

PAPER FOR TRADE AND INDUSTRY PANEL OF LEGISLATIVE COUNCIL

Reorganisation of Trade and Industry Bureau and Its Supporting Departments

Introduction

In his 2000-2001 Budget Speech, the Financial Secretary (FS) announced the Government's plan to reorganise the trade and industry group of departments to advance major initiatives for promoting innovation and technology, attracting external direct investment, and supporting industry and commerce. This paper sets out the proposed changes in greater detail.

Promote innovation and technology

2. Innovation and technology are essential tools to upgrade Hong Kong's strengths and propel economic growth in the knowledge-based and technology-driven global economy. Based on the recommendations of the Commission on Innovation and Technology (CIT) chaired by Professor Chang-Lin Tien which we have accepted, we will improve the Government's institutional framework to provide stronger support to the promotion of innovation and technology. The specific components are -

- the Chief Executive will appoint a standing Council of Advisors on Innovation and Technology (CAIT) to advise the Government on all aspects of our innovation and technology policy;
- the Government will set up an inter-bureau committee chaired by FS to co-ordinate Government's efforts. This committee will work closely with the Council of Advisors on Innovation and Technology;
- an Innovation and Technology Commission (ITC) will be set up within Trade and Industry Bureau (TIB) to manage and

implement Government's programmes on a day-to-day basis.

3. The proposed institutional arrangement will improve overall co-ordination, help us make better-informed decisions when formulating policies, and ensure optimal allocation and utilisation of resources. The establishment of ITC will ensure that we have the manpower resources dedicated to policy management and execution, including implementing the many recommendations contained in the CIT's First and Second Reports. ITC will assume policy responsibility within TIB for all matters related to innovation and technology, as well as take over the functions of Industry Department (ID) in this area. The main functions of ITC are set out at Annex A.

4. Since innovation and technology policy cuts across the work of various bureaux, setting up the ITC within TIB rather than as a separate department would enable effective co-ordination and implementation of policies among the bureaux concerned.

5. The proposed organisation structure of ITC is at Annex B. ITC will be headed by a Commissioner for Innovation and Technology (Commissioner) (D6), who will be underpinned at the Directorate level by a Deputy Commissioner (D3), five Assistant Commissioners (AC) (D2), two Science Advisors (SA) (D2), one Chief Engineer (D1) and one Executive Administrator (Accreditation) (D1).

6. Leading a staff complement of 200, the Commissioner will co-ordinate the Government's programmes with the aim of developing a comprehensive set of policies and services for promoting innovation and technology. He will manage and allocate sizeable financial resources such as the Innovation and Technology Fund and Applied Research Fund. To discharge his duties, the Commissioner must have sufficient experience and seniority to work effectively both within and outside the Government, including the Legislative Council, industry and commerce, academia, subvented organisations and overseas institutions. In particular, he will work with relevant local and overseas bodies both to facilitate the transfer to Hong Kong of appropriate new technologies and to promote Hong Kong internationally as a leading city in Asia for technological creativity and application. He will also represent the Government on the boards of various statutory and subvented technological support organisations.

7. The Directorate posts to be created in ITC will be offset by the deletion of posts of an equivalent rank in ID, with the exception of two AC and two SA posts. One of the two additional ACs will succeed a lapsed supernumerary post of Principal Assistant Secretary (D2) in TIB that serviced CIT. This new permanent AC post will provide secretariat support to the standing CAIT and FS' inter-bureau co-ordinating committee. The other new AC will be a supernumerary post mainly responsible for planning the establishment of the Applied Science and Technology Research Institute and Institute of Chinese Medicine.

8. In line with a recommendation by CIT, we intend to appoint two full-time SAs to provide expert advice on science and technology matters. This will help strengthen the technological capabilities within the Government. Given the nature of their work, the SAs must have a strong science or technology background and preferably with industrial or commercial experience. Hence, we propose to recruit them from the business or academic sector on non-civil service contract terms. The creation of the SA posts will be partly offset by the deletion of one Technical Secretary (D1) post in ID.

9. At the non-Directorate level, ITC will be supported by both professional and general grade staff. Most of them will be redeployed from the existing establishment of ID.

Attract external direct investment

10. External direct investment contributes significantly to our economy by creating employment, bringing in advanced technology, knowledge and management practices, and nurturing indigenous manpower skills. A greater presence of multinational companies in Hong Kong will also add to the cosmopolitan flavour of our city.

11. In the face of growing competition from within the region for external direct investment, we commissioned in 1999 a consultancy study on ways to enhance our efforts to attract external direct investment. Having regard to the recommendations of the consultancy study, the Government has decided to adopt a more proactive investment promotion strategy. This new strategy has the following key elements –

- focused promotional effort on a relatively small group of business sectors¹ matching Hong Kong's patterns of comparative advantage;
- proactive marketing with specific company targets;
- enhanced 'aftercare' services aimed at retaining and expanding investments already made; and
- improvement to Hong Kong's investment environment to increase its competitiveness and attractiveness to prospective investors, especially in targeted sectors.

12. As regards institutional arrangement, we will set up a steering committee chaired by FS to oversee overall strategy development and implementation. We will put in place an advisory forum to get private sector input to our work. We also propose to set up a dedicated Government agency - Invest Hong Kong (IHK) - under TIB to execute the promotion programme. IHK will take over the functions of the existing investment promotion unit in ID, and will work closely with our overseas Economic and Trade Offices (ETOs), the Trade Development Council, and other interested bodies.

13. The proposed organisation structure of IHK is at Annex C. IHK will be headed by a Director-General of Investment Promotion (DG) (D6), who will be underpinned at the Directorate level by three Assistant Director-Generals (ADGs) (D2).

14. DG will advise TIB on policy and strategy matters, develop and implement an action programme for attracting investment, and formulate performance measures. He will co-ordinate the efforts of all Government or non-Government bodies involved in the programme. He will identify and co-ordinate ways to improve Hong Kong's investment environment. In addition, he will lead and co-ordinate negotiations with prospective investors.

