Study of Hong Kong’s
Industry Level Competitiveness
The Tourism Sector
1. **Introduction – a historical overview**

In contrast to the development model of tourism in European and US destinations, which had centered upon domestic demand, tourism in Asia first took off in the 1970s as a synthetically created industry to generate revenues and support the economy. Asian cities with significant business activities were able to take advantage of Western notions of an exotic Orient, providing a taste of Asian culture for the typical time pressed Westerner in a secure and relatively comfortable environment. This “Instant Asia” model catered for these Westerners instead of Asians, since economic development at the time had yet to create a middle class which the leisure and disposable income to travel. At a time when Mainland China was closed to the rest of the world, and direct flights to most cities in Asia were non-existent, Hong Kong’s tourism industry capitalised on curious European and American tourists to establish itself as the must-go destination in Asia.

Hong Kong’s tourism sector has since thrived despite the odds. The city’s tiny size generates challenges in enticing visitors to return. It also creates land use conflicts, limiting supply of hotel accommodation and forcing choices between heritage preservation and commercial development. In addition, unlike some of the world’s largest metropolitan cities such as London and Paris, or any of the historical capitals of China, Hong Kong cannot provide ready access to thousands of years of iconic heritage sites as magnets for tourists.

Nevertheless, Hong Kong can reasonably consider the tourism sector one of its four pillar industries. It is known internationally as a world-class destination for both leisure and business visitors. The former fishing village-turned manufacturing centre welcomed only 215,000 visitors in 1961. Now an international finance centre and an iconic skyline destination in Asia, it is projected that in 2006 visitor arrivals reach 27
million (see Figure 1 on page 5). Over the years, Hong Kong has enhanced its competitiveness in tourism by leveraging its unique tourist attractions such as the Victoria Harbour and the Peak, by cultivating a pool of highly qualified hospitality professionals, and by ensuring accessibility whether through an efficient airport or an open-door visa issuing policy to numerous countries around the world. A strong home carrier, Cathay Pacific, has grown with the economy since its establishment in the 1940s, and by 1980s was offering a network of intercontinental flights. This further enhanced Hong Kong’s international profile and brought millions of transit passengers through Hong Kong each year. Hong Kong’s low tax and duty free environment have also stimulated a retail economy that has driven a global reputation as a shoppers’ paradise.

Unfortunately, after enjoying a pre-1997 boom, when tourists flocked to Hong Kong to experience the twilight days of the then-British colony, the sector subsequently suffered unexpected external shocks, ranging from the Asian financial crisis which hit in late 1997, to the September 11th, 2001 terrorist attacks, which shook the world economy, to the infectious diseases of avian flu in 1998 and Sars in 2003.

Despite resilient rebounds, there have been continuing disappointments and emerging challenges. The opening of Disneyland in September 2005, for example, was not the panacea that many in inbound travel and retail sectors had anticipated.

The post-Handover decade for the Hong Kong tourism sector has been a story of struggle and resilience – first against adverse macroeconomic conditions and global anxieties about long-haul tourist travel linked with terrorism threats, and now increasingly coping with fierce competition from regional players including Singapore and Macau, and to a lesser extent, Beijing and Shanghai. Rather than
striving to be a destination in its own right, Hong Kong has needed to build interest as one of a number of destinations in multi-destination holidays.

The one clear countervailing positive has been the rising affluence on the Chinese Mainland and the consequent interest in group and individual travel outside China. Facilitated by an increasingly relaxed Beijing attitude towards international travel, outbound tourism from China has begun to grow at an astounding rate since 2003, and is set to become a strong base for Hong Kong’s tourism sector for years to come.

This flood of Mainland visitors – some visiting Hong Kong in its own right, and others beginning to transit Hong Kong as part of more ambitious and extended holidays overseas – has been a boon to the Hong Kong economy. But it has at the same time created significant challenges – such as handling the sheer growth in numbers, responding to new spending priorities and patterns to a still shopping-focused market segment, and providing sufficient and affordable accommodation.
2. Economic Contribution

Hong Kong’s tourism sector has a track record of contributing significantly to the economy. Using visitor arrival numbers as a proxy for the size of the sector, Figure 1 indicates steady growth throughout the past two decades, with a spike just before the 1997 handover, and a steep climb upwards in the rebound after Sars. The travel industry has spillover effects into many sectors across the economy, including retail, restaurants and catering, and transport and logistics. Raw statistics therefore, may be underestimating the sector’s contribution to Hong Kong’s economy, and to Hong Kong’s overall competitiveness.

According to Census and Statistics Department estimates, the tourism sector directly employed an estimated 4.5% of the working population, or 152,800 people in 2004, as indicated in Figure 2. Of these, 90% were involved in inbound tourism, including retail, tourist accommodation, restaurants and cross-border passenger transport.

Tourism has been an increasingly important source of income for the economy. In 2005, inbound tourist expenditure is estimated to have amounted to HK$105.6 billion, a 65% increase from 2000. (See Figure 3 and 4) Inbound tourist expenditure was 8% of GDP in 2005, up from 3.9% in 2000.
Figure 1: Hong Kong visitor arrivals, 1986-2005

Source: Hong Kong Tourism Board

Figure 2: Number of jobs directly created by inbound tourism, 1996-2004

Source: Hong Kong Census & Statistics Department.
Since Hong Kong has long enjoyed the reputation as a “shoppers’ paradise”, the retail sector has been bolstered over the years by tourists’ expenditure on shopping. In the past 10 years, tourists’ shopping dollars have been estimated to constitute between 18 and 25% of sales revenue in the retail sector (as indicated in Figure 4). This would mean approximately one in five dollars spent at a retail outlet in Hong Kong is from a visitor. Those competitive drivers for a strong retail sector in Hong Kong – the absence of a sales tax, a vibrant and hassle-free import-export sector and wide range of choices and high service quality at retail stores – are therefore contributing to Hong Kong’s attractiveness to tourists.

