

立法會
Legislative Council

LC Paper No. CB(1)1499/04-05
(These minutes have been seen
by the Administration)

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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 19 April 2005, at 2:30 pm
in Conference Room A of the Legislative Council Building

Members present : Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP (Chairman)
Hon WONG Ting-kwong, BBS (Deputy Chairman)
Dr Hon LUI Ming-wah, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai, JP
Hon Vincent FANG Kang, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung

Member attending : Hon WONG Kwok-hing, MH

Public officers attending : Agenda Item IV

Mr Philip YUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mr Clement LEUNG
Acting Director-General of Trade and Industry

Miss Elley MAO, JP
Principal Economist
Financial Secretary's Office

Mr K K CHAN
Principal Trade Officer
Commerce, Industry and Technology Bureau

Agenda Item V

Mr Philip YUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mr Clement LEUNG
Acting Director-General of Trade and Industry

Mr NGAI Wing-chit
Assistant Director of Trade and Industry (Industrial
Support)

Agenda Item VI

Mr K C KWOK, BBS, JP
Government Economist
Financial Secretary's Office

Mrs Cecily LUM
Economist
Financial Secretary's Office

Agenda Item VII

Mr Philip YUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Miss Clara TANG
Principal Assistant Secretary for Commerce, Industry
and Technology (Commerce and Industry)

**Attendance by
invitation** : Agenda Item V

Mr CHAN Wing-kee, GBS, JP
Chairman
Small and Medium Enterprises Committee

Agenda Item VII

Mr Malcolm PEARSON
Study Director
Crow Maunsell Management Consultants Ltd

Mr Rod PILBEAM
Study Manager
Ogden International Facilities Corporation Pty Ltd

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

Staff in attendance : Ms Debbie YAU
Senior Council Secretary (1)1

Ms Sharon CHAN
Legislative Assistant (1)6

Action

I Confirmation of minutes and matters arising

LC Paper No. CB(1)1257/04-05 -- Minutes of meeting held on
15 March 2005

The minutes of the meeting held on 15 March 2005 were confirmed.

II Paper issued since last meeting

LC Paper No. CB(1)1128/04-05(01) -- Information on the financial
position of the Applied Research
Fund for the period of 1
December 2004 to 28 February
2005

2. Members noted that the above paper had been issued for members' information since the last meeting.

III Date and items for discussion for next meeting

LC Paper No. CB(1)1259/04-05(01) -- List of outstanding items for discussion

LC Paper No. CB(1)1259/04-05(02) -- List of follow-up actions

3. Members noted and agreed that the Panel would discuss the following items proposed by the Administration at the next meeting to be held on 17 May 2005:

- (a) New Strategic Framework for Innovation and Technology Development;
- (b) Review of the effectiveness of the Professional Services Development Assistance Scheme; and
- (c) Briefing on the work of Invest Hong Kong.

IV Report on the impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement

LC Paper No. CB(1)1259/04-05(03) -- Information paper provided by the Administration

LC Paper No. CB(1)1007/04-05(01) -- Leaflet on Mainland and Hong Kong Closer Economic Partnership Arrangement – Implementation details

LC Paper No. CB(1)1249/04-05 -- Background brief on recent developments of Mainland and Hong Kong Closer Economic Partnership Arrangement prepared by the Secretariat

LC Paper No. CB(1)1071/04-05 -- Minutes of meeting of the Panel on Commerce and Industry held on 15 February 2005 (paragraphs 5 to 29)

LC Paper No. CB(1)1323/04-05(01) *(tabled at the meeting and subsequently issued to members on 20 April 2005)* Powerpoint presentation material on "Report on the impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement" provided by the Administration

4. With the aid of powerpoint presentation, the Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry) (DSCIT(CI)) briefed members on the key findings of a study of the Administration on the economic impact of the first phase of CEPA (CEPA I) for the first year or so of implementation, and on the forecast of its impact on Hong Kong's economy in 2005 as set out in CB(1)1259/04-05(03).

5. The Principal Economist of the Financial Secretary's Office (PE/FSO) outlined the role of Hong Kong in the Mainland's next phase of economic development and liberalization through the implementation of measures under CEPA. In brief, she said that Hong Kong had always been a major conduit for capital investment flow into the Mainland, given its strong service infrastructure, well developed financial system and international connectivity. This role would continue, though the content had to be enriched and reoriented to the changing needs of the Mainland. The Mainland today was not lacking in capital. It was more in need of modern management skills and up-to-date technology to meet the challenge of rising internationalization of the Mainland market. In this respect, Hong Kong should turn itself into a conduit of "quality" capital in order to stay competitive vis-à-vis the other foreign investors as the Mainland economy opened up wider to foreign capital. CEPA thus laid the foundation for a new business platform in which the longer-term socio-economic relations between the two places would be shaped and reshaped. CEPA allowed Hong Kong to leverage on its knowledge about modern management concepts and techniques and familiarity with international codes of business to consolidate its role in the Mainland's new phase of economic development and structural reform. CEPA also allowed freer exchange of people and expertise to take place and laid the foundation for a new business relation between Hong Kong and the Mainland to evolve over time. Hence the Mainland-Hong Kong economic relations would no longer be uni-directional, from manufacturing to manufacturing and from overseas to the Mainland via Hong Kong. It would become multi-directional cutting across a whole range of economic activities. Hong Kong could now play the role of either the home, or the host or the middleman. CEPA was thus mutually beneficial to both Hong Kong and the Mainland. PE/FSO then introduced some of the findings of the study on the impact of CEPA on Hong Kong's economy in respect of trade in goods, trade in services and the Individual Visit Scheme (IVS) as set out in Annexes A, B and C of the Administration's paper (CB(1)1259/04-05(03)) respectively.

