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21 January 2019

Dear Mr Lam,

**Panel on Commerce and Industry -  
Follow-up to Meeting on 18 December 2018**

Our consolidated reply to the question raised by the Hon WU Chi-wai vide his letter dated 19 December 2018, after consulting the Innovation and Technology Bureau (ITB), the Transport and Housing Bureau (THB), the Development Bureau and the Trade and Industry Department (TID), is provided below.

**Relocation of Hong Kong Enterprises' Production Base**

The Hong Kong Trade Development Council (HKTDC) from time to time conducts studies on export markets, consumption patterns and operations of local businesses, including gauging the trade's views on issues such as relocation of manufacturing operations. According to a study conducted by HKTDC in the fourth quarter of 2018, local enterprises adopted different strategies in responding to the potential adverse impact of the trade conflict between China and the United States (US). A

majority of the respondents<sup>1</sup> would develop markets outside of the US (about 66%). Other exporters indicated that they would enhance the competitiveness of their products (around 40%), or move their production/sourcing base away from the Mainland (around 27%).

The HKTDC provides a range of support for companies looking to relocate their production base or expand into overseas markets. The HKTDC conducts market researches on different overseas markets, and provides regulatory updates, market news and analysis, as well as practical business guides to help Hong Kong enterprises develop their market expansion strategies. Using the ASEAN market as an example, the HKTDC has recently published a series of research reports on the consumer markets and distribution channels of various ASEAN countries. The HKTDC has also set up a dedicated webpage (Belt and Road Initiative SME Corner - the ASEAN Guide) to help Hong Kong enterprises better understand the development potential of ASEAN countries by providing information such as market profiles, practical business guides, success stories, and information about industrial parks and free trade zones of ASEAN countries.

Moreover, the HKTDC has, in the past two years, organised missions to ASEAN countries (including Indonesia, Vietnam, Myanmar and Cambodia) to assist the manufacturing sector in exploring cooperation and investment opportunities, as well as the possibility of setting up manufacturing base in these countries. In 2019, the HKTDC plans to collaborate with various local business associations and chambers to attract more local manufacturers from different sectors to participate in overseas missions. The HKTDC would continue to assist Hong Kong enterprises in developing their overseas business through hosting seminars on overseas business opportunities and practical guides on doing business, offering free business advisory services, assisting local traders to establish business contacts through the network of HKTDC's overseas offices, and organising mega promotional events in overseas markets.

In parallel, the Government has implemented various support and funding programmes to assist Hong Kong enterprises in areas such as developing markets, financing and enhancing their overall competitiveness.

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<sup>1</sup> Respondents can choose more than one answer.

These include the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund), the SME Export Marketing Fund, the Trade and Industrial Organisation Support Fund, the SME Loan Guarantee Scheme, as well as the special concessionary measures under the SME Financing Guarantee Scheme. Among the funding schemes, TID has launched the ASEAN Programme under the BUD Fund on 1 August 2018 to provide funding support to non-listed Hong Kong enterprises to undertake projects for enhancing their competitiveness and furthering business development in the ASEAN market.

The Government has also been closely monitoring developments of the China-US trade conflict and their impact on Hong Kong economy, maintaining close communication and exchanging information with the trade, and discussing with them how to respond. We have met with major local chambers and associations of SMEs many times to gauge their views and have introduced a number of support measures with a view to helping them address issues of concern. We will continue to communicate with and disseminate information to the trade through TID's dedicated liaison platform.

### **Promotion of “Re-industrialisation” and “Industry 4.0”**

With regard to “re-industrialisation”, ITB has been providing comprehensive support along four major fronts, namely infrastructure and land, financial support, technological support and talent.

In terms of infrastructure, the Government, through the Hong Kong Science and Technology Parks Corporation (HKSTPC), provides the industry with the necessary infrastructure and facilities for fostering industrial R&D and advanced manufacturing. In March 2017, HKSTPC completed the refurbishment of a factory building in the Tai Po Industrial Estate into the Precision Manufacturing Centre to accommodate high technology smart production, and the Centre is already fully occupied by various manufacturers. HKSTPC is also developing the Advanced Manufacturing Centre in the Tseung Kwan O Industrial Estate to promote smart production and advanced assembly by high value added manufacturing sector. The Centre is expected to complete by 2022.