15. We propose that DG should be equivalent in rank to Director-General of Industry (i.e. D6), who is currently in charge of implementing the Government's investment promotion effort. This

¹ The consultants have recommended that we should focus on promoting Hong Kong as the location for regional headquarters of multinational corporations, as well as on financial services, trade-related services, transportation services, telecommunication services, business services, information technology (both manufacturing and service), multimedia services and electronics.

ranking is necessary to ensure that the post holder has the right personal qualities and experience to execute the investment promotion programme. It will also give DG sufficient standing to access decision makers in targeted companies, to deal effectively with other government bureaux and departments to help solve problems faced by investors, to lead negotiations, and to foster 'product' improvement. We have not yet decided whether to fill the DG post with a civil servant or a person from the private sector. A civil servant will be more effective in working through the Government bureaucracy, while a private sector appointee will have solid commercial experience.

16. As regards the ADG posts, two of them will be responsible for leading promotion and aftercare efforts in specific target sectors. Given the nature of their work, holders of these two posts must have substantial commercial experience preferably in marketing, as well as solid knowledge in the target sectors for which they are responsible. Hence, we propose to recruit them from the private sector on non-civil service contract terms. The third ADG post will be responsible for co-ordination and support, research and development, and departmental administration. This post will be transferred to IHK from the existing investment promotion unit of ID.

17. At the non-Directorate level, IHK will be supported mainly by staff redeployed from ID and other agencies. As IHK will adopt a sector-focused and commercially-oriented approach in its work, we envisage a need for greater specialisation of skills in the organisation. After its establishment, IHK will review the grading and terms of employment of its non-Directorate support staff having regard to its business plan and operational modality. IHK will also review the resources deployed on investment promotion in our overseas ETOs with a view to redirecting resources to targeted sectors and markets with the greatest potential.

18. The new initiative represents a substantial commitment by the Government to enhance our efforts in attracting external direct investment. Under the proposed institutional arrangements, there will be stronger policy supervision, additional and better utilisation of resources, more professional and commercially-oriented operation, and better co-ordination among all the agencies involved in investment promotion.

Government support to industry and commerce

19. The Government is determined to sustain the competitiveness of our industry and commerce as a whole. To this end, the role of TIB will be enhanced. Apart from trade and industry, TIB will take responsibility for commerce in general², and in this context serve as its advocate within the Government. The English name of TIB will be changed to ‘Commerce and Industry Bureau (CIB)’ to better reflect its commitment to providing quality policy support and services to industry and commerce.

20. In addition, we propose to integrate into CIB the Business and Services Promotion Unit (BSPU) now under FS’s Office. BSPU is charged with co-ordinating and implementing two important initiatives launched by FS, namely, Services Promotion Programme and Helping Business Programme. The work of BSPU³ therefore falls under the expanded purview of CIB. The new arrangement will enhance day-to-day supervision of BSPU’s work. FS will continue to pay personal attention to the two Programmes by chairing the respective steering committees for them.

21. One of the themes of the Helping Business Programme under the charge of BSPU is transferring public services to the private sector. Work in this area includes corporatisation and outsourcing. The Efficiency Unit (EU) will take over this work, as it fits better with EU’s existing functions.

22. To enable CIB to devote more efforts to promoting innovation and technology, attracting external direct investment, and supporting industry and commerce, responsibilities for consumer protection, competition policy and regulation of outbound travel agents will be transferred from TIB to Economic Services Bureau(ESB).

23. The proposed changes mentioned in paragraphs 19 – 22 above will necessitate changes to the staff establishment of the affected agencies. For example, two Assistant Director (D2) posts in FS’s Office

² Relevant bureaux will continue to take responsibility for specific sectors under their purview.

³ See paragraph 21 below.

(for BSPU) will be transferred to CIB and one supernumerary Assistant Director post will be transferred to EU. TIB will transfer to ESB resources for creating two Directorate posts (D2 and D1). As a result of redistributing responsibilities, the posts of Director, BSPU (D4) in FS's Office and Electronic Data Interchange Co-ordinator (D2) in TIB will be deleted.

24. Apart from the changes above, Trade Department (TD) will be expanded, taking over the functions of ID in respect of general support for the industrial sector and small and medium-sized enterprises as well as investment issues other than promotion of inward investment. Increasingly, many issues of significant concern to our industrialists are trade-related or handled by TD, e.g. access to markets on the Mainland and overseas, trade licensing and facilitation, liaison and co-operation with the Mainland. Consolidating support services under a single front-line department would create synergy and provide more efficient 'one-stop' services to clients. TD will be renamed 'Trade and Industry Department (TID)'. ID will be disestablished. We will also set up a Trade and Industry Advisory Board to advise the Government on matters related to the industrial and trade sectors. To discharge its expanded functions, TID will require two additional posts of Assistant Director-General (D2). One of them will be offset by the deletion of an equivalent post in ID.

25. A chart showing the main functions and supporting agencies of CIB is at Annex D. The proposed organisation structures of CIB and TID are at Annexes E and F respectively. At the Directorate level, the restructuring of the agencies⁴ concerned will not result in any net increase in post as a whole. Summary tables outlining the changes in each agency are at Annex G. Changes in staff establishment at the non-Directorate level are still being worked out, but we do not expect a significant increase, if any, in the total number of posts resulting from the reorganisation.

Date of implementation

26. Subject to the approval of the Legislative Council, the reorganisation will be implemented on 1 July 2000.

⁴ Excluding IHK and ITC, which will require net additional Directorate posts as set out in the earlier sections of this paper.

