

Legislative Council Meeting of 18 March 2015
Motion on “Formulating a long-term and comprehensive industrial policy”

Progress Report

At the Legislative Council meeting of 18 March 2015, the motion on “Formulating a long-term and comprehensive industrial policy” moved by Ir Dr Hon LO Wai-kwok as amended by Hon MA Fung-kwok, Hon YIU Si-wing, Hon Kenneth LEUNG, Hon Charles Peter MOK and Hon SIN Chung-kai was passed. The wording of the motion is at Annex. Upon consulting the relevant bureaux, we now report to Members on the latest position of the issues relating to the motion.

Formulating a Holistic Industrial Policy

2. The Government is committed to implementing an industrial policy conducive to diversification and sustainable development. The Government seeks to maintain Hong Kong’s major economic strengths through expanding and enhancing the edges of the four pillar industries (namely trading and logistics, tourism, financial services and business and professional services). The Government also supports the development of emerging industries, so as to foster a more diversified and broader economic base, thereby meeting the needs of Hong Kong people for employment, start-up initiatives, investment and business operation.

3. The Economic Development Commission (EDC) established by the Chief Executive (CE) in January 2013 has been studying how to make use of Hong Kong’s existing advantages and the opportunities made available by the country. It focuses on studying the overall strategy and policy to broaden Hong Kong’s economic base and enhance long-term development, and identifies industries which present opportunities for further economic growth, with a view to formulating a holistic industrial policy.

4. The four working groups under the EDC responsible for transportation; convention and exhibition industries and tourism; manufacturing industries, innovative technology, and cultural and creative industries; and professional

services respectively have proactively focused discussions on promoting relevant industries, and progressively submitted specific recommendations on support policies and measures for the development of individual industries to the EDC for endorsement, and for the Government's subsequent consideration and implementation as appropriate. We look forward to the EDC's submission of more specific recommendations on measures and policies for supporting individual industries.

Strengthening the Pillar Industries

Trading and logistics industry

5. The Association of Southeast Asian Nations (ASEAN) was Hong Kong's second largest trading partner in goods last year. The Government is actively negotiating a free trade agreement with the ASEAN, with a view to concluding the negotiation next year and benefitting Hong Kong businesses early. Hong Kong has also taken the lead in joining the World Trade Organisation Agreement on Trade Facilitation so as to reinforce its position as an international trade centre.

6. The recent significant economic development in Asia has led to increasing demand for high-valued goods and high quality logistics services. In light of these trends, the logistics industry has been gradually migrating towards the provision of high value-added logistics services. To support the development of the industry and strengthen Hong Kong's position as a logistics hub, the Government will continue to promote the development of the necessary transportation infrastructure, identify and make available suitable land dedicated to logistics operations, and implement the "SMe-plug Jumpstart Programme" (which encourages small and medium logistics companies to get connected to major airfreight and seafreight electronic platforms through the SMe-plug, hence enhancing efficiency in the transmission of cargo information).

7. The Government has reserved about ten hectares of land in Tuen Mun West for modern logistics development. With the agreement of the District Council concerned, the Government will proceed with the development of the first site of some 3.6 hectares. The Government is applying for the necessary approval in accordance with the Town Planning Board procedures, with a view to releasing the land to the market in this year. The Government will continue

to identify and make available more suitable land for modern logistics use.

8. With regard to seizing the opportunities made available by the country, the building of “One Belt One Road” connects and runs through the economic co-operation corridors in Asia, Europe and Africa, providing extensive and profound development opportunities. The Government will strengthen economic and trade ties with the potential markets concerned through promoting exchange of visits by senior officials to foster mutual understanding, and exploring opportunities to forge Free Trade Agreements as well as Investment Promotion and Protection Agreements, thereby furthering Hong Kong’s roles as an international hub for business, trading and maritime services, and a “super-connector”. For instance, the Secretary for Transport and Housing led a delegation comprising representatives from the Hong Kong Maritime Industry Council and Hong Kong Port Development Council to visit the port of Hamburg in Germany on 15 to 17 April this year, promoting Hong Kong as a maritime and logistics hub to the local business community as well as the development opportunities arising from the “One Belt One Road” plan.

Tourism industry

9. The Government attaches great importance and support to tourism development of Hong Kong, and has been formulating short, medium and long-term planning to foster the development of the industry.