6. At the junction, the Deputy Chairman took over the chair of the meeting.

Job creation under CEPA

7. Noting that according to the Administration, about 29 000 new jobs had been and were forecast to be created for Hong Kong in the first two years of implementing CEPA I, Mr WONG Kwok-hing was very concerned that among them, only 2 280 new jobs were created as a result of liberalization of trade in goods, vis-à-vis 10 153 and 16 588 in respect of trade in services and IVS. Notwithstanding the additional jobs, Mr WONG considered the impact relatively

insignificant as currently, there were some 200 000 unemployed persons. Mr WONG recalled that according to the traders/manufacturers responding to an earlier survey, the relative scarcity of industrial land suitable for manufacturing activities and the absence of a sizeable workforce skilful in manufacturing were inherent barriers constraining the CEPA benefits for trade in goods. As both factors would restrict Hong Kong's capability to expand its manufacturing industry, Mr WONG considered that the Administration should respond proactively and devise appropriate measures to overcome the two barriers. He did not agree with the Administration that Hong Kong's manufacturing sector should move away from labour-intensive industries and focus on capital-intensive processes, and engage in product design, marketing and distribution, trade and logistics, and research and development related work.

8. In response, DSCIT(CI) advised that the value of CEPA exports to the Mainland was expected to increase by \$1.2 billion in 2005, doubling that in 2004 and this would certainly help create more jobs in manufacturing. However, he highlighted that according to the consultation and the survey results on the impact of CEPA, products which were hitherto subject to high Mainland tariff rate, which were capital intensive with high value-added, intellectual property content and hi-tech elements would be in a better position to benefit under CEPA. As evidenced by the implementation of CEPA so far, the manufacturing industry had aimed at producing goods which were relatively less labour-intensive. While the Administration would carefully consider the two barriers constraining the CEPA benefits for trade in goods as mentioned by survey respondents, DSCIT(CI) said that members might wish to consider the subject further in the context of the economic restructuring in Hong Kong, which was one of the agenda items to be discussed at the same meeting.

9. Referring to paragraphs 28 and 30 of Annex B to the Administration's paper (CB(1)1259/04-05(03)), Mr WONG Kwok-hing was very concerned that a total of only 10 153 new jobs would be created as a result of liberalization in trade in services of CEPA I for Hong Kong residents in 2004 and 2005 while 17 204 jobs would be created for the Mainland residents. He queried why the new jobs created for Mainland residents outnumbered those created for Hong Kong residents by as many as over 7 000; and enquired about the measures to be taken by the Administration to boost local job opportunities, in particular for middle-aged workers with low educational qualifications.

10. In response, DSCIT(CI) highlighted that the main purpose of liberalization in trade in services under CEPA was to give Hong Kong services providers in specified services sectors preferential access to the Mainland market. As these providers would set up offices or branches in the Mainland, this would result in jobs created for Mainland residents. He nevertheless supplemented that to back up the development in the Mainland market, the Hong Kong services providers concerned would also need to hire supporting staff in Hong Kong and the number of jobs thus created would hinge on the scale of business operation in the Mainland. In this connection, PE/FSO pointed out that due to the differences in the economic development of the Mainland and Hong Kong, the economic

benefits to the two places could not be compared solely in terms of the number of jobs created in the two places, bearing in mind that Hong Kong was no longer relying on labour-intensive industries but was progressing in the direction of a knowledge-based economy.

11. Mr SIN Chung-kai shared the Administration's view that CEPA should bring about mutual benefits to both Hong Kong and the Mainland and create a win-win situation for both places. He was inclined to adopt an open-minded approach in considering the relevant figures.

12. On measures to tackle unemployment, DSCIT(CI) stressed that as a result of the measures implemented by the Government and various sectors in the past few years, the problem of unemployment had been eased. The implementation of CEPA had led to increased business activities which would be conducive to creating more employment opportunities. DSCIT(CI) highlighted that when IVS was further extended to more provinces and cities, the tourism-related sectors such as hotels, catering and the retail sectors would benefit. New jobs would be created in these service sectors to help relieve the unemployment problem among middle-aged workers with low educational qualifications and skills.

13. Mr WONG Kwok-hing did not fully subscribe to the Administration's explanation and considered that in terms of the far higher number of new jobs created, it seemed that the Mainland was a greater beneficiary under CEPA. He urged the Administration to make better use of the opportunities under CEPA to help combat the unemployment problem. He considered that instead of relying on the impact of CEPA, the Administration should provide concrete information on the measures to be taken to boost local employment.

14. The Acting Director-General of Trade and Industry (Atg DG/TI) supplemented that the business community needed time to plan and adjust their strategies and mode of operation under CEPA. During the initial stage, local manufacturers would normally test the initial response of the Mainland market by producing and exporting goods in smaller quantities. If the products were well-received in the Mainland market and the distribution channels were developed, they might proceed to set up additional production lines and employ more staff.

Trade in goods

15. Noting that the estimated total value of products benefiting from zero tariff under CEPA for the first two years would be around HK\$3.5 billion, Mr CHIM Pui-chung enquired about the kinds of goods involved and whether they included products of international brand names. He also enquired about measures to be taken by the Administration in facilitating more products to benefit from zero tariff treatment.

