

LCQ5: Re-industrialisation in Hong Kong

Following is a question by the Hon Holden Chow and a reply by the Secretary for Innovation and Technology, Mr Alfred Sit, in the Legislative Council today (June 2):

Question:

The Government put forth the re-industrialisation initiative in the 2016 Policy Address, with the aim of revitalising traditional industries using new technologies and developing emerging industries. In this connection, will the Government inform this Council:

(1) whether it had, in developing the re-industrialisation initiative, considered following the practice of Singapore to set a target on the share of the manufacturing industry in the gross domestic product;

(2) as the Government has indicated that its industrial support policy aims at creating an environment conducive to industrial development instead of determining the pace or specific direction of industrial development, yet quite a number of economies have a clear development direction under the concept of re-industrialisation, whether the Government will, when promoting re-industrialisation, be more proactive in spearheading the development of industries and act not just as a facilitator; and

(3) apart from launching the Re-industrialisation Funding Scheme and the Re-industrialisation and Technology Training Programme as well as developing the Advanced Manufacturing Centre, what measures the Government has put in place to encourage traditional industries to gradually move towards smart production, and whether it will introduce new measures to encourage re-industrialisation, such as providing more tax concessions for research and development expenditures and capital investment, increasing the supply of industrial sites, and strengthening the training for relevant technical staff?

Reply:

President,

The Government has been actively promoting re-industrialisation and developing advanced manufacturing, which is less land or labour-intensive, based on new technologies and smart production. With Hong Kong's strong capabilities in research and development (R&D) and advantages of internationalisation and marketisation, the promotion of re-industrialisation is conducive to further stimulating the demand for R&D, providing new impetus for economic growth and creating quality employment opportunities. The focus of promoting re-industrialisation is not to revitalise traditional

industries, but to enhance the competitiveness of the manufacturing industry in Hong Kong through innovative technologies, having regard to our relative advantages. The Government set up the Committee on Innovation, Technology and Re-industrialisation chaired by the Financial Secretary in April 2017, which advises the Government on matters related to the promotion of innovation and technology (I&T) development and re-industrialisation in Hong Kong. In addition, we report the progress of work in various areas to the Panel on Commerce and Industry of the Legislative Council from time to time.

Our consolidated reply to the various parts of the Hon Chow's question is as follows:

The Innovation and Technology Bureau, established in 2015, adopted the key performance indicators (KPIs) proposed by the Advisory Committee on Innovation and Technology in 2017, which comprises members from the higher education, I&T and industry sectors, to foster the creation of a thriving I&T ecosystem. Among them, our target for the KPI on the manufacturing sector's contribution to Gross Domestic Product (GDP) is to reverse its declining trend. Subsequently, the Government has been working towards this goal and promoting re-industrialisation in five areas, namely infrastructure, talent, capital, technology and scientific research.

On infrastructure, the Hong Kong Science and Technology Parks Corporation has been developing and providing plenty of specially designed space and facilities in the industrial estates (IEs) over the past few years, with a view to fostering high-tech smart production. They include:

- the Precision Manufacturing Centre, which was converted from a factory in the Tai Po IE in 2017. It is fully occupied at present, and the companies that have settled down consist of industries such as precision engineering and assembly, manufacturing of new materials, eco-friendly yarns, etc.;
- another building, a centre for manufacturing medical products in the Tai Po IE. It is also expected to be completed within this year;
- the Advanced Manufacturing Centre, which is also being constructed in the Tseung Kwan O IE. Upon completion next year, it will provide companies of different scales with scalable, efficient and serviced manufacturing space, and assist them in embarking on technological innovation and high value-added production with the application of advanced manufacturing processes; and
- the Microelectronics Centre in the Yuen Long IE, which is expected to be completed in 2023. It attracts manufacturers of microelectronic products

and related industries.

On talent, the Government launched the Re-industrialisation and Technology Training Programme (RTTP) in 2018, which funds local enterprises on a 2 (Government) : 1 (Enterprise) matching basis for their staff to receive training in advanced technologies, especially those related to Industry 4.0. As at the end of April this year, the RTTP has approved nearly 1 300 applications for registering public courses and provided over 5 400 training sessions in advanced technologies with total funding exceeding \$35 million.

On capital, the Government launched the Re-industrialisation Funding Scheme in 2020, which subsidises manufacturers, on a 1 (Government) : 2 (Company) matching basis, to set up new smart production lines in Hong Kong. The funding for each project is capped at \$15 million. As at the end of April this year, we have received 15 applications. The Vetting Committee has agreed in principle to support nine applications, with the remaining four being processed.

On technology, the Hong Kong Productivity Council (HKPC) is fully committed to assisting enterprises in moving towards high value-added production and gradually upgrading to Industry 4.0. The HKPC established The Hatch in collaboration with the pioneer of Industry 4.0 worldwide – the Fraunhofer Institute for Production Technology of Germany – to assist the industry in accelerating the adoption of technologies related to Industry 4.0. Meanwhile, the HKPC has been implementing the Industry 4.0 Upgrade and Recognition Programme to assist enterprises in setting up smart production lines, and organising a wide range of training programmes and seminars to encourage the industry to leverage I&T.

On scientific research, the five R&D centres established by the Government will also continue to work on applied R&D related to re-industrialisation in close collaboration with the industry, thereby fostering the commercialisation of R&D outcomes. In addition, the Government has been providing a series of financial support to encourage R&D, including amending the Inland Revenue Ordinance so as to provide a two-tiered enhanced tax deduction regime for expenditure on qualifying R&D activities incurred by enterprises. The claims for tax deduction on R&D expenditure for the year of assessment 2019/20 amounted to about \$3.2 billion, which is over a double of the amount in the year of assessment 2017/18, prior to the implementation of the measure. Moreover, many schemes under the Innovation and Technology Fund provide vigorous support for R&D centres, universities, other designated public R&D organisations and private companies to carry out R&D work.

Although it may take some time for the above initiatives to show visible results completely, we notice that the trend on the manufacturing sector's contribution to GDP has remained horizontal and largely stable in recent years, as opposed to the continuous decline in the past two decades or so. Many entrepreneurs have also expressed interests in investing in smart production, and friends from the industry have been proactively upgrading their existing production lines towards Industry 4.0. These momentums demonstrate that our work in promoting re-industrialisation is on the right

track, and the achievements have gradually emerged. Despite the fact that circumstances such as the COVID-19 epidemic in the past year or so have more or less affected our work in promoting I&T and re-industrialisation, the optimism and support from the industry have fully recognised the Government's determination in promoting I&T and re-industrialisation. We are therefore confident about the future of I&T development.

The National 14th Five-Year Plan and the development of the Greater Bay Area provide Hong Kong with endless opportunities. We will continue to work in close collaboration with the industry, the academia and research institutes, proactively integrate Hong Kong into national development, and enhance our work in promoting I&T and re-industrialisation. In the long run, the Government remains open to the suggestion of drawing up a target for the manufacturing sector's contribution to GDP, and will look into further support measures that are applicable to the actual situation in Hong Kong. We will also consult other relevant stakeholders on this front as appropriate.

Thank you, President.