

**Motion on
“Assisting the sustainable development of small and medium
enterprises” moved by Dr Hon LAM Tai-fai at the Legislative Council
meeting on
23 June 2010**

Progress Report

Purpose

At its meeting on 23 June 2010, the Legislative Council (LegCo) passed a motion on “Assisting the sustainable development of small and medium enterprises” (SMEs). This paper briefs Members on the progress of the relevant measures taken by the Government.

Hong Kong’s Economic Situation

2. Hong Kong’s economy continued to show a broad-based recovery in the second quarter of 2010, benefiting from the robust growth momentum in the Mainland and other Asian economies. After recording a year-on-year growth of 8% in the first quarter, real GDP increased by 6.5% in the second quarter over the same period in the previous year, and by 1.4% over the previous quarter on a seasonally adjusted basis.

3. The global economy remained on track to recovery in the second quarter of 2010. The Mainland and many Asian economies grew robustly. However, the sovereign debt problem in Europe caused uncertainties about the outlook for the external environment. Nevertheless, since local consumer and investment sentiment remained firm and the GDP growth in the first half of 2010 was robust, the GDP growth forecast for 2010 as a whole could reach 5-6%.

Furthering regional co-operation

4. Asia, particularly the Mainland and East Asia, will be the future driving force of the world economy. The Government will continue to promote regional co-operation so as to explore new business opportunities for enterprises.

(a) Hong Kong/Guangdong Co-operation

Since the signing of the Framework Agreement on Hong Kong/Guangdong Co-operation (“Framework Agreement”) by the Hong Kong and Guangdong Government in April this year, the governments of both places organised a large-scale forum in Hong Kong in June to assist Hong Kong enterprises in tapping the opportunities brought by the Framework Agreement.

Relevant bureaux and departments of the Hong Kong Special Administrative Region (HKSAR) Government maintain close contact with the relevant Mainland authorities to implement the policy measures in the Framework Agreement and discuss the direction for the major tasks in 2011. The HKSAR Government is seeking to include the policy measures relating to Hong Kong/Guangdong co-operation under the Framework Agreement, particularly the positioning of Hong Kong/Guangdong co-operation, into the National 12th Five-Year Plan.

In addition, the 15th Working Meeting of the Hong Kong-Guangdong Co-operation Joint Conference co-chaired by Mr Henry Tang Ying-yen, the Chief Secretary for Administration of the HKSAR Government, and Mr Liu Kun, the Vice Governor of Guangdong Province, was held on 3 August in Hong Kong. The meeting reviewed the latest progress of Hong Kong/Guangdong co-operation, particularly the progress of the implementation of the Framework Agreement, and discussed the major tasks for the next stage.

(b) Supplement VII to CEPA

The liberalisation measures under Supplement VII to CEPA will take effect from 1 January 2011. The HKSAR Government will continue to liaise with the Mainland authorities to ensure the effective and smooth implementation of the measures.

(c) Free Trade Agreements

After Hong Kong and New Zealand signed the Hong Kong, China-New Zealand Closer Economic Partnership Agreement (CEP) in March this year, both economies are working on the necessary domestic procedures with a view to bringing the CEP into force as early as possible. We are also continuing with our negotiations with the European Free Trade Association, striving to conclude an agreement as soon as practicable.

Business Environment

5. The Government will continue to enhance Hong Kong's business environment, including conducting regulatory reviews and implementing the "Be the Smart Regulator" Programme. Under the steer of the Business Facilitation Advisory Committee and its Task Forces, the Government will continue to conduct regulatory reviews on selected business sectors, including the real estate development (pre-construction), retail and food business sectors, and provide a platform for the Government to consult the relevant trades on regulatory proposals with business impact and thrash out their implementation details with a view to reducing the business compliance costs.

Competition Bill

6. The Government introduced the Competition Bill into the LegCo on 14 July 2010, with the objective of providing a legal framework for regulating anti-competitive conduct in all sectors and hence ensuring the effective implementation of Hong Kong's competition policy. We note that some stakeholders in the business sector (especially SMEs) are concerned about the possible adverse effects on the business environment brought about by the introduction of a competition law. To address the business sector's concern about the new law, we have provided for in the draft Bill relevant provisions and appropriate mechanisms in respect of the exemption arrangement for any specific agreement on undertakings' application, publicity and educational work, and the implementation arrangement of the new law, etc., so as to facilitate compliance. We are glad to continue to listen to the views of the community, including SMEs, on the Bill, and do our best to enable the competition law to deal effectively with anti-competitive conduct and also meet Hong Kong's actual needs.

Support Measures for SMEs

7. The Government implements a number of support measures, to help enterprises obtain financing in the credit markets, provide financial assistance for them to upgrade their production technology and the quality of their goods, support their upgrading and restructuring, and help them explore new markets.