Figure 3: Hong Kong Inbound Tourist Expenditure, 2000-2005

Source: Hong Kong Tourism Board. Other include same day in town visitors, transit passengers and air crew.
Figure 4: Hong Kong Tourism Receipts, 1987-2000

![Bar chart showing Hong Kong Tourism Receipts, 1987-2000](chart)

*Source: Hong Kong Tourism Board.* ¹

Figure 5: The contribution of visitors’ shopping expenditure to the retail sector, 1996 to 2005 (HK$ billion)

![Bar chart showing the contribution of visitors' shopping expenditure to the retail sector, 1996 to 2005](chart)

*Source: Monthly survey of retail sales, Hong Kong Census and Statistics Department; Survey of visitors’ expenditure on shopping Hong Kong Tourism Board.*²

¹ Starting from 2000, HKTB changed its methodology on computing tourism receipts, and instead used “tourism expenditure associated to inbound tourism” as a measure of the sector’s monetary contribution to the Hong Kong’s GNP. The new methodology involved an expanded sample to better take into account the expenditure by same-day in town visitors. Therefore, the two sets of figures cannot be presented in one graph.
Contribution from outbound tourism

Although most countries and jurisdictions focus their tourism policies on inbound travel, it is noteworthy that outbound tourism is also a vital economic and socio-cultural force. Interviewees have reported that outbound travel agents at times encounter hostility or disdain from the rest of the tourism sector, because their efforts are focused on encouraging Hong Kong residents to spend their disposable income abroad. However, outbound tourism directly provided 23,300 jobs in 2004, about 10% of jobs created by the tourism industry as a whole. These include jobs as travel agents, airline ticket agents and in cross boundary passenger transport. Half of Hong Kong’s 1,474 registered travel agencies (as of October 2006) specialise in outbound instead of inbound travel. Cultural exchanges that arise and business opportunities uncovered during these travels cannot be accurately quantified, but Figure 5 shows the trend of outbound travel trend of Hong Kong residents through the past two decades. Hong Kong residents accounted in 2005 for 720 million overseas visitors, meaning that on average every resident travelled overseas or to the Mainland 10 times a year. We can only surmise that the contribution of outbound travel is growing and as a sub-sector in tourism needs to be taken careful account of.

In this respect, the CEPA Supplement II measures will allow Hong Kong (and Macau) entrepreneurs to set up wholly owned outbound travel agencies in Guangdong Province, representing a breakthrough in the opening of China’s outbound travel market for overseas investors. The outbound tourism sector in Hong Kong is not particularly excited about this measure, however, because of its limitations.

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2 Since both the retail sales and visitors’ shopping expenditure are numbers derived from sampled surveys, the amounts shown should be treated as rough estimates, not actual figures.
So far, the measures only allow Hong Kong owned outbound travel agents to organise Guangdong Province residents to travel to Hong Kong and Macau, a business that Hong Kong agents would have no competitive advantage over existing Mainland players in the market. Also, the requirement of US$25 million annual turnover for sole proprietorship and US$12 million for joint ventures is too high for the Hong Kong outbound travel sector, which is dominated by small and medium enterprises. In the long run, however, if the Mainland outbound tourism market could be further liberalised, Hong Kong’s outbound tourism sector would have a pivotal role to play in applying their global network and tour coordination expertise in serving the Mainland market.
3. Competitor locations and their offerings

When asked which cities are, at present, competitors to Hong Kong’s tourism sector, many industry leaders simply replied, “None.” But asked which cities could become threats to Hong Kong, they invariably pointed to Singapore and Macau. These cities have shown a strong resolve to expand their tourism industries. Their governments are investing heavily in fixed assets in tourism and supporting infrastructure. Major foreign investors have been enlisted to help these cities achieve highly ambitious goals in their development of tourism, gaming, corporate events and conventions and exhibitions.

Others pointed to China, in particular the first-tier cities of Beijing, Shanghai and Guangzhou, as competitors for business and leisure travel markets in Hong Kong. Indeed, fast improving international flight connectivity to the airports in these cities and continued liberalisation of air traffic rights in China could in the long term make it theoretically unnecessary for Hong Kong to be a stopover on the itinerary of long haul tourists from Europe and the US. Given that China is a developing nation with four thousand years of civilisation, tourists seem to pardon the poor infrastructure, squalor, pollution, unreliable energy supply and an uncertain record in crime rates and social order. Cities in the Mainland are also less likely to face the high land and labour cost as Hong Kong does, making the supply of competitively-priced tourism infrastructure such as hotels and convention and exhibition space an easy task to accomplish.

This section will focus on considering Singapore, Macau and Mainland China as competitors of Hong Kong, even though each market segment in Hong Kong’s tourism industry may face other competitors. For instance, the recent initiatives by private hospitals and university medical faculties to offer medical tourism products
faces competition from established medical tourism destinations such as Thailand. Tourism is an industry with low market entry barriers; any city or country would have a certain level of tourism resources. To be more competitive than other cities or countries, Hong Kong would have to identify and exploit its tourism resources in an optimal and sustainable manner.

**Statistical comparisons**

Judging from the statistical comparisons, Hong Kong’s tourism sector appears to have so far performed strongly in the face of competition. On the demand side, the economic downturn, the crises of avian flu in 1998 and Sars in 2003 had affected tourism demand across the region, and yet Hong Kong’s visitor arrivals appeared to have rebounded more dramatically than others (see Figure 7). Hong Kong’s hotel occupancy rates are also consistently higher than those cities we consider our competitors (see Figure 8). The average length of stay in Hong Kong, which used to lag behind both Singapore and Shanghai, has been able to catch up with Singapore in 2002 and overtake Shanghai in 2004 (see Figure 9). On the supply side, while the number of hotel rooms in competing Asian tourist hubs remained flat, Hong Kong managed modest growth in the number of rooms (see Figure 10). These key performance indicators tell us, at least for the time being, that Hong Kong appears to have little to fear. However, these indicators do not reflect the future ambitions of our competitors.
**Figure 7: Visitor arrivals in Hong Kong and selected Asian cities, 1998-2005**

Source: Hong Kong Tourism Board, Singapore Tourism Board, Macau Census and Statistics Service, City of Shanghai Statistics Bureau. Note Singapore’s visitor arrival figures exclude all Malaysian citizens arriving by land and all non-resident air and sea crew, while Hong Kong’s visitor arrivals include any Mainlanders crossing the border. Shanghai visitor numbers exclude domestic visitors.

**Figure 8: Hotel occupancy rates in Hong Kong and competitor cities, 1998-2005**

Source: Hong Kong Tourism Board, Singapore Tourism Board, Macau Census and Statistics Service, City of Shanghai Statistics Bureau
Figure 9: Average length of stay for inbound tourists to Hong Kong and competitor cities, 2000-2005

Source: Hong Kong Tourism Board, Singapore Tourism Board, Macau Census and Statistics Service, Shanghai Municipal Statistics Bureau

Figure 10: Number of hotel rooms

Source: Hong Kong Tourism Board, Singapore Tourism Board, Macau Census and Statistics Service, City of Shanghai Statistics Bureau. Note: Data for Shanghai before 2002 not available because data on tourist accommodation did not distinguish between star rated hotels, hostels and guesthouses.
Singapore

Singapore shares many similar circumstances with Hong Kong in its endowment of tourism resources, and its strengths and weaknesses. Compared to neighbouring Malaysia, Indonesia and the rest of Southeast Asia, Singapore does not have as rich a history. It has been a British trading post, and thus succeeded in preserving an array of colonial architecture. As a naval base for the British Empire since 1923 and through the Second World War, Singapore celebrates its colonial heritage by specifically promoting WWII memorial sites in its tourism literature. Like Hong Kong’s “Instant Asia” image, Singapore had successfully cultivated an image of “Safe Asia”, building a reputation for law and order and cleanliness, providing an English-language environment for first-time Western visitors to Asia, at the same time still presenting the exotic imagery associated with the region. Like Hong Kong, Singapore faces cost constraints on land and labour.

