

**For information
on 21 June 2016**

**Legislative Council Panel on Commerce and Industry
Diversified Development of Industries in Hong Kong**

PURPOSE

This paper briefs Members on the Government's initiatives to promote the diversified development of industries in Hong Kong.

BACKGROUND

2. The Government attaches great importance to the diversified development of industries, so as to meet the needs of Hong Kong people for start-up initiatives, investment and business operation, and to provide more choices of employment for the younger generation so that they may fully utilise their abilities. The Government's overall direction is to expand and deepen the advantages of the pillar industries (including trading and logistics, tourism, financial services, and business and professional services) with a view to maintaining Hong Kong's competitiveness; and to support the development of emerging industries in order to diversify and fortify the economic base, so that Hong Kong can better respond to the world's ever-changing economic environment.

3. Trading and logistics, tourism, financial services, and business and professional services have been the high performers that play to Hong Kong's competitive strengths and have achieved faster growth over time amid Hong Kong's economic evolution. According to the "Hong Kong Monthly Digest of Statistics – the Four Key Industries and Other Selected Industries in the Hong

Kong Economy” published by the Census and Statistics Department in March 2016, the above pillar industries shared 57.5% of Hong Kong’s Gross Domestic Product (GDP) in 2014, generated in the Hong Kong economy value added¹ of \$1,267.2 billion and employed over 1.77 million persons during the period. As for emerging industries that include innovation and technology, cultural and creative industries etc., the value added generated in the Hong Kong economy and the number of people employed are also on the rise.

4. To effectively formulate the direction of economic development, the Chief Executive (CE) announced in the 2013 Policy Address the establishment of the Economic Development Commission (EDC). Led personally by CE, EDC has been studying how to make use of Hong Kong’s prevailing advantages and opportunities, conducting examination on the overall strategy and policy to broaden our economic base and enhance our long-term development, and identifying industries which present opportunities for Hong Kong’s further economic growth from a high-level, cross-departmental and cross-sectoral perspective.

5. The four respective Working Groups under EDC on convention and exhibition industries and tourism; manufacturing industries, innovative technology, and cultural and creative industries; professional services; and transportation have been actively discussing ways to promote the development of relevant industries, and have gradually submitted recommendations on the policies and measures to support the development of various industries, which were endorsed by EDC and accepted by the Government. The Government has highlighted the relevant recommendations in the Policy Address and Budget, and is implementing them progressively.

¹ Value added measures the net output of an economic activity, i.e. the value of goods and services produced less the value of goods and services (e.g. purchase of materials and supplies, rental, business services charge) used in production. Sum of value added of all economic activities in an economy equals to its GDP.

Convention and Exhibition Industries and Tourism

6. Tourism (including both inbound² and outbound tourism) contributed 5.1% of GDP and brought about \$112.5 billion value added to Hong Kong in 2014. The sector employed over 270,000 persons (accounting for around 7.2% of total employment). Inbound tourism creates tremendous job opportunities for elementary workers in various labour-intensive industries, including retail, hotel, catering and transportation. Therefore, the healthy and sustainable development of tourism is essential to the stability of labour market as well as economic growth.

7. Having regard to Hong Kong's dense population and the overall receiving capacity constraint, the Working Group on Convention and Exhibition Industries and Tourism under EDC (CETWG) suggested that the Government should make good use of resources and further enhance the overall receiving capacity of tourist attractions, hotels and ancillary facilities to attract those visitors segments, including the overnight high value-added visitors as well as business and Meetings, Incentive, Conventions and Exhibitions (MICE) visitors, who can bring the greatest economic benefits to Hong Kong. CETWG has also made recommendations to the Government on the development of Lantau and the Kai Tak Fantasy project, which should be developed into distinctive tourist attractions with coherent themes. The Government has taken into account CETWG's recommendations and will make continuous efforts to drive the tourism industry towards diversified and high value-added services.

8. In addition, benefiting from the growth in global sourcing activities for products of the integrated supply chain in the region and the world's increasing drive to introduce new products to tap the Mainland and other Asian

² Inbound tourism covers retail trade, accommodation services (covering hotels, guesthouses, boarding houses and other establishments providing short term accommodation), food and beverage services, transport and personal services etc., yet pertaining only to the part provided to visitors. According to international practices, to measure the contribution of inbound tourism, tourism ratios for tourism-related economic activities are estimated by shares of business receipts from visitors in total business receipts, and are used to allocate value added and employment in respect of these activities to inbound tourism.

markets, MICE tourism are potential sources of growth which leads to the strategic advancement of the tourism industry into high-valued economic activities. According to the statistics provided by the Hong Kong Tourism Board, overnight MICE arrivals increased from about 1.16 million in 2009 to 1.72 million in 2015, representing a cumulative growth of 47.8% or an annual average growth of 6.7%. MICE visitors are usually high-spending visitors. The average per capita spending of overnight MICE visitors was \$8,426 in 2015, about 15% higher than that of all overnight visitors. Meanwhile, the development of MICE tourism will bring simultaneous benefits, including the provision of business opportunities for the import and export industry as well as marketing platform for local small and medium enterprises (SMEs). The Government adopted the recommendation of CETWG and completed a consultancy study to assess the future demand for convention and exhibition facilities in Hong Kong. We have briefed this Panel on the follow-up actions by the Government taking into account recommendations made by the consultant in early 2015. A convention centre will be constructed above the Exhibition Station of the Shatin to Central Link upon the latter's completion. The Hong Kong Trade Development Council (TDC) is, at the Government's invitation, working on the design of the centre.