10. New software with immediate results in the short run includes the 3D Light Show (the Show) introduced in recent years. In 2015-16, the Hong Kong Tourism Board (HKTB) will launch new rounds of the Show to complement its mega events including the Hong Kong Summer Fun, the Hong Kong WinterFest and the Chinese New Year Celebrations for enhancing the festive ambience in-town and showcasing the beautiful night vista of the Victoria Harbour. Besides, the Government utilises short-term vacant urban sites for staging mega events or introducing entertainment facilities. The event space at the new Central harbourfront and the Observation Wheel are examples. A variety of carnivals, exhibitions and open-air concerts are from time to time conducted at the new Central harbourfront. These new facilities at the harbourfront provide enjoyment and novel experiences to local residents and visitors.

11. The Government also allocates resources every year for the HKTB to carry out tourism promotion work in Hong Kong and overseas markets. The

Government will provide an additional funding of \$80 million for the HKTB to strengthen the image of Hong Kong as a premier tourist destination in 2015-16. The HKTB will make use of the additional funding to roll out two rounds of spending-stimulation promotion in partnership with the retail and catering trades. The first round of promotion will support the Happy@hongkong Super JETSO campaign organised by the Quality Tourism Service Association from 27 April to 28 May, which aims at stimulating visitor and local spending in Hong Kong through providing spending offers from local merchants. The second round of promotion will be the HKTB's annual summer promotion, the Hong Kong Summer Fun from June to August, which will include stepping up the promotion in short-haul markets, the provision of various visitor offers from the travel trade and the staging of a large-scale lucky draw to attract overnight visitors. Besides, the HKTB will arrange large-scale familiarisation tours for overseas travel trade, expand the scale of overseas promotion fairs and waive local traders' participation fees.

12. Apart from the short and medium term planning, the Government has for many years devoted substantial resources to the development of tourism infrastructure. Specific efforts include assisting the Ocean Park and Hong Kong Disneyland in building new hotels and implementing a series of development plans; gradually releasing the hotel sites next to the Kai Tak Cruise Terminal; providing necessary information and advice to the project proponent of boundary shopping facility; and examining how to improve the tourism facilities in Lantau and increase their tourism attractiveness. The Government has also commenced discussion on the Phase 2 development of the Hong Kong Disneyland Resort with The Walt Disney Company of the United States.

Business and professional services industry

13. Hong Kong's business and professional services are internationally renowned and highly competitive. Since the signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2003, the Mainland has further opened up its market to Hong Kong. Last December, the Mainland and Hong Kong signed an agreement under the framework of CEPA, achieving early the objective of basic liberalisation of trade in services in Guangdong. The Government will strive to further open up the Mainland market with a view to achieving basic liberalisation of trade in services nationwide by the end of this year, thereby creating more business opportunities for Hong Kong's business and professional services industry.

14. To promote Hong Kong as an intellectual property (IP) trading hub in the region, the Working Group on IP Trading released in March this year a report with 28 recommended measures under four strategic areas -

- (i) enhancing the IP protection regime;
- (ii) supporting IP creation and exploitation;
- (iii) fostering IP intermediary services and manpower capacity; and
- (iv) pursuing promotion, education and external collaboration efforts.

The Government is working in full swing with the public sector, professional bodies, industry players and other stakeholders to implement the recommended measures.

Financial services industry

15. Hong Kong has a well-developed financial infrastructure, a simple tax system, and a large pool of financial talents. To attract multinational enterprises to establish corporate treasury centres in Hong Kong, the Government will introduce a bill to amend the Inland Revenue Ordinance in the next legislative session to allow interest deductions under profits tax for corporate treasury centres and reduce profits tax for specified treasury activities by 50%.

16. The Government is also actively implementing various policies and measures to promote the further development of the asset management industry, including the introduction of open-end fund company structure to attract more funds to domicile in Hong Kong. The Government introduced a bill into the Legislative Council (LegCo) in March this year to expand profits tax exemption for offshore funds to private equity funds. To enhance the competitiveness of Hong Kong as a financial centre, the Government is also preparing an amendment bill to improve the corporate insolvency law.

17. The Government will continue to promote the development of Hong Kong as the country's global financial centre where funds and talents from all over the world converge. Specifically, on the basis of the 12th Five-Year Plan, the Central Government announced a series of measures to support the development of offshore Renminbi (RMB) business in Hong Kong. The launch of the Shanghai-Hong Kong Stock Connect in November last year

achieves the two-way opening up of capital markets in Mainland and Hong Kong, and reinforces Hong Kong's position as a premier offshore RMB business centre. The relevant authorities and organisations in Hong Kong are discussing with the relevant authorities of the Central Government the launch of the Shenzhen-Hong Kong Stock Connect and the enhancement of the Shanghai-Hong Kong Stock Connect.

