

**Progress Report on Motion on
“Enhancing the overall sustainable competitiveness of Hong Kong”
Legislative Council Meeting on 29 May 2013**

At the Legislative Council (LegCo) meeting on 29 May 2013, the motion on “Enhancing the overall sustainable competitiveness of Hong Kong” moved by Dr Hon LAM Tai-fai, as amended by Hon TANG Ka-piu, Hon Christopher CHEUNG and Ir Dr Hon LO Wai-kiwok was passed. The wording of the motion is at Annex. After consulting the relevant Bureaux, we now provide a progress report on the motion to Members.

Promoting diversified industries

Formulating a holistic industrial policy

2. In his Policy Address, the Chief Executive (CE) has stated clearly the need to deepen and expand our industries. We must play to Hong Kong’s strengths to increase business volume while diversifying the products and services of existing industries, and identifying new areas for development, so as to meet the needs of our people for start-up initiatives, investment, business operation and employment. In this respect, the CE set up the Economic Development Commission (EDC) in January 2013. The EDC studies 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 focuses on studying the overall strategy and policy to broaden our economic base and enhance our long-term development, and explores industries which present opportunities for Hong Kong’s further economic growths, so as to formulate a holistic industrial policy.

3. Under the EDC, there are 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. The EDC has commenced its work and held its first and second meetings in March and July this year. The four Working Groups have also been focusing their discussions on matters within their purview since April this year. Given their rich experience, Members of the EDC and the Working Groups will be able to come up with practicable proposals for the long-term economic development of Hong Kong, facilitating the Government’s formulation of a holistic industrial policy and the overall strategy to promote long-term development.

Strengthening the traditional pillar industries

4. Traditional pillar industries have been the major driving forces behind Hong Kong's economic development. They have clear advantages internationally and are highly competitive. Therefore, the Government will continue to expand and strengthen them to maintain Hong Kong's competitiveness. Currently, the main pillar industries are "trading and logistics", "tourism", "financial services" and "business support and professional services".

5. As regards the "tourism" industry, to sustain its healthy development, the Government will devote more efforts to enhancing tourism infrastructure, hotel supply, market promotion and service support, etc. We will render assistance to the Ocean Park and the Hong Kong Disneyland for their further development. Regarding the newly commissioned Kai Tak Cruise Terminal, we will collaborate with the travel trade on development of cruise itinerary and regional co-operation with a view to reinforcing Hong Kong's position as a regional cruise hub. We will also encourage the increase of hotel supply and enhancement of service quality, while seeking to host more mega events in Hong Kong. We believe that the "tourism industry" will spur growth in other related service sectors, including food and beverage, retail and transport, creating many employment opportunities.

6. As for the "financial services" industry, the Government will promote the diversification of business and products. This includes further developing fund and asset management businesses, broadening the variety and scope of the fund business, promoting the sustainable development of the bond market and enhancing Hong Kong's competitiveness in developing its Islamic finance business. With regard to the "Renminbi Qualified Foreign Institutional Investors" (RQFII), the relevant Mainland authorities announced the extension of the RQFII pilot scheme on 6 March this year. This helps facilitate the introduction of more innovative and diversified RMB investment products in the Hong Kong market and further strengthen the offshore RMB business in Hong Kong, while promoting the flow and circulation of RMB funds between the Mainland and Hong Kong and contributing to the internationalisation of RMB. According to the information released by the China Securities Regulatory Commission and the State Administration of Foreign Exchange, there are already 37 qualified Hong Kong firms under RQFII, including the first local bank of its kind, with a total investment quota of RMB 104.9 billion. Six RQFII A-share ETF have been launched and listed on the Hong Kong Exchanges with the investment amounting to RMB 52.5 billion.

7. Apart from serving local enterprises, Hong Kong's "business support and professional services" are also exported to the Mainland and other areas in Asia. As such, we will continue to assist this industry in seizing business opportunities through relevant Government-to-Government platforms. For example, the Government has been assisting the services industry in Hong Kong, including the business support and professional services sector, in gaining access to the Mainland market under preferential treatment in the context of the Closer Economic Partnership Arrangement.

Nurturing emerging industries

8. In addition to consolidating the traditional pillar industries, the Government has also put in place measures to nurture emerging industries, especially the development of innovative technology and the cultural and creative industries.

