

Chapter IV : Trade and Industry

4.1 At the invitation of the Chairman, the Secretary for Trade and Industry (STI), Mr CHAU Tak-hay, gave a presentation highlighting the major tasks under his policy programme areas in 2000-01 (Appendix V-3).

Proposed restructuring arrangements

4.2 On the Administration's proposal to establish a new agency for investment promotion under the Trade and Industry Bureau (TIB) in 2000-01 to take over the investment promotion functions of the Industry Department (ID), Miss Emily LAU questioned whether the planned restructuring signified a change in the Government's long-standing policy that it would only provide an environment conducive to business development and whether it was indicative that the present structure was not working well.

4.3 In response, STI pointed out that apart from providing a favourable business environment, the Government would also need to make active promotional efforts where necessary. He advised that the present structure was working well, but the re-organization was necessary to tie in with the implementation of the recommendations of the Chief Executive's Commission on Innovation and Technology chaired by Professor Chang-Lin Tien. Pursuant to the Commission's recommendation, a Council of Advisors on Innovation and Technology would be appointed, complemented by the setting up of an inter-bureau committee chaired by the Financial Secretary (FS), as well as an Innovation and Technology Commission set up within TIB.

4.4 STI explained that in recognition of the need for more proactive and dedicated investment promotion efforts to keep pace with economic globalization, a dedicated agency to be named "Invest Hong Kong" (the new agency) would be set up under TIB to replace the inward investment unit in ID to execute specific promotion programmes. There was also a need to strengthen TIB's role in supporting commerce and industry as a result of the integration of the Business and Services Promotion Unit currently under FS's Office into TIB. In line with overseas counterparts, TIB would be re-titled "Commerce and Industry Bureau" as the term "commerce" had a wider scope covering both internal and external commercial activities.

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4.5 On the additional resources required as a result of the proposed restructuring, STI reported that the new agency would require additional funding of \$24 million, while the establishment of a secretariat to service the new Council of Advisors on Innovation and Technology would incur additional funding of \$14 million.

4.6 To better assess the cost-effectiveness of the proposed restructuring, Miss Emily LAU requested information on the estimated increase in inward investment as a result of the restructuring. In reply, the Director-General of Industry (DG of I) pointed out that apart from considering the increase in investment, it should be noted that the key positions in the new agency would be filled by experts in the field to ensure a high degree of professionalism in investment promotion. The proposal to set up a steering committee chaired by FS comprising representatives from the commercial sector to oversee overall policy development and implementation in relation to investment promotion would also facilitate the development of a more effective investment promotion strategy. These new initiatives would bring immense benefits to Hong Kong in the longer term. As regards measurable performance indicators, DG of I referred members to the key performance measures listed under ID's programme area of Investment Promotion, which included the number of regional headquarters and offices set up in Hong Kong and the number of investment projects completed, etc. He undertook to include where appropriate similar indicators in the relevant papers to be submitted to the Trade and Industry Panel and the Finance Committee (FC) to facilitate members' consideration of the cost-effectiveness of the proposed restructuring.

4.7 On the recruitment of experts to serve on the proposed Innovation and Technology Commission full-time, STI confirmed that two consultant posts at D2 level would be created. In this connection, DG of I supplemented that in 1999, ID had engaged four technology experts full-time, three of whom held doctorate degrees, and their service had proved very useful.

4.8 Regarding detailed arrangements for the new agency, STI reported that the proposal, when finalized, would be submitted to the Trade and Industry Panel for consideration and to FC via the Establishment Subcommittee for approval in the first half of 2000. He informed members that the new agency would be headed by a director supported by a few assistant directors. The overall establishment of the TIB and its supporting departments would only increase slightly. STI said that subject to the approval of FC and the successful

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recruitment of a qualified candidate to fill its director post, the new agency would be set up on 1 July 2000, and the financial provision of \$35.2 million under ID for investment promotion in 2000-01 would be re-allocated to it.

Investment promotion activities

4.9 Dr LUI Ming-wah considered that the Government should provide more incentives to attract foreign investors to invest in Hong Kong in the face of keen competition from other Asian countries. In response, STI pointed out that it was Hong Kong's established policy not to offer financial incentives such as tax concessions to attract foreign investment, but to provide a level playing field for all market players. He disagreed with the comment that Hong Kong was less attractive to investors than its neighbouring countries. He highlighted that Hong Kong's strengths were on its strategic position in the Pearl River Delta and low tax rates and further pointed out that in developing into a knowledge-based economy, tax concessions only played a minor role in attracting investment.

