

## **Paper for the LegCo Panel on Trade and Industry**

### **Support for Manufacturing Industry**

#### **Purpose**

This paper informs Members of Government's measures to support the development of the local manufacturing industry.

#### **Hong Kong's Manufacturing Industry**

2. Hong Kong's manufacturing industry has undergone a major economic transformation since the 80's. As a result of changing comparative advantages of Hong Kong vis-a-vis other economies, many manufacturers have embarked on a large-scale relocation of their labour and land-intensive production lines to the Mainland and other neighbouring economies, where there are cheap and abundant supply of land and labour. This outward shift of production lines have helped our manufacturing industries overcome various resources constraints which they face locally and has enabled them to enhance levels of growth and competitiveness which are unattainable if production remains in Hong Kong. More important still, this has helped manufacturers optimise their scarce resources to strengthen their higher value-added capacities such as design-oriented and R&D work, quick response, supply chain management and more efficient management control over productions in multiple locations.

3. To-date, as far as local manufacturing is concerned, those engaging in high-end and high value-added production, such as the production of products of higher unit price, higher precision, greater diversity and are able to

be processed through much quicker response and delivery time, stand a higher chance of success. With the transformation of Hong Kong into a service centre, we have seen Hong Kong manufacturers repositioning themselves by leveraging on the unique advantages of Hong Kong as an international financial centre and a regional hub for transportation, trading, and information technology. Hong Kong manufacturers nowadays no longer focus on manufacturing alone but have taken on the more diversified role of manufacturing service providers and manufacturer-cum-traders. Although many of these activities are classified as producer services and for statistical purposes - and statistical purposes alone - the contribution of these manufacturing-related economic activities have not been fully reflected as manufacturing sector's contribution to Hong Kong's Gross Domestic Product (GDP), they are very much an integral part of Hong Kong's manufacturing sector.

4. According to the "Economic Study of Hong Kong's Producer Service Sector and its Role in Supporting Manufacturing", which was commissioned by the Government and carried out by the University of Hong Kong, the share of manufacturing-related services in Hong Kong's real GDP has increased from 42.7% in 1980 to 50% in 1997. This substantial increase was a direct result of the expanded offshore manufacturing activities by Hong Kong-based manufacturing firms.

### **Industrial Support Policy**

5. The Government's industrial support policy is premised on our free market economy principle under which we strive to create the most conducive environment for our manufacturing and service sectors to develop and prosper. We are committed to providing the necessary physical, human and technological infrastructure, to supporting applied research and development, to facilitating

technology transfer and upgrading, to promoting innovation, and to maintaining the most business-friendly government regime. In short, we assume the role of a basic service provider and a facilitator. We strongly believe that business decisions are best left to businessmen. We therefore do not seek to determine the pace or specific direction of economic development, such as ensuring a minimum level of contribution from the manufacturing industry to our GDP. Nor do we pick "winners" or "pillar" industries because we believe that it is not the nature of industries but rather the way a business is being run that determines success.

### **Industrial Support Measures**

6. Within this framework of free market economy, the Government has put in place a wide range of measures to facilitate the further development of Hong Kong's manufacturing sector. The aim is to encourage and help manufacturers, including small and medium enterprises (SMEs) which account for 98% of local business establishments, to enhance their competitiveness. These measures are detailed in the paragraphs below.

### **Infrastructural Support and Technological Support**

7. To help Hong Kong develop into a knowledge-based and technology-driven economy and to prepare our manufacturing industry for it, the Government has been actively strengthening our infrastructural and technology infrastructure. We are committed to ensuring that there is an adequate supply of fully serviced industrial land to cater for the changing needs of our industries through the government-funded **Hong Kong Industrial Estates Corporation (HKIEC)**. Developed land is provided at cost to industries with new or improved technology and processes which cannot

operate in multi-storey factory or commercial buildings. There are currently three industrial estates located in Tai Po, Yuen Long and Tseung Kwan O.

