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Panel on Commerce and Industry

Minutes of meeting
held on Wednesday, 14 January 2004, at 10:45 am
in Conference Room A of the Legislative Council Building

- Members present** : Hon Kenneth TING Woo-shou, JP (Chairman)
Hon HUI Cheung-ching, JP (Deputy Chairman)
Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon Henry WU King-cheong, BBS, JP
Hon MA Fung-kwok, JP
- Member absent** : Hon SIN Chung-kai
- Public officers attending** : **Item I**
Mr John C TSANG, JP
Secretary for Commerce, Industry and Technology

Miss Denise YUE, JP
Permanent Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mr Anthony WONG, JP
Commissioner for Innovation and Technology

Clerk in attendance : Miss Polly YEUNG
Chief Assistant Secretary (1)3

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Mr TSANG Siu-cheung
Senior Assistant Secretary (1)7

Ms Sharon CHAN
Legislative Assistant (1)6

Action

I Briefing by Secretary for Commerce, Industry and Technology on relevant policy initiatives in the Chief Executive's 2004 Policy Address (LC Paper Nos. CB(1)760/03-04(01) and 837/03-04)

The Secretary for Commerce, Industry and Technology (SCIT) briefed members on the new initiatives relating to the commerce and industry, and innovation and technology portfolios featuring in the Chief Executive's 2004 Policy Address (Policy Address), as well as the progress of various ongoing initiatives. Details were set out in the information paper provided by the Administration.

Application and procedures for zero tariff for products

2. Mr CHAN Kam-lam welcomed the building block approach of the Closer Economic Partnership Arrangement (CEPA) which provided a mechanism for further liberalization measures to be included as and when they were agreed by the Governments in Hong Kong and the Mainland. Although the Mainland had already applied zero tariff to 273 Hong Kong product codes since 1 January 2004, Mr CHAN hoped that the Administration would continue its discussion with the Mainland with a view to extending zero tariff to other products in order to achieve full liberalization of trade between both places. He urged the Administration to draw up a timetable on when an agreement was expected to be reached with the Mainland on the origin rules for other Hong Kong products, so that these products could benefit from zero tariff when being exported to the Mainland. At the same time, he suggested that the Administration should take the initiative to consult the industry on the types of Hong Kong products for which tariff elimination should be sought from the Mainland.

3. SCIT advised that as a result of the changes in the Mainland tariff codes, the types of Hong Kong products eligible for zero tariff from 1 January 2004 had increased from 273 to 374. He pointed out that most of the products currently

benefited from CEPA were regular Hong Kong exports to the Mainland in the past. It was estimated that at present, there were over 4 000 types of Hong Kong-made products. With the zero tariff under CEPA and China's tariff commitments upon its accession to the World Trade Organization, about 90% of the value of Hong Kong exports to the Mainland could enjoy zero tariff after the implementation of CEPA. SCIT stressed that the Administration would continue its discussion with the Mainland on issues relating to the implementation of zero tariff. Eight applications had so far been received from Hong Kong manufacturers for zero tariff on their products. Discussion would be held with the Mainland for extending the coverage of zero tariff to include more Hong Kong exports to the Mainland market. In the process of striving for the application of zero tariff for Hong Kong products, the Administration would take measures to ensure that the products concerned were genuinely produced in Hong Kong.