Supporting Emerging Industries

Innovation and technology

18. For expanding the uses of the Innovation and Technology Fund (ITF) as mentioned in the motion, the Government completed a comprehensive review on the ITF (ITF Review) in end 2014 to evaluate the ITF after some 15 years of operation and identify areas for improvement. The Final Report of the ITF Review was subsequently submitted to the LegCo Panel on Commerce and Industry (the CI Panel). The CI Panel affirmed the role of the ITF in promoting the development of innovation and technology in Hong Kong, and welcomed the Government's new initiatives and improvement measures to enhance the application and commercialisation of research and development (R&D) results.

19. The CE announced in the Policy Address this year the proposal to inject \$5 billion into the ITF and subsume the R&D Cash Rebate Scheme under the ITF, which was approved by the LegCo Finance Committee. The Government will make effective use of these resources to provide sustained and comprehensive support to the development of innovation and technology.

20. The Government has invested resources and formulated facilitating policies conducive to the development of innovation and technology, and proactively improved existing measures. For example, the Government launched the new Enterprise Support Scheme in April this year to replace the Small Entrepreneur Research Assistance Programme. Funding support will be available to companies of any size to support their R&D projects. For each project, funding can be provided on a dollar-for-dollar matching basis to the successful applicant company.

21. In view of the business opportunities from the vibrant Mainland market,

the Government also assists in facilitating Hong Kong's information and communications technology (ICT) products to access the Mainland market, for example, by taking part in the International Soft China in Beijing in May this year in coordination with the ICT industry, and setting up a Hong Kong Pavilion therein to showcase Hong Kong's quality ICT products and services, thereby exploring business opportunities for the industry. In addition, by staging major ICT events (e.g. the International IT Fest, Hong Kong ICT Awards), the Government showcases the bright development of Hong Kong's ICT industry and excellent products and solutions, establishes a platform for cooperation and exchanges between Hong Kong's ICT industry and Mainland and overseas industry players, and opens up business opportunities.

Institutional arrangement

22. The CE announced in the Policy Address last year re-initiating the setting up of an Innovation and Technology Bureau (ITB) with a view to proactively promoting the development of innovation and technology in Hong Kong, and thus strengthening Hong Kong's long-term competitiveness. On the legislative side, the relevant LegCo Subcommittee completed scrutiny of the two resolutions relating to the establishment of the ITB, i.e. a resolution to repeal the resolution passed by LegCo on 29 October last year to effect the transfer of the relevant statutory functions, and a fresh resolution to effect the transfer of the relevant statutory functions. The Government has given notices to LegCo of the Secretary for Commerce and Economic Development's intention to move the two motions in respect of the two resolutions at the LegCo meeting of 20 May this year. On the financial side, the relevant staffing and funding proposals will be submitted to the LegCo Finance Committee upon LegCo's passage of the Appropriation Bill 2015.

Hong Kong Science and Technology Parks Corporation

23. The Government briefed the CI Panel on the latest developments of the Hong Kong Science and Technology Parks Corporation (HKSTPC) at its meeting on 21 April this year, including the establishment of a Corporate Venture Fund (CVF) which received Members' general support. The HKSTPC is finalising the implementation details of the CVF, including the application and vetting criteria, for announcement by the third quarter of this year. Moreover, the Leading Enterprises Acceleration Programme (LEAP) launched by the HKSTPC is designed to help nurture outstanding incubatees and graduates of its

incubation programmes by providing assistance in business development, corporate development as well as other key aspects to further foster their business expansion. In addition to the four companies currently enrolled on the LEAP, the HKSTPC plans to select another four to eight enterprises to join the programme in 2015-16.

24. As for the development of industrial estates (IEs) as mentioned in the motion, the Government briefed the CI Panel at the abovementioned meeting on the implementation of a revised IE Programme, and received Members' general support. The revised IE Programme will have modified admission requirements in favour of science, innovation and technology based industries which are vital to the sustained growth of Hong Kong's economy and beneficial to Hong Kong's development of high value-added industries. In future, the HKSTPC will mainly build and manage specialised multi-storey industrial buildings for rent to multi-users instead of granting the sites to single users for building their own factories, in order to optimise the use of land in the three IEs. In the next few years, the HKSTPC plans to develop three to four pilot projects on the vacant sites or sites surrendered by the grantees in the three existing IEs, and will proceed to carry out a detailed study on the economic case and relevant financial arrangements.