8. The **Provisional Hong Kong Science Park Company Limited** is responsible for planning, developing, managing and marketing the Science Park which aims to nurture a world-class cluster of technology-intensive enterprises and institutions in Hong Kong. Information technology, electronics, biotechnology and precision engineering are its four strategic target clusters. Phase One of the Science Park will open at end-2001.

9. To nurture local technology-based start-up companies in their critical initial years, the **Hong Kong Industrial Technology Centre Corporation (HKITC)** provides them with low-cost accommodation as well as management, marketing, financial and technical assistance through its incubation programme. Over 80 companies have participated in the programme so far, with each growing on average 200 percent in terms of employment during their three-year incubation period and many winning local and international awards for excellence in their respective fields.

10. The HKIEC, the Science Park and the HKITCC are in the process of being merged. The objective of the merger is to streamline the existing service delivery structure and to maximise synergy among the three organisations. The merged body would provide effective one-stop service for different stages of individual enterprises' development, ranging from the provision of incubation to providing premises and services for intensive R&D and production activities.

11. The **Applied Science and Technology Research Institute (ASTRI)** which is now under planning will provide Hong Kong with midstream

R&D capability to develop pre-competitive technologies and processes for their eventual commercialisation by local industries. The establishment of ASTRI represents a first attempt of the Government to carry out R&D projects for industries to make reference to and build on.

12. The **Hong Kong Productivity Council (HKPC)** promotes productivity excellence through the provision of professional services to enhance the value-added content of our industries' products and services. The Council's subsidiaries, the Design Innovation (HK) Limited and the Clothing Technology Demonstration Centre, together with other sector-specific technology centres, such as the Hong Kong Plastics Technology Centre, the Telecom Technology Centre and the Hong Kong Institute of Biotechnology, are available to offer technical support to relevant industry sectors.

13. To strengthen our scientific and technological base in Chinese medicine and to facilitate the commercialisation of Chinese medicinal products, the Hong Kong Jockey Club **Institute of Chinese Medicine** is being established. Its activities will include, amongst others, R&D, clinical trials, standardisation, quality control, and commercialisation of R&D outputs.

### **Funding Support**

14. The Government's HK\$5 billion **Innovation and Technology Fund (ITF)** was officially launched on 1 November 1999 to provide funding support to projects that contribute to innovation or technology upgrading in industries, as well as those essential to the upgrading and development of industry. Industries have been making effective use of the ITF to develop new technologies, establish best practices, set up demonstration centres and technology centres for the dissemination and transfer of technological know-

how, and enhance the image of respective industrial sectors. As at end of November 2000, the ITF has supported 362 projects with a total funding commitment of \$1.34 billion.

15. To promote R&D activities among local industries, the **Applied Research Fund** was set up as a venture capital fund to provide equity capital to promising technology ventures and applied R&D projects. The Government has so far injected a total of \$750 million into the Fund.

16. A **Patent Application Grant** has been set up to provide financial assistance to companies, including those in the manufacturing sector, to apply for patents to protect the intellectual property rights of their products. Companies that are applying for patent for the first time are eligible to apply. The maximum amount of funding support is \$100,000 per company or 90% of the total cost incurred, whichever is lower.

### **Human Resources Development**

17. The Government recognises that a well-trained and technologically competent workforce is vital to the further development of our industries. The following system of public-funded educational and vocational training has been put in place to ensure that Hong Kong will have the necessary human capital to remain competitive in an increasingly demanding global environment :

- (a) Eight institutions provide education at **tertiary level**, offering 55,000 degree places and 14,000 sub-degree places in 1999-2000. In addition, the Open University of Hong Kong operates distance-learning programmes for some 25,000 working adults on a self-financing basis;

