

**Progress Report on Motion on
“Encouraging the return of the industrial sector for development
to make Hong Kong’s industries more diversified” at
Legislative Council Meeting of 19 March 2014**

At the Legislative Council (LegCo) meeting of 19 March 2014, the motion on “encouraging the return of the industrial sector for development to make Hong Kong’s industries more diversified” moved by Hon CHUNG Kwok-pan, as amended by Hon SIN Chung-kai, Hon Kenneth LEUNG and Hon CHAN Yuen-han was passed. The wording of the motion is at Annex. After consulting the relevant policy bureaux, we now provide a progress report on the motion for Members’ information.

Supporting the Development of Industries

Formulating a holistic industrial policy

2. The Chief Executive (CE) established the Economic Development Commission (EDC) in January 2013. The EDC, led personally by the CE, is studying from a high-level, cross-departmental and cross-sectoral perspective of how to make use of Hong Kong’s existing advantages and the opportunities made available by our country. It focuses on studying the overall strategy and policy to broaden our economic base and enhance our long-term development, and identifies industries which present opportunities for Hong Kong’s further economic growth so as to formulate a holistic industrial policy.

3. The four Working Groups under the EDC that are responsible for transportation; convention and exhibition industries and tourism; manufacturing industries, innovative technology, and cultural and creative industries; and professional services respectively, have drawn up their work plans and initial possible directions or recommendations and are conducting detailed studies to examine the feasibility of the initial directions or recommendations. The four Working Groups are making good progress and individual Working Groups have submitted specific recommendations to the EDC for consideration and endorsement. In particular, the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries has set up an Expert Group on Fashion Industry to explore the development potential of the fashion industry and study how to promote its development.

4. We look forward to the EDC's formal submission of more specific recommendations on measures and policies for supporting individual industries for the Government's consideration and implementation as appropriate.

Diversifying industries

5. The Government supports the diversifying of industries in order to diversify the products and services of our existing industries and identify new areas for development so as to meet the needs of Hong Kong people for start-up initiatives, investment, business operation and employment. In this year's Policy Address, the CE has also mentioned specific policy measures or directions to provide support for many industries, including financial services, trade, tourism, professional services, logistics industry, high value-added maritime services, dispute resolution services, creative industries, intellectual property (IP), innovation and technology industries and recycling industries, etc. These demonstrate the Government's determination and efforts in diversifying industries.

6. The Government will expand and strengthen the advantages of the four pillar industries, namely trading and logistics, tourism, financial services and business and professional services, while seeking to nurture emerging industries, so that Hong Kong can better respond to the world's ever-changing economic environment.

7. The Government's specific measures to nurture emerging industries include the injection of another \$300 million into the CreateSmart Initiative last year to provide funding support for more initiatives to facilitate the development of the creative industries. Moreover, the former Police Married Quarters on Hollywood Road has been, under Government's subsidy, turned into the PMQ with a focus on the design sector. The PMQ will provide over 100 studios to designers and practitioners of the creative industries to create, display and sell their creative products. It will also serve as a major exchange and promotion platform for the design sector and to facilitate the development of creative industries in Hong Kong. The PMQ is now in its soft opening stage and will officially open in late June this year.

8. Regarding IP trading, the Working Group on IP Trading chaired by the Secretary for Commerce and Economic Development is studying ways to promote Hong Kong as a premier IP trading hub in the region. The Working Group has formulated a strategic framework and announced four major strategic areas in November last year, which include enhancing the IP protection regime,

supporting IP creation and exploitation, fostering IP intermediary services and enhancing manpower capacity; and pursuing efforts in promotion, education and external collaboration. This year, the Working Group will continue to explore appropriate policies and support measures with a view to putting forth specific recommendations.

Return of the traditional industries

9. We note the suggestions from the industry that the Government should provide facilitation measures to encourage the return of the traditional industries to Hong Kong for development. The Government is open to proposals which can effectively facilitate the economic development of Hong Kong, and will actively listen to the views of the industry and the public on different specific proposals. Nonetheless, given the limited land and manpower resources in Hong Kong, land-intensive or low value-added while labour-intensive industries or processes may not be beneficial to the long-term development of the Hong Kong economy. It is also impracticable to diversify industries solely by encouraging the return of the traditional industries. As such, we consider that suggestions on the return of industries should be appropriately examined in the context of the overall economic development trends, operating costs as well as our comparative advantages.

10. We consider that the traditional industries should deploy resources to areas or processes with high value-added or high technology as well as competitive edges or development potential, such as product development and design; brand promotion and management; and research and development (R&D). Not only can this help explore room and potential for the development of “Hong Kong Design” and “Hong Kong brands”, but this can also integrate with the brand effect of “Made in Hong Kong” for the long-term beneficial development of the industries.