4.10 Dr LUI Ming-wah maintained his view that the Administration's policy of positive non-intervention could no longer sustain its past success under the new economic order. He considered that the new agency to be set up under TIB should take more active steps to attract inward investment.

4.11 On the work of the Economic and Trade Offices (ETOs) to encourage and attract overseas manufacturers to invest in Hong Kong, DG of I advised that with Hong Kong's transition to a knowledge-based economy in the 1990s, investment from overseas manufacturers was usually not in the form of capital investment in plant or land. The promotional efforts of ETOs were thus directed at attracting investment in Hong Kong's service industry, or at effecting transfer of advanced technology and management expertise. As such, investment promotion visits were made by ETOs to centres of technology development, such as Boston and the Silicon Valley, as well as to major technology fairs, such as Comdex in Las Vegas and Cebit in Hanover. DG of I also agreed to provide in due course details on the nature of business and amount of investment involved in respect of the estimated 38 manufacturing and related projects that would be completed as a result of promotional efforts by the Investment Promotion Units of ETOs in year 2000.

Hong Kong Trade Development Council

4.12 Mr SIN Chung-kai referred to the 19.5% reduction in the 2000-01 financial provision for the Hong Kong Trade Development Council (HKTDC) due to the estimated reduction in declaration charge on domestic exports and imports collected in 1999-2000. He questioned the rationale of the existing funding arrangement of calculating government subvention with reference to the net yields of declaration charge on domestic exports and imports collected in the preceding financial year. In his view, if the yields of declaration charge on domestic exports should drop as a result of a decrease in domestic exports, more resources should instead be allocated to HKTDC for promoting Hong Kong's external trade.

4.13 In reply, STI confirmed that the existing funding arrangement, which had been agreed between the Administration and the HKTDC in the 1960s when HKTDC was first set up, had been working very well and had only been modified once in the 1980s to eliminate reference to the net yields of declaration charge on re-export. Members noted that government subvention to HKTDC under the current arrangement had always been on the increase until recent years, when yields of declaration charge dropped due to the Asian financial turmoils and to the reduction in declaration charge made in 1998 as one of the relief measures to boost Hong Kong's economy.

4.14 Mr SIN Chung-kai was of the view that after the commissioning of the Hong Kong Convention and Exhibition Centre (HKCEC), HKTDC's financial condition had improved as a result of the income from the facility. Hence, consideration should be given to reducing government subvention to it. In reply, STI reported that at present, government subvention to HKTDC only took up some 20% of its annual total expenditure and HKTDC had indeed requested a review of the existing funding arrangement to see if it could obtain greater government subvention. In the light of comments about the high fees charged by HKTDC, STI cautioned that if government subvention was reduced, HKTDC might charge even higher fees to make up for such income loss. STI nevertheless assured members that the Administration would take into consideration all views received in conducting the review on funding arrangement.

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4.15 Dr LUI Ming-wah pointed out that if the annual fee of some \$60 million paid by the operator/manager of HKCEC to HKTDC could be increased, HKTDC could rely less on income from its charges and was in a position to reduce its charges. He therefore suggested that the Administration should also examine the relationship between HKTDC and the HKCEC in the forthcoming review.

4.16 In response, STI clarified that the review would only focus on the funding arrangement between HKTDC and the Government, while HKTDC had full autonomy in setting its fees and charges. As for the annual fee paid by the operator/manager of HKCEC to HKTDC, it had already been stipulated in the relevant contract entered into by both parties. STI said that the fee had been negotiated in 1994 and it was unlikely that the operator/manager of HKCEC would agree to any further adjustment. Nonetheless, he agreed to convey Dr LUI Ming-wah's views to HKTDC for consideration. On Dr LUI's request for a copy of the relevant contract, STI would examine whether the contract per se could be disclosed. He however advised that the main provisions of the contract had been set out in the relevant FC paper which sought approval for capital subvention to HKTDC for constructing the extension to HKCEC in 1994.

Special Finance Scheme for Small and Medium Enterprises

4.17 Mr Kenneth TING noted that there were 90 default cases under the Special Finance Scheme for Small and Medium Enterprises and enquired about the nature of business of the companies involved. He also asked whether the criteria for approving applications should be more stringent.

4.18 In reply, STI clarified that the applications for loans were vetted and approved by individual banks or financial institutions participating in the Scheme according to their own credit policies. Since the Government only provided guarantees for the loans, it did not have the information on the applicant companies. As to whether the 90 default cases were approved before or after the guarantee percentage had been raised from 50% to 70%, DG of I agreed to request the information from the participating banks and financial institutions.