The biggest difference distinguishing Singapore tourism sector from Hong Kong’s appears to be the active market-guiding role that the Singaporean government plays, versus the Hong Kong government’s more hands-off approach that aims to assist rather than to lead tourism development. Singapore has a history of using master plans to map the future for the industry, with the latest Tourism 2015 master plan laying out goals to double visitor arrivals, triple tourism receipts and create 100,000 new jobs in the 10 years up to 2015. Many Hong Kong tourism industry executives have expressed concern over the determined resolve and ambitions of the Singapore government, in particular Prime Minister Lee Hsien Loong’s advocacy of the “integrated resort” concept. On the other hand, given that Hong Kong’s tourism industry has thrived in past decades despite competition from Singapore, it is a moot

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3 Past master plans include the 1986 Tourism Product Development Plan, the 1993 Strategic Plan for Growth, and the 1996 Tourism 21: Vision of a Tourism Capital.
point what is the ideal role of government in enhancing the competitiveness of either cities.

The latest master plan in Singapore also specified goals that are similar to Hong Kong’s self image as a tourism destination. Conventions and exhibitions are to be prioritized, while the city continues to develop its “Uniquely Singapore” image as a must-go leisure destination. Education and healthcare services are also being developed into tourism products.

The expected appeal of the “integrated resort” (IRs) to leisure tourists and conventions and exhibitions has caused major anxieties for the Hong Kong tourism sector. The first of these IRs, the Marina Bay Sands, will offer 100,000 square metres of exhibition space and 3,000 hotel rooms, as well as shopping areas, an art museum and a casino. The resort is expected to employ 10,500 people, 75% of whom will be Singaporeans.

However, the aggressiveness in Singapore’s tourism marketing has to be placed in context. According to interviewees, the number of corporate events, incentives, conventions and exhibitions in Singapore has slipped 30% in the past five years. Building new world-class venues should be seen at least in part as an effort to revive the sector.

Also, building new supply of exhibition halls, although an important strategic move, does not necessarily stimulate demand. Hong Kong’s core strengths as an international centre for trade, financial services, procurement and sourcing, as well as a gateway to China are likely to fuel demand for more of the world’s largest trade shows to be held in Hong Kong. These features of Hong Kong contributed to the decision of a major air show in the region, Reed Exhibition’s Asian Aerospace, to move from Singapore to Hong Kong starting from 2008.
While the threat from Singapore should be taken seriously, Hong Kong should also identify its core strengths in attracting business and tourism activities and explore ways to consolidate these strengths. For instance, Hong Kong’s low-tax environment, compared to the Goods and Services Tax (GST) in Singapore that has recently been raised from 5 to 7%, contributes to making Hong Kong a more competitive location for all kinds of corporate events, incentives, conventions and exhibitions.

Macau

A decade ago, it would be unthinkable that the Hong Kong tourism industry would regard Macau as a competitor. The former Portuguese colony had relied on its proximity to Hong Kong as a competitive strength, with the Hong Kong International Airport bringing in most of its long haul visitors from the US and Europe. Until 2003, Macau had depended upon Hong Kong as its main source of visitors.

Today, Macau is in the process of repositioning itself from a weekend getaway for Hong Kong tourists and punters to a world-class gaming and entertainment destination, a “Las Vegas of the East”. Major international casino developers including Las Vegas Sands, Wynn Resorts, MGM Mirage and PBL have obtained licenses to build high profile casino projects. Gaming and tourism have been designated the “dragonhead industries” of the Macau economy, directly employing 27.5% of the population in 2005. Gaming also contributes over 75% of government income, enabling a low tax environment for businesses and individual taxpayers, as well as providing a consistent resource pool for major government-funded infrastructure projects, such as the East Asian Games sports venues and the upcoming monorail.

Once the major casino resort projects open in early 2010s, Macau will have supply-side advantages over Hong Kong in terms of hotel rooms and convention and
exhibition venues. Figure 11 shows the exponential growth of hotel rooms projected to 2020, a supply trend that in 10 years’ time will exceed Hong Kong’s supply. The Venetian Cotai resort, projected to soft launch in 2007, will provide 100,000 square metres of convention space and 1,200 hotel rooms. Sheldon Adelson, chairman of the Venetian’s parent company Las Vegas Sands, has projected his resort alone will attract 35 to 40 million visitors a year to Macau. Figure 12 summarises the major venues in Macau for corporate events, conventions and exhibitions.

**Figure 11: Macau’s existing and projected supply of hotel rooms, 1999-2020**

![Graph showing hotel room supply in Macau and Hong Kong from 1999 to 2020](image)

*Source: Existing supply data from Macau Census and Statistics Service; projections compiled from media reports, individual casino developer statements and Research Report on Strategic Development of Convention & Exhibition Industry in Macau.*

The 2005 approval of a heritage cluster in Macau as a Unesco World Heritage site has shown Macau’s competitive advantage of possessing a longer and richer colonial history than Hong Kong. In comparison, Hong Kong has been relatively slow

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4 New hotel supply includes Rio Hotel (450 rooms, 2006), Grand Emperor Hotel (400 rooms, 2006), Wynn Resorts (600 rooms, 2006), Galaxy StarWorld (500 rooms, 2006), Grand Lisboa (600 rooms, projected 2006), Venetian Cotai Resort (3,000 rooms in phases, 2007-08), Ponte 16 (420 rooms, 2007), MGM Grand (600 rooms, 2007), City of Dreams (3,000 rooms, 2008), Park Hyatt (700 rooms, 2009) and other Cotai strip hotels at the Venetian resort complex (2010-12 in phases).
in developing its potential heritage sites into tourist attractions, as seen in the controversy over the fate of Tiger Balm Garden and the Central Police Station.

**Figure 12: Major conventions and exhibition venues in Macau**

<table>
<thead>
<tr>
<th>Venue</th>
<th>Available exhibition floor space and associated facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venetian Cotai (Projected completion 2007)</td>
<td>100,000 square metre, including an exhibition hall accommodating 15,000 people</td>
</tr>
<tr>
<td>Fisherman’s Wharf</td>
<td>5,000 square metre, including a restaurant accommodating 2,750 people for seated dinners</td>
</tr>
<tr>
<td>Macau Tower Convention and Entertainment Centre</td>
<td>4,000 square metre, including a banquet hall accommodating 1,000 people for seated dinners</td>
</tr>
<tr>
<td>East Asian Games Dome</td>
<td>Two exhibition venues at 2,700 square metres and 3,000 square metres</td>
</tr>
<tr>
<td>Macau Forum</td>
<td>Two exhibition venues at 7,280 square metre and 755 square metre</td>
</tr>
</tbody>
</table>

*Source: Macau Government Tourist Office*

The development of the Macau International Airport into a low cost carrier hub for China and for Asia has also been seen as a competitive challenge to Hong Kong. The millions of tourists to Macau no longer necessarily need to fly via Hong Kong, and the offerings of a low cost option could entice some visitors destined for Hong Kong to choose to fly via Macau instead, increasing the possibility they will also stay in hotels in Macau and spend their tourist dollars there.