Developing Hong Kong Brands

11. The Government has also put in place corresponding initiatives to promote and encourage the development of “Hong Kong brands”. Since 2009, the Trade and Industry Department (TID) and the Hong Kong Trade Development Council (HKTDC) have been jointly organising annual large-scale conferences on brand development. The objectives are to help enterprises understand the strategies of exploring domestic and overseas markets and to deepen SMEs’ awareness and knowledge about brand development. To provide continuous support to SMEs for the purpose of enhancing their

understanding of brands, the Support and Consultation Centre for SMEs (SUCCESS) of the TID also organises thematic seminars on brand development for SMEs.

12. In addition, the HKTDC has been actively promoting “Hong Kong brands” in both the Mainland and emerging markets. The HKTDC is committed to establishing the network of Hong Kong Design Galleries on the Mainland to provide a platform for Hong Kong enterprises, in particular SMEs, to showcase their products so as to enhance the popularity of Hong Kong brands in the Mainland. In August 2013 and March 2014, the HKTDC set up a new Hong Kong Design Gallery in Qingdao and Shanghai respectively. The HKTDC has also established a series of Hong Kong Design Gallery outlets under the concept of shops-within-shops in collaboration with department stores in the Mainland. The first shop-within-shops was opened in Shanghai in March 2013, and four more such shops will be set up in Wuhan, Shanghai and Beijing this year. Many Hong Kong brands have identified suitable business partners in the Mainland through the Hong Kong Design Galleries and set up their outlets in various Mainland cities.

13. Since 2007, the HKTDC has conducted over 20 Style Hong Kong Shows in a number of Mainland cities, providing temporary marketing platforms for “Hong Kong brands” and helping local businesses to test market responses. The HKTDC will set up “brand galleries” in the trade exhibitions to be held in Hong Kong with specially-designed exhibition stages to project the image of branded goods with a view to promoting to global buyers the originally-created brands and designs, including those of Hong Kong enterprises.

The Innovation and Technology Fund

14. The uses of the Innovation and Technology Fund (ITF) and its scope were also mentioned in the motion. The ITF was set up in 1999 to finance applied R&D projects that may promote technology upgrading and innovation in manufacturing and service industries. As at end-March 2014, the ITF has supported over 3 800 projects with a total funding of some \$8.3 billion. Last year, the Innovation and Technology Commission commenced a comprehensive review of the ITF operation, including the future direction and long-term financial arrangements of the ITF. We will consult the Legislative Council Panel on Commerce and Industry (C&I Panel) on the review outcome in stages.

15. Over the past few years, we have made improvements to the individual funding programmes and the funding mechanism of the ITF. For example, we introduced in 2011 a series of improvement measures, including launching the Public Sector Trial Scheme (PSTS) and extending the scope of the ITF to cover the production of samples/prototypes and conduct of trial schemes in the public sector, as well as refining the assessment framework to give greater emphasis on project commercialisation plans. The funding ceiling for each ITF project was also raised from \$21 million to \$30 million.

16. To further promote the application of R&D outcomes in the public sector, we consulted the C&I Panel in February 2014, and introduced in April 2014 various improvement measures, including waiving the industry sponsorship requirement for projects initiated by Government bureaux/departments and statutory bodies, as well as raising the funding ceiling for PSTS projects from 30% to 50% of the actual cost of the original R&D project.

17. The Financial Secretary has announced in the 2014-15 Budget Speech that we will introduce two more proactive measures to promote private sector investment in R&D and render stronger support to downstream R&D and commercialisation activities. These measures include -

- (a) setting up a new Enterprise Support Scheme (ESS) to replace the existing Small Entrepreneur Research Assistance Programme under the ITF. Highlights of the ESS include providing funding support for companies irrespective of size; a maximum funding of \$10 million for each project on a dollar-for-dollar matching basis; no requirement to recoup the approved funding; and
- (b) extending the funding scope of the ITF to cover more downstream R&D and commercialisation activities, including development engineering/system integration, industrial design, compliance testing and clinical trials, which will allow further exploitation of the technological edge of local industries.

18. Furthermore, to encourage students and professors from universities to start technology businesses which would add fresh impetus to the innovation ecosystem, as well as to commercialise universities' R&D results, we will provide the six designated local universities with an annual funding of up to \$24 million through the ITF initially for three years from 2014-15.

Land Required for Developing Industries

Land Policy

19. Regarding the land required for the development of industries, the Town Planning Board (TPB) will review and revise the planned uses (including the definitions of the land uses on the statutory plans) from time to time. During the process, the TPB will preserve the land uses if it is found that there are still genuine needs. However, if individual land uses can no longer meet current needs or are incompatible with the surrounding environment, the TPB will rezone the land to other uses which can meet the prevailing social and economic development needs, including commercial and residential uses.

20. As for the review of industrial land use, the Planning Department (PlanD) has conducted several rounds of “Area Assessments of Industrial Land in the Territory”. The purposes of the assessments are to examine the usage patterns of existing industrial sites and to explore whether the sites are suitable for converting into other uses to cater for the more pressing demand in the community. In addition to factors relating to individual districts and sites, the overall demand for industrial land will also be considered. PlanD started the latest round of Area Assessment in March last year. Apart from “Industrial” and “Business” zones, this round of assessment also covers the industrial sites and buildings located in the “Residential (Group A)”, “Residential (Group E)” and “Comprehensive Development Area” zones. PlanD will continue to take into account the demand for land from the manufacturing industry in working out further proposals. The assessment is expected to be completed in 2014.

