maritime talent.

- **Marketing, Promotion & Communication (MPC):** International recognition of Hong Kong as a premier IMC and a positive shift in attitude/perception by the local community.
- **Infrastructure, Innovation & Technology (IIT):** Resources available for firms, research and educational institutions to conduct maritime specific R&D and innovation activities underpinned by a forum to shape overall direction.

What Actions are Required?

Four sets of initiatives, i.e. Government Policy (GP), People (PE), Marketing, Promotion & Communication (MPC) and Infrastructure, Innovation & Technology (IIT), that align with the vision statement, the target positioning, and the objectives are identified for action:



Under GP, they are:

- ✓ continued support for Hong Kong as an IMC at the local Government policy level;
- ✓ continued support for Hong Kong as an IMC at the national level;
- ✓ cooperation with Shanghai in terms of maritime development by exploring pilot schemes employing the strengths of the two IMCs;
- ✓ **establishment of a new institutional body set up by the Government (“the new maritime body”) to conduct policy research, propose policy measures that drive maritime development, and champion the trade’s interests in Government’s policy-making;**
- ✓ active pursuit of trade and investment facilitation supplements under CEPA on behalf of the maritime cluster;
- ✓ enhancements of the feedback mechanism between the Government and the industry on the progress and priority of negotiation of double taxation agreements and Free Trade Agreements, as well as closer cooperation in lobbying work; and
- ✓ Policies to promote Hong Kong’s maritime industry as environmentally-conscious and sustainable.

Under PE, we need to:

- ✓ develop Hong Kong as a centre of excellence for maritime education and enhance the quality of maritime-related courses/programmes at local institutions.

- ✓ maintain a central registry of the maritime-related programmes and courses on offer in Hong Kong;
- ✓ keep in view the need for continued operation for the Maritime and Aviation Training Fund beyond the current 5-year timeframe;
- ✓ set up an electronic platform to enhance the transparency of career opportunities in the maritime industry;
- ✓ **empower the new maritime body to oversee the manpower situation of the industry, and implement initiatives to support training for the industry;**
- ✓ review and enhance the supply of courses offered by MSTI and their related arrangements;
- ✓ explore distance learning for maritime industry practitioners to increase flexibility;
- ✓ enhance exposure of local youngsters to the maritime industry;
- ✓ employ non-traditional promotion strategies to update the concept and image of careers in the maritime industry;
- ✓ explore measures whereby the immigration regime can facilitate the recruitment of overseas talent for Hong Kong's maritime industry; and
- ✓ create an all-encompassing body of maritime professionals (if and when there is consensus among the industry), with the Government to facilitate and assist the industry in the establishment of such body.

Under MPC, we should aim to:

- ✓ **empower the new maritime body to devise effective strategies and to market and promote initiatives to enhance Hong Kong's status as an IMC, to attract commercial principals and raise awareness of Hong Kong's strengths in providing quality maritime services;**
- ✓ devote resources for marketing and promotion for the purpose of attracting commercial principals from all around the world and in particular those from the Mainland to establish operations in Hong Kong;
- ✓ attract, support, and assist the organisation of international and regional maritime-related conferences / events; and
- ✓ create a One-Stop-Window for information and communication to be managed by the new maritime body.

Under IIT, we propose that:

- ✓ **the new maritime body be empowered to drive and coordinate research and development activities in the industry that are relevant to Hong Kong; and**
- ✓ the Government should support and encourage research and development by the industry / academia in aspects such as maritime policy, services, infrastructure, innovation and technology that will drive the further development of Hong Kong as an IMC.

A New Maritime Body & its Roles?

The four sets of initiatives have a common goal: calling for a new institutional set-up. While the policy-making functions should continue to sit within the Government, BMT recommends establishing a new statutory body with dedicated staff and resources to deliver its functions of:

Policy, research and development

- i) Advise the Government on the formulation of maritime policy, and to provide necessary input and support in the process,
- ii) Undertake research on topical issues that are related to the further development of Hong Kong's maritime cluster, and to publish the findings (e.g. figures / indexes illustrating the latest development of the maritime cluster, journals of current issues in the industry) that would be of useful reference to the Government and wider maritime community,
- iii) Launch and administer initiatives that drive the research and development activities in the industry that would strengthen the maritime cluster of Hong Kong.

Marketing and Promotion

- iv) Represent and champion Hong Kong's interests in the international maritime landscape, e.g. speaking at international conferences, receiving overseas delegations on behalf of the maritime industry and the Government, and lobbying in international maritime affairs for the benefit of Hong Kong as a IMC,
- v) Organize / collaborate in and attend international events in Hong Kong or elsewhere that promote Hong Kong's IMC,

- vi) Undertake promotional and marketing initiatives (overseas visits, participation in trade shows / exhibitions) to promote Hong Kong's status as an IMC.

Manpower and Training

- vii) Monitor manpower supply and demand for different sectors in the maritime industry,
- viii) Maintain a central registry of maritime-related programmes / courses on offer in Hong Kong,
- ix) Coordinate and administer initiatives that support the manpower training of the industry,
- x) Launch programmes for promoting awareness of career prospects in the maritime industry and attracting more new blood to join the industry.

Communications

- xi) Locally, to facilitate communication between the Government and the industry, and
- xii) Internationally, to create and maintain a one-stop communication window between the local and international maritime communities.

How would the New Maritime Body be Funded?

Considering the functions proposed, and that the new body will be outside Government, it is unlikely to be able to sustain its own operations. The Government should devise a sustainable financial proposal for the new statutory body.

One option the Government may consider is to transfer the revenue generated by the Hong Kong Shipping Register to the new statutory

body, and possibly the management function if appropriate. This will incentivise the new body to assist in the promotion of the Register's expansion of which will generate more income for the statutory body.

Setting up a new statutory body in Hong Kong, including the time required for legislation, will normally take around three to five years. During this time Hong Kong must not stand still, but continue to drive the further development of the maritime industry.

As an interim arrangement the Consultant recommends the Government devote more resources to supporting the development of the industry. The Government should also start taking forward at least some of the initiatives.

The Government may consider extending the remit of the MIC and strengthen its resources as means of doing so. MIC can then engage staff and/or external consultants to initiate focussed programmes to address the recommendations made in this Study.

Conclusions

- The maritime industry is global and competitive, between companies and also countries/cities wishing to grow as International Maritime Centres.
- Maritime services cluster around where commercial principals (companies that drive service purchasing) are based, and Hong Kong has been facing keen competition from other IMCs in the region who aggressively seek to expand their maritime business base.
- If Hong Kong does nothing it will decline in relation to centres such as Singapore. However, the recommended Strategy to enhance Hong Kong's position is not to simply replicate or adapt other models of mass incentives, but to maximise Hong Kong's existing comparative advantage and minimise barriers to growth. This can be achieved through effective governance, policies, marketing, and creation of an attractive business environment for the maritime industry.
- This Study has examined the underlying causes, considered the strengths of Hong Kong as an IMC, and defined a vision and prioritised initiatives. The Study proposes a series of viable initiatives and new governance arrangements to maximise Hong Kong's comparative advantage and improve competitiveness.
- Making the most of Hong Kong's significant maritime heritage, its current unique advantages and the future growth prospects in Asia, makes good social and business sense.