Financial Implications

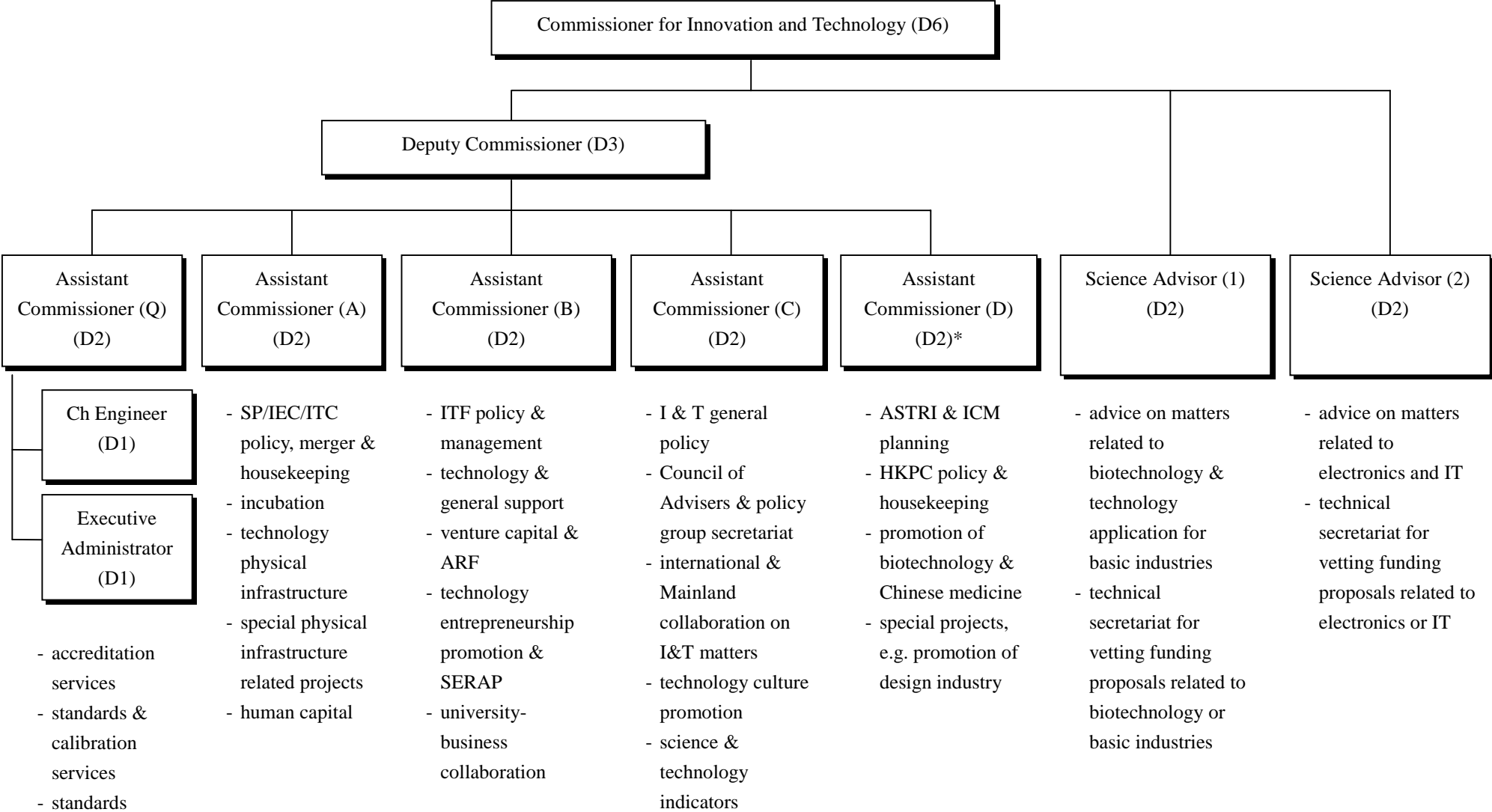
27. To strengthen our efforts on innovation and technology and investment promotion, we will increase the resources devoted to these two areas. We are working out the detailed proposals; hence precise figures are not yet available. Broadly speaking, we have earmarked an additional \$24 million in annually recurrent expenditure for IHK, and an additional \$14 million a year for ITC. The other organisational changes are likely to be cost neutral in terms of recurrent expenditure.

28. As regards resource management, we intend to provide a one-line vote arrangement for both ITC and IHK as the recurrent budgets of these two agencies will be relatively small and greater flexibility will facilitate resource redeployment. Both agencies will need a mix of civil servants and non-civil service staff and the conventional arrangement of charging salaries of these two types of staff to separate subheads is not conducive to making prompt and flexible staffing arrangements to suit their needs. In addition, putting resources under a single Operating Expenses subhead would increase the flexibility of the agencies to outsource certain work, e.g. marketing and promotion, when necessary.

