

**Progress Report on the Motion on “Formulating an industrial policy”
moved by Hon Andrew LEUNG
as amended by Hon IP Wai-ming and Hon Ronny TONG
at the Legislative Council Meeting of 8 February 2012**

The Government is committed to providing an environment conducive to conducting businesses and rendering suitable assistance for the commercial and industrial sectors. From the macro point of view, Hong Kong’s simple tax regime, low tax rate and excellent infrastructure, etc facilitate the development of the commercial and industrial sectors and maintain our competitiveness in the world.

Development of high value-adding, new technology-intensive and innovative industries

2. Hong Kong’s industries have transformed from low-cost and labour-intensive production into knowledge-based and high valued-added production activities. In keeping up with this trend, innovation and technology would become the main driving force in promoting the sustainable development of our economy, as well as the critical element in supporting the upgrading and restructuring and enhancing the competitiveness of our industrial sector. The Government provides support for the development of our industrial sector, particularly the high value-adding, new technology-intensive and innovative industries, on various fronts.

a. Provision of infrastructure

3. We are committed to providing a world class research and development infrastructure to support the long-term development of the industrial sector. Science Park Phases 1 and 2 now provide world class offices and laboratories for over 360 technology-based enterprises. The overall occupancy rate reaches 90%. The development of Phase 3 is in good progress and is expected to complete in stages from early 2014 to 2016.

4. The three Industrial Estates (IEs) administered by the Hong Kong Science and Technology Parks Corporation (HKSTPC) offer a total of 217 hectares of land for projects which cannot be accommodated in ordinary multi-storey industrial or commercial buildings. To ensure the good use of valuable land resources, HKSTPC has been encouraging grantees which have not fully utilised the IE land to transfer their sites to companies that meet the admission criteria of IEs by way of assignment. Since 2007, HKSTPC has approved over 20 assignments involving over

20 hectares of land. We have also invited HKSTPC to explore the feasibility of expanding the Yuen Long IE by about 16 hectares. The feasibility study is targeted to commence in mid-2012.

5. In April 2006, the Government set up five Research and Development (R&D) Centres¹ to coordinate applied R&D in selected focus areas and to promote commercialisation of R&D results and technology transfer.

b. Funding support measures

6. The Government has implemented various schemes such as the CreateSmart Initiative, Design-Business Collaboration Scheme, Innovation and Technology Fund (ITF) and R&D Cash Rebate Scheme etc, to provide funding support for the industry, so as to assist them in strengthening product design and enhancing their technology level in order to meet with challenges in the highly competitive business environment.

7. In the 2012-13 Budget Speech, the Financial Secretary announced several new initiatives for promoting R&D and innovation and technology in the industrial sector, including –

- (i) to increase the level of cash rebate under the R&D Cash Rate Scheme by three-fold, from 10% to 30%. The enhanced level of rebate is applicable to applications approved on or after 1 February 2012;
- (ii) to increase the monthly allowances under the Internship Programme of ITF by 20%. With effect from February 2012, the monthly allowance for interns who possess a Bachelor degree has been increased from \$10,000 to \$12,000, and for those with a Master or higher degree, this has been raised from \$12,000 to \$14,000. The new rates are applicable to both new recruits as well as serving interns; and
- (iii) to raise the funding ceiling under the Small Entrepreneur Research Assistance Programme of ITF from \$4 million to \$6 million, and to expand its funding scope. We plan to

¹ Five R&D Centres are: (1) automotive parts and accessories; (2) logistics and supply chain management enabling technologies; (3) textiles and apparel; (4) nano and advanced materials; and (5) information and communications technologies.

implement the enhancements in April 2012.

8. The Trade and Industry Department (TID) has been operating an SME Loan Guarantee Scheme to assist the eligible enterprises in obtaining credit facilities from banks to meet their business needs. In the light of the uncertain external environment, the enterprises may face financing difficulties as a result of a possible credit crunch. To tide the enterprises over the difficult period, the Financial Secretary announced in the 2012-13 Budget the proposal to introduce special time-limited concessionary measures under the existing SME Financing Guarantee Scheme of the Hong Kong Mortgage Corporation Limited, under which a new 80% guarantee coverage would be offered at a low guarantee fee. The application period of the special concessionary measures will last for nine months, and the Government will provide a total guarantee commitment of \$100 billion. We have consulted the Legislative Council Panel on Commerce and Industry on 20 March 2012. With Members' support, we would seek the funding approval from the Finance Committee in April 2012, with the objective of launching the special concessionary measures in May 2012.

c. Assistance for enterprises to tap the Mainland market

9. The National 12th Five-Year Plan emphasises the upgrading and restructuring of industries and expanding domestic consumption. To assist the Hong Kong enterprises including the industrial sector in enhancing their competitiveness and tapping the massive opportunities in the Mainland market, the Chief Executive announced in the 2011-12 Policy Address to set up a dedicated fund of \$1 billion to assist the enterprises in moving up the value chain and exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland. The propose fund would comprise two parts: to provide funding support to individual Hong Kong enterprises and to non-profit-distributing organisations respectively. We have consulted the trade and finalised the operational details of the dedicated fund. We plan to seek the funding approval from the Finance Committee of the Legislative Council in May 2012, and launch the fund by mid-2012.

d. Facilitating data centre development in Hong Kong

10. Data centres support the development of various sectors, particularly the pillar industries such as financial services and logistics, bringing economic benefits to Hong Kong as a whole. According to a consultancy study commissioned by the Office of the Government Chief Information Officer (OGCIO) in 2010, the data centre sector contributed

HK\$3.4 billion to Hong Kong's GDP and created 4 800 job opportunities in 2009. Facilitating the establishment of data centres in Hong Kong can also bring about many indirect and intangible economic benefits, including supporting high value-added economic activities, such as high-frequency stock trading, e-commerce and cloud computing services, etc. This also helps attract international businesses to set up their regional headquarters in Hong Kong, thus enhancing Hong Kong's overall competitiveness.

