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**Panel on Commerce and Industry**

**Meeting on 20 March 2012**

**Background brief on  
the support for Hong Kong enterprises  
in branding, upgrading and domestic sales**

**Purpose**

This paper provides background information on the support for Hong Kong enterprises in branding, upgrading and domestic sales. It also provides a summary of views and concerns expressed by the Panel on Commerce and Industry (the Panel) in previous discussions.

**Background**

2. The Hong Kong business sector has invested in a large number of manufacturing operations in the Mainland, especially processing trade in the Guangdong province. At the end of 2006, the policy adjustments on processing trade in the Mainland called for an overhaul of the modus operandi adopted by the industries in the past two decades, in particular those Hong Kong enterprises with manufacturing operations in the Pearl River Delta (PRD) region. In order to cope with new challenges arising from the rapid economic growth and industrial restructuring in the Mainland, the Hong Kong-owned factories in PRD region had to adjust or shift their focus from export processing to domestic sales, or to relocate to the "less developed" areas in Guangdong and adjacent provinces. These factories were also required to adjust their operation to meet the Mainland requirements in relation to environmental protection and energy conservation, and also to improve their management, examine new business approaches and develop solutions to their environmental problems.

3. As announced in the Chief Executive's 2007-2008 Policy Address, the Government would introduce new initiatives to strengthen support for Hong Kong enterprises on the development and promotion of Hong Kong brands to enable them to better compete in the Mainland and overseas markets. The Government would also work closely with the local trade to facilitate the latter's adjustments to changes in the Mainland's policy on processing trade, including assisting them to upgrade, relocate their operation and develop new markets.

4. According to the Administration, it has all along been maintaining a close dialogue with the trade through various channels, including the Task Force to Support the Processing Trade, so as to understand their concerns and views relating to upgrading and restructuring, and promoting domestic sales. The Hong Kong Special Administrative Region Government also maintains close liaison with Mainland authorities at various levels (including through the Hong Kong/Guangdong Expert Group on the Restructuring and Upgrading of the Processing Trade under the Hong Kong/Guangdong Co-operation Joint Conference) to reflect the concerns and views of Hong Kong enterprises about their operations in the Mainland, and to discuss with them possible support measures for the trade.

5. Through supporting various organizations such as the Hong Kong Trade Development Council, the Hong Kong Productivity Council and trade associations, the Government also provides Hong Kong enterprises with Mainland market information, and support services on technological upgrading, management improvement, branding and market development, etc. The Hong Kong Economic and Trade Offices in the Mainland also collaborate with other support organizations (e.g. trade associations) to organize more promotional activities in second-tier Mainland cities. These activities focus on promoting Hong Kong brands/products and supporting Hong Kong enterprises to tap the Mainland domestic market, in order to assist them to establish brand image and enhance brand awareness.

6. In August 2011, Vice Premier of the State Council, Mr LI Keqiang, announced during his visit to Hong Kong a series of concrete policies and measures formulated by the Central People's Government under the requirements of the National 12th Five-Year Plan to support the further development and strengthening of the economic, trade and financial collaboration between the Mainland and Hong Kong. The policy measures include continuing to maintain a stable policy on processing trade, establishing a sound mechanism to facilitate the domestic sales of processing trade, and encouraging Hong Kong enterprises engaging in processing trade to upgrade and restructure.

## Previous discussions

7. The Panel has noted the measures introduced by the Mainland authorities to tighten up the regulation of the processing trade which has an impact on Hong Kong enterprises operating in the Mainland in respect of goods, operation, pricing and tax rebate, etc. Panel members have called on the Administration to provide assistance to these enterprises to tie over the difficulties, such as by enhancing information exchange between the relevant trade associations and the Mainland authorities.

8. At the Panel meeting on 19 October 2010, members noted that one of the major initiatives in the Framework Agreement on Hong Kong/Guangdong Co-operation was to encourage Hong Kong enterprises to tap the Mainland domestic market. The Government had been assisting Hong Kong enterprises in opening up the Mainland domestic market through various efforts, including conveying the trade's views to the Mainland authorities, supporting and encouraging the organization of domestic sales forums and trade fairs, providing information on Mainland market, assisting enterprises in branding development and extending the insurance coverage of the Hong Kong Export Credit Insurance Corporation to contracts between Hong Kong enterprises' wholly owned subsidiaries in the Mainland or overseas and their buyers.