While there is ample evidence that Macau is emerging to become a stronger tourist destination than before, there are lessons to be learned from some of constraints on its tourism and gaming development. Macau’s success is also heavily contingent upon the central government of China allowing the existence of land-based casinos even though legalised gambling contradicts Communist ideology and casinos run the risk of harbouring money-laundering activities. Should the central government at any point decide to curb overseas gambling activities by Mainland residents, Macau’s economic development will be put at risk. These risks should also be borne in mind while tourism professionals and political parties in Hong Kong have started
lobbying the Mainland government to allow the development of land-based casino in Hong Kong.

Macau’s most critical weakness at the moment – the overloading on its infrastructure – is also an instructive lesson and a warning sign for Hong Kong. The capacity for Macau’s tourism institute to train new staff has simply been unable to catch up with the extraordinary rise in demand for skilled labour. Although the problem can be solved post facto with a relaxed policy on the import of labour, the industry could have benefited as a whole if education and labour training policies had been coordinated in the first place. Macau’s enormous needs for skilled and unskilled labour in a highly labour intensive sector could constitute a threat to Hong Kong in the medium to long term.

Already, many of Hong Kong’s middle and senior management in the hospitality industry have been poached to Macau and rising Chinese destinations. Since Hong Kong is also planning to add 5,800 hotel rooms in the next four years up to 2010 (meaning a need for about 6,000 jobs given a typical 1:1 staff to room ratio), there is merit in planning how the two university-level tourism management schools and the Vocational Training Council, together with private sector initiatives, can be prepared to fulfill the labour needs for both Hong Kong and for the region.

In all, Macau’s strategy has been to bet on the theory that enormous demand will be attracted to fill the enormous capacity. The jury is still out on whether this “build it and they will come” gamble would hit the jackpot as it expects.
Mainland China – Shanghai and Guangzhou

Given China’s emergence as the factory of the world, and its continued liberalisation of trade after its accession to the World Trade Organisation, the first tier cities in China are poised to welcome more business travellers, growing particularly in the conventions and exhibitions market. During the 10th Five Year Plan (2000-2005), China’s conventions and exhibition sector grew at a rate of 20% a year. Guangdong Province totalled 3.8 billion yuan in conventions and exhibitions receipts in 2005, accounting for one-third of the sector in China. Shanghai, as the centre of gravity in business and finance in China, as well as the host of the World Expo in 2010, is also actively building new facilities for conventions and exhibitions (see Figure 13).

In the past, Mainland Chinese cities only competed with Hong Kong for leisure tourism, especially for Western visitors interested in seeing for themselves the historical monuments and natural sceneries of China. The competition from China becomes worrying for Hong Kong when its tourism sector has started attracting business travellers, most of whom are attending meetings, incentives, conventions and exhibitions events (known as MICE in the travel trade). Mainland Chinese cities have the advantage over Hong Kong on having cheap land and cheap labour. Construction of enormous exhibition venues has not been a problem in the Mainland (see Figure 14).

At the same time, however, Mainland destinations face the competing pressures of domestic tourism. Fuelled by a rising middle class, conscious central government policies on designating public holidays, and improvement in domestic road, railway and air traffic networks, Mainland Chinese are just beginning to become a powerful engine for domestic travel. Very soon, popular tourist hubs in Mainland
China will have to wrestle with building the infrastructure to accommodate massive flows of domestic tourists while still ensuring the hub appeals to long haul visitors from non-Chinese speaking cultures.

The expertise and skilled labour necessary for holding world class trade fairs, conventions and expo is a scarcity in China. Although the Chinese Export Commodities Fair, known as the Canton Fair, has 50 years of history, Hong Kong possesses a cluster of expertise in advertising, marketing and logistics that China has not yet cultivated. China until recently has not concentrated efforts in training professionals with skills for organising MICE events. It is only in 2005 that the East China Normal University in Shanghai set up an academic division, the first of university level training institutions in China, to train MICE professionals to be ready for the 2010 World Expo.

**Figure 13: Major convention and exhibition venues in Shanghai**

<table>
<thead>
<tr>
<th>Venue</th>
<th>Capacity by rentable function space</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Expo 2010 site</td>
<td>5.28 sq km expo space</td>
</tr>
<tr>
<td>Shanghai New International Expo Centre (Opened 2005)</td>
<td>350,000 sq m indoor; 850,000 sq m outdoor</td>
</tr>
<tr>
<td>Shanghai International Exhibition Centre (INTEX Shanghai)</td>
<td>24,000 sq m</td>
</tr>
<tr>
<td>Shanghai Guangda Conference &amp; Exhibition Centre</td>
<td>30,000 sq m</td>
</tr>
<tr>
<td>Shanghai International Convention Centre</td>
<td>110,000 sq m</td>
</tr>
</tbody>
</table>

**Figure 14: Major convention and exhibition venues in Guangdong Province**

<table>
<thead>
<tr>
<th>Venue</th>
<th>Capacity by rentable function space</th>
</tr>
</thead>
<tbody>
<tr>
<td>China International Exhibition Centre Phase II and III (under construction)</td>
<td>Adding 220,000 sq m to the existing Pazhou Complex</td>
</tr>
<tr>
<td>China International Exhibition Centre Phase I, known as the Pazhou Complex</td>
<td>130,000 sq m</td>
</tr>
<tr>
<td>China International Exhibition Centre, Liuhua Complex</td>
<td>130,000 sq m</td>
</tr>
<tr>
<td>Guangzhou Huacheng Exhibition Centre</td>
<td>110,000 sq m</td>
</tr>
<tr>
<td>Guangzhou Modern International Exhibition Centre</td>
<td>100,000 sq m</td>
</tr>
<tr>
<td>Shenzhen International Convention &amp; Exhibition Centre</td>
<td>105,000 sq m</td>
</tr>
<tr>
<td>Dongguan International Conference &amp; Exhibition Centre</td>
<td>27,500 sq m</td>
</tr>
<tr>
<td>Guangzhou Jinhua International Exhibition Centre</td>
<td>20,210 sq m</td>
</tr>
<tr>
<td>Guangdong Dongbao Exhibition Centre</td>
<td>11,500 sq m</td>
</tr>
</tbody>
</table>
Fears of competition from the Mainland is well founded, but not to the extent that the Hong Kong should doubt its own development in tourism or MICE. With a liberal visa regime granting foreign visitors from 170 countries visa free entry, Hong Kong has become the city of choice for headquarter operations for many multinational companies, while the visa application process into Mainland China remains a difficult process for overseas business travellers.

