

**For discussion
on 17 April 2012**

Legislative Council Panel on Commerce and Industry

Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD fund)

As requested by the Panel at its meeting on 20 March 2012, this note supplements the relevant Panel paper (LC Paper No. CB(1)1298/11-12(03)) in elaborating the effectiveness, expected economic benefits and possible job opportunities to be brought about by the proposed \$1 billion BUD fund.

Background

2. The overseas markets are plagued by uncertainty due to the economic downturn in Europe and the relatively weak economy in the United States. On the other hand, with the rapid economic development in the Mainland, coupled with the National 12th Five-Year Plan which places emphasis on expanding domestic demand, the potential of Mainland domestic consumption will be further released. This will open up an enormous market with massive opportunities. Recently, in order to further their economic development, many economies like Korea, Taiwan, Thailand and Vietnam in the region are eager to enter the Mainland market, thus creating fierce competition in the Mainland market. To seize this opportunity to tap into the Mainland, Hong Kong enterprises need to move up the value chain through upgrading and restructuring their operations, enhancing product and service quality, developing brands and strengthening design. Through our contacts with various trade associations, we understand that many Hong Kong small and medium enterprises (SMEs) would like to explore the Mainland domestic market but consider that entering the Mainland market is not an easy task, and that the most needed assistance would be brand development. The BUD fund will be able to provide timely support to Hong Kong enterprises.

Enterprises that are eligible for the BUD fund

3. The BUD fund aims to assist Hong Kong enterprises in exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland. All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Chapter 310) are eligible to apply for the enterprise part of the BUD

fund, provided that they have substantive business operations in Hong Kong. Since SMEs constitute around 98% of all local enterprises in Hong Kong and account for about 48% of the total employment in the private sector¹, we expect that the main beneficiaries of the BUD fund will be SMEs. We must emphasise that local enterprises that fulfill the above criteria are eligible to apply for the BUD fund, irrespective of whether they belong to the manufacturing or service sector, and whether they already have any business operations in the Mainland.

Effectiveness, expected economic benefits and job opportunities of the BUD fund

Funding for individual enterprises

4. Providing funding support to Hong Kong enterprises under the BUD fund will benefit the Hong Kong economy on several fronts. First, as set out in paragraph 3 above, only enterprises that have substantive business operations in Hong Kong may apply for the BUD fund. Hence, if Hong Kong enterprises receiving funding support under the BUD fund can better develop their businesses in the Mainland, it would benefit their business operations in Hong Kong, and thus help preserve employment and create new job opportunities in Hong Kong. In fact, many Hong Kong enterprises that have set up operations in the Mainland still maintain their headquarters and major operations (e.g. supply chain management, product innovation, quality control, wholesale and distribution, as well as sales and marketing) in Hong Kong, so as to fully capitalise on Hong Kong's strengths. Moreover, enhanced business operations in Hong Kong would further generate needs for professional services or other services (such as legal and financial services, advertising and logistics, etc.) in Hong Kong, thereby benefitting different sectors of the Hong Kong economy. In addition, as set out in paragraph 5 of the last Panel paper, we propose that Hong Kong enterprises can make use of the BUD fund to engage qualified local consultants² to help develop a holistic business plan. Besides, enterprises that have successfully obtained funding support under the BUD fund will likely need to engage the services of other relevant sectors to implement the approved projects. Therefore, apart from the funded Hong Kong enterprises, other related business sectors in Hong Kong will also be able to participate directly and benefit under the BUD fund.

¹ Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong. There are about 300 000 SMEs in Hong Kong employing around 1.2 million persons.

² Our current thinking is that if an enterprise would like to make use of the BUD fund to engage a consultant to develop a holistic business plan, the consultant must fulfil various requirements, including that it must have been registered in Hong Kong under the Business Registration Ordinance (Chapter 310) for at least one year.