Trade and Industry Bureau
March 2000

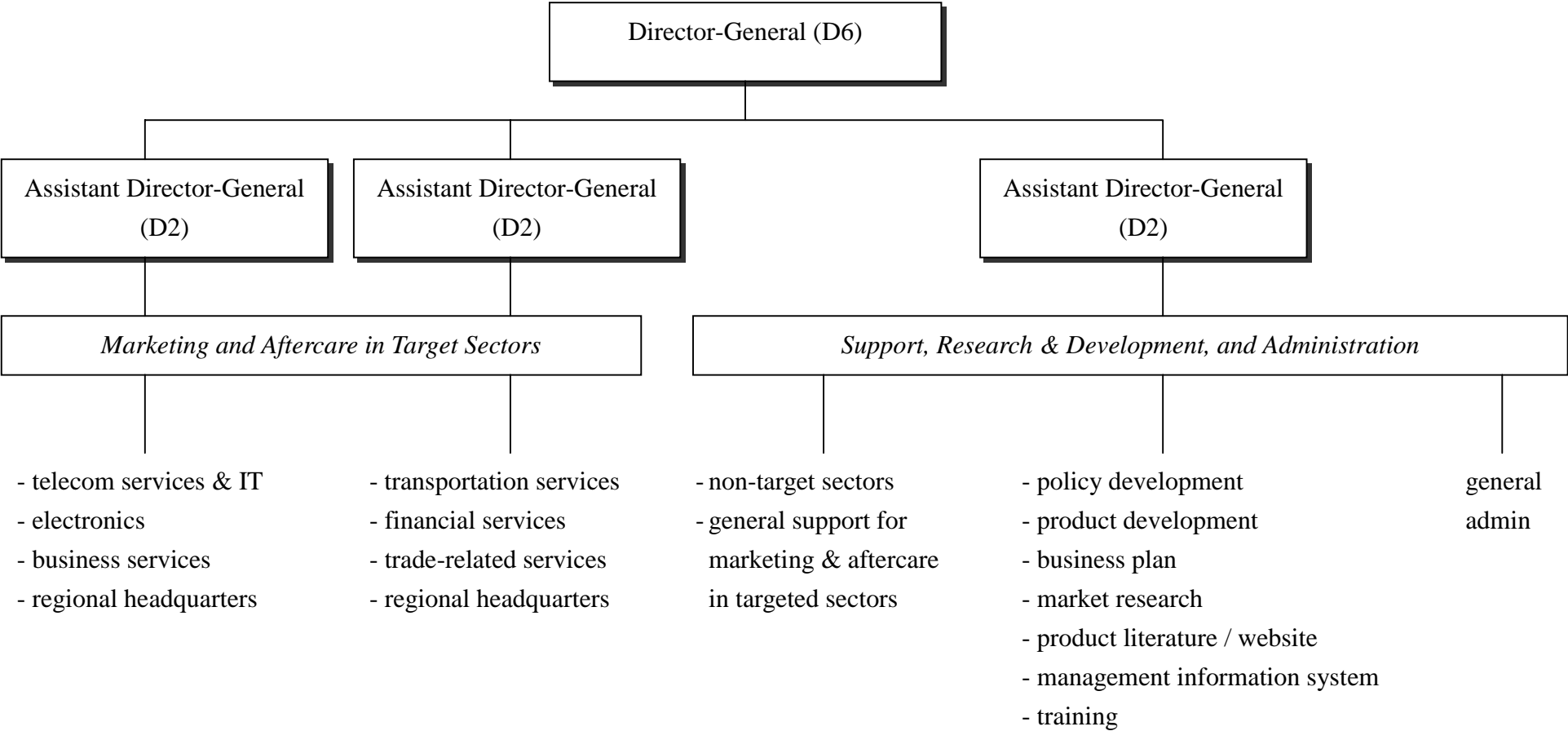
**Major functions of
Innovation and Technology Commission**

- (a) innovation and technology policy development, co-ordination and implementation, including servicing the Council of Advisors on Innovation and Technology and the inter-bureau co-ordination committee chaired by the Financial Secretary;
- (b) oversight of non-government subvented technological support bodies, including Productivity Council, Science Park, Industrial Estates Corporation, Industrial Technology Centre, Applied Science and Technology Research Institute;
- (c) administration of Government funding schemes related to innovation and technology, e.g. Innovation and Technology Fund, Applied Research Fund; and
- (d) provision of accreditation, standards and calibration services.



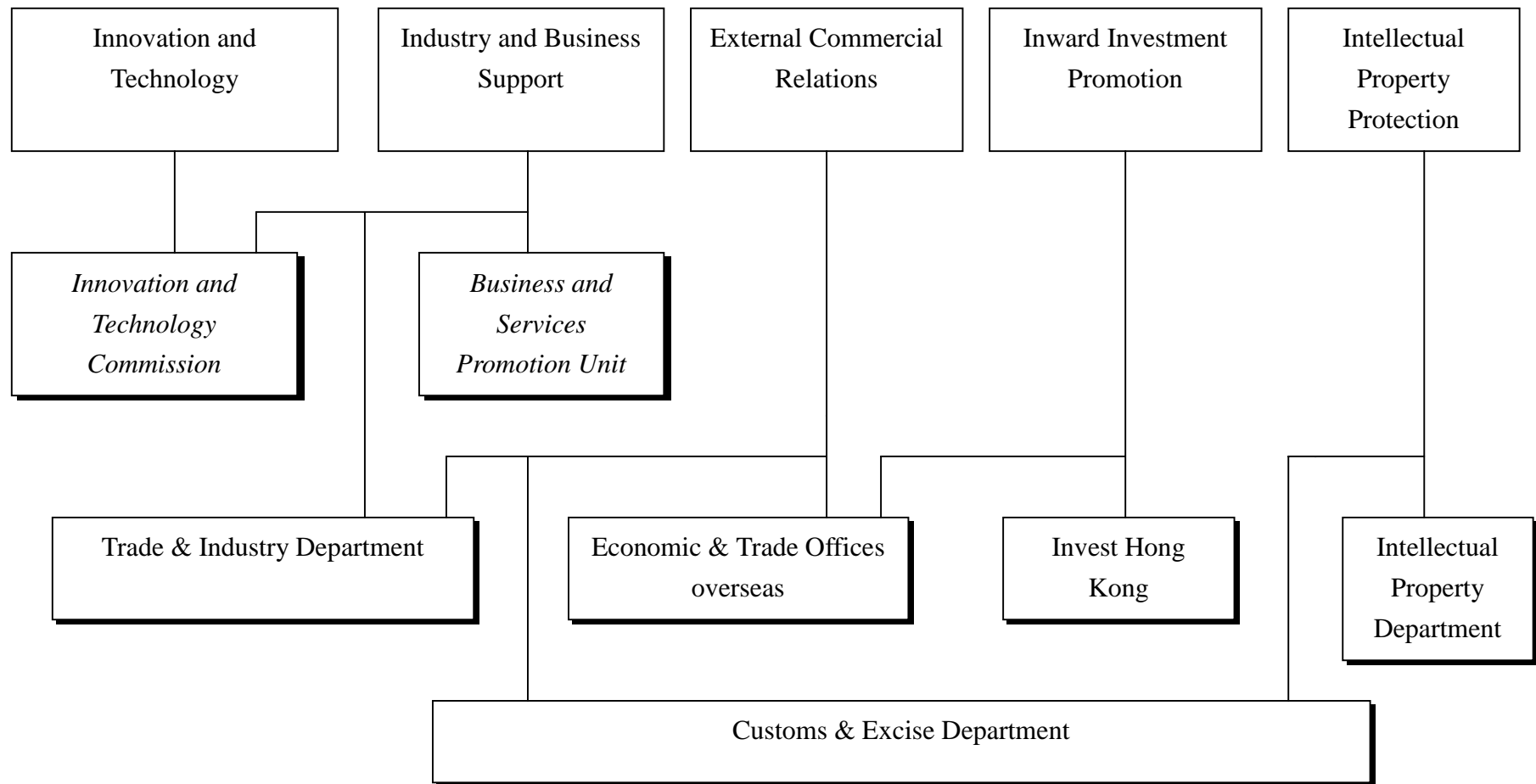
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|----------|-------|---|-------|---|
| Legend : | ASTRI | Applied Science & Technology Research Institute | ITF | Innovation and Technology Fund |
| | SP | Science Park | ARF | Applied Research Fund |
| | IEC | Industrial Estates Corporation | SERAP | Small Entrepreneur Research Assistance Scheme |
| | ITC | Industrial Technology Centre | ICM | Institute of Chinese Medicine |
| | HKPC | Hong Kong Productivity Council | * | Supernumerary post |