Other bureaucratic regulations in China have also been a hindrance to the MICE industry. For instance, approvals from three different government bureaus are frequently needed before a convention can be held. The bureau of external affairs approves all conventions and exhibitions involving foreign visitors, while the bureau of foreign trade and economic cooperation has to approve the event if its topic involves the economy and the bureau of science and technology needs to give the green light if the event involves technology.

All in all, given the low market entry barriers in the industry and Hong Kong’s innate disadvantages of size and short historical background, competition should always be expected. But if Hong Kong manages to enhance its competitive strengths and remedy its weaknesses, as well as work in close partnership with neighbouring Macau, the Pearl River Delta and China, the growing competitiveness of other destinations would not necessarily compromise Hong Kong as a tourist hub.
4. **Strengths and Weaknesses**

Most of Hong Kong’s tourism industry is directly driven by the private sector. Hotels and travel agents form the bulk of these private sector firms, while a strong home carrier and an efficient airport, educational institutions providing a skilled labour pool and the vibrancy of the general services sector, particularly the innovative and entrepreneurial retail sector, have formed a significant cluster of firms supporting the hotels and travel agents. Because of the labour intensiveness of these service industries, these firms provided employment and training to a pool of low skilled labour. The dynamism of having to cater to tourists from a variety of cultures and backgrounds has also helped cultivate entrepreneurship in Hong Kong. The long-term competitiveness of the sector as a whole would in part hinge upon the sustained competitiveness of firms such as hotels and travel agents.

**Hotels and the hospitality industry**

Hong Kong has been a breeding ground for internationally renowned hotel brands. Most notable are the Peninsula and the Mandarin Oriental chains. The Peninsula brand was built by Hongkong and Shanghai Hotels (HSH), a company incorporated in Hong Kong in 1866 and one of the first companies to be granted a listing in the Hong Kong Stock Exchange. Mandarin Oriental opened its first property in Hong Kong in 1963, and has been a Hong Kong listed company since the late 1980s. Both of these brands now manage highly sought-after luxury hotels around the world, and are highly competitive among other traditionally European and American international hotel chains.

Other strong international hotel chains, ranging from the Hong Kong headquartered Shangri-la, which was started in Singapore, to the Stanford, owned by the construction and entertainment conglomerate K Wah Group, to Langham Hotels
of Great Eagle Holdings, have also benefited from managerial talents and business environment in Hong Kong. Combining an Asian culture of service and the ability to speak English, hospitality talents in Hong Kong are commended as among the best in Asia.

Hong Kong’s hotel sector is a relatively organised industry, with the Hong Kong Hotels Association being the primary voice for the sector, representing more than 95 member hotels with over 39,000 rooms in a market of 138 hotels with 43,866 rooms.

As seen in Figure 15, the supply of tourist accommodation has increasingly steadily but modestly in the past decade. Comparing data on the number of overnight visitors to the number of available hotel rooms, it becomes apparent that hotel rooms are in short supply. In 2005, there were 14.7 million overnight visitors (or 40,365 per day), who stayed an average of 3.7 nights, but hotel and tourist guesthouses numbered only a total of 48,891. This means an average of 3 visitors had to share a hotel or guesthouse room each night.

The shortage of accommodation is clear. In particular this statistical anomaly indicates a continuing shortage in the more affordable three star hotels. Given the high land cost in Hong Kong, there has historically been a tendency to build five star and four star hotel accommodation. Only in recent years have smaller scale, three star and more boutique hotels started to spring up to fill the demand from Mainland tourists. Providing affordable accommodation is not only important for Hong Kong to prevent tourists from choosing to stay in hotels in Macau or across the border. Sufficient supply of three-star level hotel accommodation offers travellers the choice of spending more of their tourist dollar on other expenditure items, such as shopping and
the consumption of services, as well as raises the possibility of travellers extending their length of stay in Hong Kong.

**Figure 15: Hotel room supply, 1987-2005, and projected supply, 2006 to 2010**

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected new hotels</th>
<th>Projected additional rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>16</td>
<td>7,681</td>
</tr>
<tr>
<td>2007</td>
<td>8</td>
<td>2,589</td>
</tr>
<tr>
<td>2008</td>
<td>9</td>
<td>1,872</td>
</tr>
<tr>
<td>2009</td>
<td>3</td>
<td>1,228</td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>5-year Total</td>
<td>37</td>
<td>13,470</td>
</tr>
</tbody>
</table>

*Source: Hong Kong Tourism Board*

A major limiting factor for hotel development in Hong Kong is the city’s small size and scarce land resource. On the one hand, many of Hong Kong’s major property developers are involved in owning, operating or managing hotel properties. For instance, Cheung Kong Holdings have developed Harbour Plaza Resort City and Harbour Plaza North Point, while Henderson owns the Miramar Hotel, Sun Hung Kai Properties owns Royal Garden Hotel and Hopewell Holdings owns the Panda Hotel. On the other hand, these hotels typically form a very small part of their
conglomerates, illustrating how the use of a commercial property as a hotel can be in conflict with other uses, such as developing downtown office building or residential units. These conflicts are illustrated by the 1993 closure of the Hilton Hotel to give away to the skyscraper Cheung Kong Centre, the January 2006 shutdown of the Hyatt Regency in Tsim Sha Tsui for conversion into a shopping mall, and the pending replacement of the downtown Ritz Carlton by an office block.

**Travel agents**

Unlike hotels, which can only generate revenue by having visitors staying there and using their facilities, travel agents do not necessarily have the same loyalty to Hong Kong. Services such as organising corporate meetings or air ticketing might be provided in Hong Kong, but the itineraries of these overseas clients do not necessarily need to include Hong Kong. Since most of the 781 inbound travel agencies in 2006 in Hong Kong are small and medium enterprises, making them highly flexible to cater for a variety of requests from overseas markets. If an overseas client requests a shorter stay in Hong Kong and instead a longer stay in more novel destinations such as Macau or other cities in the Pearl River Delta, a Hong Kong travel agency would offer that flexibility. Less than 50 travel agencies specialise exclusively in long haul inbound tourism, interviewees reported. These are also clients who may frequently seek help from Hong Kong travel agencies to plan their tours in destinations such as Southeast Asia and Japan, where the client may be unfamiliar with local agents with competent English and high quality service.

