

Legislative Council Meeting on 20 March 2013
Motion on “Promoting Hong Kong’s Economic Restructuring”

Progress Report

At the Legislative Council meeting held on 20 March 2013, the motion on “Promoting Hong Kong’s economic restructuring” moved by Hon Martin LIAO as amended by Hon Kenneth LEUNG, Hon Christopher CHEUNG, Hon TANG Ka-piu, Hon SIN Chung-kai, Hon IP Kin-yuen and Hon Charles Peter MOK was carried. The wording of the motion is at Annex. After consulting the relevant bureaux, we now report to Members the latest position regarding the issues relating to the motion.

Formulating a holistic industrial policy and promoting the diversification of industries

2. The Economic Development Commission (EDC), which is led by the Chief Executive, and its four Working Groups (namely, the Working Group on Transportation; the Working Group on Convention and Exhibition Industries and Tourism; the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries; and the Working Group on Professional Services) have now come into full operation. The EDC will study, from a high-level, cross-departmental and cross-sectoral perspective, how to make use of Hong Kong’s existing advantages and the opportunities made available by our country. It will focus on studying the overall strategy and policy to broaden our economic base and enhance our long-term development, and will identify industries which present opportunities for Hong Kong’s further economic growth so as to formulate a holistic industrial policy.

3. The EDC held its first meeting on 13 March 2013. At the meeting, EDC members expressed that they were encouraged by the more proactive approach that the Government adopted on its role and functions in economic development and believed that the Hong Kong economy could be further developed with the Government taking more proactive initiatives. EDC members also considered that the Government should have long-term planning underpinned by a macro perspective and consistent implementation. The Mainland and overseas markets should be further expanded, taking reference from the successful experiences of the Mainland and our neighbouring economies. They also highlighted the importance of education quality and curriculum design. In essence, EDC members were optimistic about a better

and faster economic development with the Government appropriately proactive in this regard.

4. Since April this year, the Working Groups of the EDC have focused on deliberating on issues covered by their ambits. We believe that with their rich experience, members of the EDC and the Working Groups will make practical and feasible proposals for the long-term economic development of Hong Kong, thus assisting the Government in formulating a holistic industrial policy and the overall strategy to promote long-term development.

Supporting Small and Medium Enterprises (SMEs)

5. SMEs are an important pillar of Hong Kong's economy. The Government has been attaching great importance to the development of SMEs and has rendered them assistance in various areas to enhance their competitive edges. To provide appropriate support to them, we have also fine-tuned our measures where necessary in response to the economic situation.

6. We have extended the application period for the Special Concessionary Measures under the SME Financing Guarantee Scheme for one year to the end of February 2014 to help SMEs in securing loans in the commercial lending market. We will increase the cumulative amount of the grant for each SME under the SME Export Marketing Fund from \$150,000 to \$200,000, subject to the meeting of relevant additional conditions, to assist SMEs in exploring new business opportunities. On 1 March 2013, the Hong Kong Export Credit Insurance Corporation introduced a "Small Business Policy" (SBP) scheme for Hong Kong enterprises with an annual business turnover of less than \$50 million, to provide exporters with more flexibility in taking out insurance cover on or after that day. Within a period of two years from the above date, SBP policyholders will enjoy waiver of the annual policy fee and up to 20 per cent premium discount.

7. In addition, we will continue to make use of the \$1 billion Dedicated Fund set up last June to assist Hong Kong enterprises to enhance their competitiveness in the Mainland through upgrading and restructuring, developing brands and promoting domestic sales in the Mainland. To step up our efforts to assist more Hong Kong enterprises, especially SMEs, to gain access to the Mainland market, the Hong Kong Trade Development Council will set up more Design Galleries in Mainland cities other than Beijing and Guangzhou to offer platforms for Hong Kong enterprises to showcase their products.