Earmarking land for the development of data centres

21. With regard to the proposal of earmarking land for developing data centres, the Government has, since 2010, provided over 15 hectares of land in Tseung Kwan O and earmarked another two hectares of land for the development of high-end data centres. The first one-hectare site designated for the development of high-end data centre was sold through public tender in October 2013. With the Government’s support, the Tseung Kwan O Industrial Estate is now the largest data centre cluster in the Asia Pacific region, which houses 11 high-end data centres established by various multinational enterprises. The Government will continue to identify suitable sites to facilitate the development of data centres.

22. Revitalisation of industrial estates (IEs) and construction of more IEs were also mentioned in the motion. At present, the overall occupancy rate of the three IEs is about 97%. The Government will continue to identify suitable land for developing new IEs, while at the same time encouraging grantees that are not fully utilising their sites to start new projects, surrender the sites or look for new users which meet the IE admission criteria by way of assignment with a view to revitalising the IEs. Since 2007, a total of 28 assignment applications involving about 31 hectares of land have been approved by the Hong Kong Science and Technology Parks Corporation. It is encouraging to note that the new grantees come from high-tech industries such as biotechnology.

Vocational and Skills Courses and Manpower Training

23. As regards vocational training and retraining, the Employees Retraining Board provides a diversified range of training programmes covering different industries to qualified employees aged 15 or above at sub-degree level or below to improve their employment opportunities, equip them with the necessary skills for switching jobs or enhance their skills in the respective industry. Separately, the Vocational Training Council, through its 13 member institutes, provides some 250 000 places each year through a full range of pre-employment and in-service programmes with academic qualifications recognised under the Qualifications Framework, in order to supply manpower for different industries.

Promoting the Sustainable Development of the Recycling Industry

24. Concerning the promotion of the development of green industries as mentioned in the motion, the Government set up in 2013 the Steering Committee to Promote the Sustainable Development of the Recycling Industry to step up concerted efforts in reducing waste at source and promoting the development of the recycling industry. As announced in this year's Policy Address, the Government has earmarked \$1 billion to launch a Recycling Fund to promote the sustainable development of the industry. The Steering Committee is now studying the specific uses of the Fund in consultation with stakeholders with a view to working out an effective, equitable and sustainable proposal.

Conclusion

25. Members are invited to note the above progress report.

Commerce and Economic Development Bureau
May 2014

(Translation)

**Motion on
“Encouraging the return of the industrial sector for development
to make Hong Kong’s industries more diversified”
moved by Hon CHUNG Kwok-pan
at the Council meeting of 19 March 2014**

**Motion as amended by Hon SIN Chung-kai, Hon Kenneth LEUNG and
Hon CHAN Yuen-han**

That in 2011, the manufacturing industry only accounted for around 1.6% of the Gross Domestic Product; in recent years, the industrial sector has intended to return to Hong Kong for development, and quite a number of enterprises also wish to relocate their core departments and high value-added industries back to Hong Kong, which can in fact help rebuild the brand effect of ‘Made in Hong Kong’, thereby increasing the export of quality Hong Kong products to the Mainland and overseas places, but at present, the development of Hong Kong’s industries is homogeneous and stagnant, and not only does the Government not introduce any policy on supporting the development of new industries, it even plans to convert quite a number of industrial sites to residential uses, which dampen the desire of the industrial sector to return for development, and make it difficult to enhance the brand effect of ‘Made in Hong Kong’; in this connection, this Council urges the Government to introduce concrete measures and support policies to encourage the return of the industrial sector for development, so as to make Hong Kong’s industries more diversified; the relevant policies and measures should include:

- (1) to revitalize the various industrial estates, so as to induce the return of the industrial sector for development;
- (2) to expand the uses of the existing Innovation and Technology Fund and inject capital into the fund, so as to support the development of the innovation and technology industries;
- (3) to reserve more lands for developing data centres and develop Hong Kong into a technology and data hub of cloud computing in Asia; and
- (4) by making reference to the practices under the New Producer Responsibility Scheme on Glass Beverage Bottles, to provide market values for recyclable waste with low market values (e.g. plastics), and establish a government-funded body corporate for operating the waste

recycling industry on its own, thereby promoting the development of green industries;

in addition, the Government should plan afresh industrial sites in suitable districts and provide relevant infrastructural facilities to support industrial development; at the same time, due to the geographical environment and economic pattern of Hong Kong, the Government should motivate the sector to develop industries with emphasis on research and development, high technology, high value-adding, low pollution and lower requirement for site area, such as pharmaceutical production as well as fashion design and manufacturing; this Council also urges the Government to offer vocational and skills courses for training relevant talents, and build additional industrial estates.