At the same time, because of the large number of SMEs in the sector, the level of professionalism and experience differs. Consumer protection has historically been an issue, as illustrated by the recent controversy over how to eliminate zero-fare tours and how to best regulate tour guides.
Conventions and exhibitions

Hong Kong’s conventions and exhibitions (C&E) industry stemmed from the popularity of the Chinese Export Commodities Fair (the Canton Fair) in Guangzhou, and continues today to capitalise on the twice a year gathering of tens of thousands of sourcing and procurement agents from around the world. The Trade Development Council, as well as major C&E firms such as CMP Asia and Global Sources, organise dozens of world-class wholesale fairs in the weeks before, during and after the Canton Fair in order to capture the huge traffic of attendees.

Despite a shortage of exhibition venues until the Hong Kong Convention and Exhibition Centre was completed in 1988, the C&E industry in Hong Kong has grown to be larger than Guangzhou’s. Figure 16 shows the growth in overseas visitor attendance at Hong Kong’s fairs since 1990. Interviewees have reported that out of the 450 major fairs in the world, Hong Kong now organizes 70 every year. Even with the opening of the Asia World Expo in 2005, rising demand for function space has driven the Convention and Exhibition Centre to launch its second expansion project, as well as for Hopewell Holdings to rebrand its Kowloon City expo venue into an entertainment and shopping complex (see Figure 17).

These are small steps compared to the enormous investment in hardware in Singapore and Macau. In particular, once the Venetian Cotai strip commence operation in Macau, new fairs could possibly be put up to coincide with the Canton Fair, replicating the business model that Hong Kong’s C&E industry was built upon.
Macau also stands to gain from what has been traditionally a crucial driver for
the growth of the C&E industry in Hong Kong – the presence and vibrancy of local
business activity, because half of the companies exhibiting their products and half of
the attendees at trade fairs have consistently been from Hong Kong. As a hub for
international and regional headquarters, Hong Kong has become the natural location

**Figure 16: Number of events and overseas visitor attendance of conventions and
exhibitions in Hong Kong**

![Chart showing the number of events and overseas visitor attendance in Hong Kong from 1990 to 2004.](chart)

**Source:** Hong Kong Tourism Board

**Figure 17: Convention and exhibition venues in Hong Kong**

<table>
<thead>
<tr>
<th>Venue</th>
<th>Completion date</th>
<th>Capacity by rentable function space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia World Expo</td>
<td>2005</td>
<td>70,000 sq m</td>
</tr>
<tr>
<td>Hong Kong Convention and Exhibition Centre</td>
<td>First built 1988; first expansion – 1997; second expansion due 2009</td>
<td>Currently 70,000 sq m; 90,000 sq m by 2009</td>
</tr>
<tr>
<td>Hong Kong International Trade and Exhibition Centre (HITEC)</td>
<td>Commenced operation 1995; to be rebranded as EMax, due mid-2007</td>
<td>10,000 sq m</td>
</tr>
<tr>
<td>Hong Kong Exhibition Centre</td>
<td>Early 1980s</td>
<td>3,000 sq m</td>
</tr>
</tbody>
</table>
for conventions and exhibitions. This is a significant edge compared to the situation in our Mainland competitor locations, since very few of these cities would be able to offer a stable base of exhibitors and attendees, together with the expertise in marketing, advertising and logistics all in one package. Macau, as an immediate neighbour and a likely candidate to offer the same level of services, could potentially divert some of these trade fairs from Hong Kong.

Again, Hong Kong’s proximity to the Mainland has given us an advantage in recent years. According to a 2006 survey by the Hong Kong Exhibition and Convention Industry Association (HKECIA), the number of Mainland companies showcasing their products and services in Hong Kong exhibitions, Mainland visitor attendance, as well as stand revenues generated by Mainland companies all increased dramatically in the past decade. Virtually unrepresented in 1995, by year 2000, more than 2,000 Mainland companies exhibited. By 2005 the number has risen to 7,266, constituting 17% of the total number of companies renting stands at exhibitions and conventions.

Looking at Hong Kong’s competitiveness in the business travel market, conventions and exhibitions is no doubt a high value-adding segment. The large-scale trade fairs draw massive influx of visitors to Hong Kong at one time, filling hotel rooms and restaurants, and at the same time have fuelled the growth of a number of related industries. The conventions and exhibitions segment also counteracts the low seasons for leisure travel. Trade fairs are often held in the quieter months between the summer and winter holidays, which are the peak times for leisure travel, fuelling a healthy year-round demand in the tourism sector as a whole.

In the face of competition from Macau, Singapore and the Mainland for the C&E market, some in the travel trade have urged more importance to be placed on
corporate meetings and incentives (known as M&I in the travel trade) as an industry. Many exotic and novel tourist attractions in Hong Kong could be exploited for incentive travel, including the redevelopment project of the Ocean Park, the newly renovated Peak Tower as well as outlying islands, heritage sites and museums. Most important for the future of business travel in Hong Kong appears to be sustaining a strong cluster of business and finance activities, as well as consolidating Hong Kong’s international profile, so that naturally the flow of corporate meetings, conventions and exhibitions will come our way.

**The airport, the home carrier and the aviation sector**

The unique efficiency of Hong Kong’s new airport, and the historic strength of Cathay Pacific as Hong Kong’s principal home carrier, has been crucial to attracting high spending international travellers to Hong Kong. As a well-managed airline, it has through the years made important strategic investments in Hong Kong through the purchase of aircraft, investment in infrastructure at the Chek Lap Kok airport, as well as the training of high quality service and management staff. As with Singapore Airlines in Singapore, Cathay’s success in Hong Kong has over the years helped build the Hong Kong International Airport into one of the most efficient and competitive in the world, and that in turn attracted other major airlines to expand their connectivity to Hong Kong. Today, Hong Kong’s role as an international aviation hub continues to be a competitive driver for the tourism sector.

**The Mainland market: Overdependence or early investment?**

The Mainland market has become an increasingly important source of visitors to Hong Kong, as seen in Figure 18. As a short-term remedy for Hong Kong’s economic downturn, the influx of Mainland visitors was a timely, positive boost for our economy. As a long-term driver for tourism growth, however, the Mainland
market should not be counted upon. As at March 2006, the number of countries approved for outbound tourism by the Mainland authorities reached 81, a significant increase from 2000 when only 14 countries were granted Approved Destination Status. One argument for continued tourism promotion in Mainland China has been that with the high potential of outbound tourism from China, and therefore Hong Kong should invest in marketing efforts and take early action to build a brand name in China. But when Chinese tourists also have an increasingly wider variety of destinations to choose from, Hong Kong needs to either revise its strategies in the Mainland market, or in particular focus on how to attract higher spenders.

