

**The 14th General Meeting of the
Pacific Economic Cooperation Council**

***Managing Globalisation in the 21st Century
Plenary Session II: Pacific Response to Globalisation
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***Remarks by Dr Victor Fung
Chairman, Airport Authority Hong Kong***

Distinguished Guests, Ladies and Gentlemen,

It is my great pleasure to be here with you today and to be among so many friends and business associates at this prestigious international gathering.

Introduction

I would like to address the question of how individual Asian-based companies like Li & Fung should respond to the challenges of globalisation and then look at how an economy like Hong Kong can enhance its own competitiveness.

The Li & Fung Experience

The key to compete successfully is to carve out and focus on a niche which one can extend globally. Li & Fung have traditionally been in the trading business - matching buyer and seller for consumer products exported from Asia to the major markets. We have now extended our scope to manage the entire supply chain, integrating the whole process end-to-end from the earliest stages of production all the way to the consumer. For example, in the garment business, Li & Fung would manage the complete process from production of the yarn to delivery of the finished garment to the consumer. A considerable amount of production slicing would be performed to identify the best location/country to produce each stage of the process, add value along the way, and then integrate the entire supply chain. The ultimate goal is to find

the best place to produce the required product in the most cost-efficient manner and deliver it to the retailer and consumer in the shortest time possible.

With Li & Fung now operating from 35 countries and working with some 6,000 suppliers globally, we depend extensively on information technology and the Internet to effectively communicate with our buyers and suppliers. We have successfully built up a global niche business by leveraging on our traditional strength in trading.

Hong Kong's Competitive Advantage

There are some 380,000 small and medium enterprises (SME's) in Hong Kong, forming the backbone of our economy. Like Li & Fung, the majority of SME's are engaged in businesses which involve two or more economies. In order to enhance our competitiveness in the age of globalisation, we must leverage on our traditional strength as a trader/broker into being a logistics hub and supply chain management centre in the region.

Hong Kong must build on its strengths as the world's busiest container port and air cargo hub. With the further opening of China after her WTO entry and our strong relations throughout ASEAN and the region, we can maximise our strengths to strategically position ourselves globally. This would depend crucially on our development of Hong Kong into a strong logistics and transportation hub. Enhancing Hong Kong's connectivity to the Mainland and accessibility in the region is particularly important.

Hong Kong has evolved from being a manufacturing base to a full-fledged service economy with the services sector contributing up to 85 percent of our Gross Domestic Product (GDP). Trade-related services, including import/export, re-export, wholesale, retail, transport, storage, trade financing, insurance and other business services already account for 25% of Hong Kong's GDP; and I would expect this to grow further with China's WTO entry.

Asia's Response

Beyond the Hong Kong example, I believe the real competitive response for an Asian economy is to drive towards niches which can be extended globally, and not just locally or regionally. Furthermore, the Asian economy must penetrate its markets in a narrow and deep way. Some economies, because of their special circumstances, may formulate their niche strategies by building on their unique advantage in raw materials e.g. latex products for Malaysia.

In the face of globalisation, multinationals will need to focus on narrow product lines to grow their business. Developing the right infrastructure to enhance connectivity and to provide fast response time to shorten the supply cycle is of paramount importance. This includes the development of transport hubs and logistics centres, and enhancements in information technology and the use of the Internet. At the end, export driven economies would need to be global niche players.

Conclusion

In order to cushion the effect of globalisation, we would need to urgently address fair division of the pie and must not allow polarisation. However, in so doing, attention should be paid to enlarge the size of the pie. This can be done by enhancing development of the world economy through further globalisation and liberalisation via the WTO. Individual economies must enhance their competitiveness by the methods which I have just discussed. After all, it will be much easier to fairly divide an expanding pie.

Thank you.