Innovation and Technology

9. The Government is committed to promoting innovation and technology development in Hong Kong. Innovation and technology (I&T) development can drive the upgrading and transformation of the economy, and is very important for developing a knowledge-based economy. To support enterprises in carrying out research and development (R&D) in a more comprehensive manner, and having considered the recommendations on the Innovation and Technology Fund ("ITF") put forth by the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under EDC (MICWG), the Government has fully reviewed ITF and implemented a series of measures, including extending the scope of ITF to cover

downstream R&D and activities that are conducive to commercialisation of R&D results. ITF launched the Enterprise Support Scheme to further enhance the support for private sector R&D. The Government also increased the cash rebate level of the R&D Cash Rebate Scheme to 40%. Separately, to encourage more local university graduates to engage in I&T, the Government has increased the monthly allowances of interns and will extend the scope of the Internship Programme.

10. MICWG also recommended the Government to expand and enhance the existing incubation programmes administered by quasi-government institutions or government-funded institutions, so as to cater for the needs of new industries and enterprises at different stages of development. In this regard, the Hong Kong Science and Technology Parks Corporation (HKSTPC) will continue to increase the intakes of the incubation programmes and extend value-added services. In July last year, HKSTPC established the Corporate Venture Fund to co-invest, on a matching basis with private funds, in start-ups which are located in the Science Park or have participated in its incubation programmes. Separately, to further promote the development of start-ups, Cyberport will double the intakes of its Incubation Programme from 50 to 100 to benefit more start-ups. The Incubation Programme will also establish new clusters in areas such as financial technology and e-commerce to dovetail the latest development of the industry and the market. Having regard to the keen demand for working space of technology start-ups, Cyberport will increase the provision of Smart-Space facilities, such as small offices and workstations, by more than 50% in 2016. Cyberport will also allocate \$200 million to launch a Cyberport Macro Fund for investments in its information and communications technology start-ups to spur more investment funding.

Creative Industries

11. Creative industries are playing an increasingly important role in different domains of the economy and society. Regarding the economic

contribution, the value added of cultural and creative industries in 2014 stood at HK\$109.7 billion (representing 5.0% of Hong Kong's GDP in that year). Some 40,500 relevant establishments engaged over 210,000 practitioners (accounting for 5.7% of the total employment). Hong Kong's blend of Eastern and Western cultures and numerous creative talents give its creative industries an edge in various creative sectors, including film, design, digital entertainment, advertising, architecture, television, music, printing and publishing.

12. MICWG has explored the development potential of various creative sectors in Hong Kong. The Government has accepted MICWG's specific recommendations on the support policies and measures needed by certain sectors with a competitive edge. To nurture more design talents, the Government has accepted the recommendation of MICWG to increase the number of awardees of the Hong Kong Young Design Talent Award since 2014 with a view to providing young people with more opportunities to undertake work attachment and pursue studies overseas. For the film industry, the Government injected an additional \$200 million into the Film Development Fund (FDF) in May 2015 and increased the upper limit of the production budget under the Film Production Financing Scheme to \$25 million per film. The new Film Production Grant Scheme was also launched in November last year to provide a grant, capped at \$2 million, to low-budget film productions with a production budget not exceeding \$10 million. Hong Kong has also strengthened co-operation with the Mainland and Macau to develop and promote location filming and film production services in the Pearl River Delta Region. To encourage Hong Kong filmmakers to explore the Mainland market, the Government further injected an additional \$20 million into FDF in June this year with a view to increasing the subsidy for distribution and publicity expenses of Hong Kong-produced Cantonese movies distributed in the Mainland.

13. As regards the fashion industry, the Government has accepted the recommendations of MICWG to support its development. The Government will develop the brand of "Hong Kong Fashion", nurture the new generation of

fashion designers and assist them in exploring overseas markets through, for example, sponsoring their participation in internationally renowned fashion weeks. The Government will also sponsor programmes such as large-scale fashion trade fairs, forums, etc. so as to encourage outstanding designers from around the world to make use of Hong Kong's business and trading platform and unique position as a hub to explore markets in the Mainland and Asia. In this connection, from the second half of this year onwards, the Government will roll out pilot measures in phases to strengthen promotion of Hong Kong designers and emerging fashion brands, incubate fashion designers, and establish a resource centre for providing young designers with technical training and support.

