



Hong Kong Information Technology Federation

HKITF Response to the Consultation on Mainland / Hong Kong Closer Economic Partnership Arrangement

1. The Hong Kong Information Technology Federation (HKITF) strongly supports the effort of the Hong Kong Special Administration Region to consult with the Chinese Central Government on the establishment of “Mainland/Hong Kong Closer Economic Partnership Arrangement” (CEPA). We believe that there are opportunities to create mutual benefits for both sides, while at the same time for Hong Kong to contribute to the successful integration of China in to the World Trade Organization.
2. Information Technology (IT) is a key area of economic development activities for both China and Hong Kong. There are numerous opportunities for China and Hong Kong to collaborate on IT, with China’s vast talents, advanced research and large market potentials, and Hong Kong’s application excellence, international market know-how and legal guarantees. While interactions for IT communities on both sides have been steadily increasing in recent years, China’s entry to WTO will let the cooperative relationship to further deepen and strengthen.
3. The HKITF has consistently called for Hong Kong Government’s support for IT industry development for Hong Kong companies in the Pearl River Delta – that is one of the recommendations made by HKITF to the Hong Kong SAR Government and the Chief Executive last year. Specifically, we asked the Government to take the initiative role in discussing with the governments in southern China to achieve favorable terms for Hong Kong companies to invest or participate in projects in China.
4. IT encompasses many areas of business, infrastructure and service activities, including software development, manufacturing, service provision, telecommunications, etc. Hence, there is a wide range of different potential areas for the CEPA to consider. But, we believe the overriding objectives of CEPA measures should include:
 - Tariff reduction or elimination
 - Early liberalization – especially for certain regulated areas of telecommunications services
 - Further liberalization – especially for certain regulated areas of telecommunications services
 - “Border elimination” in terms of facilitation of exchange of information, human



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resources, capitals, etc.

Telecommunications

5. Since Hong Kong is a world-class telecommunications center with advanced domestic and external infrastructures, we are well positioned to integrate with the telecommunications infrastructure of Mainland China and provide expertise in critical areas of planning, deployment, operations and business development. In fact, for a long time, Mainland China and Hong Kong has been the respective top-calling destination for external telecommunications, demonstrating the longstanding close telecommunications relationship between the two.
6. With Hong Kong's extensive international bandwidth capacity and stable operational experience, we are the most suitable location to become the "southern hub" for China's national network. Also, taking advantage of our geographical location, Hong Kong can also contribute to China's national information infrastructure by becoming the "Internet Exchange" between the China Mainland and the rest of Asia, and act as the "Firewall" to between China's infrastructure and the rest of the world. Moreover, with the advanced domestic telecommunications infrastructure of Hong Kong and our relative stability and high quality of service levels, Hong Kong is also well placed to be the data recovery center for southern China.
7. Since China has committed to a series of market liberalization commitments to WTO, it will be to the benefits of Hong Kong companies if they can enjoy early entry in to markets scheduled to be liberalized, and further opening to markets not scheduled to be liberalized, in terms of service categories (e.g. expansion of the definition of value-added services) or geographical locations. Greater transparency and simpler licensing process for telecommunications services for Hong Kong companies from the China regulatory regime will be create a more equitable and mutually beneficial environment, since Hong Kong's telecommunications regulatory regime is already highly liberalized and transparent.

Hong Kong's IT Products and Services

8. Many Hong Kong IT companies already operate in China, via direct investment, joint ventures and other forms. They engage in many different kinds of IT businesses, including data processing, software development, system integration, multimedia design, telecommunications value-added services, etc. Therefore, the focus of CEPA initiatives

should focus on the facilitation for a better and more equitable business environment for Hong Kong companies.

9. As a case in point about China's focus on the IT industry, China plans to spend RMB 5 billion over the next four years on research and development of twelve strategic IT technology areas in order to challenge the dominance of foreign companies in these areas, according to the Ministry of Science and Technology. These areas include computer software, information security system, e-business applications, advanced IC design, etc. and Hong Kong is capable of playing a proactive and contributing role to many of these areas. Also, in order to meet the challenge of foreign competition, the Ministry of Information Industry has set the target of creating up to nine domestic IT giants with RMB 20 billion turnover or more. Hong Kong companies should be considered to be domestic companies as the China authorities implement these initiatives.