Figure 18: Mainland China’s market share of Hong Kong visitors in selected years

Source: Hong Kong Tourism Board
While the Individual Visitor Scheme (IVS)\(^5\) has no doubt been a helpful policy move by the central government (see Figure 19 and 21 for details), opening the floodgates for Mainland tourist arrivals to essentially triple within three years (see Figure 20), the visitors were also low-value adding tourists, whose primary interest in Hong Kong, apart from the novelty for first-time visitors, is to take advantage of the shopping opportunity. In the long run, as multinational and Hong Kong brand name retail chains set up shop in the first and second tier cities on the Mainland, Chinese tourists would no longer need to come to Hong Kong to avoid counterfeit goods. China’s policy of altering its economic structure from a manufacturing driven economy to a consumption driven economy could lead the central government to launch initiatives to stimulate domestic demand. For instance, if the Chinese government decides for any reason to lower its 17% value-added tax, Hong Kong’s tourism and retail sector could be adversely affected. Relying on Mainland shoppers would therefore in the long term become a risk rather than a contributing factor to the tourism sector’s competitiveness.

A lesser known trend in the Mainland’s contribution to the Hong Kong tourism sector has been the recent series of Mainland companies launching their initial public offerings (IPOs) in the Hong Kong Stock Exchange. Mainland companies’ senior executives and their staff have come to Hong Kong mostly on company budget and therefore have generously stayed at the top hotels in Hong Kong. Therefore, a task for Hong Kong going forward is simply to maintain its competitiveness of the business and financial services hub of choice in the region.

\(^5\) The IVS, launched July 28, 2003, for the first time allowed Mainland residents to visit Hong Kong on an individual basis, instead of having to travel on business visas or in groups. Initially, the IVS covered four Guangdong Province cities, Beijing and Shanghai. In 2004, it was expanded to cover the entire Guangdong Province, as well as nine other coastal cities. By today, 230 million people in 44 cities are eligible to travel to Hong Kong on IVS, as tracked in Figure. From July 2003 to March 2006, more than 12.2 million Mainland visitors have already done so.
Coping with the sheer numbers of Mainland tourists has also exacerbated supply side pressures and exposed emerging problems of uncoordinated planning for the development of tourism and related infrastructure. Overcrowding at Disneyland just months after opening resulted in ticket holders being refused admission into the newly built theme park. The road network in the Tuen Mun area remains to be improved, as the Western Corridor will soon open. Otherwise, although the new Western Corridor is worthy of applause for allowing the potential to expand threefold the vehicle traffic flow between Shenzhen and Hong Kong, it is also likely to bring a large volume of Mainland tourists very efficiently across the border, only to have them experience severe traffic jams in Tuen Mun.

**Figure 19: Cities covered under the Individual Visitor Scheme, 2003 to current**

<table>
<thead>
<tr>
<th>Date</th>
<th>Cities</th>
<th>Cumulative number of cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 28, 2003</td>
<td>Dongguan, Foshan, Zhongshan, Jiangmen</td>
<td>4</td>
</tr>
<tr>
<td>August 20, 2003</td>
<td>Guangzhou, Shenzhen, Zhuhai, Huizhou</td>
<td>8</td>
</tr>
<tr>
<td>September 1, 2003</td>
<td>Shanghai, Beijing</td>
<td>10</td>
</tr>
<tr>
<td>January 1, 2004</td>
<td>Shantou, Chaozhou, Meizhou, Zhaoqing, Qingyuan, Yunfu</td>
<td>16</td>
</tr>
<tr>
<td>May 1, 2004</td>
<td>Shanwei, Maoming, Zhanjiang, Shaoguan, Jieyang, Heyuan, Yangjiang</td>
<td>23</td>
</tr>
<tr>
<td>July 1, 2004</td>
<td>Nanjing, Suzhou, Wuxi, Hangzhou, Ningbo, Taizhou, Fuzhou urban area, Xiamen, Quanzhou</td>
<td>32</td>
</tr>
<tr>
<td>March 1, 2005</td>
<td>Tianjin, 15 districts and counties of Chongqing</td>
<td>34</td>
</tr>
<tr>
<td>November 1, 2005</td>
<td>Chengdu, Jinan, Dalian, Shenyang</td>
<td>38</td>
</tr>
<tr>
<td>May 1, 2006</td>
<td>Nanchang, Changsha, Nanning, Haikou, Guiyang, Kunming</td>
<td>44</td>
</tr>
</tbody>
</table>

*Source: Hong Kong Government*
Figure 20: Mainland China Visitor Arrivals to Hong Kong, 1985-2005

![Visitor arrivals to Hong Kong, 1985-2005](chart)

Source: Hong Kong Immigration Department; Hong Kong Tourism Board

Figure 21: Mainland visitor arrivals by Individual Visitor Scheme, 2003-2005

![Visitor arrivals by IVS and Non-IVS, 2003-2005](chart)

Source: Hong Kong Immigration Department; Hong Kong Tourism Board
Complacency

An over-optimistic outlook on the tourism sector could cause Hong Kong’s policymakers, industry professionals and the general public to lower their guard in the face of competition. One risk is when tourism authorities and industry observers rely on raw statistics to judge the competitiveness of Hong Kong’s tourism sector. As seen in Figure 1 and 7, visitor arrival numbers have shown impressive growth, and have stayed high above competitor locations. However, a significant portion of this growth may not be adding value to the tourism sector. According to a 2003 Planning Department study on cross-boundary traffic\(^6\), 17,000 Mainland residents cross the border on the daily basis to for work in Hong Kong. Assuming 22 working days per month, these workers would have accounted for 4.5 million in Hong Kong’s visitor arrival figures, even though they are not visiting Hong Kong for tourism-related purposes. Given the closer integration of Hong Kong with the Mainland, one can only expect this number to have increased. The study also estimated at least 16,000 Mainlanders would visit Hong Kong at least once a week for business. In a year, this group of business travellers would account for 800,000 visitor arrivals.\(^7\)

Hong Kong’s visitor arrival figures are therefore not the most accurate data set to illustrate the strengths of the tourism sector. To avoid the similar statistical distortion, the Singapore Tourism Board reports its visitor arrival figures excluding all Malaysian citizens arriving by land, as well as non-resident sea and air crew members. In order for long term and effective planning to take place, the tourism sector and the Hong Kong Government must be aware of these nuances.

\(^6\) Northbound Southbound: Profile of Travelling Between the Mainland and Hong Kong based on the Cross-boundary Travel Survey 2003, Planning Department, Hong Kong SAR Government. This study has been repeated in mid-2006, with results pending release for 2007.

\(^7\) Interviewees have also conjectured that 5,000 primary and secondary school students from the Mainland cross the border on a daily basis for schooling. If this is true, without counting adult guardians who might escort these students to school, this would account for another 1.1 million visitor arrivals a year who have not come to Hong Kong for tourism purposes.
5. Current Competitiveness

As Asian economies develop and come to realise the potential contribution from a vibrant tourism sector, Hong Kong’s once dominant position as the must-go tourist hub in Asia has been challenged by rising competitors in all market segments. In spite of challenges from competitors as well as internal constraints such as high costs and conflicting land use, the competitiveness of Hong Kong’s tourism sector is to remain strong. The key drivers for competitiveness in tourism have been Hong Kong’s role as an international centre for financial services, trade and logistics, and headquarter functions, as well as Hong Kong’s unique position as a free port, low tax and low bureaucracy business environment. These were the core strengths of Hong Kong, not the piecemeal addition of one extra sightseeing spot or any short-lived marketing gimmick, that have and will continue to provide powerful momentum for international travel to Hong Kong. While Hong Kong’s tourism sector braces itself for external challenges from competitors and instabilities in the world economy, and the initial “Instant Asia” and romantic imagery about China and the East has evolved, nevertheless Hong Kong’s proposition as an exotic Pearl of the Orient still holds true today.