5. On **brand development**, from the perspective of Mainland consumers, Hong Kong itself is a distinguished brand, and Hong Kong products symbolise quality, fashion and style. Many SMEs consider that they need to develop their own brands and enhance their product design in order to develop the Mainland domestic market. In fact, many local brands in various sectors (e.g. designer apparel, watch and jewelry, and traditional Hong Kong-made food products etc) possess vast business potential. Take Hong Kong enterprises engaged in the production of traditional food products in Hong Kong as an example, they may apply for the BUD fund to carry out projects such as brand positioning and brand strategy for tapping into the Mainland market. In the process, the enterprises will need to engage expertise from the creative industries in Hong Kong such as product image and brand design, hence benefitting these sectors as well. Furthermore, if the funded Hong Kong enterprises can successfully build up their brands and expand their sales network in the Mainland, they have to expand their business operations in Hong Kong, e.g. they have to employ additional staff in Hong Kong for production and product design etc. There will also be increased demand for services of other relevant sectors like advertising, logistics, financial services, and testing and certification etc. Take designer apparel as another example. Some strong local fashion design brands may also apply for the BUD fund to carry out projects on brand building etc. Though the production line of these enterprises may be located in the Mainland, if they can successfully develop the Mainland domestic market, they would also need to strengthen their backend support in Hong Kong. For instance, they would need to expand their existing office or establish new office, or employ more staff to cope with work relating to marketing and promotion, sales and accounting etc.

6. Developing **domestic sales** does not confine to local brands. For example, SMEs who are the agents of local or foreign brands may apply for the BUD fund to undertake projects such as strategic planning or development of sales and distribution channels in order to tap into the Mainland market. As in the case of brand development, the funded enterprises will need the expertise of other business sectors of Hong Kong, such as sales and marketing, to implement the funded projects, thus benefitting other sectors as well. Moreover, successful expansion of domestic sales in the Mainland will require strengthening of their operations in Hong Kong, e.g. the enterprises would need to employ more staff for marketing and promotion, sales and accounting, etc; and demand for services provided by other related sectors such as logistics and transportation will also increase.

7. On **upgrading and restructuring**, projects for which enterprises may apply for the BUD fund include technology upgrading of the production lines of the Hong Kong enterprises in the Mainland, improving logistics management and

restructuring of production modality, etc. For example, Hong Kong enterprises that manufacture low value-added products in the Mainland may apply for funding support under the BUD fund to upgrade its production modality to manufacturing of high value-added products³. The funded enterprises will need the professional assistance of relevant Hong Kong companies including local consultancy companies, e.g. those engaged in production and operation management or certification of International Organisation for Standardisation, to implement the funded projects. Furthermore, if the enterprises can successfully upgrade and restructure their business operations, this will help stabilise and even advance their business operations in Hong Kong, thus helping to preserve employment and even create new job opportunities in Hong Kong. Similar to brand development and promoting domestic sales, enhanced business development of the funded enterprises in Hong Kong would further generate needs for services of other sectors.

8. On the number of enterprises to be benefitted and job opportunities to be created under the enterprise part of the BUD fund, as can be seen from discussions in the preceding paragraphs, it would depend on various factors, including the number of applications approved, the amount of funding approved, the nature of the application and the sector(s) involved etc. It is therefore difficult for us to provide an accurate estimate at this stage. Nevertheless, as set out in paragraph 23 of the last Panel paper, assuming that half of the commitment of the BUD fund, i.e. \$500 million, will be provided to enterprises, and that each enterprise will receive the maximum amount of funding support of \$500,000, about 1 000 enterprises can directly benefit from the BUD fund.

Funding for non-profit-distributing organisations

9. The organisation part of the BUD fund provides funding support to non-profit-distributing organisations to implement larger-scale projects with relatively longer duration to assist Hong Kong enterprises in general or in specific sectors to enhance their overall competitiveness in the Mainland market through branding, upgrading and restructuring and promoting domestic sales. Both manufacturing and non-manufacturing sectors are eligible to apply. Taking into account the funding requirement for individual enterprises as set out in paragraph 8 above, and assuming that each approved application receives the maximum funding of \$5 million, it is roughly estimated that around 90 projects can be funded. The actual number of approved projects will be subject to the content and scale of each application. Since the approved projects are expected to benefit the entire sector concerned and the applicants will be required to share

³ An example of success is that an enterprise upgraded its production from manufacturing low value-added bumps for soft drinks to high value-added bumps for medical purposes.

the results and deliverables of the projects widely with the industry, we anticipate that a large number of Hong Kong enterprises in various sectors would be able to benefit from this part of the BUD fund.

Advice sought

10. Subject to the views of Members, we plan to seek the funding approval of the Finance Committee in May 2012 with a view to launching the BUD fund in the first half of the year.

Commerce and Economic Development Bureau
Trade and Industry Department
April 2012