Data centres

25. The Government has launched two incentive measures since June 2012 to encourage the conversion of industrial buildings into data centres and the development of high-tier data centres on industrial lots. As at April this year, a total of 16 applications were received, among which 11 involving conversion of industrial buildings and one for development on industrial lots were approved. With the Government's support, the Tseung Kwan O IE is now housing a cluster of 11 high-tier data centres established by multinational enterprises. Following the sale of the first one-hectare data centre site in October 2013, the Government is planning to make available another one-hectare site in Tseung Kwan O for data centre development. The Data Centre Facilitation Unit established in July 2011 will continue to provide one-stop support and advisory services to enterprises interested in setting up data centres in Hong Kong. The Unit will also continue to work with relevant Government departments on enhanced measures to address the unique operational requirements of data centres.

Creative industries

26. The Government will inject an additional \$400 million into the CreateSmart Initiative (CSI) to continue to support the development of creative industries. Create Hong Kong is conducting a review on the administration and way forward of the CSI. The review is expected to be completed by the middle of this year. The Government will in due course consult LegCo on the funding injection into the CSI.

27. To further promote the development of the film industry, the Government will inject an additional \$200 million into the Film Development Fund so as to facilitate raising the production budget ceiling of the Film Production Financing Scheme, rolling out a new Film Production Grant Scheme to subsidise small-budget film productions, re-launching the First Feature Film Initiative, and continuing with the measures to promote Hong Kong films in the Mainland and overseas.

28. Creative industries have also positively enlightened traditional industries to expand and develop towards high value-added directions. For example, noting the Hong Kong fashion industry's existing strengths as well as the industry's devotion to nurturing fashion designers with potential, the Government will, in light of the industry's discussions and recommendations, consolidate existing resources and invest new resources totalling \$500 million in the next three years to launch a series of measures on a pilot basis. The measures will cover three aspects, namely nurturing talents and promoting collaboration between the traditional manufacturing industry and the fashion-related design industry, strengthening promotional activities, and implementing relevant institutional arrangements, thereby supporting the development of the fashion industry and facilitating synergised value-added collaboration between the fashion design industry and the garment industry.

Recycling industry

29. The Government set up the Steering Committee to Promote the Sustainable Development of the Recycling Industry in 2013 to strengthen the coordination of waste reduction at source and promote the development of the recycling industry. The Government has also earmarked \$1 billion to set up a Recycling Fund to facilitate upgrading the operational capabilities and efficiency of the recycling industry, promote markets for recycled products, raise the

quantity and quality of recyclables recovered from the waste stream, and promote the sustainable development of the recycling industry. Moreover, the Government is committed to strengthening the promotion of clean recycling to increase the quality, quantity and value of the source separated recyclables.

Land Planning and Supply

30. The Government appreciates the importance of land planning and supply in catering for the sustainable development of Hong Kong's economy and the transformation of industries. As announced in the Policy Address this year, the Government is updating the "Hong Kong 2030: Planning Vision and Strategy" to examine the strategy and possible options for overall spatial planning, land and infrastructure development beyond 2030, with a view to adopting it as the territorial development strategy to cater for the latest circumstances in Hong Kong. At the same time, the Government will continue to increase land supply to facilitate the further development of different economic activities, such as by converting suitable "Government, Institution or Community" sites for commercial use; facilitating the transformation of Kowloon East (comprising the Kai Tak Development Area, Kwun Tong and Kowloon Bay Business Areas) into an alternative core business district; and examining means to increase commercial/office floor area. Furthermore, the Government will continue with the studies on cavern and underground space developments as well as the studies in connection with the topside commercial development on the Hong Kong boundary crossing facilities of the Hong Kong-Zhuhai-Macao Bridge, so as to meet the needs of the social and economic development in Hong Kong.

Human Resources

Flexibility enhancement

31. For the construction industry's problems of shortage in skilled workers and an ageing work force, according to the latest report on manpower forecast for construction workers released by the Construction Industry Council (CIC) in October last year, there will be a shortage of about 10 000 to 15 000 skilled workers in the construction industry in the coming years. The Government and the CIC have been actively implementing a host of measures to enhance training

for construction workers and attract new entrants to the construction industry. Nevertheless, as Hong Kong is facing population ageing and a dwindling labour force, there are limitations in training local construction workers. The industry needs to import skilled workers in a timely and effective manner.