16. In response, Atg DG/TI advised that according to the statistics on Certificate of Origin (CEPA) (CO(CEPA)) applications under CEPA I in 2004, pharmaceutical products, textiles and clothing products, and plastics and plastic articles taken together had accounted for nearly 85% of the value of CO(CEPA). However, the applicants for CO(CEPA) were not required to declare whether these products were brand name products. As far as he understood, some manufacturers had made use of CEPA to produce for well known brands. To facilitate more products to benefit from zero tariff treatment, Atg DG/TI said that the Administration would continue to take into account the views and requests of the trades in drawing up Hong Kong's proposed list of additional zero tariff products for consultation with the Mainland.

Individual Visit Scheme

17. Mr CHAN Kam-lam was concerned that the Administration should be more proactive in implementing policy initiatives to enable Hong Kong companies to take advantage of the liberalization measures under CEPA and bring about positive economic benefit to Hong Kong. He considered that the Administration should, having regard to the views of the business and industrial sectors, devise further measures to address the needs of the industries concerned. For example, the Government should pursue with the Central People's Government the further expansion of IVS. In addition to extending the scheme to cover more provinces and cities, Mr CHAN suggested that instead of the current practice of allowing eligible Mainland residents to visit Hong Kong two times within a period of three months and stay in Hong Kong each time up to seven days, the scheme should be improved to allow multiple visits within three months and stay up to 14 days per visit.

18. Taking note of Mr CHAN's view, DSCIT(CI) confirmed that improvement to the IVS, including its implementation and support measures, would be one of the subjects to be discussed with the Mainland in connection with CEPA III. He understood that relevant trades such as the hotel sector might need to adjust their strategic and operational plans to cater for an increasing number of IVS visitors. DSCIT(CI) said that the Administration was keenly aware of the need to formulate appropriate policy measures such as the provision of manpower training for hotel and catering services.

Trade and Investment Facilitation under CEPA

19. Mr SIN Chung-kai stated his view that there was still room for further improvements to overcome certain trade barriers faced by Hong Kong companies in accessing the Mainland market. He cited the impediments faced by the film industry as an example. Notwithstanding that formal approval papers had been obtained, copies of the movies concerned could not go through customs clearance of the Mainland. Mr SIN urged the Administration to collect information on the impediments or barriers which currently prevailed in various sectors, and work closely with the Mainland authorities to overcome them for the benefit of the local business community.

20. In response, DSCIT(CI) confirmed that under measures for trade and investment facilitation under CEPA, the Mainland and Hong Kong had agreed on promoting co-operation in, inter alia, trade and investment promotion, customs clearance and transparency in law and regulations. The Administration would ensure that available information on Mainland rules and regulations were promulgated and widely disseminated for the information of the industries. To strengthen communication with the Mainland authorities, the Administration would reflect to the relevant Mainland authorities the difficulties encountered by Hong Kong companies in accessing the Mainland market. DSCIT(CI) further remarked that the Administration would continue to improve the operational procedures of various measures under CEPA having regard to the experience gained during its implementation.

21. The Deputy Chairman and Mr SIN Chung-kai were concerned whether a dedicated unit was in place to handle CEPA-related enquiries and complaints. In response, DSCIT(CI) advised that the Commerce, Industry and Technology Bureau (CITB) would continue to work closely with other bureaux/departments as well as the Mainland authorities to address implementation issues related to CEPA. Through the existing liaison mechanism, CITB would relay to the State Ministry of Commerce (MOC) general or specific difficulties faced by Hong Kong companies for MOC's consideration and follow-up. Atg DG/TI supplemented that a dedicated team of staff under the Trade and Industry Department had been set up to oversee the coordination and implementation of the liberalization measures under CEPA. It also handled enquiries, took follow-up actions, as well as maintained a website on CEPA. Where appropriate, individual bureaux/departments would also reflect the views and needs of the sectors under their respective purview to the relevant Mainland authorities for their consideration. In the past, the Administration had approached Mainland agencies such as the Mainland's Customs General Administration and the State Administration of Radio, Film and Television.

22. The Deputy Chairman was concerned about the establishment of individually owned businesses in the Mainland by Hong Kong permanent residents with Chinese citizenship. He referred to the findings of the study conducted by the Democratic Alliance for Betterment of Hong Kong that only 1 357 Hong Kong residents had been approved by the Guangdong authorities to set up individually owned stores under CEPA in 2004, which he considered too low. Noting that as from 1 January 2005, eligible Hong Kong residents would be allowed to set up such stores in the provinces and cities outside Guangdong Province, the Deputy Chairman urged the Administration to step up publicity of the measure, which would be conducive to encouraging unemployed persons in Hong Kong to set up their businesses in the Mainland.

23. In response, DSCIT(CI) thanked the Deputy Chairman for his information and assured members the Administration would continue its effort to pursue trade and investment facilitation measures, including the dissemination of information relating to individually owned stores and related issues.

The way forward

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24. The Deputy Chairman suggested that the Panel should be briefed on the impact of CEPA on Hong Kong's economy on a regular basis. DSCIT(CI) said that while the Administration would be prepared to brief the Panel on issues related to the implementation of CEPA from time to time, it might not be able to conduct a similar study to analyze its impact on Hong Kong's economy on every occasion. Noting the Administration's view, Mr SIN Chung-kai suggested that the Administration should still report the progress and impact of CEPA to the Panel periodically, say, on an annual basis, even though it might not undertake a full-scale and quantitative assessment. The Deputy Chairman sought members' view on his and Mr SIN's suggestion. Members agreed.