9. As regards innovation and technology, the Government strives to create an environment conducive to the development of innovation and technology by enhancing the relevant hardware, policy and resources, with a view to facilitating the collaboration among the Government, industry, academia and research sectors. Support measures include the increase in funding ceiling and expansion of the scope of the "Innovation and Technology Fund" (ITF), the enhancement to the "Small Entrepreneur Research Assistance Programme" under the ITF, the increase in the rebate level under the "Research and Development (R&D) Cash Rebate Scheme", the extension of operating periods of four R&D Centres, and the commencement of Science Park Phase 3 project. 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 institutions. 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. Moreover, we will provide additional funding to Partner State Key Laboratories (PSKLs) in Hong Kong to strengthen their R&D capabilities. Funding will also be provided to the Hong Kong Branch of Chinese National Engineering Research Centres for enhancement of R&D capabilities. The Hong Kong Science and Technology Parks Corporation will offer support for start-ups in order to nurture young entrepreneurs in innovation and technology industries. We believe that the Government's comprehensive support will enable the innovation and technology industries in Hong Kong to have a steady development.

10. Regarding the development of the creative industries, the Government has been, through the "Create Hong Kong" office, working closely with the trade to promote the development of the industries. Approval has been

obtained from the LegCo Finance Committee in May this year for the injection of an additional \$300 million into the “CreateSmart Initiative” to provide funding support for more initiatives to facilitate the development of the creative industries.

11. The Government has also helped promote the development of newly established creative companies and offered funding support to the Hong Kong Design Centre for operating the “Design Incubation Programme” (DIP) at the InnoCentre to provide newly set-up small design companies with training, support services and office facilities. The DIP has admitted 130 incubatees over the years. It is estimated that some 30 more companies will be admitted in the next two years. The Cyberport has also introduced the Cyberport Incubation Programme (CIP) to provide support to local digital entertainment and information technology start-ups. Over the years, the CIP has admitted 189 incubatees and 96 of them have gone through the incubation period.

12. The PMQ, formerly the Police Married Quarters at Hollywood Road, is now being turned into a creative industries landmark with focus on the design sector. It is expected to be fully commissioned in 2014 to provide over 100 studios to designers and practitioners of the creative industries to create, display and sell their creative products. The PMQ will facilitate the development of creative industries by building up local creative clusters and providing a major exchange and promotion platform for Hong Kong’s design sector.

13. Moreover, the “Comix Home Base” (CHB) in Wan Chai was opened on 18 July this year. Studios, activity rooms and exhibition areas in the CHB will be leased to the animation and comics sector and artists from other sectors at concessionary rates for showcasing their animation and comics works and associated commercial products. The CHB will be established as a new landmark for Hong Kong’s animation and comics sector. To mark the opening of the CHB, a large-scale animation and comics event entitled “Hong Kong Ani-com Summer 2013” will be organised by the Create Hong Kong from 6 July to end August. The objective of the event is to promote and publicise the animation and comics culture in Hong Kong through 14 activities.

Promoting Hong Kong as an international financial centre

14. To sustain Hong Kong’s status as one of the most important international financial centres, the Government has been supportive in various aspects through policy formulations. Apart from the measures mentioned in paragraph 6 above, the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Bill 2012 and the Trust Law (Amendment) Bill

2013 were passed by LegCo in July this year with a view to promoting the development of asset management business. The two Bills aim to improve the Islamic financial platform and reform the trust law to further create an environment conducive to the development of asset management business. It is proposed in the Budget that the profits tax exemption for offshore funds be extended to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong, thus allowing private equity funds enjoy the same tax exemption as offshore funds. Since it has been increasingly common that players in the fund industry set up investment funds in the form of Open-ended Investment Companies, we are in discussion with the Securities and Futures Commission about proposing new legislations to allow the setting up of such companies in the market, and to set up relevant regulatory frameworks to provide an alternative to the industry and attract more funds to domicile in Hong Kong as the base for doing business across the Asia region. These proposals will help broaden the variety and scope of our fund business and bring business opportunities to professional services sectors such as fund management and investment consultation as well as legal and accounting services.

15. One of the financial aspects that we have been vigorously developing is the RMB business. As mentioned in paragraph 6 above, the Mainland authorities has announced in March this year the arrangements for expanding the RQFII pilot scheme. In addition, The Treasury Markets Association announced in June this year the launch of CNH Hong Kong Interbank Offered Rate fixing (CNH HIBOR fixing). The CNH HIBOR fixing will be a significant piece of financial infrastructure for the offshore RMB market. Its launch will support the growth of the RMB market by providing a benchmark for loan facilities. The fixing will also facilitate the development of a variety of RMB interest rate products, increasing the ability with which market participants can manage the interest rate risk of their RMB businesses.

16. Since its establishment in January this year, the Financial Services Development Council and the committees established under it are now actively engaging the industry with a view to formulating proposals to promote the further development of Hong Kong's financial services industry and map out the strategic direction for development.

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 for 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. 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 themselves 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 260 000 students with trainings through a full range of pre-employment and in-service programmes with internationally recognised qualifications each year, so as to supply the required manpower for different industries.

