

## MESSAGE

The Trade and Industry Bureau is committed to providing maximum support for Hong Kong's manufacturing and services industries.

With the weight of our economy shifting towards knowledge-based and higher value-added activities, it is important for us to upgrade our infrastructure and strengthen our support for promoting innovation and technological improvement in our manufacturing and service industries. We announced a range of initiatives in 1998 and we have made steady progress in implementing them. We will introduce some additional initiatives this year, for example, setting up a new high-level advisory body on innovation and technology, and merging the Hong Kong Industrial Estates Corporation, the Hong Kong Science Park and the Hong Kong Industrial Technology Centre Corporation. By strengthening our policy making and service delivery mechanisms, these initiatives will help fulfil our vision of making Hong Kong a centre of innovation and technology in the 21<sup>st</sup> century.

Small and medium enterprises (SMEs) are the backbone of Hong Kong's economy, making a significant contribution towards our economic growth as well as offering employment opportunities. The Government is fully committed to providing a conducive business environment and the necessary support for the development of this important sector of Hong Kong's economy.

It is in Hong Kong's best interest, and we have the highest policy commitment, to continue to implement stringent and vigorous controls over trade in strategic commodities. We will continue to abide by the highest international standard of controls through comprehensive licensing requirements as well as vigorous enforcement actions.



(Chau Tak Hay)

Secretary for Trade and Industry

# HIGH VALUE-ADDED AND COMPETITIVE INDUSTRIES

Our Policy Objective is to enable Hong Kong to be one of the most competitive economies in the world by increasing the added value and productivity of Hong Kong's manufacturing and service industries.

Our targets this year in pursuing this Policy Objective are –

- to provide increased support to activities promoting innovation and the application of technology in manufacturing and service industries
- to implement the recommendations of the First and Final Reports of the Chief Executive's Commission on Innovation and Technology
- to develop further our infrastructural facilities to support and facilitate the development of manufacturing and service industries
- to contribute to increasing Hong Kong's overall competitiveness

## Progress Made

Much effort has been made over the past year in maintaining Hong Kong's competitiveness through increasing the added value and productivity of Hong Kong's manufacturing and service industries. For example, good progress has been made in implementing various recommendations made in the First Report of the Chief Executive's Commission on Innovation and Technology. We have also deepened our support to SMEs.

In 1998, we continued to enjoy good access to cutting-edge technology products and technologies from our trading partners. This has contributed significantly to the maintenance of Hong Kong's status as a trading, financial and telecommunications hub in the region. In addition, our free access to these high technology products has helped promote technological development in Hong Kong.

# KEY RESULT AREAS (KRAs)

To ensure that this Policy Objective can be achieved, we must deliver results in a number of key areas, that is, we must –

<b>1</b>	<b>Promote innovation and improved technology in manufacturing and service industries</b>	<b>Page 3</b>
<b>2</b>	<b>Maximise Hong Kong’s access to high-tech products</b>	<b>Page 10</b>
<b>3</b>	<b>Develop a world-class support infrastructure for manufacturing and service industries</b>	<b>Page 12</b>
<b>4</b>	<b>Provide support for small and medium enterprises</b>	<b>Page 15</b>

# 1

## Promote innovation and improved technology in manufacturing and service industries

Innovation and technology are important elements contributing to the long-term growth of an economy. They are essential for increasing the added value, productivity and competitiveness of our manufacturing and service industries in the knowledge-based global economy of the 21<sup>st</sup> century.

Innovation includes both improved technology and better methods of doing things. It may be manifested in new products or services; improved quality; new ways of production, packaging, marketing or distribution; new markets; new supply sources; new organisations or systems; and other areas.

Improved technology is a powerful force for innovation, and is needed not just in the “high-tech” segments of the economy, but in all economic sectors. Improvements to technology may be applied to all aspects of the value-adding chain, including the way in which a product or service is designed, produced, marketed and delivered.

We aim to increase the capacity of our businesses to innovate, as well as to stimulate improvements in technology throughout the economy. We will focus on sustaining and expanding our existing industries and spawning new industries that match our current and future competitive strengths. Our vision is to make Hong Kong a centre of innovation and technology in the 21<sup>st</sup> century.

In March 1998, the Chief Executive appointed his Commission on Innovation and Technology to study and advise on the measures and institutional arrangements necessary to realise our vision. The Commission submitted its Second and Final Report to the Chief Executive in July 1999.