Scientific research assistance policies and business start-up support

8. The Government spares no efforts in creating an environment that is conducive to the development of innovation and technology (I&T) through enhancing the relevant hardware, policy and resources to facilitate collaborations among the Government, industry, academic and research sectors. The latest initiatives for supporting I&T industries include:

- (1) On financial support, the Government established a \$5 billion Innovation and Technology Fund (ITF) in 1999 to provide funding support for applied research and development (R&D) projects which are conducive to technology upgrading and innovation in both manufacturing and services industries;
- (2) From 2013-14 onwards, the Government will provide funding support under the ITF to six universities engaging in technological R&D work and being designated as local public research institutions¹. Each of the universities will be provided with a maximum of \$4 million per annum for three years to enhance their capabilities in technology transfer as well as the realisation of R&D outcomes;
- (3) The Government has put the scope, mode of operation, etc. of the ITF under constant review. During the past two years, a series of enhanced measures have been implemented mainly in respect of expanding the scope to cover production of prototypes/samples in addition to R&D projects and conducting trials in the publicly-funded organisations to facilitate and promote realisation and commercialisation of R&D outcomes. Furthermore, starting from July 2012, the funding ceiling for each project under the ITF has been increased from \$21 million to \$30 million;
- (4) To step up our efforts to support the applied R&D activities of SMEs and promote commercialisation of their R&D outcomes, we have enhanced the “Small Entrepreneur Research Assistance Programme” (SERAP) under the ITF. Starting from 1 April 2012, the funding ceiling for each project under the SERAP has been increased from \$4 million to \$6 million; the application criteria have been relaxed to cover companies with venture capital investment; and the funding

¹ These six universities are City University of Hong Kong, Hong Kong Baptist University, The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology and The University of Hong Kong.

scope has been expanded to support more commercialisation-related activities;

- (5) The cash rebate to be provided to investors of R&D projects under the “R&D Cash Rebate Scheme” has been increased from 10% to 30% to provide greater incentives for conducting R&D activities;
- (6) As for infrastructure, the development of Phase 3 of the Hong Kong Science Park (HKSP) has commenced in full gear for phased completion between 2014 and 2016. The Hong Kong Science and Technology Parks Corporation (HKSTPC) operates the “Business Incubation Programme” which provides technology start-ups with subsidised rent and supporting services in marketing, finance, technology and management in their critical initial years of operation. The HKSTPC also took the lead to set up the “Hong Kong Business Angel Network” in early 2010 to assist technology companies in lining up potential investors and to provide support to them in the form of Angel Financing at their start-up stage;
- (7) Meanwhile, the HKSTPC is managing three Industrial Estates (IEs) in Tai Po, Yuen Long and Tseng Kwan O, offering a total of 217 hectares of land for long lease to operations which cannot be accommodated in ordinary multi-storey industrial or commercial buildings. Apart from the sustained efforts to revitalise the three IEs, we have invited the HKSTPC to explore the feasibility of expanding the Yuen Long IE by about 16 hectares to meet the needs of the high-tech industry for their long-term development;
- (8) In 2006, the Government set up five R&D Centres to drive and coordinate applied R&D projects in selected focus areas with a view to promoting commercialisation of R&D outcomes and technology transfer. In May 2012, with the support of the Legislative Council, the Government extended the operation period of four of the R&D Centres as a means to strengthen our support to the R&D efforts;
- (9) To help the local scientific research sector seize the opportunities brought about by a rapidly growing market in the Mainland, we have been closely liaising with the Mainland authorities and building more collaborative platforms (e.g. Partner State Key Laboratories (PSKLs) in Hong Kong and the National High-tech (Partner) Industrialisation Base for Green Technology in the HKSP). The ITF also allows up to 50% of R&D fund of a project to be used outside Hong Kong; and

- (10) With effect from 2013-14, we will increase our funding to PSKLs by raising the existing ceiling of \$2 million per annum for each PSKL to \$5 million per annum until 2015-16 to further strengthen our support to their sustained development. Also from 2013-14 onwards, we will provide a total maximum funding of \$15 million to the Hong Kong Branch of Chinese National Engineering Research Centres over a period of three years to enhance their applied R&D capabilities and strengthen their collaboration with Mainland partners.