Organisation Structure of Invest Hong Kong

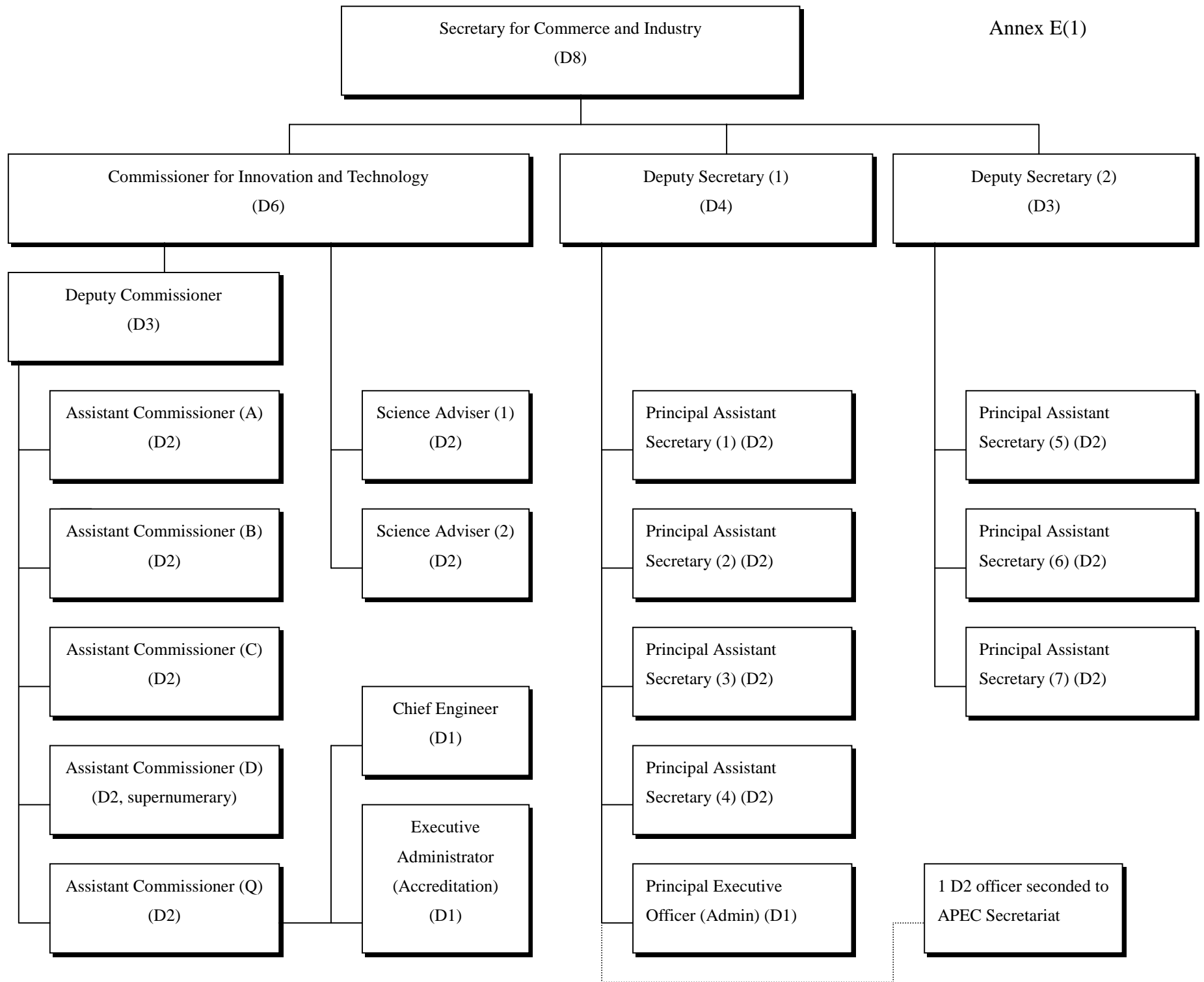


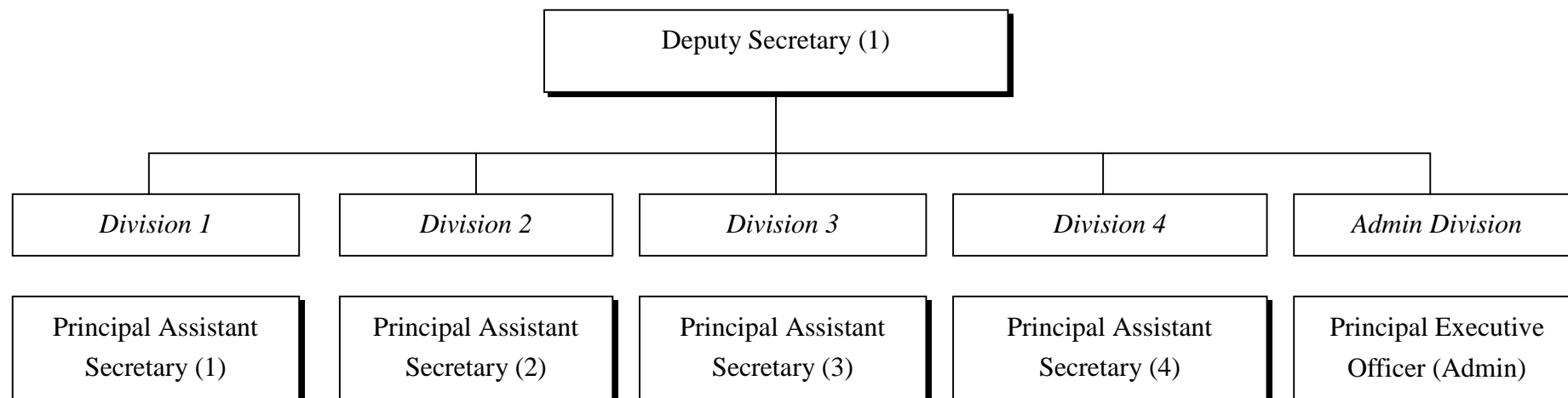
Commerce and Industry Bureau : Main Functions and Supporting Agencies

Annex D



Note : Agencies in italics are set up within the Bureau.





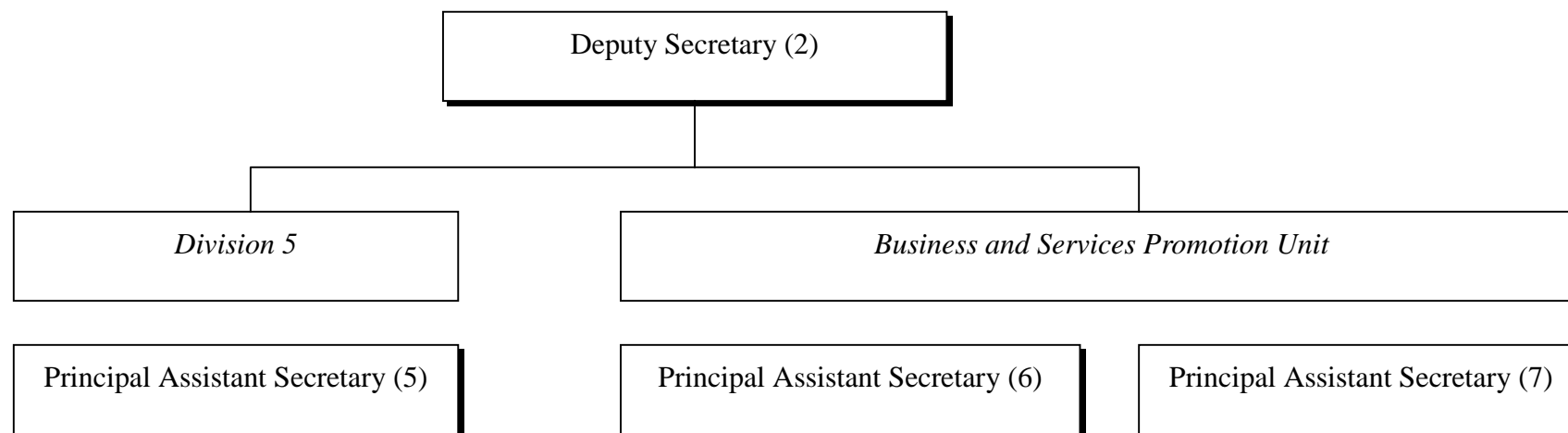
- Multilateral & regional commercial relations, including HK's participation in World Trade Organisation, Asia Pacific Economic Co-operation, Pacific Economic Co-operation Council.
- Multilateral trade & investment policies

- Bilateral commercial relations with the Americas
- Matters related to strategic commodities
- Policy & housekeeping for Trade Development Council

- Bilateral commercial relations with Asia, including Mainland
- Co-ordination of HK's participation in Joint Commission on Commerce & Trade
- General trade-related policy matters
- United Nations trade sanctions
- Policy & housekeeping for Export Credit Insurance Corporation

- Bilateral commercial relations with Europe & the rest of the world
- Matters related to manufacturing industries
- Matters related to small & medium-sized enterprises
- Major policy matters related to overseas economic & trade offices
- Housekeeping for Trade & Industry Department

- General bureau administration
- Housekeeping for overseas economic & trade offices
- Overall resource management for supporting departments (under Resource Management Unit reporting direct to DS(1))