V Progress report on the four funding schemes for small and medium enterprises

LC Paper No. CB(1)1259/04-05(04) -- Information paper provided by the Administration

LC Paper No. CB(1)1250/04-05 -- Background brief on funding schemes for small and medium enterprises prepared by the Secretariat

25. The Deputy Chairman declared that he was a member of the Small and Medium Enterprise Committee (SMEC).

26. At the invitation of the Deputy Chairman, DSCIT(CI) and Mr CHAN Wing-kee, Chairman of SMEC briefed members on the latest position of the four Small and Medium Enterprise (SME) funding schemes, the present proposal and justification on the way forward as set out in the Administration's paper (LC Paper No CB(1)1259/04-05(04)). In gist, the recommendations of the proposal included:

- (a) lowering the assumed loan default rate under the SME Loan Guarantee Scheme (SGS) from 15% to 7.5%;
- (b) redeploying \$200 million from the provision approved for SGS to the SME Export Marketing Fund (EMF) and the SME Development Fund (SDF);
- (c) allocating an additional provision of \$300 million to EMF and SDF (in addition to the \$200 million under item (b) above); and
- (d) ceasing the acceptance of new applications for grants under SME Training Fund (STF) from July 2005 onwards.

Members noted that the Administration intended to seek the Finance Committee's approval for the above recommendations in May 2005.

SME Export Marketing Fund

27. Mr SIN Chung-kai expressed the support of Members of the Democratic Party for the Administration's proposal. He agreed that STF should be discontinued because a number of other education and training-related initiatives which benefited SMEs were available. As regards the operation of EMF, Mr SIN considered that unlike SDF which could be used to benefit SMEs in general and in specific sectors, funds in EMF were used to support individual SMEs' export promotion activities. Such expenses should in fact form part of the SME's operating costs and should not be met by public money. As such, while he was prepared to support the present proposal on this occasion, Mr SIN urged the Administration to examine the operation of EMF carefully in its review and said that he might not give further support for the continuation of EMF after its funds were exhausted by mid 2007.

28. On the assistance available under EMF, the Acting Director-General of Trade and Industry (Atg DG/TI) explained that there was a ceiling amount of grant for an SME, which currently stood at \$80,000. Moreover, there was a cap of \$30,000 or 50% of the approved expenditure, whichever was the less, for each application. As such, the SME concerned would also be required to share the cost for participation in the export promotion activity. Pointing out that EMF had been conducive to encouraging SMEs to develop overseas markets, Atg DG/TI noted Mr SIN's concern for further consideration during the review. In reply to the Chairman's further enquiry on the number of applications that an SME could submit to EMF, the Assistant Director of Trade and Industry (Industrial Support) (AD/TI(IS)) confirmed that an SME might submit more than one application. However, the total amount of grant on all occasions should not exceed the ceiling of \$80,000.

29. Mr CHAN Wing-kee thanked Mr SIN Chung-kai for his support for the recommendations of SMEC. Regarding EMF, Mr CHAN said that SMEC had found that EMF had been useful in encouraging SMEs, which usually had relatively fewer resources in export marketing, in participating in export promotion activities such as trade fairs and exhibitions. Mr CHAN further advised that after an SME had benefited and secured more businesses through export marketing activities funded under EMF, it would be motivated to participate in export promotional activities even if on its own expenses. Mr CHAN pointed out that EMF, which had been deployed in the form as seed money, was most popular among the four SME funding schemes. In this connection, he invited AD/TI(IS) to briefly introduce the outcome of an independent survey conducted by the Hong Kong Polytechnic University among SMEs which had received support from EMF.

30. AD/TI(IS) reported that, according to the result of the survey which covered some 9 000 EMF beneficiaries, 85% of the respondents agreed that EMF had enabled them to explore markets outside Hong Kong while over 40% of the respondents indicated that having participated in export promotion activities, they intended to employ on average one to two additional staff in the future. As such, AD/TI(IS) considered that the implementation of EMF not only helped individual

SMEs expand businesses but also created more jobs.

31. The Chairman resumed the chair at this juncture. She enquired about the business nature of SMEs which had received funding under EMF and the types of promotion activities approved. In reply, AD/TI(IS) said that among the SMEs benefited under EMF, about 60% were from non-manufacturing sectors and 40% were from manufacturing industries. Of the applications approved, 57% and 40% were for participation in export-oriented trade fairs/exhibitions held in Hong Kong and outside Hong Kong (including the Mainland) respectively. The remaining 2% or so were overseas study missions.

32. The Chairman was concerned whether the export promotion activities participated by SMEs with the funding assistance of EMF were mostly organized by the Hong Kong Trade Development Council (TDC). In response, AD/TI(IS) advised that while TDC was the organizer or co-organizer of many of these activities, it was not a requirement of EMF for such export promotion activities to be staged by TDC. The EMF would provide grant for SMEs to take part in export promotion activities as long as they were organized by experienced and reputable organizations/companies.

SME Development Fund

33. Mr SIN Chung-kai supported the continuation of SDF because it could help SMEs, in general and in specific sectors, to raise their awareness and capabilities in specific know-how and technologies. He considered that resources in the SME funding schemes should best be used to strengthen the overall competitiveness of SMEs or SMEs in a specific sector, instead of targeting at individual SMEs. For example, Mr SIN suggested that funds in SDF could be deployed to facilitate local SMEs' compliance of the new green manufacturing legislation and recyclable requirements of the European Union (EU) such as by organizing publicity and training programmes.