4. In response to the Chairman's enquiry about the timetable for Hong Kong manufacturers to apply for zero tariff for their products, the Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (PSCIT) said that the Government of the Hong Kong Special Administrative Region (SAR Government) had already reached a consensus with the Central Government on this matter. Provided that the SAR Government could submit a list of Hong Kong products seeking zero tariff by June 2004, the Mainland authorities undertook to make suitable arrangements in order that the discussion with the SAR Government on the origin rules of the products concerned could be concluded within two to three months. After the origin rules had been finalized, the products concerned could officially benefit from zero tariff from 1 January of the following year (i.e. 2005). The above timetable was applicable to products the production of which took place in Hong Kong. It was anticipated that CEPA would also attract local or foreign investors to set up factories and manufacture new products, such as high technology products, in Hong Kong. For products proposed to be produced, PSCIT supplemented on the current arrangement that after the proposed products were put into production, they could officially benefit from zero tariff beginning from 1 January of the year following confirmation of the rules of origin by the authorities of both places. In other words, if a proposed product had already been put into production in Hong Kong and the Administration could reach an agreement with the Mainland on the origin rules before October 2004, the product would be eligible for zero tariff from 1 January 2006. PSCIT pointed out that the Trade and Industry Department (TID) would encourage Hong Kong manufacturers through different channels to submit applications for zero tariff in respect of their exports to the Mainland. Moreover, Invest Hong Kong (InvestHK), when undertaking its investment promotion functions, would also encourage overseas businesses to actively consider setting up factories and production lines in Hong Kong.

5. As more Hong Kong products would be exported to the Mainland market, Mr CHAN Kam-lam enquired whether the Administration would consider formulating a set of origin rules which was applicable to different products, so as

to save the trouble of negotiating with the Mainland authorities on a case by case basis. SCIT replied that as the origin rules for different products varied, it was necessary for the Administration to negotiate separately with the Mainland authorities on individual products, particularly in determining the suitable criteria (e.g. manufacturing or processing operations, value-added content, etc.) to be adopted in drawing up the origin rules. SCIT added that under the existing international free trade agreements, the parties involved should set out suitable origin rules for each type of products where tariff was involved. This practice was widely accepted by manufacturers worldwide. PSCIT further pointed out that not all the products produced in Hong Kong were exported to the Mainland market. Due to resource constraint, priority would be accorded to dealing with tariff elimination for those Hong Kong products which were exported to the Mainland market in large quantities. For other products which were not yet eligible for zero tariff, she said that the Administration would discuss with the Mainland upon the request of manufacturers. So far, eight applications for zero tariff had been received. PSCIT stressed that in addition to calling upon individual manufacturers to submit zero tariff applications for their products, the Administration would also invite actively relevant trade associations to encourage their members to submit applications.

6. Given that Hong Kong had already established an origin system for products, the Chairman suggested that the Administration should consider discussing and exploring with the Mainland to further simplify the procedures for determining the origin rules of products eligible for zero tariff under CEPA. PSCIT shared the Chairman's view. She pointed out that among the 374 types of Hong Kong products currently eligible for zero tariff under CEPA, 70% adopted the origin rules currently used in Hong Kong. For the remaining 30%, the Mainland authorities had only made minor revisions to Hong Kong's existing origin rules. She stressed that upon receipt of zero tariff applications for other Hong Kong products, the Administration would try to persuade the Mainland authorities to accept the origin rules currently adopted in Hong Kong for such products.

7. The Chairman was concerned whether the manufacturers should only submit zero tariff applications after the products proposed to be produced had been put into production. In response, PSCIT advised that the manufacturers should have engaged in the actual production of the proposed products before they could submit applications for zero tariff under CEPA. As the products proposed to be produced were yet to be available in Hong Kong, it would usually take longer time for the Administration to verify whether the requirements for zero tariff had been met. She supplemented that no timeframe had been set by the authorities in both places as to how soon after a product proposed to be produced should have been put into production before it could benefit from zero tariff.

Extending the scope of the Individual Visit Scheme under CEPA

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8. Mr CHAN Kam-lam said that according to his understanding, the Individual Visit Scheme (IVS) was only applicable to Mainland residents in Guangdong Province at present. In view of the significant benefits of IVS to Hong Kong, in particular the development of the tourism industry, Mr CHAN urged the Administration to discuss with the Mainland authorities in the coming year the possibility of extending the scope of IVS to include Mainland residents of other major cities near Guangdong Province, such as Fuzhou, Tianjin and Zhongqing. He believed that such an arrangement would enhance communication between Hong Kong and the Mainland and promoting the development of both places. SCIT shared Mr CHAN's view and opined that extending the scope of IVS to allow more Mainland residents to visit Hong Kong would stimulate Hong Kong's economy, particularly the development of the retail and tourism sectors. SCIT said that he would convey Mr CHAN's view to the Economic Development and Labour Bureau for consideration and follow-up.

