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Panel on Trade and Industry

Minutes of meeting
held on Monday, 16 October 2000, at 10:15 am
in the Legislative Council Chamber

- Members present** : Hon Kenneth TING Woo-shou, JP (Chairman)
Hon HUI Cheung-ching (Deputy Chairman)
Hon NG Leung-sing
Prof Hon NG Ching-fai
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon SIN Chung-kai
Hon CHOY So-yuk
Hon Henry WU King-cheong, BBS
- Non-Panel Member attending** : Hon Eric LI Ka-cheung, JP
- Members absent** : Dr Hon LUI Ming-wah, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
- Public officers attending** : Mr CHAU Tak-hay
Secretary for Commerce and Industry
- Miss Yvonne CHOI
Deputy Secretary for Commerce and Industry (1)
- Mr Kenneth MAK
Deputy Secretary for Commerce and Industry (2)
- Mr Joshua LAW
Director-General of Trade and Industry

Mr Francis HO
Commissioner for Innovation and Technology

Mr Mike ROWSE
Director-General of Investment Promotion

Mr Stephen SELBY
Director of Intellectual Property

Mr Raymond W M LI
Acting Commissioner of Customs and Excise

Clerk in attendance : Ms LEUNG Siu-kum
Chief Assistant Secretary (1)4

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Ms Rosalind MA
Senior Assistant Secretary (1)6

I Briefing by the Secretary for Commerce and Industry on the Chief Executive's Policy Address 2000

Secretary for Commerce and Industry (S/CI) highlighted the significant developments and new initiatives in relation to the policy objectives within the purview of the Commerce and Industry Bureau (CIB). The speaking note was circulated to members vide LC Paper No. CB(1) 64/00-01.

Innovation and Technology Fund

2. Noting that a total of 103 applications were approved under the Innovation and Technology Fund (ITF) last year, Mr CHAN Kam-lam enquired about the scope of cooperation between the academia and industries, as well as the evaluation on the value added to the industries by individual research projects. He urged the Administration to provide information on the outcome of research projects for assessing the effectiveness of ITF with a view to encouraging the industrial sector to allocate more resources to research work.

3. Commissioner for Innovation and Technology advised that the scope of cooperation between the academia and industries was very extensive, covering researches on Chinese medicine, the development of computer software and electronic parts, etc. As to the modes of cooperation, in addition to the university-industry collaboration programme under ITF, some enterprises provided financial assistance for post-graduates or university staff to carry out

research and development (R&D) work in factories. Moreover, ITF could also provide the industrial sector with R&D support through sponsoring other general research projects conducted by universities. He pointed out that since 1997, university research projects had been required to obtain practical sponsorship in terms of money, software or equipment from the industrial sector. In recent years, the industrial sector had increased significantly its participation in R&D projects, as well as its interest in the researches undertaken by universities. As to the effectiveness of ITF, as research projects generally took an average of two years to complete and the projects approved under ITF had just been implemented for less than one year, evaluation on the performance of individual projects would be premature at this stage. He pointed out that the Administration would submit a progress report on ITF at the meeting of the Panel on Trade and Industry (TI Panel) to be held on 13 November 2000. The information paper to be provided would further address members' concerns.

Support for Small and Medium Enterprises

4. Mr CHEUNG Man-kwong was concerned that the Special Finance Scheme (SFS) for Small and Medium Enterprises (SMEs) had ceased accepting applications since April 2000. He enquired about the default rate of the loans granted under SFS and the repayments that had to be undertaken by the Government as a result. S/CI responded that a total of 9 916 enterprises obtained loans under SFS and so far there were 253 default cases, representing a default rate of 2.42%. The Government had spent a total of \$139 million to repay such loans.

5. Mr CHEUNG Man-kwong asked whether the Administration considered a default rate of 2.42% acceptable. In addition, he also enquired about the Administration's plan on the usage of the estimated \$2 billion recouped funding under SFS. Mr NG Leung-sing shared his concern on the use of the recouped funding.

6. S/CI pointed out that as SFS was a new initiative, it was difficult for the Government to predict a reasonable default rate in the absence of past figures to serve as a basis. When the Administration increased the commitment for SFS to \$5 billion in November last year, the Administration had made a conservative estimate that it could afford to undertake a default rate of up to 50%. The existing default rate of 2.42% was therefore considered acceptable. As to the estimated \$2 billion recouped funding under SFS, the amount was calculated against an estimated default rate of 8%. If the actual default rate was less than 8%, the recouped funding would amount to over \$2 billion. The Government planned to utilize the recouped funds, regardless of the actual amount to support SMEs, but this would no longer be in the form of loans like the SFS. After all, SFS was an interim measure aimed at easing the liquidity crunch faced by SMEs after the Asian financial turmoil. As the economy of Hong Kong was recovering, it was indeed no longer necessary to offer SMEs such kind of special assistance. The Government would explore with the Small and Medium Enterprises Committee (SME Committee) feasible ways to utilize the recouped

funding and put forward a proposal within six months.