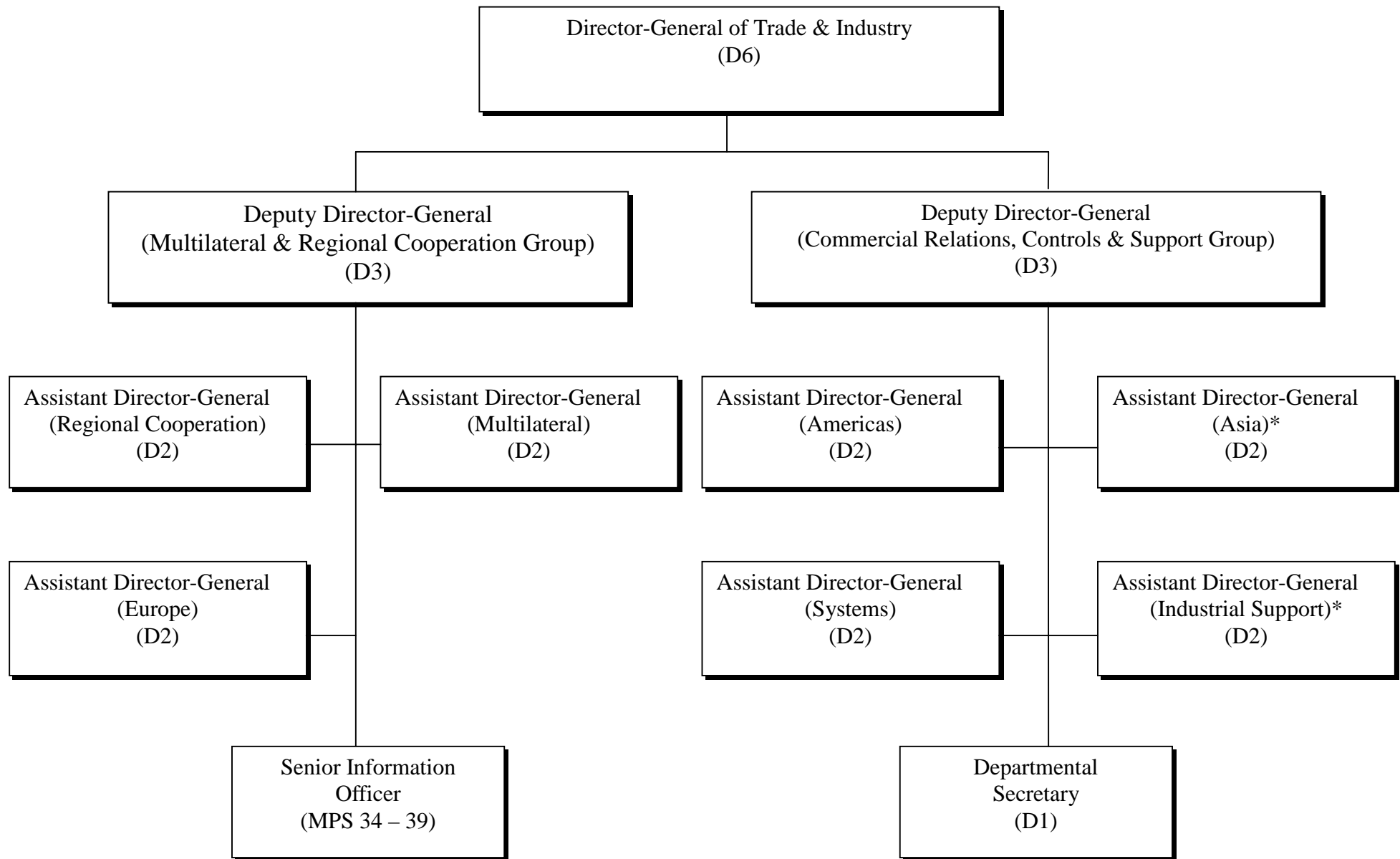


- Intellectual property protection policy
- Multilateral and regional co-operation on intellectual property protection
- Inward investment promotion policy
- Secretariat for FS's Investment Promotion Steering Group
- Electronic data interchange
- Housekeeping for Intellectual Property Department, Customs & Excise Department and Invest Hong Kong

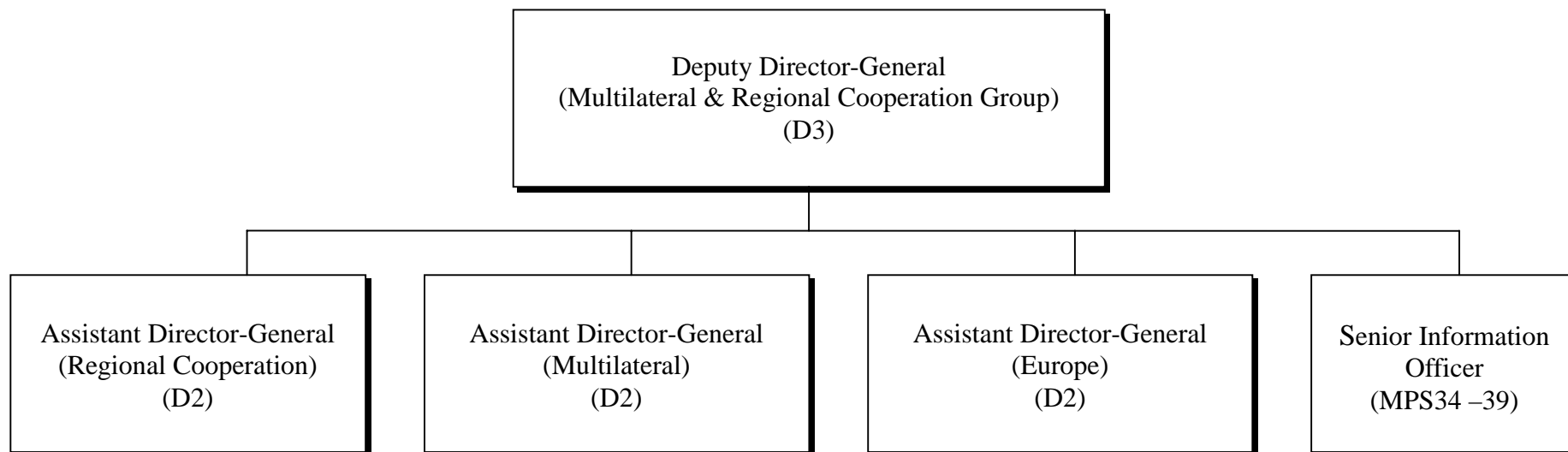
- Development & implementation of Helping Business Programme
- Secretariat for FS's Business Advisory Group
- Overseeing and co-ordinating the conduct of business studies
- Development & implementation of programme to cultivate helping business culture in the civil service