Credit assistance provided by the Hong Kong Export Credit Insurance Corporation (ECIC)

9. Mr HUI Cheung-ching pointed out that CEPA not only promoted the trade in goods between Hong Kong and the Mainland, but also created business opportunities for export of services provided in Hong Kong. He pointed out that at present, ECIC provided insurance protection services for Hong Kong exporters of goods and services who traded on credit terms with overseas buyers, including those from the Mainland. However, it appeared that the service sector in Hong Kong was not fully aware of such services. As such, Mr HUI suggested that the Administration should consider strengthening publicity on ECIC's services. He believed that if exporters of services in Hong Kong could make use of the insurance protection services provided by ECIC, the risks of trading on credit terms with the Mainland enterprises would be reduced.

10. PSCIT advised that ECIC had been providing insurance protection for Hong Kong exporters of goods and services against the risk of trading on credit terms so that the exporters could trade with overseas buyers and expand their business operations at ease. According to her understanding, ECIC had set up a working group to handle this area of work. However, PSCIT pointed out that unlike other well-developed markets, the Mainland had not yet established any relevant agencies for assessing the credit ratings of Mainland enterprises. In addition, many Mainland enterprises lacked adequate documentation to prove their financial position. Under such circumstances, ECIC had to undertake a series of verification procedures before it could determine whether credit insurance services should be provided for individual Hong Kong exporters who traded with Mainland enterprises. At present, ECIC was actively working out ways to resolve the difficulties. At Mr HUI Cheung-ching's request, PSCIT

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advised that the Administration would urge ECIC to strengthen the publicity on its work, in particular the insurance protection services available to the service sector in Hong Kong to facilitate their business expansion in the Mainland.

Government's support to the manufacturing industry

11. Dr LUI Ming-wah welcomed the recognition of the need to support the manufacturing and creative industries in Hong Kong in the Chief Executive's Policy Address. However, he was concerned about the measures to be taken by the Administration to attract overseas manufacturing enterprises to invest and develop in Hong Kong. In response, SCIT advised that in attracting overseas enterprises from the manufacturing and industrial sectors to expand their operations in Hong Kong, the Administration would adhere to the long-established principle of "big market, small government". In this connection, Hong Kong's economy had transformed from a low-wage and labour-intensive model to a high value-added and knowledge-based model. At the same time, the Administration was committed to providing a business-friendly environment for the development of technology-based and high value-added industries so as to maintain Hong Kong's competitive edge in the international market.

12. SCIT further briefed members on specific measures taken by the Administration to support the development of businesses in Hong Kong, including those in the manufacturing industry. Such measures included the establishment of the Hong Kong Science and Technology Parks Corporation (HKSTP) to provide one-stop technological infrastructural facilities and technical support to companies specialized in technological development. The Administration would also encourage the development of technology-based and high value-added industries through the setting up of various funding schemes including the Innovation and Technology Fund. Moreover, training of manpower was also provided through the University Grants Committee-funded tertiary institutions, Vocational Training Council, Clothing Industry Training Authority and employees retraining programmes to accelerate the upgrading of skills. The Administration would promote technology transfer through the Hong Kong Applied Science and Technology Research Institute, Hong Kong Productivity Council (HKPC) and HKSTP. Through HKPC, the Administration would organize various productivity enhancement projects and training programmes, programmes for joint development of new technology and skills and provide support to industrial design and encourage development of innovative products. The Administration would also provide support to manufacturers and assist them in meeting overseas product standards through the Innovation and Technology Commission and the provision of appropriate product assessment services. Regarding the assistance to small and medium enterprises (SMEs), the Administration would provide support to eligible SMEs through the Support and Consultation Centre for SMEs of TID, various SME funding schemes and the Small and Medium Enterprises Committee.