### Progress Made

Good progress has been made. For example, a \$5 billion Innovation and Technology Fund has been established to support projects that contribute to innovation and technology upgrading of our manufacturing and service industries. The management of the Applied Research Fund has been contracted out to three professionally managed venture capital firms. We are also actively planning for the setting up of an applied science and technology research institute and examining the major planning issues involved in the establishment of the proposed Institute for Chinese Medicine.

To achieve results in this area, various initiatives have been undertaken in the past years. Details are set out below –

Initiative *	Target #	Present Position +
<p>To establish an Innovation and Technology Fund to finance innovation and technology related programmes relevant to commerce and industry</p> <p><i>(Trade and Industry Bureau (TIB))</i></p>	<p>To establish the Fund with the sum of \$5 billion in 1999</p> <p><i>(1998)</i></p>	<p>The Fund was established in June 1999.</p> <p><i>(Action Completed)</i></p>
<p>To establish programmes which will promote university-business collaboration, e.g., matching grants for –</p> <ul style="list-style-type: none"> <li>● collaborative research projects</li> <li>● recent higher-degree research graduates or students undertaking research and development in private companies</li> <li>● private companies funding research initiatives in universities</li> </ul> <p><i>(Industry Department (Ind D))</i></p>	<p>To launch the new programmes in 1999</p> <p><i>(1998)</i></p>	<p>The new programmes will be launched in late 1999.</p> <p><i>(Action in Progress: On Schedule)</i></p>

\* the bracketed information denotes the agency with lead responsibility for the initiative

# the bracketed information denotes the year in which the target was set

+ the bracketed information denotes the status of the target

Initiative	Target	Present Position
<p>To establish an applied science and technology research institute to support mid-stream research and development <i>(TIB)</i></p>	<p>To begin the consultancy study for planning of the institute in 1999 <i>(1998)</i></p>	<p>A Task Force with representatives from Government, academia and the private sector was established in November 1998 to work out the planning parameters of the institute. The Task Force's recommendations are being examined.  <i>(Action in Progress: On Schedule)</i></p>
<p>To launch new programmes which will promote and facilitate collaboration between the business sector and technological institutions on the Mainland, e.g., an electronic database of Mainland technological resources; liaison meetings between relevant bodies in Hong Kong and Mainland counterparts <i>(Ind D)</i></p>	<p>To start discussing with technology-related authorities in the Mainland on the database and the liaison mechanism in 1999 <i>(1998)</i></p>	<ul style="list-style-type: none"> <li>● The issue of establishing a liaison mechanism on technological matters is being discussed with the relevant Mainland authorities.</li> <li>● Some existing databases on technology-related information of the Mainland have been made available for public access in the Small and Medium Enterprises Information Centre at the Industry Department. We are also working in collaboration with the Hong Kong Industrial Technology Centre Corporation to enhance the Techlink which is an interactive network covering technology-related information.</li> </ul> <p><i>(Action in Progress: On Schedule)</i></p>
<p>To examine the case for the development of an Institute for Chinese Medicine, which would undertake research, industry support work and promote commercialisation of medicinal products <i>(TIB/Ind D)</i></p>	<p>To set up a planning committee in 1999 <i>(1998)</i></p>	<p>Major planning issues pertaining to the establishment of the proposed Institute for Chinese Medicine are now being examined.  <i>(Action in Progress: On Schedule)</i></p>

Initiative	Target	Present Position
<p>To encourage relevant bodies to foster closer co-operation with Mainland bodies in the area of technological support infrastructure, including –</p> <ul style="list-style-type: none"> <li>● encouraging joint-research between Hong Kong and Mainland institutions</li> <li>● encouraging technology exchanges between the two places to foster cross-fertilisation of ideas</li> <li>● co-operation between the future Hong Kong Science Park and the proposed applied science and technology research institute and their counterparts as well as research institutions on the Mainland <i>(Ind D)</i></li> </ul>	<ul style="list-style-type: none"> <li>● To strengthen our support for joint-research projects between Hong Kong and Mainland institutions under Government funding schemes</li> <li>● To encourage such exchanges between local and Mainland institutions and companies using Government funding schemes and specifically, to support cross-visits, seminars, conferences and training programmes etc.</li> <li>● To initiate discussion at the Provisional Hong Kong Science Park Co. Ltd. on the issue of co-operation with Mainland institutes/science parks in 1999 <i>(1998)</i></li> </ul>	<ul style="list-style-type: none"> <li>● We have been encouraging higher education institutions and industry support organisations in Hong Kong to collaborate with Mainland institutions on joint-research by providing financial support from Government funding schemes. These schemes have provided \$165 million to finance such joint-research projects.</li> <li>● We have been encouraging technology exchanges between Hong Kong and Mainland institutions by providing financial support from Government funding schemes. These schemes have provided \$21 million for the funding of cross-visits, studies, seminars, conferences and training programmes.</li> <li>● The Chief Executive of the Provisional Hong Kong Science Park Co. Ltd. assumed office in June and is working out a business plan for the Science Park. The issue of co-operation with Mainland institutes/science parks will also be addressed. <i>(Action in Progress: On Schedule)</i></li> </ul>