(a) Credit Facilities

As at end July 2010, over 36 000 applications had been approved under the Special Loan Guarantee Scheme (SpGS) and the enhanced SME Loan Guarantee Scheme (SGS), involving a total loan amount of over \$92.2 billion, benefiting over 19 000 enterprises and preserving about 320 000 jobs.

After the application period of the SpGS expires at the end of this year, all the approved loan guarantees provided by the Government will remain valid until the end of the guarantee period. On the other hand, the enhanced SME Loan Guarantee Scheme will continue to render appropriate assistance to SMEs to help them obtain loans.

(b) Innovation and Technology Fund

As at end July 2010, the Innovation and Technology Fund (ITF) had supported more than 2 100 applied R&D projects with a total funding of \$5.4 billion under different funding schemes, including the Small Entrepreneur Research Assistance Programme.

(c) R&D Cash Rebate Scheme

We launched the R&D Cash Rebate Scheme on 1 April 2010. As at end July 2010, over 90 applications had been received, involving about \$1.8 million of rebate.

(d) R&D Centres

In 2006, the Government set up five R&D Centres under the ITF as focal points for driving and coordinating applied R&D and promoting technology transfer to the industry. As at end July 2010, these centres had undertaken 330 projects with funding support of over \$1.7 billion from the ITF.

(e) DesignSmart Initiative

As at end July 2010, over \$150 million had been approved under the funding schemes of the \$250 million DesignSmart Initiative, of which \$20 million had been approved for the Design-Business Collaboration Scheme, benefitting 251 SMEs.

(f) SME Export Marketing Fund

As at end July 2010, 107 781 applications had been approved under SME Export Marketing Fund, involving a total amount of over \$1.64 billion in approved grants.

(g) SME Start-up Programme

Through a one-stop service platform, the Hong Kong Trade Development Council's (HKTDC) SME Start-up Programme provides support services for different stages of starting a business, namely, the preparation stage, implementation stage and development stage, with a view to helping those who wish to start up or have just started up their own business to secure a firm footing or expand their markets. Supporting initiatives for start-up entrepreneurs include giving them priority for applications for Economy Booths at the HKTDC trade fairs in Hong Kong, and value-for-money Cubic Showcase to display their products and catalogues, so as to encourage the participation of newly established SMEs in trade fairs. For online promotion, new companies may also make use of the HKTDC's free online promotion at www.hktdc.com, or join the one-year super promotional package.

(h) Liaison with the Mainland and the trade on the upgrading and restructuring of Hong Kong enterprises and tapping into Mainland domestic market

The HKSAR Government and the Guangdong Government convened a meeting of the Hong Kong/Guangdong Expert Group on the Restructuring and Upgrading of the Processing Trade in June 2010 to discuss the latest developments in the two governments' support for the upgrading and restructuring of Hong Kong enterprises and tapping into the Mainland domestic market.

On 22 June 2010, the governments of Hong Kong and Guangdong organised The 2010 Business Fair for Hong Kong-Guangdong Economic, Technology and Trade Co-operation in Hong Kong to enable enterprises from both places to have a better understanding of the business environment in Hong Kong and Guangdong, as well as the opportunities brought by the Framework Agreement.

The People's Government of Guangdong Province organised the 2nd Guangdong Foreign-Invested Enterprises Commodities Fair (the Fair) from 18 to 22 June 2010 in Dongguan, helping foreign

investors in Guangdong, including Hong Kong enterprises, to explore the Mainland domestic market. The Commerce and Economic Development Bureau (CEDB) was one of the supporting units for the Fair.

On 20 July 2010, the CEDB convened the 9th Meeting of the Task Force to Support the Processing Trade with the trade. Representatives from the trade expressed their views on issues relating to upgrading and restructuring, transfer, wages and collective wage negotiation, etc. The CEDB has reflected their views to the relevant Mainland authorities.

(i) Branding

In the 2009-10 financial year, the SME Development Fund (SDF) administered by the Trade and Industry Department (TID) allocated over \$3.4 million to support a number of projects relating to the development and promotion of Hong Kong brands. In addition, the SDF granted over \$1 million to fund a project to an SME support organisation to conduct survey and research on Mainland domestic sales.

Moreover, the TID plans to join hands with the HKTDC again to organise a High-level Conference on Branding during the World SME Expo in December 2010, so as to enhance SMEs' awareness and knowledge about brand development. The Support and Consultation Centre for SMEs of the TID will provide continued support to SMEs by organising seminars on brand development to enhance their knowledge about branding.

The HKTDC is committed to the promotion of Hong Kong brands. In 2010-11, the HKTDC plans to organise over 90 promotional activities, targeting the Mainland and emerging markets, such as organising Hong Kong Consumer Shows, setting up Hong Kong Pavilions in major exhibitions and organising trade missions and seminars. The HKTDC organised the Style Hong Kong Show in Shenyang, Liaoning on 6-10 August 2010 and will organise another show in Jinan, Shandong on 22-26 October 2010. Since June 2010, the HKTDC has been operating an online shop in collaboration with Taobao (淘寶網) to help Hong Kong brands tap into the enormous online market in the Mainland.

