

Chapter 5

Commerce and Industry

Hong Kong's low tax rates, first-class infrastructure, effective legal system, and free flow of capital and information all contribute to an environment in which business can flourish. The city is an important gateway to the mainland of China, one of the world's most dynamic economies.

Hong Kong is a leading international trading and services centre as well as a high value-added manufacturing base. It is recognised as one of the freest economies in the world, and the most strategic gateway to the vast Mainland market. The government is firmly committed to free trade and sees its task as facilitating commerce and industry within the framework of a free market. It does not impose tariffs. Regulatory measures on international trade are kept to the minimum. Hong Kong also adopts an open and liberal investment policy and proactively encourages inward investment.

Merchandise Trade Performance

Hong Kong's external trade sustained modest growth in 2014. Total merchandise trade increased by 3.6 per cent to \$7,891.8 billion in 2014 compared with 2013. Domestic exports increased by 1.7 per cent to \$55.3 billion whereas re-exports increased by 3.2 per cent to \$3,617.5 billion compared with the previous year. Imports increased by 3.9 per cent to \$4,219 billion. A summary of external merchandise trade statistics is at Table 13 of Appendix 6. Hong Kong's biggest trading partner in 2014 was the Mainland, followed by the United States of America (USA) and Japan. In 2014, Hong Kong was the world's eighth largest trading entity in terms of value of merchandise trade.

Imports

Electrical machinery, apparatus and appliances, and electrical parts thereof constituted the largest share of total imports in 2014 at \$1,270.2 billion, followed by telecommunications and sound recording and reproducing apparatus and equipment (\$700.2 billion) and office machines and automatic data processing machines (\$379.3 billion).

In 2014, the Mainland, Taiwan and Japan were Hong Kong's major suppliers, accounting for 47.1 per cent, 7.1 per cent and 6.8 per cent respectively of the total value of imports.

Domestic Exports

Jewellery, goldsmiths' and silversmiths' wares, and other articles of precious or semi-precious materials formed the largest component of domestic exports, valued at \$7.6 billion or 13.8 per cent of the total value of domestic exports in 2014. Other major export items included plastics in primary and non-primary forms; machinery specialised for particular industries; and medicinal and pharmaceutical products.

The Mainland, the USA and Taiwan were Hong Kong's largest markets during the year, absorbing 42 per cent, 8.1 per cent and 5.4 per cent respectively of the total value of domestic exports.

Re-exports

In 2014, electrical machinery, apparatus and appliances, and electrical parts thereof worth \$1,100.4 billion were the principal commodities re-exported (30.4 per cent of the total value of re-exports). This was followed by re-exports of telecommunications and sound recording and reproducing apparatus and equipment, which amounted to \$718.2 billion (19.9 per cent of the total value of re-exports). The Mainland, Taiwan and Japan were the main origins of the re-exports, while the Mainland, the USA and Japan were the main destinations.

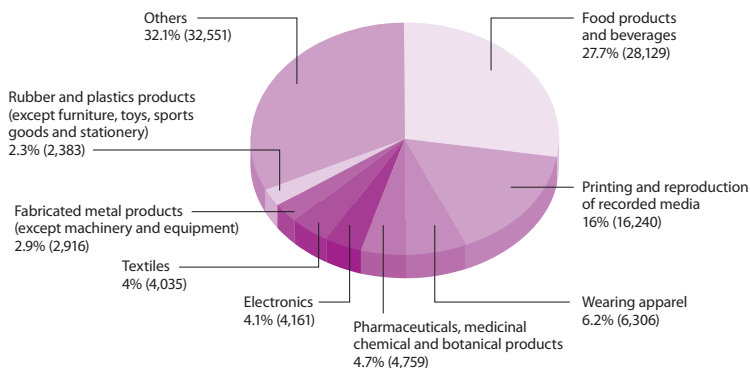
The Manufacturing Sector

With the expansion of manufacturing activities offshore since the 1980s, Hong Kong has evolved into a strategic control centre with an increasingly globalised production network. In spite of Hong Kong's economic restructuring, the manufacturing sector continued to provide employment for 106,800 people (2.8 per cent of overall employment) in 2014.