18. As for manpower training for the construction industry, the Development Bureau (DEVB) allocated a total of \$320 million in 2010 and 2012 to support the Construction Industry Council (CIC) in strengthening its manpower training and through promotion and publicity activities attracting new entrants, particularly young people, to the construction industry. The DEVB has collaborated with the CIC to provide higher training allowances for the trades facing labour shortages and attract new entrants to the industry through the "Enhanced Construction Manpower Training Scheme". To provide more training places, the CIC has launched the "Contractor Cooperative Training Scheme" (CCTS) to employ trainees and then provide them with training on construction sites on a "first-hire-then-train" basis to enable them to gain work experience on construction sites as early as possible. Moreover, a number of new training initiatives have been introduced by the CIC in the middle of this year to further provide additional training places, including the extension of the CCTS to cover the electrical and mechanical trade and cooperation with sub-contractors.

19. As for assisting people with difficulties in securing jobs, the Labour Department (LD) provides a series of comprehensive and free employment services to job seekers through a network of 12 job centres, two industry-based recruitment centres, a telephone employment service hotline, an interactive employment service website and various vacancy search terminals located throughout the territory.

20. To meet the employment needs of the middle-aged and persons with disabilities, the LD provides customised employment support to them. As for

assisting persons with disabilities in securing jobs, the Selective Placement Service of the LD organises public education and promotional programmes to enhance employers' understanding of the working abilities of persons with disabilities with a view to encouraging more employers to hire them. The LD also provides personalised employment services to job seekers with disabilities who are fit for open employment.

21. The LD has also put in place the "Work Orientation and Placement Scheme" to encourage employers to employ persons with disabilities through granting an allowance to the employers. Under the scheme, an employer is entitled to an allowance for employing a person with disabilities and providing him/her with a mentor and appropriate training/support, subject to meeting other requirements of the Scheme. Starting from 1 June this year, an employer of a person with disabilities and employment difficulties has been entitled to an allowance equivalent to the amount of the actual monthly salary paid to the employee with disabilities minus \$500 per month during the first two months of employment, subject to a ceiling of \$5,500 per month. After the aforesaid two-month period, the employer can receive an allowance equivalent to two-thirds of the monthly salary paid (subject to a ceiling of \$4,000 per month) for a maximum period of six months.

22. Separately, the LD has launched the "Employment Programme for the Middle-aged" to help middle-aged people to secure employment. Under the Programme, an employer may receive training allowance for a period of three to six months for employing job seekers who are aged 40 or above and providing them with on-the-job training. To further encourage employers to employ middle-aged people, the LD has increased the amount of training allowance granted to participating employers under the Programme since 1 June this year. At present, the amount of allowance that an employer can receive for hiring eligible job seekers aged 40 or above to fill full-time posts with a monthly salary of \$6,000 or above and providing them with on-the-job training has increased from to \$2,000 to \$3,000 per month per employee.

Let people from all sectors of the community share the fruits of economic growth

23. The Government continues to let people from all sectors of the community share the fruits of economic growth through the implementation of a number of policy initiatives in various areas, including education, healthcare and welfare. In respect of poverty alleviation, we have obtained the approval from the LegCo Finance Committee in June this year for injecting an additional \$15

billion into the “Community Care Fund” to strengthen the efforts in poverty alleviation.

Conclusion

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

Commerce and Economic Development Bureau
July 2013

(Translation)

**Motion on
“Enhancing the overall sustainable competitiveness of Hong Kong”
Moved by Dr Hon LAM Tai-fai
at the Council meeting of 29 May 2013**

**Motion as amended by Hon TANG Ka-piu, Hon Christopher CHEUNG and
Ir Dr Hon LO Wai-kwok**

That, given that the China Urban Competitiveness Reports issued by the Chinese Academy of Social Sciences in recent years point out that the gap between Hong Kong’s competitiveness and that of other Mainland cities is continuously getting narrower, and Hong Kong’s overall growth is relatively slow, with the scale of its economy expected to lag behind those of Mainland cities such as Beijing, Shanghai, Guangzhou, Shenzhen, etc., by 2015, this Council urges the Government to conduct a comprehensive review and assessment of areas such as economic development, improvement of people’s livelihood, promotion of democracy, etc., and formulate feasible and timely policies which will be implemented, so as to enhance Hong Kong’s overall sustainable competitiveness; such policies include:

- (1) to develop diversified industries to make the economic structure more balanced;
- (2) to strengthen talent training, make good use of the ‘first-hire-then-train’ approach to attract new entrants, and reform the apprenticeship system, so as to strengthen youth vocational training and develop talents for the future;
- (3) to lower the rental costs in society;
- (4) to systematically absorb groups with employment difficulties, including the middle-aged, persons with disabilities and single parents, etc., and to train them and provide them with employment support; and
- (5) to ensure through social policies that all sectors of society may share the fruits of economic development; and
- (6) to continue promotion of Hong Kong as an international financial centre; and

- (7) to consolidate pillar industries, promote emerging industries and revitalize traditional industries.