- (b) **The Vocational Training Council (VTC)** provides technical education and industrial training through the nine campuses of the Hong Kong Institute of Vocational Education (HKIVE) and 20 industrial training centres. In 1999/2000, HKIVE provided technical education to 20,000 full-time and 35,000 part-time students at higher technician, technician and craft levels. The training centres offer upgrading courses to in-service personnel and pre-employment courses to Form 3 leavers. In 1999/2000, 28,000 full-time and 29,000 part-time trainees received industrial training through these centres;
- (c) **The New Technology Training Scheme** administered by the VTC offers grants to companies to finance their employees' skills upgrade in new technologies. Between its inception in 1992 and March 2000, 8,600 applications for grants were approved;
- (d) **The Apprenticeship Scheme** administered by the VTC promotes and regulates the employment and training of apprentices in 43 designated trades. 6,082 apprentices were receiving training under the scheme in October 2000;
- (e) The two training centres of the **Clothing Industry Training Authority** offer diploma and certificate courses for operatives, technicians and supervisors in the clothing industry. The Authority assists in the placement of trainees after their graduation and facilitates the application of IT by the industry. In 1999, 4,900 trainees completed the Authority's training courses; and

- (f) The **Employees Retraining Board** provides training for workers to acquire new skills or upgrade their existing skills so that they can adapt to the changing needs of the economy. Between its inception in 1992 and September 2000, it provided retraining to 219,000 persons.

18. Apart from training the local workforce, the Government has also introduced the **Admission of Talents Scheme** which aims at facilitating entry of talents, in particular talents from the Mainland, to strengthen our local manpower pool and support our industrial development. Talents who possess outstanding qualifications and expertise or skills not readily available in Hong Kong are eligible under the Scheme.

### **Support to SMEs**

19. 98% of the business establishments in Hong Kong are SMEs. The Government together with industry support organisations has been actively providing services to meet their divergent needs and helping them build their long-term capability. Some examples are :

- (a) The **Small and Medium Enterprises Committee (SMEC)** was established in July 1996 as the Government's principal advisory body to advise on issues affecting the development of SMEs and suggest measures to facilitate their further development. The status of the SMEC is being strengthened and its representation is being widened;
- (b) An **SME Office** was set up in April 1999 to co-ordinate the support services provided to SMEs by Government departments and



industry support organisations;

- (c) A **Special Finance Scheme for SMEs** was put into operation from August 1998 to April 2000 to help ease the credit crunch experienced by SMEs as a result of the Asian financial crisis. Under the Scheme, the Government acts as the guarantor for SMEs' loans approved by lending institutions up to the lower of HK\$2 million or 70% of the loan facility for a maximum guarantee period of two years. The Scheme has helped 9,912 SMEs to obtain loans with a cumulative amount of HK\$9.16 billion;
- (d) The **SME Information Centre** and **Virtual Information Centre** were set up to provide one-stop information service on Government's licensing requirements, tariff rates of importing economies and services provided by Government departments and industry support organisations;
- (e) A **Pilot Mentorship Programme for SMEs** was implemented in November 2000 to enable SMEs to upgrade their entrepreneurial skills. The programme provides an opportunity for small business starters to learn from and be guided by experienced entrepreneurs, business executives and professionals through one-on-one free counselling services provided by the latter. The Programme is being put on trial for one year. 16% of the participating SMEs belongs to the manufacturing sector;
- (f) The **Small Entrepreneur Research Assistance Programme** (a programme under the ITF) is offering pre-venture capital funding on a matching basis to small, technology-based and entrepreneur

driven companies to undertake R&D projects that have innovative, technological content and commercial prospect. Government's contribution to a funded project could be as high as HK\$2 million;

- (g) Separate **support centres** are run by the HKPC and the Hong Kong Trade Development Council (HKTDC) respectively to provide a whole range of support and consultancy services relevant to SMEs; and
- (h) A **Business Start-up Centre** was established by the VTC to provide communal secretariat services and access to office infrastructure to SMEs that have joined the Centre. Since its inception in January 1999, the Centre has provided services to about 400 business starters.