13. Dr LUI Ming-wah said that despite the various measures taken by the Administration, the manufacturing industry in Hong Kong was still shrinking. As such, he urged the Administration to re-position the development of Hong Kong's manufacturing industry.

Measures to attract foreign investment

14. Regarding the efforts to promote Hong Kong and attract foreign investment, SCIT said that InvestHK visited San Francisco, Frankfurt, the Silicon Valley and Chicago in 2003 with the authorities of Shenzhen, Guangzhou and Dongguan for conducting investment promotional activities. Moreover, InvestHK also organized joint investment promotional events in Seoul and Tokyo with the authorities of Guangdong Province and the Pearl River Delta (PRD) cities in October 2003. SCIT stressed that the Administration would work with different industries, including the manufacturing industry, in its efforts to attract foreign investment. The promotional activities concerned would focus on the combined strengths of Hong Kong and the PRD and highlight Hong Kong as the ideal platform for entry into the Mainland market.

15. Dr LUI Ming-wah was concerned on why the SAR Government was unable to reach any agreement during the joint investment promotion events recently conducted with the authorities in Guangdong Province. SCIT explained that this might be attributed to the differences in the development direction and investment focus between the two places. He pointed out that at present, Hong Kong's economy focused on the development of the service industry which accounted for 86% of the Gross Domestic Product (GDP) and comprised mainly investment from the private sector. Although the investment promotion events jointly conducted with Guangdong Province did not feature any agreement-signing ceremony with foreign investors for investment in Hong Kong, it did not mean that Hong Kong lacked the competitive edge in attracting foreign investments. He pointed out that in 2002, foreign investment in Hong Kong amounted to US\$13.7 billion, which made Hong Kong one of the best-performing Asian economies in attracting foreign investment, second only to China (US\$52.7 billion).

16. The Chairman was concerned about the performance of the SAR Government in attracting foreign investment, particularly its investment promotion activities. PSCIT said that each year, InvestHK set a target for attracting foreign investment and announced the results at the end of the year. According to her understanding, InvestHK had successfully brought into Hong Kong 140 foreign investment projects in 2003. She pointed out that the Administration usually needed considerable time to successfully persuade foreign companies to invest in Hong Kong. Foreign investors would carefully consider the investment environment in Hong Kong before deciding whether or not to launch any investment projects. In general, it would take up to 18 to 24 months before a foreign investment project could be finalized and launched in Hong

Kong. PSCIT also pointed out that InvestHK had sought to attract foreign investments through different channels, such as conducting joint investment promotion events with the authorities of Guangdong Province and PRD cities. Moreover, it would also promote the strengths of Hong Kong in selected major overseas markets with a view to attracting more foreign investors to invest and expand their business in Hong Kong. The Hong Kong Economic and Trade Offices (HKETOs) and Hong Kong Trade Development Council (TDC) would also handle enquiries from overseas investors who intended to invest in Hong Kong and refer them to InvestHK for follow-up.

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17. The Chairman informed members that as proposed by the Administration, members would be briefed on the work of InvestHK, including measures to attract foreign investment, at the Panel meeting to be held in March 2004. Dr LUI Ming-wah requested the Administration to provide the following information for the meeting:

- (a) Of the inflow of foreign investment of US\$14.8 billion into Hong Kong in the first three quarters in 2003, the proportion of investment which remained in Hong Kong and the proportion re-invested in other places via Hong Kong;
- (b) among the investment projects undertaken by foreign enterprises in Hong Kong, the number of such projects in the manufacturing sector and the amount of investment involved; and
- (c) the number of foreign enterprises which had established companies in Hong Kong for business expansion and the scale of these companies; and among them, whether there were any nominal companies set up by foreign enterprises in Hong Kong, such as those which met the minimum requirement under the Companies Ordinance.

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Moreover, Dr LUI was concerned about the percentage of GDP accounted for by the four core industries stated in the Policy Address, namely financial services, producer services, logistics and tourism, as well as their impact on the employment situation. He requested the Administration to provide an analysis showing the economic contribution and employment situation in Hong Kong in respect of the four core industries in recent years. SCIT advised that he would convey the matter to the Financial Services and the Treasury Bureau for providing the information requested and would revert to the Panel.