Initiative	Target	Present Position
<p>To help our industries and businesses enjoy a better operating environment in the Pearl River Delta (TIB)</p>	<p>To help our industries and businesses by pursuing, through our regular contacts with Mainland authorities, measures aimed at improving the environment for businesses operating in the Pearl River Delta (1998)</p>	<p>We have been maintaining close contacts with the relevant Mainland authorities so as to collect and disseminate to Hong Kong businessmen information on trade and investment policies and measures in the Mainland. On matters which have a general impact on Hong Kong-related business operations in the Mainland, we stand ready to reflect the views of Hong Kong businessmen to the Mainland authorities concerned. We will also be setting up a liaison mechanism with the Ministry of Foreign Trade and Economic Co-operation.  (Action in Progress: On Schedule)</p>
<p>To promote a culture conducive to technology ventures through a professionally managed Applied Research Fund (Ind D)</p>	<ul style="list-style-type: none"> <li>● To engage at least two venture capital firms for the management of the Applied Research Fund in 1998-1999</li> <li>● To achieve a significant proportion of private investment in funded projects of the Applied Research Fund (1998)</li> </ul>	<ul style="list-style-type: none"> <li>● Three venture capital firms were engaged in late 1998. (Action Completed)</li> <li>● Half of the funded projects have involved co-investment with private sector funds. (Action in Progress: On Schedule)</li> </ul>
<p>To continue to help sustain and expand our existing support for the services industry through the Services Support Fund (Ind D)</p>	<p>To secure additional resources for the Services Support Fund for 1999-2000 (1998)</p>	<p>The Services Support Fund has been subsumed under the Innovation and Technology Fund. The \$5 billion Fund will provide additional resources for funding services support projects.  (Action Completed)</p>



## Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicator –

Indicator	1999 Target
The number of applications approved under the Innovation and Technology Fund to support innovation and technology in commerce and industry	To approve a target of 130 applications by September 2000

We will undertake the following initiatives to deliver results in this area –

Initiative	1999 Target
<p>To strengthen policy making, co-ordination and implementation by –</p> <ul style="list-style-type: none"> <li>● establishing a permanent advisory body on innovation and technology reporting to the Chief Executive <i>(TIB)</i></li> <li>● establishing an inter-bureau policy group headed by the Financial Secretary <i>(TIB)</i></li> <li>● appointing advisers with a strong science and technology background <i>(TIB/Ind D)</i></li> </ul>	<ul style="list-style-type: none"> <li>● To establish the advisory body in 1999-2000</li> <li>● To establish the policy group in 1999-2000</li> <li>● To complete appointing the advisers in 2000</li> </ul>
<p>To rationalise and streamline service delivery by merging the Hong Kong Industrial Estates Corporation, Hong Kong Science Park and Hong Kong Industrial Technology Centre Corporation <i>(TIB/Ind D)</i></p>	<p>To begin consultation with the affected institutions in 1999</p>
<p>To launch a matching-grant scheme for small firms undertaking commercial research and development <i>(Ind D)</i></p>	<p>To launch the scheme in 1999-2000</p>

Initiative	1999 Target
To step up overseas liaison and promotion efforts for attracting talents to Hong Kong <i>(TIB/Ind D)</i>	To map out a strategy by mid-2000

## 2

### Maximise Hong Kong's access to high-tech products

High-tech products, such as high performance computers, electronic equipment and telecommunication devices, are essential to our banking, finance, and high value-added manufacturing sectors. Free and full access to these products helps to maintain Hong Kong as an international business and financial centre, and stimulates the process of technological upgrading in Hong Kong.

Some high-tech products are also capable of military use. Therefore our trading partners, in line with international practices, control exports of these products. To ensure that our trading partners continue to have confidence in exporting these products to Hong Kong without fear that they will contribute towards weapons proliferation activities, we must maintain an effective control system as regards the transfer and use of these goods.

The Trade Department maintains an effective computerised licensing control system covering the import, export and use of strategic commodities. The system is supported by vigorous enforcement action by the Customs and Excise Department. The effectiveness of our system is well recognised by our trading partners, and we accordingly have good access to high-tech products. We aim to maintain and enhance the effectiveness of our control system and enforcement capability so as to ensure our continued access to the highest level of technology to sustain our position as a regional centre for trade, industry, finance and telecommunication.