Moreover, the Chief Executive has committed in her 2018 Policy Address to provide \$2 billion to the HKSTPC to identify suitable land in industrial estates for building manufacturing facilities required by the dedicated advanced manufacturing sector, so as to expedite the realisation of “re-industrialisation”.

In terms of financial support, the Government has been encouraging local R&D activities through financial support in different areas, with a view to fostering scientific research and the development of industrial technologies, spurring advanced manufacturing industries that are suitable for Hong Kong to operate locally and grow in the long run, hence promoting “re-industrialisation”. It has been committed in the 2018 Policy Address that a \$2 billion “Re-industrialisation Funding Scheme” be set up to subsidise manufacturers to set up smart production lines in Hong Kong.

In terms of technological support, the Hong Kong Productivity Council (HKPC) has been assisting the manufacturing sector to migrate to high value-added production and gradually upgrade into “Industry 4.0”. To drive “re-industrialisation”, HKPC has established the “Smart Industry One”, the “Inno Space”, the “Smart Industry One Consortium”, and “HKPC Shenzhen Innovation and Technology Centre” in recent years. It has also set up the “Invention Centre Hong Kong” in collaboration with the Fraunhofer Institute of Germany to support Hong Kong enterprises in adopting innovative industrial technologies. The five R&D Centres established by the Government have also been actively engaging in R&D related to “re-industrialisation”, covering various areas such as big data, Internet of Things, robotics technology, new materials, smart mobility, environmental technology, etc. in recent years, assisting the industry to capture and capitalise on business opportunities.

In terms of talent, the Innovation and Technology Commission rolled out the “Re-industrialisation and Technology Training Programme” in August 2018 to subsidise local enterprises on a 2:1 matching basis to train their staff in advanced technologies, especially those related to “Industry 4.0”, with a view to driving “re-industrialisation”.

## **The Development of the Logistics Sector**

THB has been maintaining close liaison with the logistics trade so as to understand their needs and to provide effective facilitation measures for enhancing the sustainable development of the industry and consolidating the logistics hub status of Hong Kong. In view of the increasing demand for modern logistics facilities amidst the rapid development of third-party high value-added logistics services in recent years, the Government has been working to provide sites dedicated for logistics uses to support the relevant development.

Since 2010, the Government sold by open tender three logistics sites in Tsing Yi totaling about 6.9 hectares (ha), providing the logistics industry with some 280 000 square metres of floor area. The Government sold another site of 3.17 ha in Tuen Mun Area 49 for modern logistics uses in May last year. Moreover, to support the air logistics development, the Airport Authority Hong Kong in June last year awarded the right to develop and manage a premium logistics centre at Kwo Lo Wan in the South Cargo Precinct of the Airport Island. The Government will continue to work with the relevant departments to identify suitable land for the development of modern logistics facilities.

The Hong Kong-Zhuhai-Macao Bridge (HZMB) commissioned in October last year has provided a direct land-based connection between Hong Kong and the Western Pearl River Delta (PRD) Region and significantly reduced the travelling time as well as the costs and time for transportation of goods between the two places. The travelling time between Zhuhai and the Hong Kong International Airport is reduced by more than 80% from 4 hours to 45 minutes, while that between Zhuhai and the Kwai Tsing Container Terminals is reduced by over 60% from 3.5 hours to 75 minutes.

The PRD Region has long been a key manufacturing base in the world. With the commissioning of HZMB, cargo from the Western PRD Region could be more conveniently transported to the airport and container ports in Hong Kong for export to other parts of the world using our sophisticated high value-added logistics services, thereby further expanding the cargo source of Hong Kong and strengthening our roles as

the regional logistics hub and distribution centre.

The Government will continue to closely monitor the relevant developments in Zhuhai and its neighbouring region and to maintain liaison and cooperation with the governments concerned and the trade, with a view to making better utilisation of HZMB to enhance the supply chain efficiency within the region and the logistics development in Hong Kong.

On the development of Sunny Bay, as mentioned in the 2018 Policy Address, Sunny Bay will be developed into a leisure and entertainment node to attract visitors and create synergy with the Hong Kong Disneyland Resort. In the planning and engineering study for Sunny Bay development, the relevant departments will look into various development options with different land uses; and consult the general public and stakeholders during the public engagement exercise to be conducted under the study.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Betty Ho', with a long horizontal flourish extending to the right.

(Betty Ho)

for Secretary for Commerce and Economic Development