Government Procurement Agreement

10. Since the Hong Kong SAR Government is a signatory of the Government Procurement Agreement but China is not, we would like to see China apply the Government Procurement Agreement nonetheless to Hong Kong companies, or as if they are domestic companies. In fact, as demonstrated by the well-publicized recent sales of Linux software by a Hong Kong company to the Beijing municipal government, this practice may only require official endorsement by the Central government to be adopted and followed by other regional and local governments.

11. In order for the products of Hong Kong companies to be sold in China, and especially to official government procurement, many Hong Kong IT products will need to be certified, by the State Administration of Certification and Accreditation (SACA) and other agencies. These regimes and their procedures are not well known to Hong Kong companies or our Government. The HKSAR Government should explore with the Mainland authorities to establish permanent branches for these accreditation agencies to conduct training and certification services in Hong Kong.

Open Border for Human Resource

12. While the IT industry in Hong Kong has already been a beneficiary of the scheme to allow the

import of IT professionals and experts from Mainland China, the scheme should be properly expanded and the procedures simplified so as to facilitate a more open border for the exchange of human resources between Hong Kong and China. We also believe that the scheme can be further opened for other sectors of importance beyond IT and finance.

13. Due to the rapid changes and advances in the IT industry, and the reliance on creativity and openness of IT technologies, rigid professional accreditation has not been the norm for IT professionals in Hong Kong. However, in order to fully connect IT professionals in China and Hong Kong, officials, industry players and professionals in China and Hong Kong should work together to ensure a mutual recognition regime for IT professionals from both sides.
14. For the free movement of IT professionals from China to Hong Kong for business travels, certain restrictions and travel permit application procedures on the China side should be eased. This will be to obvious benefits to industry players on both sides. In addition, Hong Kong companies often encounter problems relating to customs and importation of hardware and software systems for demonstration, exhibition or development purpose. The Mainland and Hong Kong authorities may work on relaxing these restrictions and customs duties to facilitate cross-border IT business transactions and information exchange.

Benefits to China

15. Since Hong Kong is a highly liberalized business city, we are already open for many IT and telecommunications businesses from China to operate or hold licenses in Hong Kong. So, in the course of CEPA discussions, there may not be many areas of direct further liberalization that Hong Kong may offer to the Mainland. So, the new benefits to China may not be accounted for in the same manners as those new concessions that Hong Kong may want to get from the Mainland.
16. Despite the lack of such "direct benefits", the Mainland, however, will still stand to benefit greatly from:
 - Economic integration with Hong Kong and internationally
 - Access to international market access and experience
 - Enhanced competition to strengthen Greater China enterprises
 - Testing the opening of markets ahead of WTO schedule for other countries
 - Additional capital investment from Hong Kong



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Industry Collaboration

17. The HKITF believe that facilitation by the Mainland and Hong Kong SAR Governments to support our effort to establish peering relationship between ourselves and our counterpart IT business bodies in China will be important to the cross-border collaboration of IT companies from both sides. Since many of these industry bodies in China nationally and individual provinces are officially sponsored, the facilitation by the Hong Kong Government to support us to establish these relationship with our counterparts will be most useful.

18. In conclusion, the Hong Kong Information Technology Federation would dedicate itself to continue to work closely to support the Hong Kong SAR Government in the continuing CEPA discussions.

The Council

Hong Kong Information Technology Federation

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About HKITF

The HKITF was founded in 1980 to provide a forum in which the normally competitive IT Vendor companies in Hong Kong could work together to improve the industry and to maintain a high level of business practice amongst its members. Over the next several years HKITF developed into a dynamic organization which now comprises all of the major hardware and software vendors together with many of the IT related service, training, systems integration and consultancy companies. HKITF is a not-for-profit and non-political organization, which functions under the direction of an elected Executive Council. The HKITF also counts a number of important industry forums as our affiliate organizations, including the Hong Kong Internet Service Providers Association (HKISPA) and the Open Software Forum (OSF).