

## **Problems Encountered by Small and Medium Enterprises Operating in the Mainland**

### **Introduction**

The Legislative Council Panel on Commerce and Industry discussed measures to assist Hong Kong businesses operating in the Mainland on 8 January 2001. In response to members' request, the Government agreed to present a paper on problems encountered by small and medium enterprises (SMEs) operating in the Mainland for members' reference after the meeting. We sum up below the major problems based on views collected from our discussion with the business community.

### **Problems encountered by SMEs operating in the Mainland**

2. SMEs operating in the Mainland need to keep abreast of Mainland's rules and regulations. Unlike international enterprises or large consortia capable of commissioning experts to handle such matters, many Hong Kong businesses, constrained by their scales, cannot afford to do so. This has led to unnecessary misunderstandings and losses. There are also concerns over the law enforcement work of Mainland Customs and the implementation of relevant customs measures. For example, some front-line Customs officers are considered to have adopted inconsistent standards in law enforcement. This has caused confusion to Hong Kong businesses. Hong Kong businesses are particularly hard-hit by this problem as a result of the increasing emphasis placed by Mainland authorities on combating smuggling and tax evasion in recent years, as well as the promulgation of new measures on the management of processing trade. SMEs sometimes find it difficult to lodge complaint on problems in connection with law enforcement of Mainland rules and regulations. With China's impending accession to the World Trade Organisation, it is expected that the Mainland authorities will amend or introduce many more regulations in the future. This will pose new challenges to SMEs.

3. Some SMEs investing in the Mainland would like to improve production technology and to develop their own brand names. This, however, involves a reasonable amount of capital. Many SMEs have problems in securing loans from local banks for purchase of machinery or leasing of equipment to be used in their Mainland factories. The banks are worried that they may not be able to take possession of and resell the machinery in the Mainland once there are bad debts. And equipment leasing companies are afraid that the leased equipment might be taken away to compensate for debts should the factories of the leasees in the Mainland run into financial difficulty. Another issue troubling SMEs that wish to design their own products is that of intellectual property rights.

### **Assistance provided to SMEs**

4. The SAR Government has been assisting Hong Kong businesses by reflecting their problems and their views on Mainland policies to do with their operations. Details are set out in the paper submitted by the SAR Government to the Legco Panel on Trade and Industry on 8 January. (Ref: Legco CB(1)276/00-01(04).

5. If the problems encountered by SMEs involve business or legal disputes of individual Hong Kong businesses operating in Mainland, the HKSAR Government would not interfere. It will however take the initiative to reflect concerns on issues generally affecting the operation of the Hong Kong companies to the Mainland authorities.

6. Apart from reflecting views, the SAR Government also provides various support via the Trade and Industry Department (TID), the Hong Kong Productivity Council (HKPC), the Trade Development Council (TDC) and the Vocational Training Council (VTC) to Hong Kong businesses, especially SMEs, operating/setting up factories in the Mainland. Details are as follows :

- (i) TID has been paying close attention to the development of China's accession to WTO. It is also keeping the trade and professionals informed of the latest information on areas to be opened up and trade policies to be implemented by the Mainland, so that they can assess the impact of these policies on their sectors. Such information has been promptly provided to the business sector through various channels, including Commercial Information Circulars and the Internet. Besides, information on setting up companies and operating in the Mainland are available for public reference at the Small and Medium Enterprises Information Centre of TID;
- (ii) The offices of HKPC in Guangzhou, Shenzhen and Dongguan provide technical and productivity enhancement support to Hong Kong businesses operating in the Mainland. HKPC launched "Compass North" in October 1999 to assist Hong Kong enterprises and Hong Kong businesses operating in the Mainland in upgrading their production technology and mode of operation, improving management and conducting technology commercialization. Last year, for example, HKPC organized a series of seminars and training courses in Hong Kong and the Mainland, which

provided the latest information on operation environment and business opportunities in the Mainland. Other large-scale activities included a "Selective Briefing on the Latest Processing Trade Policy" and the electronic commerce training course co-organized by HKPC and the Productivity Centre of Guangdong Province;

- (iii) TDC also continues to enhance its support for SMEs. Apart from disseminating Mainland market information to the trade via its publication "Business Alert", e-mails sent to SMEs and website, TDC will provide SMEs with more concrete market information and advice on doing business on the Mainland. The TDC will also conduct an in-depth analysis of the South China region and liaise with the relevant Mainland parties to secure the most comprehensive and timely market information for Hong Kong businesses. The TDC has also set up a China Business Advisory Unit to provide SMEs with one-stop services for doing business in Guangdong.
- (iv) The "Business Starter Programme" organized by the Management Development Centre of Hong Kong under VTC is designed especially for SMEs actively engaged in China trade. The course includes fieldwork activities in the Mainland; and
- (v) The SME Committee of the Government is studying how to assist local SMEs in seizing the business opportunities arising from the Mainland's accession to WTO, and will submit practical proposals to the Chief Executive before end of June this year.