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Consumer Council

4.19 Noting that the Consumer Council (CC) was undertaking a series of activities to strengthen consumer safeguards in electronic commerce without any corresponding increase in resource provision in 2000-01, Mr Fred LI questioned how CC could achieve its task. In response, STI and the Deputy Secretary for Trade and Industry (2) (DS(TI)2) clarified that CC was not the only agency in this area of work. The Government was working closely with it and was in the course of reviewing related legislation in the light of changing developments in electronic commerce. It was therefore possible for CC to undertake its tasks within existing resources.

4.20 In this regard, DS(TI)2 informed members of a number of tasks which CC would undertake within its existing resources to strengthen consumer protection in electronic commerce. Members noted that CC had been co-operating with foreign consumer protection agencies in investigating and eliminating problematic Internet advertisements with a view to enhancing consumers' awareness of self-protection, and was planning to co-operate with the Office of the Privacy Commissioner for Personal Data to enhance privacy protection for consumers involved in Internet shopping, and to assist trade associations to formulate electronic commerce self-regulatory systems.

The Competition Policy Advisory Group

4.21 Miss Emily LAU referred to information provided by the Administration on the work of the Competition Policy Advisory Group (COMPAG) and sought further details on COMPAG's work in 1999 and 1998. In response, the Deputy Secretary for Trade and Industry (1) (DS(TI)1) advised that COMPAG's work in promoting competition in 1999-2000 would be detailed in a report to be published in a few weeks' time. Apart from setting out new initiatives, the report would also provide the updated position of those initiatives reported last year, as well as information on the complaints received. DS(TI)1 confirmed that there had been an increase in the complaints received by COMPAG in 1999 and agreed to provide the relevant figures in respect of 1999 and 1998 for comparison purposes. She assured members that after the release of the report, the Administration would brief the Trade and Industry Panel.

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4.22 Miss Emily LAU was concerned that while Hong Kong was rated a highly competitive economy, the COMPAG Report 1998 had identified 32 practices not in full compliance with the Government's competition policy. In response, DS(TI)1 clarified that while some of these 32 measures aimed at rectifying behaviour not totally in line with the Government's competition policy, most measures were initiated by Government bureaux/departments to promote competition in their respective policy areas, and therefore should be viewed in a positive light.

Protection of intellectual property rights

4.23 Mr Howard YOUNG cast doubt on the Administration's statement that the supply of counterfeit products had shrunk. He cautioned that although the local supply might have shrunk, overseas supplies remained abundant and he therefore called for the stepping up of enforcement actions. In reply, the Commissioner of Customs and Excise (C of C&E) pointed out that although the number of seizures had increased from 2 283 in 1998 to 4 414 in 1999 as a result of strengthened enforcement, the value of seizures had significantly decreased from \$1,543 million in 1998 to \$460.4 million in 1999, which was one of the signs of a shrinking supply of counterfeit goods in Hong Kong.

4.24 Mr CHAN Kam-lam referred to the estimated 750 cases expected to be detected by the Anti-Cigarette-Smuggling Task Force in 2000, which represented a sharp increase over the 45 cases in 1999, and enquired if additional resources would thus be allocated to the Task Force. In reply, C of C&E reported that an additional 44 staff would be provided to gear up anti-cigarette-smuggling enforcement at the retail level. He however pointed out that although strengthened enforcement action would result in an increase in the number of cases detected on the retail front, the number of cigarettes seized in 2000 would not exceed the 1999 figure for two reasons. Firstly, cigarette stocks at retail points were usually small. Secondly, the high figure in 1999 did not reflect the usual trend as it had been boosted by seven exceptionally large seizures which accounted for 130 million cigarettes.

4.25 Mr CHAN Kam-lam opined that to ensure greater cost-effectiveness, legislative amendments should be made to increase the relevant penalties as a means to deter smuggling activities. In response, C of C&E clarified that a two-pronged approach had been adopted in combating cigarette smuggling at both the

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syndicate and retail levels. Actions against the former usually resulted in much larger seizures. As for penalties, C of C&E said that notwithstanding the maximum penalties prescribed in law, the actual level of penalties imposed on offenders was a decision of the Court. He agreed to reflect the seriousness of the smuggling offences which should be adequately sanctioned. He further assured members that public education had also been geared up to remind the public that both buying and selling of smuggled cigarettes were criminal offences.