#### Progress Made

Our main indicator in this area as set out in the 1998 Policy Objective booklet was the extent to which local business could continue to import the maximum range of high-tech products for legitimate use from our major trading partners. In 1998, we secured continued access to high-tech products by maintaining a robust strategic trade control system. To match the international standard of control over chemical products, we undertook to enact legislation and put in place related administrative arrangements in 1999-2000. A draft bill implementing the Chemical Weapons Convention is currently being finalised. At the same time, new sections have been set up in relevant government departments to prepare for the implementation of the Convention.

To achieve results in this area, various initiatives have been undertaken in the past years. Details are set out below –

Initiative	Target	Present Position
To implement fully the Chemical Weapons Convention in the Hong Kong Special Administrative Region so as to achieve the international standard of control of chemical products <i>(Trade Department/ Customs and Excise Department (C&amp;ED)/ Government Laboratory)</i>	To enact legislation and put in place related administrative arrangements in 1999-2000 <i>(1998)</i>	The draft legislation is being finalised. New sections have been set up in the Trade Department and the Government Laboratory to prepare for the implementation of the Convention. An operational unit will also be set up in the Customs and Excise Department to take on the enforcement work upon the implementation of the Convention. <i>(Action in Progress: On Schedule)</i>
To maintain and improve the effectiveness of enforcement action in combating the unlicensed import and export of strategic commodities <i>(C&amp;ED)</i>	To maintain a high level of surveillance with additional resources being made available in the year 1998-1999 <i>(1998)</i>	Increased number of consignment inspections and physical examination of cargoes are being conducted with the additional resources. <i>(Action Completed)</i>

## Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicator –

Indicator	1999 Target
The extent to which local business can continue to import the maximum range of high-tech products for legitimate use from our major trading partners	To guard against any discriminatory measures imposed by our major trading partners on the export of high-tech products to Hong Kong; and to ease their doubts and concern over the autonomy of our control system so as to secure the continual access to higher technology for Hong Kong

# 3

## Develop a world-class support infrastructure for manufacturing and service industries

The Government is committed to providing a business-friendly environment conducive to the development of our manufacturing and service industries. Accordingly, we invest heavily in infrastructural facilities to support and facilitate the development of our industries. We have also set up industrial support organisations to provide services which meet our industries' needs.

Our industrial base is moving from low-wage and labour-intensive production to high value-added and knowledge-based activities. We therefore aim to provide a support infrastructure which will promote the further development of high value-added and technology-based industries.

Accommodation-based infrastructural facilities include the Hong Kong Industrial Estates Corporation and the Hong Kong Industrial Technology Centre Corporation. They will be joined by the Science Park which is under active planning and development. The Hong Kong Productivity Council provides professional and consultancy services in order to promote productivity and to enhance the value-added content of products and services. The Industry Department's Standards & Calibration Laboratory and the Hong Kong Laboratory Accreditation Service provide professional support and services for quality assurance. The Applied Science and Technology Research Institute, when completed, will fill the existing gap in mid-stream research and development.

### Progress Made

Good progress has been made in the past year to boost our infrastructural facilities. The detailed design work of the Science Park project has commenced. The industrial estates and the industrial technology centre continue to meet demands for accommodation from their target clients. The current take-up rate of the three industrial estates is, on average, 79%. Regarding the industrial technology centre, the area reserved for tenants is fully occupied and that for incubatees is over 97% occupied.

To achieve results in this area, various initiatives have been undertaken in the past years. Details are set out below –

Initiative	Target	Present Position
<p>To plan for and provide new industrial infrastructure, viz. –</p> <ul style="list-style-type: none"> <li>● the Science Park</li> <li>● the second industrial technology centre</li> <li>● the fourth industrial estate <i>(Industry Department)</i></li> </ul>	<p>To complete the construction of new industrial infrastructure on schedule, i.e., to</p> <ul style="list-style-type: none"> <li>● bring Phase One of the Science Park on stream in 2001</li> <li>● complete construction of the second industrial technology centre in 2001</li> <li>● make available the first batch of fully serviced land in the fourth industrial estate by 2001, with a view to completing the whole project in 2004 <i>(1998 and 1997)</i></li> </ul>	<ul style="list-style-type: none"> <li>● Construction work will commence in early 2000. <i>(Action in Progress: On Schedule)</i></li> <li>● The Government has accepted the recommendations of the Final Report of the Chief Executive's Commission on Innovation and Technology that the incubator programme should be expanded through a distributed model. As such, there is no longer a need for building a second industrial technology centre. We have therefore withdrawn the plan to build such a centre. <i>(Action Completed)</i></li> <li>● The whole project is expected to be completed by 2004. However, the Hong Kong Industrial Estates Corporation (HKIEC) is currently conducting a consultancy study on the role and operation of the industrial estates. As the outcome of the study may have implications on the development of the fourth industrial estate, the actual development work will start after a decision is made on the consultancy's recommendations. As such, the availability of the first batch of fully serviced land will be deferred to 2003. <i>(Action in Progress: On Schedule)</i></li> </ul>