- Co-ordination of Services Promotion Programme
- Secretariat for Financial Secretary's Services Promotion Steering Group
- General service-industry related matters
- Secretariat for Chief Executive's Council of International Advisers

Proposed Organisation Chart of Trade & Industry Department



* Proposed new posts

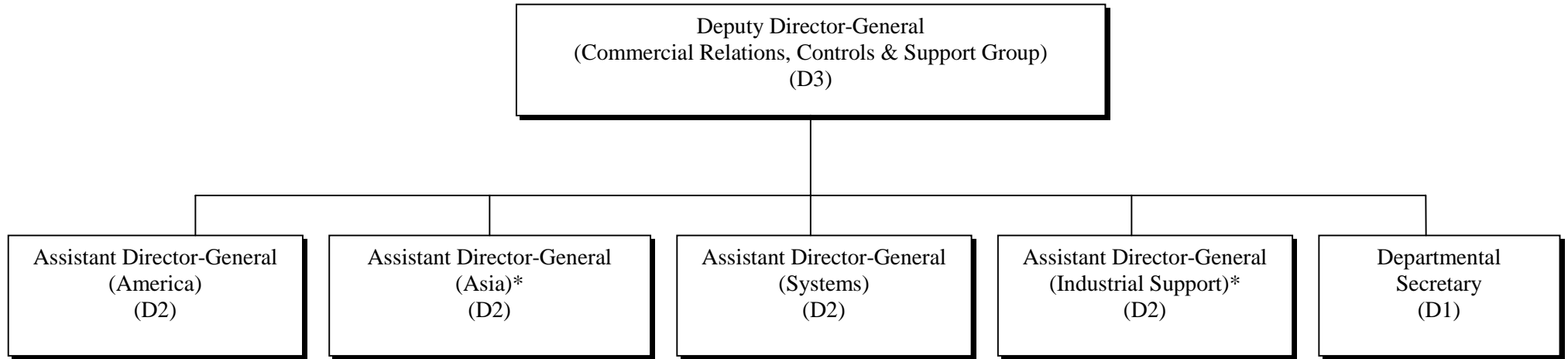


- HKSAR's Participation in Asia-Pacific Economic Cooperation
- Multilateral Discussions on Market Access, Government Procurement, and Information and Technology Agreement

- HKSAR's Participation in World Trade Organisation, and Organisation of Economic Cooperation and Development

- Bilateral Commercial Relations with Europe, Africa and Middle East
- Multilateral Discussions on Anti-dumping, Rules of Origin, Safeguards, Subsidies, Competition Policy, & Investment
- Bilateral Investment Relations between HKSAR and Other Economies

- Public Relations & Information



- Bilateral Commercial Relations with Americas
- Strategic Trade Control System
- Chemical Weapons Convention Implementation

- Bilateral Commercial Relations with Asian Economies
- Matters concerning the Mainland-HK Joint Commission on Commerce & Trade
- Departmental Computers & Support Services including Electronic Data Interchange for Trade-related Documents
- Non-restrained Textiles & Reserved Commodities Licensing
- Rice Control Scheme

- Implementation of Restrained Textile Licensing System including Quota Administration
- Textiles Export Control System
- Review of Restrained Textiles Licensing System
- Origin Certification

- Support Services for Small and Medium Enterprises (SME)
- Regional Cooperation on SME matters
- Coordination of Input on Infrastructural Support to Industry
- Servicing the Industrial Sector
- Research & Support on Industrial Development

- Departmental Administration

* Proposed New Post

Reorganisation Plan : Changes in Directorate Posts

(A) Promote Innovation and Technology

| Rank | Industry Department | Innovation & Technology Commission | Net Change |
|---------------------------------|---------------------|------------------------------------|------------|
| D6 | -1 | +1 | 0 |
| D3 | -1 | +1 | 0 |
| D2 (permanent) | -3 | +4 | +1 |
| D2 (supernumerary) | - | +1 | +1 |
| Non-Civil Service Position (D2) | - | +2 | +2 |
| D1 | -3 | +2 | -1 |
| Net Change | -8 | +11 | +3 |

(B) Attract External Direct Investment

| Rank | Industry Department | Invest Hong Kong | Net Change |
|---------------------------------|---------------------|------------------|------------|
| D6* | - | +1 | +1 |
| D2 | -1 | +1 | 0 |
| Non-Civil Service Position (D2) | - | +2 | +2 |
| Net Change | -1 | +4 | +3 |

* May be civil service or non-civil service position.

(C) Support for Industry and Commerce

| Rank | Commerce & Industry Bureau | Business & Services Promotion Unit | Economic Services Bureau | Trade & Industry Department | Efficiency Unit | Industry Department | Net Change |
|-------------------------------|---------------------------------------|---|---------------------------------|--|------------------------|----------------------------|-------------------|
| D4 | - | -1 | - | - | - | - | -1 |
| D2 (permanent) | +1 | -2 | +1 | +2 | - | -1 | +1 |
| D2 (supernumerary) | - | -1 | - | - | +1 | - | 0 |
| D1 | -1 | - | +1 | - | - | - | 0 |
| Net Change | 0 | -4 | +2 | +2 | +1 | -1 | 0 |

(D) Summary of Redeployment of existing Directorate Posts in Industry Department

| Rank | Industry Department | Innovation & Technology Commission | Invest Hong Kong | Trade & Industry Department | Deletion of post |
|--------------|----------------------------|---|-------------------------|--|-------------------------|
| D6 | -1 | +1 | - | - | - |
| D3 | -1 | +1 | - | - | - |
| D2 | -5 | +3 | +1 | +1 | - |
| D1 | -3 | +2 | - | - | +1 |
| Total | -10 | +7 | +1 | +1 | +1 |