At the same time, Hong Kong has been increasingly vigilant about weaknesses and potential threats to its tourism sector. Initiatives to resolve these issues could take the active involvement of many stakeholders in private sector and government departments, as well as cooperation and negotiation with provincial and central government entities in China. For example, environmental pollution in an urban tourist hub like Hong Kong has affected visitors’ enjoyment of scenic destinations, and has hurt Hong Kong’s international reputation when tourists and business travellers witness the inability of the Hong Kong community as a whole to tackle the
problem. However, in the past decade, we have witnessed dramatic improvement of the water quality in Victoria Harbour. In recent years, Hong Kong residents have become increasingly aware of air pollution. It will require long term efforts on the part of local and Mainland governments, the private sector and the local community to resolve this threat of deteriorating air quality, and there is so far no confidence that such joint effort can be managed, in spite of the serious implications for Hong Kong’s successful future not just as a tourist destination, but as “Asia’s World City”. Many other possible measures to defend and enhance the competitiveness of our tourism sector are similar in that they require the cooperation and participation of a diverse set of players.
6. **Review of key challenges and projection into the future**

The challenges to Hong Kong have been increasingly real as competitors across the region attempt to strengthen or reposition their tourism sectors after several difficult years of recession. At the same time, the opening of outbound travel from the Mainland offers tremendous opportunity for tourism hubs worldwide, including Hong Kong. China’s emergence as a world economic power also means that international business activities will undergo substantial growth in the future, and multinational firms that have previously been unable to set foot in China are now increasingly growing their business there. Hong Kong is well positioned to benefit from these developments, if it could first tackle its weaknesses and avert likely threats.

- **Training and retention of skilled labour and managerial talents**

It is an ironic problem that while competitors struggle to provide high quality training in tourism and hospitality staff, Hong Kong’s labour and talents are so well trained that they have become the target of poaching and talent importation policies in Macau and Mainland China. The Chinese University and the Polytechnic University, which train management talents for the tourism sector and provide research and development assistance to tourism marketing in Hong Kong, would have to continue their close cooperation with the Vocational Training Council, as well as related government entities in tourism policies and education and manpower, in order to map out the labour needs in the region and find ways to meet them.

In the private sector, various hotels, tourist agents and convention and exhibition firms have launched their own initiatives to provide internal training and on-the-job education programmes for staff. In order to curb rising labour cost in the long term, these companies have realised that apart from retaining staff with a higher
salary than what is offered in other competitor locations, providing professional
growth opportunities of staff is going to be increasingly important for the industry.

- **Ensuring sufficient supply and affordability of hotel and guesthouse accommodation**

In order to provide accommodation for Mainland tourists and the budget travel
market, three-star hotels, boutique hotels and short-lease serviced apartments have
opened. In order to avoid tourists extending their stays in Macau or the Pearl River Delta in order to avoid expensive hotel room rates in Hong Kong, the need for affordable accommodation continues.

- **Development and promotion of multi-destination itineraries**

Instead of being a single destination on a tourist’s itinerary, Hong Kong has to
come to terms with the fact that it is now only one of several destinations for leisure
and business travellers. With ongoing regional economic cooperation among Hong
Kong, Macau and the Guangdong Province, it is also important for the relevant
tourism bureaus to modify their traditional destination marketing strategy into one
that help promote the image of southern China, or the Pearl River Delta. So far,
divergent sets of development priorities in these cities and underlying rivalries
between these governments have hindered such an initiative.

- **Integrated tourism planning**

Singapore’s tourism master plan had given a boost to the travel trade simply
by stating the development goals for the sector and announcing the government’s
commitment to the industry. Similarly, the Hong Kong tourism sector could benefit
from integrated tourism planning efforts. The pace of construction of new sightseeing
attractions has to be coordinated with upcoming events, such as the 2008 Olympics
and the 2009 East Asian Games, as well as the completion of hotels, convention
centres and road and rail links. Currently, the Tourism Commission, set up under the Economic Development and Labour Bureau, is chiefly responsible for drawing up tourism policies for Hong Kong. Active engagement of related government departments, such as the Education and Manpower Bureau, the Environment, Transport and Works Bureau, the Housing, Planning and Lands Bureau as well as the Leisure and Cultural Services Department, would be essential to fulfill the needs of the tourism sector in terms of educating future tourism professionals, tackling environmental problems, resolving land use conflicts and preserving cultural heritage.

Given the concentration of marketing resources in the Mainland market in recent years, the government and private sector partners should redirect some resources to develop the long haul, higher value-added markets, as well as to encourage growth in high-end business travel. There is much disagreement within the industry regarding what should be the ideal mix of various markets, and whether Hong Kong should further diversify and offer new products, or should the tourism sector specialise in only the premium market and forgo other segments to competitors. It might be up to the government to work with the travel industry to formulate a more coordinated strategy and vision in this respect.

- **Continued investment in tourism and transport infrastructure**

  Investment into tourism infrastructure, such as the conversion of Kai Tak into a cruise terminal, has been much needed in Hong Kong. While new large and small projects are underway – ranging from developing Lantau Island’s cultural heritage to enhancing the waterfront in Tsim Sha Tsui, Stanley and Sai Kung – it is also important to ensure that cross border and international transportation infrastructure are built in time to provide sufficient capacity. The Hong Kong-Macau-Zhuhai bridge could directly contribute to multi-destination travel in the Pearl River Delta as well as
drive the economic development and the cluster of business activities in the region, strengthening Hong Kong’s hinterland and Hong Kong itself.

In addition, maintaining competitiveness of the Hong Kong International Airport as an international aviation hub would be valuable to the tourism sector. Completion of the Skycity, a shopping mall and entertainment complex at the airport, would be a boost to the retail sector. Improving flight connectivity across the world, including to emerging tourist markets such as India, Russia and Africa would be important.

- **Protecting Hong Kong’s overall competitiveness**

In all, any policy that would compromise the role of Hong Kong as an international centre for trade, business and finance should be avoided. For instance, even though Hong Kong is likely to forgo its “shoppers’ paradise” status in the long term, there is merit in ensuring that the low tax, duty free business environment is maintained. Initiatives such as imposition of a Goods and Services Tax (GST) should therefore be examined with extreme caution.
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