9. At the Panel meeting on 15 March 2011, members noted that the Mainland's policy direction in respect of the processing trade was to maintain an overall stable policy, and to continue with the implementation of major support measures, including "suspending the actual payment of standing book deposit for processing trade enterprises" and "consolidated tax return for multiple domestic sales", etc. Some Panel members pointed out that many Hong Kong enterprises in Guangdong which had restructured into import processing operations were plagued by the taxation problem when struggling to establish their brands in the Mainland domestic market. These enterprises were unable to claim the depreciation allowances in respect of their machinery or plants used in import processing operations in the Mainland. To address these concerns, Panel members urged the Administration to provide assistance to these enterprises, in particular those with an intention to switch back to processing trade.

10. At the Panel meeting on 18 October 2011, members noted that the HKSAR Government and the Guangzhou Municipal Government signed a letter of intent on 23 August 2011 to set up a working group on Hong Kong/Guangzhou co-operation to explore the co-operation between the two places in three areas, including development of Nansha into a base for the upgrading and transformation of Hong Kong-invested processing trade. Some Panel members opined that the Administration lacked concrete policy to assist Hong Kong enterprises to upgrade and restructure. These members urged the

Administration to discuss with the industry so as to understand the actual problems faced by Hong Kong enterprises in the process of upgrading and restructuring.

### **Recent developments**

11. To support Hong Kong enterprises, in particular small and medium enterprises, and to capture the opportunities arising from the National 12th Five-Year Plan, the Chief Executive announced in the 2011-2012 Policy Address a proposal to set up a dedicated fund of \$1 billion (the dedicated fund) to support them to move up the value chain as well as to explore and develop the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland. In the 2012-2013 Budget, the Financial Secretary announced that the Administration would seek funding approval for the dedicated fund from the Legislative Council in April 2012.

12. According to the Administration, the dedicated fund would comprise two parts:

- (a) to provide funding support to individual Hong Kong companies to assist them in undertaking projects to develop brands, upgrade and restructure their business operations and promote sales in the Mainland market, so as to enhance their competitiveness and facilitate their business development in the Mainland market; and
- (b) to provide funding support to non-profit-distributing organizations to undertake large-scale projects which aim to assist Hong Kong enterprises in general or in specific sectors to develop brands, upgrade and restructure business operations and promote sales in the Mainland market, so as to enhance their competitiveness in the Mainland market.

### **Latest position**

13. The Administration will brief the Panel on 20 March 2012 on the proposal to set up the dedicated fund.

**Relevant papers**

Administration's paper on policy agenda of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau for the Commerce and Industry Panel meeting on 16 October 2007

<http://www.legco.gov.hk/yr07-08/english/panels/ci/papers/ci1016cb1-32-3-e.pdf>

Administration's paper on policy agenda of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau for the Commerce and Industry Panel meeting on 19 October 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1019cb1-17-3-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 19 October 2010

<http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20101019.pdf>

Administration's paper on assistance to Hong Kong enterprises in tapping the Mainland domestic market

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci1019cb1-636-1-e.pdf>

Administration's paper on trade relations between the Mainland and Hong Kong and Hong Kong/Guangdong Co-operation Joint Conference in relation to commerce and industry between the two places for the Commerce and Industry Panel meeting on 15 March 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0315cb1-1531-5-e.pdf>

Updated background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 15 March 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/papers/ci0315cb1-1531-6-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 15 March 2011

<http://www.legco.gov.hk/yr10-11/english/panels/ci/minutes/ci20110315.pdf>

Administration's paper on policy agenda of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau for the Commerce and Industry Panel meeting on 18 October 2011

<http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci1018cb1-37-3-e.pdf>

Administration's paper on the initiatives of the Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation for the Commerce and Industry Panel meeting on 18 October 2011

<http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci1018cb1-37-4-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 18 October 2011

<http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20111018.pdf>

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