Nurturing emerging industries and industries with competitive edges

Testing and Certification

9. The Government has been working closely with the Hong Kong Council for Testing and Certification (HKCTC) in implementing a three-year market-oriented development plan for the testing and certification industry as proposed by the HKCTC in 2010. A dual approach has been adopted to facilitate the development of the industry. Firstly, general improvements are made to the services of the Hong Kong Accreditation Service (HKAS) and the factors of production of the industry (i.e. manpower, technology, capital and land) to enhance competitiveness. Secondly, targeted efforts are made to help the industry in identifying business opportunities in six selected trades, namely Chinese medicines, construction materials, food, jewellery, environmental protection and information and communications technologies. On the wider recognition of Hong Kong's testing and certification results, the accreditation granted by the HKAS to testing and certification organisations is now recognised by over 80 accreditation bodies in about 65 economies. Separately, the Mainland has been gradually opening up its market to Hong Kong's testing laboratories. Under the Supplement IX to CEPA, which has been put into effect since this year, Hong Kong's testing results of food products are accepted on a trial basis in Guangdong Province. On publicity and promotion, the HKCTC has been promoting the branding of "Tested in Hong Kong, Certified in Hong Kong" to potential service users through the Hong Kong Trade Development Council's platforms, including participating in trade fairs within and outside Hong Kong.

10. The Government has assisted the HKCTC in completing a comprehensive review of the implementation progress of the three-year industry development plan. On 28 March 2013, the HKCTC submitted a review report to the Chief Executive in which it is pointed out that the industry is very satisfied with the smooth implementation of various measures in the plan. The Government also consulted the Legislative Council Panel on Commerce and

Industry on the review report on 16 April 2013. Meanwhile, the Government will work with the HKCTC and continue to adopt and enhance the existing dual approach to support the further development of the industry.

Creative industries

11. In promoting the development of local creative industries, the Government has been following a seven-pronged strategy drawn up in consultation with the trade and the Legislative Council, which covers nurturing talents; supporting the development of start-up companies; expanding the size of local market; helping the industries explore outside markets; fostering a creative atmosphere within the community; developing creative clusters; and promoting Hong Kong as Asia's creative capital. Through the "Create Hong Kong" office (CreateHK), the Government has been working closely with the trade to promote the development of creative industries. The major areas of work of CreateHK include raising the profile of local creative industries inside and outside Hong Kong; helping the trade expand its services and sales in the Mainland, Taiwan and overseas markets; meeting the talent development needs of the creative sectors; and promoting the excellence of Hong Kong's creative output. The Chief Executive has announced in his Policy Address that the Government would step up efforts to facilitate the development of creative industries. We will inject an additional \$300 million into the CreateSmart Initiative (CSI) to provide sustained support for programmes that seek to, among others, nurture talents, expand overseas markets, build brands, and stage large-scale creative events to reinforce Hong Kong's position as Asia's creative capital. We will submit application to the Finance Committee of the Legislative Council with regard to the additional funding injection.

12. Having regard to the needs of some creative sectors for studios and supporting services at their start-up stage, the Government and relevant organisations are rolling out incubation programmes to support newly established companies. To promote the development of the design industry, the Government offers funding support through the Design Incubation Programme (DIP) to newly set-up small design companies operating at the InnoCentre. During the first and second years of the incubation period, incubatees are provided with free and concessionary rentals for office premises respectively. Furthermore, they will be supported in areas such as management training, consultancy service and mentorship programmes. The incubatees also enjoy free use of business centre services and facilities at InnoCentre and have opportunities for networking with other industrial and commercial organisations, academic institutes, professional bodies and potential business partners. The DIP has admitted about 130 incubatees over the years. It is estimated that 40 more companies will be admitted in the next two years. As part of the efforts,

the Cyberport has also introduced the Cyberport Incubation Programme (CIP) to provide support to local digital entertainment and information technology start-ups. Incubatees moving to the Entrepreneurship Centre of the Cyberport are offered with free use of office premises during a 24-month incubation period, following which concessionary rentals will be charged for the next 12 months. Moreover, all incubatees will be provided with financial assistance and various supporting services during the incubation period. Over the years, the CIP has admitted 189 incubatees.

13. As far as the provision of venues is concerned, the PMQ, formerly the Police Married Quarters at Hollywood Road, will be turned into a creative industries landmark with a focus on the design sector. About 130 studios will be provided to designers and practitioners of creative industries to create, display and sell their creative products, and some of the studios will be leased to budding designers at concessionary rate. CreateHK will assist the PMQ in overseas marketing with a view to attracting more organisations to hold their promotional and exchange activities in the PMQ. After the full commissioning of the PMQ in 2014, CreateHK will consider sponsoring the organisation of more activities through the CSI at the PMQ to develop the latter into a local creative cluster.