Initiative	Target	Present Position
To conduct a consultancy on the need for a business park <i>(Trade and Industry Bureau)</i>	To work closely with the consultant in completing Stage One of the Study by mid-1999 to establish the need or otherwise for a business park in Hong Kong <i>(1998 and 1997)</i>	Stage One of the Study on the need or otherwise of a business park in Hong Kong is completed. The recommendations of the Study are being examined. <i>(Action in Progress: On Schedule)</i>

## Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicators –

Indicator	1999 Target
On-schedule development of the Science Park	To open Phase One of the Science Park in the second half of 2001
The amount of fully serviced industrial land being taken up in the industrial estates managed by the HKIEC	To have ten hectares taken up in 1999-2000
The tenancy rate at the Hong Kong Industrial Technology Centre Corporation	To maintain 98% take-up of the tenants' area and 95% take-up of the incubation centres by March 2000

# 4

## Provide support for small and medium enterprises

Small and medium enterprises (SMEs) comprise over 98% of businesses in Hong Kong and employ about 60% of the working population. The Government is committed to providing a business-friendly environment conducive to the development of this sector.

Currently, a variety of services are provided by the Government and industrial and trade organisations to support SMEs. For example, the Industry Department's Small and Medium Enterprises Office provides one-stop information services on licensing requirements, and other support services and facilities available to SMEs. The Hong Kong Productivity Council and the Hong Kong Trade Development Council provide support and consultancy services specifically targeted at SMEs. An SME Committee advises the Government on issues affecting the development of SMEs. We launched a \$2.5 billion Special Finance Scheme in August 1998 to help SMEs gain better access to bank financing in view of the liquidity crunch problem.

Given their limited resources and size, SMEs have constraints in meeting the challenge of an increasingly competitive market. We therefore aim to strengthen the Government's support for them.

### Progress Made

The Small and Medium Enterprises Office was set up in April 1999 and its associated Information Centre was opened to the public in August. The initial findings of the survey on users' satisfaction will be available by the end of 1999. Meanwhile, the \$2.5 billion Special Finance Scheme launched in August 1998 has been making good progress. The Scheme was reviewed in 1999 and major changes were introduced thereafter to improve the effectiveness of the Scheme. By end-August 1999, all the funds of the Scheme had been committed and further applications have since been processed on a first-come-first-served basis as and when recycled funds are available from discharged and released guarantees.



To achieve results in this area, various initiatives have been undertaken in the past years. Details are set out below –

Initiative	Target	Present Position
<p>The Industry Department to establish a Small and Medium Enterprises Office within the Department to help SMEs gain access to services <i>(Industry Department)</i></p>	<p>To achieve 75% user satisfaction <i>(1998)</i></p>	<ul style="list-style-type: none"> <li>● The Small and Medium Enterprises Office has been in operation since 1 April 1999. Its activities include co-ordination of support programmes and delivery of information on facilities and services available to SMEs. The Office established a Small and Medium Enterprises Information Centre and a Virtual Small and Medium Enterprises Information Centre on the Internet in August to facilitate public access to relevant information.</li> <li>● The Small and Medium Enterprises Information Centre has launched an on-going survey since September 1999 to obtain feedback on customer satisfaction, the initial findings of which will be available towards the end of 1999.</li> </ul> <p><i>(Action in Progress: On Schedule)</i></p>
<p>To examine the continued need for a credit guarantee scheme for SMEs <i>(Trade and Industry Bureau)</i></p>	<p>To review the operation of the Special Finance Scheme for SMEs <i>(1998)</i></p>	<p>The review has been completed and the Scheme revised. <i>(Action Completed)</i></p>

## Looking Forward

In the next 12 months, we will assess our performance in respect of this KRA against the following indicator –

Indicator	1999 Target
The extent to which SMEs show satisfaction with the information services provided through the Small and Medium Enterprises Office	To achieve 75% user satisfaction by September 2000