Manufacturers of food products and beverages were the largest employers in the manufacturing sector as at December 2014, followed by employers in the printing and reproduction of recorded media industries. Chart 1 shows the breakdown of employment within the manufacturing sector as at December 2014.

Chart 1

Number of Persons Employed by the Manufacturing Sector as at December 2014



The Services Sector

The services sector has continued to grow in the past decade. Its share of Hong Kong's Gross Domestic Product (GDP) rose from 90.5 per cent in 2004 to 92.9 per cent in 2013. In 2014, 88.5 per cent of total employment was in this sector. Hong Kong has become one of the most service-orientated economies in the world.

In 2014, Hong Kong's total services trade amounted to \$1,558.1 billion, making it the world's 17th largest services trading entity in value, traded and exported \$1,076.9 billion worth of services, contributing to 48 per cent of GDP. In 2014, Hong Kong ranked fifth in the region after China, Japan, India and Singapore in total value of services exported, and 15th in the world.

The main components of Hong Kong's exports of services in 2014 were travel services and transportation services, accounting for 36.2 and 29.9 per cent respectively of the total value. Hong Kong is a net exporter of services and had an overall surplus of \$235.2 billion in 2014, with the surplus for travel services and transportation services \$126.1 billion and \$102.6 billion respectively.

Inward Direct Investment

According to the United Nations Conference on Trade and Development's 'World Investment Report 2014', Hong Kong was the second largest recipient of foreign direct investment (FDI) flow in Asia in 2013, after the Mainland of China. The 'External Direct Investment Statistics of Hong Kong 2013' released by the Census and Statistics Department indicates that Hong Kong's FDI inflow in 2013 amounted to \$596.1 billion. At the end of 2013, the position of direct investment liabilities¹ amounted to \$11,346.7 billion. Chart 2 shows source countries or territories of the inward direct investment. The British Virgin Islands was the largest, accounting for 33.7 per cent of the total as at the end of 2013. Chart 3 shows the major economic activities of Hong Kong enterprise groups². Those engaged in investment and holding, real estate, professional and business services took up the largest share, at 68.2 per cent of the total at the end of 2013.

As at June 2014, Hong Kong was host to 7,585 overseas, Mainland and Taiwan companies, with 3,784 of these companies having regional headquarters or regional offices here.

¹ According to the latest international statistical standards, the FDI inflow and the position of direct investment liabilities presented in this paragraph are compiled based on the 'asset/liability principle', while detailed inward direct investment figures analysed by selected major country/territory and by major economic activity of Hong Kong enterprise groups presented in Charts 2 and 3 respectively are based on the 'directional principle'. Owing to the adoption of different presentation principles, the aggregate position of direct investment liabilities is different from the overall totals of the detailed inward direct investment figures by selected major country/territory or by major economic activity of Hong Kong enterprise groups.

² A Hong Kong enterprise group mainly consists of a Hong Kong parent company and its Hong Kong subsidiaries, associates and branches.

Chart 2

Position of Inward Direct Investment in Hong Kong at Market Value by Major Investor Country/Territory at the end of 2013

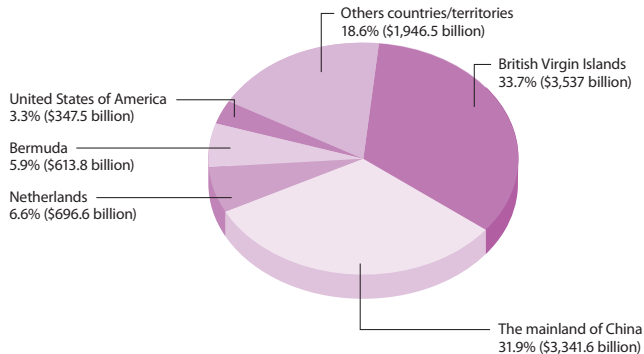
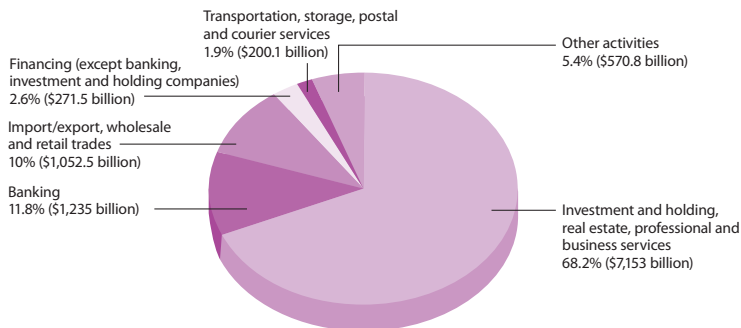