Feasibility of merging InvestHK, HKETOs and TDC

18. Mr Henry WU suggested that the Administration should consider strengthening communication between middle ranking officials of the SAR Government and the Mainland authorities with a view to implementing the

policies and measures under CEPA effectively. In order to optimize resources for the promotion of economic and trade cooperation and development between Hong Kong and the Mainland under CEPA, Mr WU suggested that InvestHK, HKETO and TDC should be merged and re-structured. In response, SCIT advised that the Administration had reviewed the functions of the said departments/organization. Given their different functions, the Government had no plan for merger at this stage. Nevertheless, the Administration would review the structure and operation of InvestHK, HKETO and TDC to ensure that they would function in a more cost-effective manner.

Improving the business environment and continuing to consolidate core industries

19. As regards how the SAR Government would improve the business environment, Mr HUI Cheung-ching referred to the Policy Address which stated that the Financial Secretary (FS) would merge and reorganize the four committees currently under his purview to establish a new high-level body. He was concerned when the new high-level body would come into operation as well as its membership. PSCIT responded that the new high-level body would comprise representatives of various political parties in the Legislative Council. Discussion between the Administration and the political parties regarding the membership of the new high-level body was underway. After the parties had finalized their representatives, the new high-level body could meet and commence its work. Regarding the number of members in the new high-level body, PSCIT advised that it would not exceed the total number of members in the four committees before merger.

20. Mrs Sophie LEUNG was concerned about how the Administration would continue to consolidate core industries and advised that she would follow up the issue in due course. Referring to the proposal to improve the business environment set out in paragraphs 16 to 18 of the Policy Address, Mrs Sophie LEUNG encouraged the industrial sector to explore feasible options actively with the Administration. She expressed her view that the Administration should consider adopting a new way of thinking to provide an “enabling environment” conducive to the development of the commercial and industrial sectors. This would enhance Hong Kong’s competitiveness and facilitate foreign investment in Hong Kong. Mrs Sophie LEUNG urged the Administration to actively follow up and examine issues relating to improving the business environment.

Simplifying rules and regulations of the Government

21. As InvestHK reported that a certain number of companies were established by foreign enterprises in Hong Kong every year, Mrs Selina CHOW was concerned whether those companies would engage in large scale commercial activities in Hong Kong and create employment opportunities for people in Hong Kong. Moreover, Mrs CHOW was concerned about the Administration’s determination to simplify rules and regulations. She asked whether the

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Administration would take into account the views of the commercial and industrial sectors, and take the initiative to remove those rules and regulations which hindered the operation of a free market. SCIT responded that a detailed analysis of the companies set up in Hong Kong by foreign investors would be provided for the Panel meeting in March 2004. On the suggestion to simplify rules and regulations, SCIT advised that the new high-level body to be set up by merging and reorganizing the four committees currently under FS's purview would commence its work very soon and would study ways to simplify the rules and regulations of the Government.

22. Mrs Selina CHOW pointed out that the rules and regulations of the SAR Government often straddled different policy bureaux which had their own policy considerations. As such, when reviewing and simplifying rules and regulations, the Administration should make the best endeavour to balance the concerns of different bureaux. On Mrs Selina CHOW's concern whether the Commerce, Industry and Technology Bureau should be entrusted with the work to conduct the regulatory impact assessment (RIA), PSCIT clarified that RIA would be conducted by individual bureaux or departments with a view to ascertaining the impact of certain regulatory measures on business operation. SCIT added that the Administration had kept an eye on the progress of RIA and the Business Advisory Group (BAG) had in the past conducted more than 100 "helping business" studies. The new high-level body to be led by FS would continue the work previously undertaken by BAG. In order to take SMEs' interests into account, Mrs Selina CHOW urged the Administration to gauge the views of SMEs on the measures to promote business and simplify the rules and regulations of the Government.

II Any other business

23. There being no other business, the meeting ended at 12:00 noon.