7. Prof NG Ching-fai pointed out that SMEs, which had made many contributions to the economy and employment, were still in need of funds. Six months would be too long for the Administration to explore with the SME Committee means to utilize the \$2 billion recouped funding. He urged the Government to expedite the drafting of its proposal. Mr Eric LI opined that the recouped funding could only provide SMEs with funding support to a certain extent. In the longer term, the Government should draw up a more comprehensive plan to help SMEs reduce their operating costs.

8. S/CI responded that when all the loans under SFS had become mature, the Administration would be able to calculate the amount of usable recouped funding out of the \$5 billion Government guarantees, taking into account the actual loan defaults. According to the information on the loans, the Administration would be able to calculate the actual amount of the recouped funding under SFS in August 2003. He advised that the Government would make use of the money in phases. Regarding the estimated six-month period required for submitting a proposal on the use of the recouped funding, he pointed out that the Administration would try its best to expedite the process without putting too much pressure on the SME Committee in its new term of office.

9. Director-General of Trade and Industry advised that the support provided to SMEs by the Government was not only limited to SFS. The Government had all along been cooperating with various organizations such as the Trade Development Council, Hong Kong Productivity Council and Employees Retraining Board in providing different kinds of services to assist SMEs. Details of these services were set out in the brochure on "Small and Medium Enterprises Development Support Plan" published by the Government. Moreover, under the "Pilot Mentorship Programme", successful entrepreneurs and businessmen would be invited to share their key to success with business starters. The existing "Business Start-up Centre" under the Vocational Training Council also provided support for people who aspired to start up their businesses. Although at this stage the use of the recouped funding under SFS had yet to be finalized, the Trade and Industry Department (TID) would assist the SME Committee in studying the overall strategy for supporting SMEs in accordance with the three major themes put forward by the Chief Executive in his Policy Address for creation of the most favourable business environment with the limited resources. He also undertook to submit the concrete proposal on utilization of the recouped funding to TI Panel for discussion and consideration.

10. Mr NG Leung-sing suggested that in its guidelines issued to the banks regarding the provision for bad and doubtful debts, the Hong Kong Monetary Authority (HKMA) should allow a special grace period for SMEs to repay overdue loans so that SMEs could have a chance to catch their breath when facing difficulties in repayment. S/CI advised that he would relate the suggestion to HKMA for consideration. He informed members that CIB had discussed with HKMA the support for SMEs. The establishment of a central

credit register, which was being considered by HKMA, would strengthen the confidence of creditors in lending money to SMEs with good business performance and loan records.

11. In response to the Chairman's enquiry on the waiting list under SFS, S/CI advised that all the cases on the waiting list had been processed and SFS would not accept any new applications.

Strengthening the liaison between the Mainland and Hong Kong

12. Mr HUI Cheung-ching expressed concern about strengthening the liaison with the relevant Mainland authorities on trade and commercial matters. He enquired about the specific issues that the newly established Mainland/Hong Kong Special Administrative Region (HKSAR) Joint Commission on Commerce and Trade (the Joint Commission) would deal with in the coming year. In addition, he also enquired about the effective channels being explored by the HKSAR Government to reflect the views of Hong Kong businessmen to the relevant Mainland authorities. S/CI advised that the major tasks of the Joint Commission included strengthening the liaison and communication between the Mainland and Hong Kong on trade and commercial matters. This would facilitate a more effective understanding of the trade and commercial policies and measures of the Mainland for providing information and assistance to Hong Kong businessmen. In the near future, the Joint Commission would look into the issue of the deposits for processing trade in the Mainland. As regards the channels to reflect the views of Hong Kong businessmen, there were frequent contacts between the CIB and the officers responsible for the trade and industry policies at the Liaison Office of the Central People's Government in the HKSAR (the Liaison Office). Moreover, TID also maintained frequent contacts and communication with the officers of the Ministry of Foreign Trade and Economic Co-operation attached to the Liaison Office.