Chart 3

Position of Inward Direct Investment in Hong Kong at Market Value by Major Economic Activity of Hong Kong Enterprise Groups at the end of 2013



The Institutional Framework

Commerce, Industry and Tourism Branch

The Commerce, Industry and Tourism Branch of the Commerce and Economic Development Bureau formulates and co-ordinates policies and strategies in relation to Hong Kong's external commercial relations, tourism, inward investment promotion, convention and exhibition services, intellectual property protection, industry and business support, trade facilitation, consumer protection, promotion of competition, postal services and meteorological services. It also oversees the development of policies and programmes for the industrial and trade sectors, including small and medium enterprises (SMEs), and the promotion of services industries. The branch is assisted by the Trade and Industry Department, Invest Hong Kong, the Customs and Excise Department, the Intellectual Property Department, Hongkong Post and the Hong Kong Observatory. It is also supported by the overseas Economic and Trade Offices (ETOs).

Trade and Industry Department

The Trade and Industry Department handles the Hong Kong Special Administrative Region's (HKSAR) commercial relations with its trading partners, and protects Hong Kong's trading rights and trade interests. It also promotes Hong Kong's status as a separate customs territory and a model for international free trade.

Locally, the department provides a range of services to locally based trade and industry organisations and businesses, including issuing certificates of origin, export and import licences and certificates of Hong Kong service suppliers. It also provides general support services for various sectors, in particular SMEs, and provides local enterprises with relevant trade information and advises them on changes in major trading partners' import regulations.

The department also co-ordinates discussions with the Mainland authorities on the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

Invest Hong Kong

Invest Hong Kong is responsible for attracting and retaining FDI which is of strategic importance to the economic development of Hong Kong. It supports overseas, Mainland and Taiwan companies to set up and expand their operations in Hong Kong. Invest Hong Kong conducts investment promotion activities worldwide through its 15 Investment Promotion Units in overseas ETOs, the Beijing Office and the Hong Kong Economic, Trade and Cultural Office in Taiwan, as well as its overseas consultants in another 14 strategic global locations.

Customs and Excise Department

The Customs and Excise Department enforces certain trade control systems for the issue of certificates of origin (including those under the CEPA), the import and export of textiles, strategic commodities, pharmaceutical products and medicines, reserved commodities, rough diamonds and other prohibited articles, as well as compliance with the Chemical Weapons Convention. The department also collects import and export declarations, declaration charges and clothing levies, and enforces the relevant statutory controls.

Moreover, the department enforces the criminal laws that protect copyright and trade marks, and consumer protection legislation relating to the safety of consumer goods, fair trade practices and the integrity of weights and measures.

Intellectual Property Department

The Intellectual Property Department operates the trade marks, patents, designs and copyright licensing bodies registries, advises on policy and legislation related to intellectual property protection, provides civil intellectual property legal advice to the government, and promotes public awareness of and respect for intellectual property rights. In addition, it facilitates and promotes the development of intellectual property trading in Hong Kong.

Overseas Hong Kong Economic and Trade Offices

There are 11 overseas Hong Kong ETOs located in Berlin, Brussels, Geneva, London, New York, San Francisco, Singapore, Sydney, Tokyo, Toronto and Washington DC. With the exception of the

Geneva office (which mainly represents 'Hong Kong, China' as a member of the World Trade Organisation (WTO), and as a participant to the Trade Committee of the Organisation for Economic Co-operation and Development headquartered in Paris), the ETOs seek to promote Hong Kong's economic and trade interests by enhancing understanding of Hong Kong among opinion-formers; closely monitoring developments that might affect Hong Kong's economic and trade interests; and liaising closely with the business and commercial sectors, politicians, government ministries/agencies, think tanks and the news media. They regularly organise events to promote Hong Kong's image and ETOs with an Investment Promotion Unit also offer support to individual enterprises interested in setting up or expanding their presence in Hong Kong.