Admin/
SMEC

34. Mr CHAN Wing-kee took note of Mr SIN Chung-kai's view that SDF could be deployed to support sector-specific projects and undertook to flag up this issue for SMEC's future discussion. AD/TI(IS) reported that so far, only 75 applications had been approved under SDF. Non-profit-distributing support organizations, trade and industrial organizations, professional bodies and research institutes were welcomed to apply for funding from SDF to undertake relevant projects for enhancing the competitiveness of SMEs. As for EU's new requirements under the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) and Waste Electrical and Electronic Equipment (WEEE) Directives, he added that industry organizations of the relevant sectors had already submitted applications to SDF to fund projects in this regard.

SME Loan Guarantee Scheme

35. Mr SIN Chung-kai welcomed SMEC's recommendation to lower the assumed default rate under SGS to 7.5% to bring about an increase in the

maximum loan guarantee amount from \$6.6 billion to \$10.6 billion. Mr CHAN Kam-lam commented that the recommendation was realistic because the business capabilities of SMEs would also improve in the light of the current economic recovery. Mr CHAN also enquired about additional measures, if any, to be taken by the Administration to enhance the competitiveness of SMEs and to further lower the loan default rate of SGS so as to benefit more SMEs.

36. In response, Atg DG/TI recapped that when SGS was first launched in December 2001, a more conservative level of loan default rate (i.e. 15%) was adopted to limit the risk of the Government. However, the actual outturn was that as at end March 2005, \$19.4 million (or a loan default rate of 1.6%) had been paid out for verified loan defaults under SGS. As such, the Administration had proposed to lower the loan default rate to 7.5%.

37. Mr CHAN Wing-kee supplemented that lowering the default rate to 7.5% for SGS was a prudent proposal having regard to the actual loan default rate of 6.4% for the former Special Finance Scheme for SMEs (SFS) as at end March 2005. On measures to further lower the loan default rate, Mr CHAN considered that the continuation of EMF and SDF could help strengthen the competitiveness of SMEs and hence, help reduce the occurrence of default cases. Taking note of Mr CHAN Kam-lam's view, Mr CHAN Wing-kee said that SMEC would spare no effort to ensure the efficient operation of the funding schemes.

Other forms of assistance to SMEs

38. In addition to the proposed funding schemes, the Chairman asked whether the Administration would also consider providing advisory/consultancy services to facilitate new SMEs in setting up and running their businesses.

39. In response, Atg DG/TI stressed that the SME funding schemes were only part of the many initiatives undertaken by the Government and other industry support bodies to assist SMEs. At present, the SME Office under the Trade and Industry Department organized from time to time experience-sharing seminars/workshops for successful businessmen to exchange views with start-up SMEs. The Innovation and Technology Fund had also supported the commercialization of deliverables for projects funded by it. Atg DG/TI took note of the Chairman's concern about the importance of strengthening the business capabilities of SMEs.

VI Impact of economic restructuring

LC Paper No. CB(1)1259/04-05(05) -- Information paper (in powerpoint format) provided by the Administration

40. With the aid of powerpoint presentation, the Government Economist (GE) briefed members on the impact of economic restructuring. In gist, he said that Hong Kong's continuous restructuring had brought about significant economic

and social progress in the past two decades. There was a growing significance of the services sector as a driver of Hong Kong's economic growth and an increasing share of the better-educated and professionals in total employment. He also outlined the Government's strategy to meet the new challenges posed by restructuring, which included, inter alia, reinforcing Hong Kong's institutional strengths, enhancing business opportunities, nurturing creativity and promoting research and development, supporting growth in high value-added sectors and tackling unemployment and poverty. GE stressed that Hong Kong needed to integrate itself further into the global economy and move up the value chain.

Competitive edges of Hong Kong

41. Mr CHAN Kam-lam was concerned about measures taken by the Administration to further strengthen the existing competitive advantages of Hong Kong having regard to its continuous restructuring and the challenges posed by developments in neighbouring cities.

42. In response, GE pointed out that in the past few years, the economic development of the Mainland had undergone significant changes, which had also affected the competitive edges of Hong Kong. With the rapid growth of private enterprises in the Mainland in recent years, there was a growing need for them to raise funds in the capital market. As these private Mainland enterprises were keen to leverage on Hong Kong's sound financial system, they sought listing in Hong Kong with a view to strengthening their global expansion. In the process of assisting these enterprises to establish in Hong Kong, local financial services practitioners could provide their professional assistance in improving the corporate governance of these Mainland enterprises and strengthen their links with international investors. GE considered that Hong Kong's financial services practitioners should make use of their unique advantages and maximize their capabilities to service the Mainland market.

43. GE further remarked that following increasing integration of the two economies across the border, the Mainland had now become a major consumer market of Hong Kong in addition to its being an important manufacturing base. The implementation of the IVS under CEPA had reinforced the status of Hong Kong as a shoppers' paradise. Nowadays, local retailers were serving over 20 million potential consumers, including IVS visitors from the Mainland. As a result of more spending by IVS visitors in the retail market and brighter business outlook, the rental value of shop premises had surged recently. The higher rents also reflected the increased value of Hong Kong as a place where branded goods could build their brand image amongst consumers from the Mainland. In anticipation that more Mainland visitors would come to Hong Kong when IVS was further extended to other Mainland cities and provinces, GE highlighted its knock-on effect on Hong Kong's economy, including the creation of more jobs in the retail and tourism-related sectors.