11. In the coming year, OGCIO will continue to implement measures to facilitate the establishment of data centres (in particular high-tier data centres) in Hong Kong –

- (i) The Chief Executive announced in the 2011-12 Policy Address that about two hectares of land in Tseung Kwan O had been reserved for data centre development. We have been working on the town planning procedures, and it is expected that the first site will be available for open bidding in 2013. For the site, the Government will tailor-make the Conditions of Sale for high-tier data centre use and the tender reserve price will be assessed on that basis.
- (ii) The Financial Secretary announced in the 2012-13 Budget two new time-limited measures to encourage optimisation of existing industrial buildings or industrial lots for data centre development. First, the Government will exempt the waiver fee for changing parts of eligible industrial buildings into data centre use. In addition, the Government will assess the premium for lease modification of industrial lots for development of high-tier data centres on the basis of actual development intensity and high-tier data centre use. We are now working on the implementation details and are striving to introduce these two measures in mid-2012 for application by 31 March 2016.
- (iii) The Data Centre Facilitation Unit (DCFU) under OGCIO will continue to provide assistance to parties interested in setting up data centres in Hong Kong. Useful information in promoting data centre development in Hong Kong will continue to be posted through the thematic data centre website (<http://www.datacentre.gov.hk>). In light of the unique building and facilities requirements for data centres, the DCFU will work in collaboration with other government departments to explore fine-tuning the existing guidelines to

suit the operational needs of data centres.

e. Creating a favourable environment conducive to the setting up of businesses

12. At the request of the Financial Secretary in the 2012-13 Budget, the Hong Kong Mortgage Corporation Limited (HKMC) will launch a Microfinance Pilot Scheme for a trial period of three years in mid-2012 to assist people who may wish to start their own businesses or receive training for skill upgrading or certification but cannot do so due to lack of financial means or difficulties in obtaining loans from traditional finance sources. The HKMC will co-ordinate with banks, voluntary agencies and other stakeholders to operate the scheme on a self-financing basis with supporting services provided to make microfinance more viable.

13. The scheme will cater to three categories of borrowers, namely those aspiring to start up their own businesses, those wishing to become self-employed and those wanting to achieve self-enhancement through training, upgrading of skills or securing professional certification. The maximum amount for each loan in these categories will be HK\$300,000, HK\$200,000 and HK\$100,000 respectively. The maximum loan tender will be five years.

14. The HKMC is working out the details of the scheme such as the interest rate level, application and approval procedures, and ancillary services, etc. So far, a few banks and voluntary agencies have expressed their interest in participating in the scheme.

f. Supporting manpower development

15. Manpower development is important to the sustainable development of Hong Kong's industrial sector. The training programmes offered by the Vocational Training Council and the Employees' Retraining Board, the launch of the Qualifications Framework, and funding support for manpower training programmes provided by the SME Development Fund of TID, the Internship Programme under ITF and Create Hong Kong are all conducive to increasing the competitiveness of manpower and the industrial sector.

16. At present, the Apprenticeship Scheme administered by the Vocational Training Council in accordance with the Apprenticeship Ordinance (Cap. 47) has already covered more than 130 trades in a wide array of sectors, including automobile, electrical and mechanical engineering, construction as well as jewelry, with relevant posts such as

craftsmen, technicians, engineering assistants and designers. Among the trades covered by the Scheme, two-thirds of them are non-designated trades, in which employers and apprentices participate on a voluntary basis. This demonstrates the interest of both employers and apprentices in joining the Scheme through non-designated trades, thereby diversifying the industry coverage of the Scheme. The Administration will continue to improve the Scheme in order to accommodate the needs of employers and apprentices, as well as consider the needs for adjusting the trades covered by the Scheme and amending the Ordinance taking into account the related prevailing circumstances.

Labour Issues

a. Standard working hours

17. The issue of standard working hours is highly complex and controversial. At present, employers, employees and various sectors of the community have divergent views on whether standard working hours should be introduced in Hong Kong. Since the matter has far-reaching implications on our society and economy, we need to be prudent in handling it. The Labour Department is currently conducting a policy study on standard working hours which is expected to be completed in mid-2012.

b. Aligning the numbers of statutory holidays and general holidays

18. The present stipulation that employees are entitled to 12 days of statutory holidays every year is a consensus reached progressively by all sectors of society after extensive consultation. An increase in the number of statutory holidays will have impact on employers, including the business sector (especially small and medium enterprises which represent 98% of the enterprises in Hong Kong) and the numerous families employing foreign domestic helpers. In contemplating any improvements to employment benefits, we must strike a balance between the interests of employees and employers and carefully assess the possible impact of the proposed measures on employers and the economy as a whole. The acceptance and consensus of society in this regard are also essential. For the purpose of a further study on the subject, the Labour Department has commissioned the Census and Statistics Department to collect statistics on the number and distribution, as well as the industry sectors and occupations involved, of employees taking statutory holidays and general holidays respectively.

Conclusion

19. We will continue to maintain close liaison with the industry and will continue to review and refine our policies and support measures having regard to the demands of the industry, so as to better meet their needs and support the long-term development of the industrial sector.

**Commerce and Economic Development Bureau
April 2012**