32. Having regard to the unique operational characteristics of the construction industry, the Government briefed the Labour Advisory Board in April this year on the further enhancement measures under the Supplementary Labour Scheme to increase flexibility in the deployment of imported skilled workers with a view to utilising their productivity more effectively. The measures include the following -

- (i) Contractors are allowed to deploy imported skilled workers to work across more than one of their public sector works contracts. Contractors need to clearly specify the concerned works contracts in their applications;
- (ii) If there is room for deploying the skilled workers who have already been imported under existing works contracts, they are allowed to work under their other specified public sector works contracts within their employment periods under the same contractors without affecting the works progress of the existing contracts; and
- (iii) If the progress of works is delayed due to unforeseen circumstances, contractors may extend the employment periods of the skilled workers who have already been imported up to a limited period for completing the relevant works processes.

33. The Government will reinforce the regulatory measures to safeguard the interests of the workers. The Government plans to roll out the relevant measures in the second quarter of this year. The Government will continue to keep a close contact with the industry and review the effectiveness of the measures in a timely manner with an aim to meet the needs of the economic and social development in Hong Kong.

34. To increase the supply of skilled workers to meet the needs of the industry, the Government will seek LegCo's approval of an allocation of \$100 million to support the CIC to kick-start a pilot scheme to upgrade the skills of semi-skilled workers to the levels of skilled workers. The Government is also

setting up the Construction Industry Recruitment Centre, scheduled for opening in the second half of 2015-16, to assist local construction workers in seeking jobs.

Conclusion

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

Commerce and Economic Development Bureau
May 2015

Annex

Motion on
“Formulating a long-term and comprehensive industrial policy”
moved by Ir Dr Hon LO Wai-kwok
at the Council meeting of 18 March 2015

Motion as amended by Hon MA Fung-kwok, Hon YIU Si-wing, Hon Kenneth LEUNG, Hon Charles Peter MOK and Hon SIN Chung-kai

That, as the diversified development of industries is conducive to building a healthy and mature economy, this Council urges the SAR Government to expeditiously formulate a long-term, comprehensive, balanced and forward-looking industrial policy to introduce development strategies and ancillary measures for pillar industries, emerging industries and traditional industries respectively, and allocate resources correspondingly, so as to create a diversified environment for employment and business start-up, increase the metropolitan glamour of Hong Kong, facilitate Hong Kong’s economic restructuring, enhance overall competitiveness and the soft power of the city, ensure sustainable development of Hong Kong’s economy and stable growth of government revenue, and create more upward mobility opportunities for new generations, thus improving people’s livelihood; at the same time, in response to the development trends of the tourism industries worldwide and in China, the SAR Government should also formulate short, medium and long-term planning for the tourism industry, which serves as one of the pillar industries of Hong Kong, in the light of the capacities of tourism supporting facilities and future development of tourism resources, so as to foster the sustainable and healthy development of Hong Kong’s tourism industry; this Council also urges the SAR Government to conduct comprehensive studies on the mode of long-term economic development and competitiveness of Hong Kong, and based on the findings, to formulate land planning strategies, manpower resource programmes and tax measures which are conducive to the diversified development of Hong Kong’s economy; this Council also urges the SAR Government to promote the development of local innovation and technology industries and consolidate Hong Kong’s competitive edge in Asia Pacific and

internationally, and allocate more resources to sustainably nurture local talents which meet the needs of the development of industries, and enhance the quality of manpower resources; at the same time, the SAR Government should also formulate specific support measures for the development of industries, create employment opportunities to retain talents, improve the mismatch of local manpower resources; this Council also urges the SAR Government to optimize the fiscal surplus to increase substantially the investment in human capital and social infrastructure; the relevant policies and measures should include:

- (1) to revitalize the various industrial estates, so as to induce the return of the industrial sector for development;
- (2) to expand the uses of the existing Innovation and Technology Fund, so as to support the development of innovation and technology industries;
- (3) to reserve more lands for developing data centres and develop Hong Kong into a data hub of cloud computing in Asia; and
- (4) by making reference to the practices under the New Producer Responsibility Scheme on Glass Beverage Bottles, to provide market values for recyclable waste with low market values (e.g. plastics), and establish a government-funded body corporate for operating the waste recycling industry on its own, thereby promoting the development of green industries.