Tourism Industry

14. To maintain and promote the sustainable and healthy development of Hong Kong's tourism industry, the participation of the industry and relevant stakeholders is of paramount importance. The Government is assessing the overall capacity of Hong Kong to receive tourists. The areas taken into account include the handling capacity of boundary control points, receiving capacity of tourist attractions and the public transport system, supply of hotel rooms, economic benefits of the Individual Visit Scheme, and its impact on the livelihood of the community, etc. The exercise is now at its final stage. Upon completion of the assessment, the Government will follow the established mechanism and start liaising and coordinating with relevant Mainland authorities to exchange views in this respect.

Supporting Cultural Activities

15. We have been proactively promoting public art through various channels to provide the public with more opportunities to be exposed to, and to appreciate art, so that art will become part of our everyday life. The Leisure and Cultural Services Department (LCSD) will continue to organise more programmes on art and culture for the public in the coming year, and actively

liaise with different Government departments to inject artistic elements into the public space of existing and planned Government facilities such as parks, sports centres and Government premises as well as MTR stations. The LCSD is also developing strategic partnership with District Councils and various art groups and organisations to bring public art to different sectors of the community. Through these various public and community projects, a platform will be provided for the public to get closer to art, and at the same time make better use of public facilities while promoting public art.

16. Furthermore, the LCSD has completed the conversion of the former Royal Hong Kong Yacht Club, a Grade 2 historic building at Oil Street, North Point, into a visual arts exhibition and activity centre. The centre has opened in May 2013 to provide venue for grooming visual arts talents and serve as a platform for the promotion of exchanges. Also, from 25 April to 9 June 2013, the West Kowloon Cultural District Authority is staging an exhibition of giant inflatable sculptures entitled “Mobile M+: Inflation!” at the park of the West Kowloon Cultural District adjacent to the future M+, Hong Kong’s new museum for visual culture.

Manpower supply and training

17. The Government regularly compiles projections on Hong Kong’s labour force (i.e. manpower supply), in order to come up with data about our long-term manpower supply. We also conduct the Manpower Projection (MP) from time to time to assess Hong Kong’s future manpower supply and demand in the medium term at the macro level and to assess whether there is any potential imbalance in the demand and supply of manpower across different education levels. Relevant Government bureaux and departments will draw reference from the findings of the Hong Kong Labour Force Projections and the MP where necessary to review and formulate appropriate measures to cater for the development needs of the industries under their purview.

18. As regards the training of the necessary manpower for the restructuring economy, the Employees Retraining Board provides a diversified range of training programmes covering different industries to qualified employees aged 15 or above with education level at sub-degree or below. The programmes include half-day or evening courses for skills enhancement and generic skills training for employees in order to help them equip themselves with the necessary skills for switching jobs or to enhance their skills in the respective industry. Separately, the Vocational Training Council (VTC) provides trainings through its 13 member institutes including the Hong Kong Institute of Vocational Education, Hong Kong Design Institute, Youth College and training

and development centres for different industries, etc. The VTC provides valuable credentials for some 260,000 students each year through a full range of pre-employment and in-service programmes with internationally recognised qualifications so as to provide the required manpower for different industries.

Increasing government spending and reviewing the tax system

19. The Government has all along been adhering to the principle of financial prudence in managing public finances. As for Government revenue, it is the Government's on-going exercise to review the tax system with a view to stabilising and diversifying revenue sources. As for Government expenditure, the use of public resources has always been guided by the principle of pragmatism. Resources are allocated in accordance with actual needs and priorities, taking into account fiscal sustainability. When implementing new policies and measures, especially those involving long-term financial commitments, the Government must consider them thoroughly in advance. In fact, in 2013/14, the total government expenditure is estimated to reach \$440 billion, of which over \$290 billion will be recurrent expenditure for different policy area groups, representing an increase of more than 10% over the previous year's revised estimate. The growth in recurrent expenditure far exceeds the estimated nominal GDP growth of 5.5% in 2013. This clearly demonstrates that the Government upholds the principle of committing resources as and when needed.