(j) Developing other emerging markets

The HKTDC is stepping up its promotion effort in the emerging

markets. In 2010-11, the HKTDC will organise trade missions for different sectors, including visits to Russia (31 August to 3 September 2010), New Delhi and Mumbai, India (25-29 October 2010), and Chile, Brazil and Mexico (30 November to 12 December 2010).

The HKTDC also plans to organise the Life Expo in Warsaw and Poland from 21 to 23 September 2010, and in Mumbai, India from 28 to 30 October 2010.

Promoting Green Production

8. Green economy brings about new business opportunities for both the public and private sectors. In the public sector, we have been investing over \$30 billion into environmental infrastructure, which will create job opportunities at various levels. To provide incentive for the private sector to join us in the promotion of green economy, we have set up various funding schemes such as the \$450 million Buildings Energy Efficiency Funding Schemes, which subsidise building owners to enhance the energy efficiency of their buildings. In addition, various environmental policies and schemes such as the Cleaner Production Partnership Programme and the Arrangements for the Implementation of Clean Development Mechanism (CDM) Projects in the HKSAR will also facilitate our private sector in tapping into green business opportunities. So far, amongst the 2 300 approved CDM projects, 40% are carried out in the Mainland, involving over \$80 billion in investment and technology transfer.

Developing Talents

9. The Government endeavours to enhance the overall quality of the local workforce, in particular the competitiveness of the low-skilled workers, with a view to enabling them to adjust to changing skill requirements arising from economic restructuring. For example, since 1 December 2007, the eligibility criteria of the Manpower Development Scheme administered by the Employees Retraining Board (ERB) have been relaxed to cover young people aged between 15 and 29 and with education level at sub-degree or below, in addition to those aged 30 or above and with education level at Secondary Three or below. In 2010-11, the ERB plans to provide 123 000 training places through more than 500 courses covering a total of 27 industries, including courses that meet the needs of SMEs.

10. On the other hand, the Government has also been making substantial investment in education and is committed to providing multiple pathways for further studies for young people. According to the approved estimates for 2009-10, the share of education in the total government expenditure is over 20%. Under the principle of institutional autonomy, the University Grants Committee (UGC)-funded institutions have been making flexible provision of suitable courses, taking into account the development needs of society and market demand. Moreover, the Vocational Training Council (VTC) offers a wide range of vocational education programmes through its operating units, including the Hong Kong Institute of Vocational Education, School of Business and Information Systems, Hong Kong Design Institute and Youth College. The VTC provides both full-time and part-time programmes leading to formal qualifications up to sub-degree levels for secondary three, secondary five and secondary seven school leavers. The chances to receive tertiary education have increased greatly in recent years. The tertiary education participation rate for the relevant age group has now increased to 69%. As for locally-accredited degree courses and top-up degree places, the participation rate for the relevant age group is 27 %.

11. Under the Qualifications Framework, the Education Bureau has already set up industry training advisory committees for 13 sectors, covering about 36% of the labour force. These committees set out the skills, knowledge and outcome standards required of employees in those sectors to encourage training providers to design training courses that meet the needs of the sectors. The Government will further promote the Qualifications Framework to enhance vocational education and training relevant to the industries.

12. In addition, the TID provides funding to trade and industrial organisations, support organisations and professional bodies through the SDF with a view to enhancing SMEs' competitiveness and capability. Since 2009, the SDF has provided around \$10 million for 11 projects related to manpower training to implement activities such as seminars, workshops, training programmes, codes of best practices and industry guidance. The maximum amount of funding support for each project is 90% of the total project expenditure, subject to a cap of \$2 million.

Tax Matters

13. Hong Kong has all along maintained a simple tax regime with low tax rates and upheld the principles of fairness and neutrality. In order to cope with the development needs of the economy and the enterprises and enhance the competitiveness of Hong Kong, the Government has introduced a range of tax incentives such as providing 100% tax deduction

for capital expenditure on research and development, purchase of “patent rights” and “rights to know-how” and purchase of eligible environmental protection facilities and environment-friendly vehicles. While adhering to the established taxation principles, the Government examines the existing tax regime from time to time with a view to considering measures that will be conducive to the overall economic development and able to cope with the social development trend in Hong Kong. The Government will continue to keep in contact with professional bodies and business organisations so as to understand the operations of enterprises in Hong Kong.

14. As regards the issue of providing depreciation allowances for machinery or plants used under the “import processing” arrangement, the Financial Services and the Treasury Bureau (FSTB), in collaboration with the Joint Liaison Committee on Taxation, is studying the feasibility of the proposal, including whether there are effective measures to plug the loopholes of tax avoidance. FSTB will complete the study as soon as practicable.

Commerce and Economic Development Bureau

Education Bureau

Environment Bureau

Labour and Welfare Bureau

Financial Services and the Treasury Bureau

Trade and Industry Department

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