The Brussels ETO represents Hong Kong's overall economic and trade interests in Europe, in particular in dealings with the European Union (including the European Commission and European Parliament). It also promotes Hong Kong's bilateral relations with 15 European countries. The London ETO represents Hong Kong's interests and promotes bilateral relations in nine countries. Hong Kong's representative to the International Maritime Organisation is based in the London ETO. The Berlin ETO fosters closer economic and trade ties between Hong Kong and eight countries in central and eastern Europe.

The Washington ETO represents Hong Kong's interests in the USA. It monitors federal government policies and legislation which may have implications on Hong Kong's economic and trade relationships with the USA. The New York ETO promotes Hong Kong's economic and trade interests in 31 eastern states of the USA, while the San Francisco ETO is responsible for 19 western states.

The ETOs in Sydney, Tokyo and Toronto are responsible for bilateral economic and trade relations in their host countries. In addition, the Sydney ETO covers New Zealand and the Tokyo ETO covers the Republic of Korea. The Singapore ETO looks after Hong Kong's bilateral economic and trade relations with the 10 member states of the Association of Southeast Asian Nations.

Details of the promotional activities organised by the overseas Hong Kong ETOs are in the section on Promoting Hong Kong Worldwide in Chapter 16 (The Media, Communications and Information Technology).

External Commercial Relations

Hong Kong's Participation in the World Trade Organisation

Hong Kong is a founding member of the WTO and has continued its separate membership since the establishment of the HKSAR under the name of 'Hong Kong, China'. The rule-based multilateral trading system under the auspices of the WTO is the cornerstone of Hong Kong's external trade policy. Hong Kong participates actively in the current round of multilateral trade negotiations launched in Doha, Qatar, in 2001, mainly to seek greater market access for its services and goods. In December 2014, Hong Kong became the first WTO Member to join the WTO Agreement on Trade Facilitation, which is the first multilateral agreement concluded since the establishment of the WTO in 1995.

Regional Economic Co-operation

Hong Kong continues to play an active role in enhancing regional economic co-operation. It participates as a full and separate member in Asia-Pacific Economic Co-operation (APEC), a regional forum for high-level dialogue and co-operation on trade and economic issues, under the name of 'Hong Kong, China'. In November 2014, the Chief Executive and the Secretary for Commerce and Economic Development represented Hong Kong in Beijing, China, at the 22nd APEC Economic Leaders' Meeting and the 26th APEC Ministerial Meeting respectively. In 2014, some 83 per cent of Hong Kong's external trade was conducted with the other 20 member economies of APEC.

The Pacific Economic Co-operation Council (PECC) is a non-governmental regional forum comprising government officials, business leaders and academics. It works on policy issues to enhance trade, investment and economic development in the Pacific region. The Hong Kong Committee for Pacific Economic Co-operation advises on and co-ordinates Hong Kong's participation in the PECC and plays an active role in the PECC's activities.

Organisation for Economic Co-operation and Development

Hong Kong participates in the Trade Committee and the Committee on Financial Markets of the Organisation for Economic Co-operation and Development, which are important forums for discussing policies on international trade and financial services.

Regional and Bilateral Trade Agreements

To secure more favourable access to overseas markets for Hong Kong goods and services, the government continues to pursue free trade agreements (FTAs) that are in Hong Kong's interests, are consistent with WTO provisions and contribute to multilateral trade liberalisation. In October, the FTA between Hong Kong and Chile entered into force. In July, Hong Kong and the Association of Southeast Asian Nations launched bilateral FTA negotiations. In addition, Hong Kong continued to participate in negotiations among some WTO Members for a Trade in Services Agreement and an agreement on environmental goods in 2014. These agreements will enhance trade and investment flows between Hong Kong and relevant markets, generate new opportunities for Hong Kong businesses, and boost economic growth.