Conclusion

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

Commerce and Economic Development Bureau
May 2013

(Translation)

**Motion on
“Promoting Hong Kong’s economic restructuring”
Moved by Hon Martin LIAO
at the Council meeting of 20 March 2013**

**Motion as amended by Hon Kenneth LEUNG, Hon Christopher CHEUNG,
Hon TANG Ka-piu, Hon SIN Chung-kai, Hon IP Kin-yuen and
Hon Charles Peter MOK**

That this Council urges the Government to seize the opportunity by utilizing financial resources, lands and policy measures appropriately to promote Hong Kong’s economic restructuring, including fostering diversified development within individual industries, economic diversification and the development of industries, other than the four pillar industries, with competitive edge; and as dovetailing with the development of manufacturing, creative and craft industries, etc. requires training and support for developing the relevant talents, the authorities should adopt the following measures:

- (1) to comprehensively examine and project Hong Kong’s manpower supply, provide suitable training to people at various age levels, comprehensively review the articulation of vocational education and the new senior secondary academic structure, and promote a learning culture for academic studies, crafts and skills in society, so as to train up the manpower required by economic restructuring;
- (2) to review the existing development potential of industries that ‘cannot be moved out of’ Hong Kong, such as construction, ship repairs, aircraft engineering, lift and escalator, and energy, etc., set down clear development ladders for talents in these industries, and step up resource inputs, so as to encourage people to join and develop in these industries, and resolve problems such as the shortage of local maritime talents despite the booming of shipping-related industries; and
- (3) to review land uses, and make good use of idle Government land lots, public spaces in buildings or under flyovers, etc., so as to provide business starters, local researchers, craft workers or cultural and creative workers with low-priced and time-limited land, allowing new industries to have room and soil for development;
- (4) to nurture the cultural and creative, innovation and technology, environmental protection and certification services industries, etc.;

- (5) to review the tax regime to allow the capital expenditure of enterprises on environment-friendly facilities 200% deductible under profits tax, so as to encourage enterprises to attach importance to environmental protection in their operation, thereby increasing the demand for companies providing environmental protection services and products, and offering an incentive for investing in environmental protection industries;
- (6) to prudently study the feasibility of developing a ‘percentage-based public cultural and arts policy’, with a certain proportion of funding for construction works in Hong Kong being used for subsidizing cultural activities, or a specified ratio of space in construction facilities being directly allocated for the purpose of conducting cultural activities, so as to provide more resources to community organizations to participate in cultural and creative work and promote the development of cultural and creative industries;
- (7) through issuing additional free television licences, to enhance the development of a cultural and creative television industry;
- (8) to further promote the tourism industry to enhance the diversified development of Hong Kong’s economy, including conducting a review of Hong Kong’s tourism policy and a study on the number of visitors that Hong Kong can receive, and allocating additional resources for developing the Lantau Island into a regional ecological leisure park to attract visitors fond of nature to visit Hong Kong; and
- (9) to promote diversification of industries and encourage people to start up businesses by, for example, providing venues in various districts and designating a bazaar period every month for people to sell various kinds of goods;

this Council also urges the Government to restructure public finances and properly use budget surplus to increase recurrent expenditure to promote Hong Kong’s economic restructuring, so as to alleviate social conflicts; besides, regarding the innovation and information technology industry, the Government must implement the following measures:

- (10) to comprehensively review the existing scientific research assistance policies, formulate support policies to attract overseas or mainland enterprises to co-operate with the local scientific research sector, and allocate additional resources to encourage enterprises to undertake research and development projects, so as to develop Hong Kong into an

international intellectual property trading hub, thereby creating more quality employment opportunities in scientific and technological industries;

- (11) through enhancing land planning, stable energy supply and manpower training, to attract more overseas and mainland enterprises in telecommunications and Internet, etc. to make long-term investments in Hong Kong, so as to develop Hong Kong into Asia's data centre, and a hub of cloud computing and wireless applications; and
- (12) to expand the scope of the business start-up support and incubation programmes provided by the Government and dovetail with the relevant policies to encourage the development of local 'Angel Funds' and venture capital funds, so as to build an effective and sustainable ecological system for investment, and provide start-up companies with the capital required at various stages.