13. Mr SIN Chung-kai pointed out that after China's accession to the World Trade Organization (WTO), more Hong Kong businessmen were expected to operate business in the Mainland. He asked whether consideration had been given to setting up Economic and Trade Offices, modelled on the existing Hong Kong Economic and Trade Offices (ETOs) overseas, in various cities in the Mainland to offer assistance to Hong Kong businessmen. S/CI clarified that ETOs only handled those matters which had a general impact on Hong Kong's trade and industrial sectors. They would not involve directly in the business or legal disputes encountered by individual Hong Kong businessmen when doing business overseas. Therefore, the assistance offered to Hong Kong businessmen did not include mediating or settling business disputes. Moreover, he pointed out that at present, TDC had already set up ten offices in the Mainland and the Administration was examining the need for establishing Mainland ETOs as well. However, due to resource and manpower constraints, even if such offices were considered necessary, priority would only be given to setting up offices in the Guangdong Province, where there were more investors, as it was impossible to set up offices in different municipalities at the same time.

Enhance Hong Kong's position as a pre-eminent services centre in the region

14. Mr Eric LI agreed that, as stated in the Policy Address, enhancing Hong Kong's position as a pre-eminent services centre in the region was particularly important. He pointed out that while putting forward the objective in a high profile manner, the Administration in fact did not have sufficient measures to tie in with its policy. As regards the business development plan of relevant professional bodies, he commented that in dealing with professional bodies, the Government had all along been placing emphasis on supervision while support was hardly provided. He enquired whether there was a dedicated policy bureau currently responsible for coordinating the provision of support services to professional bodies, and about the assistance provided by the Government to these bodies in opening up the Mainland market.

15. S/CI advised that at present, different professions were under the purview of different policy bureaux. If an individual professional body required the Administration's assistance in removing the obstacles for that profession to enter the Mainland market, it should contact the relevant policy bureau, as the bureau would have a better understanding of its operation. However, professional bodies had to strive for and capitalize on the business opportunities on their own, while the Government could only play a supporting role. As for the coordination of business and services promotion, it was the job of the Business and Services Promotion Unit which had been put under CIB since 1 July this year. CIB would continue to follow up on and review the Services Promotion Programme which included the promotion of professional services.

16. Mr SIN Chung-kai was concerned that as mentioned in the Policy Address, the Airport Authority (AA) was considering the construction of convention and exhibition facilities on the Airport Island. He asked whether the Administration could make a quick decision in this regard. Following China's accession to WTO, more exhibitions were expected to be held in Hong Kong. The provision of additional exhibition venues in Hong Kong would not only increase choices but also result in lower charges due to the competition among various venues.

17. S/CI responded that AA was responsible for studying the feasibility of providing new exhibition facilities at the airport. As the proposal involved issues of financing, its progress would depend on whether any private enterprises were interested in jointly developing the facilities with AA. The participation of private enterprises was beyond the Government's control, so it was difficult to commit to a development schedule in respect of the exhibition facilities. He concurred that additional exhibition venues would promote market competition, which in turn might bring about more attractive rental fees to exhibition organizers.

Attract external investment

18. Mr CHAN Kam-lam expressed concern about how the newly established Invest Hong Kong (IHK) would build up its distinct image. He enquired whether IHK had adequate authority to handle and solve problems relating to the

use of land and other resources encountered in the process of investment promotion. S/CI advised that the dropping of the word “Department” from the English name of IHK had already shaken off the conservative image of general Government departments. In the first few months since its establishment, IHK had implemented a number of projects to enhance Hong Kong’s overseas image. Should IHK encounter any difficulties in investment promotion, such as projects subject to the grant of Government land, it would perform a coordinating role by liaising with the departments concerned to solve the problems through discussion.

19. Director-General of Investment Promotion briefed members on the following three new initiatives:

- (i) Hong Kong would host the Fortune Global Forum in May 2001. As senior executives of large corporations from different countries would come to Hong Kong on that occasion, IHK could take this opportunity to brief them on the various advantages of Hong Kong as a place for business.
- (ii) IHK had sponsored a yacht to represent Hong Kong in an international event which lasted for ten months. It was an opportunity to liaise and communicate with the sponsors of other participating yachts which included over 120 large international corporations. This would promote wider knowledge of Hong Kong among the international community. Moreover, through organizing social activities in relation to the event, liaisons with overseas businessmen from different places could be strengthened and introduction on Hong Kong could be made to them to attract overseas investment.
- (iii) IHK would enhance liaison with multinational companies which had invested in Hong Kong and provide them with more information and services on investment, thus boosting their confidence and interest in investing in the territory.

II. Any other business

20. There being no other business, the meeting ended at 11:25 am.