20. As set out by the Chief Executive in his 2000 Policy Address, we shall work closely with the SMEC to further explore possible new measures to help SMEs address different problems at different stages of their development. These new measures would focus on helping SMEs to "start a new business", "build a new business" and "expand a business". Worthwhile proposals will be implemented making use of funds recycled from the now-defunct Special Finance Scheme, which is estimated to be about \$2 billion. We believe the manufacturing sector with majority of its establishments being SMEs will benefit from these new initiatives.

### **Other Support Measures**

21. To assist manufacturers to have a deeper understanding of and comply with various environmental requirements, the Trade and Industry

Department publishes annually *A Guide to Pollution Control Legislation Affecting Manufacturing Industries*. The Guide highlights the legislative requirements relating to environmental protection, informs industries of various "best practices" and sets out the contact particulars of organisations that provide technical advice on compliance with the environmental requirements.

22. **Information gathering and dissemination** are important to the manufacturing sector to keep abreast of changes in overseas market trends and trade policies that might affect their business. The HKTDC regularly disseminates market information through its market reports and the "Business Alert" newsletters. It also conducts market researches on issues of concern to industries, such as the impact of the Mainland's accession to the World Trade Organisation. Besides, the Government commissions consultants to conduct techno-economic and market research studies for the textiles and clothing, electronics, plastics and metals industries to help these sectors to take stock of their positions, identify market opportunities and challenges, and come up with viable recommendations on measures to be taken to strengthen their competitiveness. Many of these recommendations have subsequently been taken on board by the Government. The Innovation and Technology Commission is currently commissioning a consultancy study to examine the potential of Hong Kong's environmental technology industry and to identify key issues which are important to the development of that industry.

23. To expand Hong Kong's share of overseas markets, the HKTDC pursues a programme of activities for **export promotion of Hong Kong's goods and services**. They include, amongst others, the organisation of over 300 overseas and local promotional events each year, matching Hong Kong suppliers with buyers and potential business partners around the world, operating the TDC Business InfoCentre to provide traders with economic and

business trends, and developing Hong Kong's role as a sourcing centre in Asia-Pacific and the gateway to the Mainland.

24. The **Hong Kong Awards for Industry** was set up to encourage and promote the pursuit of excellence among local industrial enterprises, and to provide recognition to those with outstanding performance in innovativeness, quality management, productivity enhancement, market expansion, technological achievements and environmental awareness.

### **A Business-Friendly Government Regime**

25. Under Hong Kong's open and liberal market regime, the Government strives to minimise restrictions and regulations on investment and business operation. Since 1996, the **Helping Business Programme** of the Business and Services Promotion Unit has been in place to cut unnecessary Government procedures, eliminate over-regulation, reduce compliance cost to business, and identify and implement new and improved services needed to support industry and commerce.

### **Re-organisation of Trade- and Industry-related Departments**

26. The re-organisation of the Trade Department and Industry Department in July this year brought commerce and industry under one front-line department, namely the new Trade and Industry Department. The reorganisation will enable us to efficiently oversee, co-ordinate and provide effective support to all commercial and industrial enterprises. Following the reorganisation, the then Trade Advisory Board was reconstituted in July 2000 to become the new Trade and Industry Advisory Board (TIAB), with representatives from industrial sectors to advise the Government on matters

affecting Hong Kong's industry, in addition to its advisory role on trade issues.

## **Conclusion**

27. The Government has attached great importance to the development of our manufacturing industries. Over the years, the Government has been increasingly proactive in identifying the needs for industrial development and in meeting these needs. The Government will continue to work closely with the trade and industry associations, the TIAB and the SMEC in identifying and implementing new support measures, with a view to helping our manufacturing industries to remain competitive in the increasingly globalised new economy and to equip themselves for the new opportunities and challenges that will arise.

Commerce and Industry Bureau

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