44. Noting GE's analysis, Mr CHAN Kam-lam expressed concern that Hong Kong might soon lose its competitive edge over neighbouring cities when the

impact of CEPA subsided. He urged the Administration to be more forward-looking in formulating policies to ensure that Hong Kong could sustain its competitiveness in the next two to three decades. To consolidate and enhance Hong Kong's strengths, Mr CHAN considered that the Government should be proactive and take the lead in formulating initiatives to enhance Hong Kong's competitiveness, instead of adhering rigidly to the principle of "market leads, government facilitates" in devising government policies.

45. To remain competitive over the longer term, GE considered that in step with other metropolitan cities, Hong Kong's economic policies should target at nurturing creativity and promoting research and development with a view to enabling Hong Kong to become a leading city in innovation and in setting global trends. He said that to sustain its continuous restructuring in future, Hong Kong should strive to add value to the services it provided by putting in more innovative elements.

46. On Hong Kong's competitiveness, Mr Jeffrey LAM stressed the need for the Government to take into account the views expressed by the industrial and commercial sectors. Mr LAM was concerned that the Administration should not formulate measures that might undermine the competitiveness of the business sectors. He referred to the proposed mandatory registration and labelling of contents of volatile organic compound (VOC) in specified products which, in his view, would adversely affect the business operation of the affected trades and limit consumers' choice. Mr LAM remarked that in this case, the Government had violated the principle of "market leads, government facilitates". He opined that the Government should initiate measures that would facilitate, not disrupt, business activities.

47. Referring to the rapid development of the Shenzhen port in the past decade, Mr Jeffrey LAM highlighted the rising trend in terms of throughput at the Shenzhen port and was worried that it would soon outperform the port of Hong Kong. To ensure that Hong Kong would not lag behind its Mainland counterpart in freight business, Mr LAM urged the Administration to take forward the development of the Value-Added Logistics Park (VALP) on North Lantau as early as possible. He was very concerned that the VALP project had been under study and discussion for a number of years without any significant progress.

48. Taking note of Mr LAM's concerns, GE referred to the work of the Business Facilitation Division under the Office of the Financial Secretary which co-ordinated the Government's efforts in business facilitation. He was aware that the Government was mindful of the need to introduce new and improved services for the business community. He noted that the Administration was still in the course of considering the proposed VOC scheme and would maintain on-going dialogue with the stakeholders. In respect of freight services, GE pointed out that in last few years, air freight handled by the Hong Kong International Airport (HKIA) had registered continuous growth in terms of both the volume and value of air cargo. To counter the competition posed by the

rapid development of container ports in south China, GE considered that Hong Kong should re-position its freight industry by capitalizing on the many competitive edges of HKIA to handle high-value, time-critical merchandises.

49. In this regard, the Deputy Chairman cautioned that the HKIA too might soon lose its competitive edges following the commissioning of the extension of the new International Bai Yun Airport in Guangzhou. He was worried that if Hong Kong did not take prompt action, a major share of its air freight businesses, similar to its port businesses, would be taken over by the Mainland airports in a few years' time. Echoing the Deputy Chairman's concern, Mr Jeffrey LAM urged that the Administration should catch up with the Mainland in the provision of air cargo handling facilities at HKIA by further expansion into the land in the vicinity. They considered that the Administration should sustain Hong Kong's competitive advantages in the provision of essential infrastructure. Citing the example of exhibition facilities, the Deputy Chairman cautioned that due to inadequate supply of exhibition facilities during peak periods, Hong Kong might risk losing major trade shows to neighbouring cities such as Guangzhou and Shenzhen where new and large exhibition centres had been built.

50. Mr Vincent FANG considered that the business community of Hong Kong faced competition from different fronts. He urged the Administration to improve the business environment by eliminating red tape and over-regulation. Noting that to upgrade its fashion design standard, the Mainland had brought in designers from Milan, Mr FANG was of the view that the Government should allow greater flexibility in the admission of talents. Otherwise, Hong Kong would not be able to procure the talents it needed. Mr Jeffrey LAM shared his view and observed that Hong Kong took much longer time in processing applications for admission of talents than the Mainland.

Unemployment

Structural unemployment

51. Mr WONG Kwok-hing observed from GE's presentation that the average annual value-added growth of the manufacturing sector for the period between 1993 and 2003 was -6.5% and the average growth of craft and related workers, and plant and machine operators and assemblers for the period between 1994 and 2004 was -2.6% and -3.6% respectively. Mr WONG was concerned whether this was indicative of a problem of structural unemployment, and enquired about the measures, if any, to tackle the problem which had dealt hardship on workers of middle age and with low education attainment.

52. GE highlighted the complexity and scope of structural unemployment. He pointed out that among some 200 000 unemployed persons, about 50 000 were from the construction industry. Notwithstanding that some of these construction workers might find jobs in Macau due to its construction boom, it was envisaged that the unemployment problem of the sector would unlikely ease in the foreseeable future. For some other 50 000 unemployed persons from the

retail and catering sectors, GE anticipated that they might be able to secure employment amidst the current economic recovery. He further advised that if Hong Kong's economy continued to grow by 4.5% to 5.5% in 2005, the growth in various business activities would create more jobs and lower the unemployment rate further.

53. GE pointed out that under Hong Kong's continuous economic restructuring, it was inevitable that a number of middle-aged workers with low education attainment would still have difficulty in finding employment despite economic recovery. These unemployed workers might either find employment in the services sector, or simply wait for the availability of new jobs in their origin sectors. To tackle unemployment and help the unemployed, GE said that the Government had been providing more education and training opportunities, and the necessary welfare services to help the needy.