14. Intellectual property (IP) trading helps foster the development of enterprises, and is especially important to the creative industries. The Government is working in full swing on implementation of the recommendations announced by the Working Group on IP Trading in March last year, with a view to promoting IP trading. Some of the measures, such as the IP Consultation Service Pilot Scheme and the IP Manager Scheme launched by the Intellectual Property Department (IPD), aim to raise the IP awareness of enterprises, particularly SMEs, and assist them to develop effective IP management and commercialisation strategies. The Government has been reaching out to different industries such as fashion and textile, retail and publishing to promote cross-sector IP trading and publicise IPD's new support services since the latter half of 2015. The Government has lined up discussion sessions for the industry players and responses have been encouraging. Key players in the respective fields have a better understanding of the potentials of their IP and the prospects of cross-sector commercialisation. The Government will continue to promote IP trading crossover.

Professional Services

15. The professional services in Hong Kong accounted for 4.8% of our GDP in 2014, generating value added of \$106.7 billion and over 200,000 employments (5.6% of the total employment) in 2014. From 2004 to 2014, the professional services have grown by 129%, exceeding the overall economic growth of 71% over the same period.

16. Hong Kong's professional services are highly recognised in the international arena with talents having a wealth of international experience in many professional services sectors including accounting, law and dispute resolution, construction and project management etc. The Working Group on Professional Services under EDC (PSWG)³ has all along been providing considerable advice to the Government on raising industry standards, enhancing professionals' images and exploring opportunities for Hong Kong professionals. PSWG was also pleased to note that the chapter dedicated to Hong Kong and Macao in the "Outline of the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China" published in March 2016 has mentioned the promotion of the professional services towards high-end and high value-added development.

17. Currently, the Government is implementing PSWG's proposals, including collaborating with the Hong Kong Economic and Trade Offices and TDC to market and promote different professional services in Hong Kong as an integrated package, preparing fact sheets and success stories for professional services sectors, and conducting visits and trade missions to the Mainland (Qianhai and Nansha of the Guangdong Pilot Free Trade Zone and Yinchuan City, Ningxia Hui Autonomous Region along the Belt and Road route) and overseas (Myanmar). During the visits and missions, the Hong Kong professional services sector was presented as a team. Opportunity was taken to

³ The scope of the work of PSWG covers eight professional service sectors, namely (a) accounting, (b) company secretary, (c) architectural (including landscape architectural), (d) engineering, (e) planning, (f) surveying, (g) legal, and (h) medical and healthcare.

showcase their unique strengths and capability of providing cross-sector integrated services with an international perspective.

18. The national “Belt and Road” initiatives will create demand for high-end professional services in the Mainland and regions along the route. The Ministry of Commerce and the Development Bureau collaborated in 2015, on a trial basis, in appointing Hong Kong consultancy companies to serve as project supervisors in two foreign-aided infrastructure projects in Nepal and Cambodia. Both supervision assignments are progressing satisfactorily. As announced in the 2016 Policy Address, the Government would allocate \$200 million to support the professional services sector in enhancing exchanges and co-operation with the Belt and Road countries and other regions outside Hong Kong (including the Mainland) and promote related publicity activities. The Government will continue to facilitate the relevant industries to seek collaborative development with the Mainland professional services through the use of their experience, knowledge and familiarity of international standards and legal regime etc., for Hong Kong’s serving as a high-end professional services platform in the “Belt and Road” initiative.

Transportation

19. With its strategic geographical location, free economy, and rich experience in international trade and commerce, Hong Kong is an international transportation centre (in terms of both air and maritime transport) and a regional logistics hub. Our strengths, including steadfast commitment to the rule of law, simple tax regime and quality workforce, provide a sound foundation for the development of high value-added services.

20. On maritime, the Transport and Housing Bureau (THB) established the new Hong Kong Maritime and Port Board on 1 April 2016 as a platform for closer collaboration between the Government, the trade and academia. By making full use of Hong Kong’s strengths and building on its existing

foundation, the Government will drive the long-term development of maritime and port industries through a multi-pronged approach. This will include implementing measures as necessary to spur the growth of Hong Kong's maritime cluster and to create a business-friendly environment for the maritime industry on the one hand, and nurture new blood and build up a talent pool on the other. At the same time, the Government will engage the industry actively to step up efforts to promote Hong Kong's role as a "super-connector" in overseas and Mainland markets.

21. On aviation, the global aerospace financing business has been growing rapidly in recent years. As an international aviation hub and a window for the Mainland to "go global", Hong Kong possesses competitive advantages in becoming a hub for aerospace financing, and in capturing the business opportunities brought about by the rapid growth of the aviation industry in the Mainland. On the recommendation of the Working Group on Transportation under EDC (TWG), the Government is formulating the policy and details of tax concessions to boost aircraft leasing business. Meanwhile, with the support of EDC, the Airport Authority (AA) will establish a Civil Aviation Academy to groom aviation management talent, thereby reinforcing Hong Kong's leading position as an aviation hub in the region. The Government will work with AA on the details of setting up the Civil Aviation Academy.

22. Furthermore, TWG also made suggestions to the Government on optimising the procedures for handling air-to-air transshipment and implementing the Maritime and Aviation Training Fund.

Conclusion

23. Members are invited to note the latest work progress.

Commerce and Economic Development Bureau

Development Bureau

Innovation and Technology Bureau

Transport and Housing Bureau

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