54. Noting GE's views, the Chairman referred to other advanced economies which were also undergoing economic restructuring and pointed out that according to their experience, sufficient lead time should be allowed in the restructuring process to facilitate the re-training of the workforce in the sectors to be phased out. If the pace of development of high value-added and high-tech industries was too fast, a mismatch would result whereby high-end jobs could not be filled while low-skilled workers were thrown out of jobs.

One-way Permit Scheme

55. Mr WONG Kwok-hing considered that the measures taken by the Administration could not address the problem of structural unemployment, which was aggravated by the daily influx of 150 Mainlanders under the One-way Permit (OWP) Scheme. He urged the Administration to take proactive action to deal with the problem.

56. On the local employment situation, GE advised that there had been a continuous increase in the number of jobs, but its rate could not catch up with the increase in persons seeking employment. He noted that the daily actual number of Mainlanders who had come to settle in Hong Kong under the OWP Scheme was below 150 and the majority of them were women and children. Once they had settled down in Hong Kong, many of these female immigrants would look for jobs in the retail and catering sectors or other sectors requiring unskilled manpower. This was part of the reason for the persistently high unemployment rate and the relatively lower salaries in the low-skilled jobs.

Proposal for a border industrial zone

57. Mr WONG Kwok-hing recapped his disappointment that only 2 280 new jobs had been and were forecast to be created for Hong Kong following liberalization in the trade in goods under of CEPA I. He noted that according to a relevant survey, the interviewed traders/manufacturers had observed that factors constraining the benefits of CEPA for trade in goods included the relative scarcity

of industrial land suitable for manufacturing activities, and the absence of a sizeable manufacturing workforce with the appropriate skill in Hong Kong. Both factors had restricted Hong Kong's capability to expand its manufacturing industry. As such, Mr WONG called on the Administration to address the concerns of the manufacturing industry and consider taking forward the development of a border industrial zone in the Lok Ma Chau (LMC) Loop so as to create more jobs for unemployed manufacturing workers, as well as for the new immigrants from the Mainland.

58. Mr Vincent FANG supported the proposal to develop a border industrial zone in LMC Loop. He agreed with the Chairman that there was a mismatch in the job market because it was difficult for the unemployed manufacturing workers to change to jobs in the services sector due to the lack of the required experience or qualification. As far as he understood, some industrialists who had relocated their production base to the Pearl River Delta region were willing to move to the LMC Loop. If the proposal was taken forward, Mr FANG believed that suitable jobs would be created to absorb the unemployed manufacturing workers.

59. On the suggestion to develop a border industrial zone in LMC Loop, GE recalled that several years ago when the subject was discussed by the Town Planning Board on which he used to be a member, he noted that the proposal was highly complex and warranted careful consideration. Issues that needed to be resolved included the hefty site formation costs and various considerations of different government departments such as land use rights, treatment of contaminated mud, provision of supporting infrastructure, environmental concerns, etc. The development of a border industrial zone might also impact on the occupancy of existing factory premises and industrial estates, many of which had not been put to full use since the mid-1980s when most labour-intensive manufacturing activities were relocated to the Mainland. GE was of the view that the Government should encourage the development of high value-added and high-tech industrial activities with substantial creativity and intellectual property input in Hong Kong. He also pointed out that the development of an industrial zone in LMC Loop, even if it was taken forward, might take some years to complete and therefore could not help solve the immediate unemployment problem. Nevertheless, GE said that the Government would examine the needs of specific sectors and formulate appropriate policies where appropriate.

60. The Chairman recalled that the proposal to set up a border industrial zone had been raised by the manufacturing industry before 1997, both she and the Deputy Chairman were very concerned that if the Government had given serious consideration to the proposal there and then, Hong Kong's industrial development might be in a better state and the unemployment problem might have been eased to a certain extent.

Way forward

61. The Chairman thanked GE for his informative analysis and said that many issues could be further studied by the Panel. She said that if necessary, the Panel might re-visit the subject again in future.

VII Consultancy study on the supply and demand for exhibition facilities in Hong Kong

LC Paper No. CB(1)1259/04-05(06) -- Information paper provided by the Administration

LC Paper No. CB(1)1251/04-05 -- Background brief on issues related to the consultancy study on the supply and demand for exhibition facilities in Hong Kong prepared by the Secretariat

LC Paper No. CB(1)1323/04-05(02) *(tabled and subsequently issued to members on 20 April 2005)* Powerpoint presentation material on “Consultancy study on the supply and demand for exhibition facilities in Hong Kong”

LC Paper No. CB(1)1341/04-05(01) *(issued to members on 21 April 2005)* Presentation note on “Demand and Supply of Exhibition Facilities in Hong Kong” by Crow Maunsell Management Consultants in association with Ogden International Facilities Corporation and GHK Hong Kong Ltd.

62. At the invitation of the Chairman, DSCIT(CI) informed members that to facilitate consideration of the TDC’s atrium link extension proposal, the Administration had commissioned a consultancy study to ascertain, amongst other things, the overall supply and demand for exhibition facilities in Hong Kong in the coming five to ten years. The study had now been completed and the Administration was examining the consultancy study’s findings and recommendation. It would consider TDC’s proposal in the light of the consultancy’s findings and other relevant factors such as transport implications.

63. With the aid of power-point presentation, Mr Rod PILBEAM, Study Manager of Ogden International Facilities Corporation Pty Ltd introduced the consultancy findings on the demand and supply of exhibition facilities in Hong Kong for the next five to ten years. Details of his presentation were set out in the power-point presentation material (CB(1)1323/04-05(02)) and the

presentation note (CB(1)1341/04-05(01)). Members noted that the consultants had recommended the Government to give policy support to TDC's atrium link extension proposal as the additional exhibition space would help meet projected unmet demand for exhibition facilities over the next five to ten years.

TDC's proposed atrium link extension at the Hong Kong Convention and Exhibition Centre

64. Mr Jeffrey LAM declared that he was a Council member of TDC. Mr LAM pointed out that in the past two decades, the development of exhibition industry in the region had undergone great changes and Hong Kong had now become Asia's trade fair capital. He highlighted Hong Kong's key advantages which included, inter alia, government support, the availability of high quality personnel experienced in organizing trade fairs and exhibitions, strong institutions in respect of legal and accounting services, and supporting facilities such as hotels and transportation links. He was pleased to note that TDC had recently collaborated with private-sector organizers to stage mega fairs of new themes at the Asia World-Expo (AWE). Given that the existing space at the Hong Kong Convention and Exhibition Centre (HKCEC) might not be able to meet the market demand, Mr LAM cautioned that Hong Kong might lose considerable business opportunities to neighbouring cities which had strived to put in place large-scale exhibition facilities and related supporting infrastructure. To ensure that Hong Kong could continue to serve as a major trade fair capital, Mr LAM called on the Administration to take forward TDC's proposed extension of the atrium link of the HKCEC as early as possible.

65. The Deputy Chairman echoed Mr LAM's view and pointed out that exhibition facilities and associated supporting infrastructure in Shenzhen and Guangzhou were being developed at a very rapid pace. In view of the current difficulties in booking slots at HKCEC, he considered it vital that the Administration should lose no time and respond to the demand of local industries for more exhibition facilities to promote their businesses. The Deputy Chairman saw no insurmountable problem to the atrium link extension project as it would not involve any reclamation works. He further said that as far as he understood, there was no objection among Members to the TDC's atrium link extension proposal. As such, he urged the Administration to give its policy support to the project without further delay.

66. DSCIT(CI) took note of members' views. On the implementation timetable, DSCIT(CI) said that it was TDC's intention to commence work in 2006 and complete the project in 2009. The Administration was now actively considering TDC's proposed atrium link extension in the light of the consultancy study's findings/recommendations and other relevant factors such as the impact on the transport arrangements in the vicinity of HKCEC. He anticipated that the Administration would make a decision as soon as practicable in the next few months and would keep the Panel in the picture.

67. Noting from the consultancy study findings that the economic impact of Hong Kong's losing just one major trade exhibition was estimated to be as high as \$407 million, Mr LAM sought information on other consequential losses such as the estimated number of jobs lost. In response, Mr Rod PILBEAM noted that, if one major trade exhibition was lost, there would be a loss of temporary employment. It was however not possible to provide an immediate estimate of the impact on either the full-time employment for the exhibition servicing industries or on employment for related businesses such as hotels and retail establishments. He undertook to follow-up with a clarification.

(post-meeting note : The Consultant subsequently clarified that employment loss would occur directly in the exhibition servicing industries, and also indirectly in the sectors catering for visitors such as hotels, restaurants, shopping and local transportation. The Consultant estimated that the direct full time equivalent job losses in the exhibition servicing industries to be around 128 and the indirect full time equivalent job losses in the visitor-related industries to be around 755 per annum).

68. In this connection, Mr Jeffrey LAM stated his view that as the staging of trade fairs would lead to additional business activities for down-stream businesses in Hong Kong such as the travel and dining services, the loss of a mega trade show might therefore reduce these activities and result in a significant loss of temporary or part-time jobs as well as affecting the income of the businesses concerned.

Role of TDC

69. The Chairman noted from GE's briefing under the previous agenda item that the services sector had become increasingly significant as a driver of Hong Kong's economic growth. The quality of the workforce in the services sector should therefore be enhanced to keep abreast of the economic restructuring of Hong Kong. In this regard, she expressed concern about the role which TDC could play in enhancing the quality of the personnel engaged in the exhibition industry. The Chairman was of the view that TDC should critically examine its mission and functions and actively consider taking up the task of upgrading the quality and expertise of the personnel of the local exhibition industry, instead of functioning as an organizer of mega trade fairs. She recalled that this aspect of TDC's work had been criticized as posing unfair competition to private event organizers.

70. In response, DSCIT(CI) highlighted that the functions of TDC were to promote and assist the development of Hong Kong's external trade, including trade in goods and services. Organizing mega trade fairs was considered one of the most effective means through which TDC performed its statutory functions of promoting, assisting and developing Hong Kong's trade with places outside Hong Kong, with particular reference to exports. The quality of local personnel in the exhibition industry could be enhanced through experience-sharing and collaboration with TDC in staging mega trade fairs. TDC would continue to

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promote the exhibition industry through various means such as promoting the use of the new exhibition facilities at AWE. Nevertheless, DSCIT(CI) agreed to relay the Chairman's concerns to TDC. In this connection, the Chairman also requested Mr Jeffrey LAM, in his capacity as a Council member of TDC, to take the matter to TDC for consideration.

VIII Any other business

71. There being no other business, the meeting ended at 5:35 pm.

Council Business Division 1
Legislative Council Secretariat
12 May 2005