Liaison with the Mainland and CEPA

The Mainland's rapid economic and trade growth has helped boost Hong Kong's trade in goods and services. Since the Mainland and Hong Kong signed CEPA in 2003, the two sides have signed 10 supplements to broaden CEPA's coverage and to deepen the liberalisation in many service areas. In December 2014, the two sides signed the 'Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong' under the framework of CEPA. The agreement opens up 153 services sub-sectors in Guangdong to the Hong Kong services industry, accounting for 95.6 per cent of all services sub-sectors according to the WTO's classification.

Under CEPA, the Mainland will apply a zero tariff to all imported goods of Hong Kong origin that meet agreed CEPA rules of origin (ROOs). As at the end of 2014, CEPA ROOs for some 1,800 products had been agreed.

To help Hong Kong enterprises capitalise on the opportunities arising from the National 12th Five-Year Plan, the government introduced a \$1 billion dedicated fund in 2012 to assist them in furthering their development in the Mainland through developing brands, upgrading and restructuring operations, and promoting domestic sales in the Mainland.

Bilateral Investment Promotion and Protection Agreements

To assure overseas investors that their investments in Hong Kong are adequately protected, and to enable Hong Kong investors to enjoy similar protection overseas, Hong Kong has signed 17 Investment Promotion and Protection Agreements (IPPAs) with other economies, and has concluded IPPA negotiations with Bahrain and Myanmar. In 2014, Hong Kong continued IPPA negotiations with the Russian Federation and announced the launch of IPPA negotiations with the United Arab Emirates.

Trade in Textiles

Import and export of textiles and clothing have been fully liberalised following the removal of all licensing controls by the government on 21 November 2014.

In 2014, the Customs and Excise Department carried out 2,435 factory and consignment inspections and concluded 36 investigations to combat illegal transshipment of textiles. The department also conducted 27 'blitz' check operations on textile consignments at various import and export control points. It successfully prosecuted 32 companies and three offenders, with fines amounting to \$0.83 million.

Trade in Strategic Commodities

The Trade and Industry Department maintains a comprehensive import and export control licensing system to monitor the movement of strategic commodities through Hong Kong. The system ensures that while Hong Kong has access to advanced products and technologies to sustain its economic development, it is not used as a conduit for illicit diversion of strategic commodities. The department also administers a permit system to monitor activities involving sensitive chemicals as required by the Chemical Weapons Convention. Hong Kong co-operates closely with its trading partners to keep abreast of international developments on strategic trade controls, and to make sure that its control arrangements are complementary to those of its trading partners.

In 2014, the Customs and Excise Department investigated 204 cases of unlicensed import and export of strategic commodities and prosecuted 32 companies, resulting in fines of \$0.85 million. Goods valued at \$0.67 million were confiscated.

Customs Co-operation

The Customs and Excise Department plays an active role in the work of the World Customs Organisation (WCO) and APEC's Sub-Committee on Customs Procedures. The department maintains close liaison with the WCO, and seconded three officers to the WCO Compliance and Facilitation Directorate in Brussels, Belgium, the WCO Regional Intelligence Liaison Office for Asia and the Pacific in Seoul, Korea, and the WCO Asia Pacific Regional Office for Capacity Building in Bangkok, Thailand respectively. They assist to take forward the WCO's initiatives.

Under the Hong Kong Authorised Economic Operator (AEO) Programme, local companies that satisfy pre-determined security standards may be accredited by the department as AEOs and can enjoy customs facilitation, including less inspection and prioritised clearance of their goods. To provide AEOs with similar benefits outside Hong Kong, the department concluded mutual recognition arrangements (MRAs) on schemes similar to the AEO Programme with the customs administrations of the Mainland, India, Korea and Singapore. Bilateral MRA discussions with the customs administrations of Hong Kong's other principal trading partners are under way.

The department co-operates with other customs administrations and law enforcement agencies and regular bilateral meetings are held with the Mainland and other customs authorities to exchange intelligence and experience on enforcement. The department has also concluded bilateral co-operation arrangements with a number of customs administrations.

Inward Investment Promotion

In 2014, despite the ongoing challenges in the global economy, Invest Hong Kong assisted a record 355 overseas, Mainland and Taiwan companies in setting up or expanding operations in Hong Kong involving direct investment of some \$8.9 billion and the creation of over 2,600 new jobs within the first year of their operation/expansion³.

Invest Hong Kong organised or sponsored a range of activities in 2014, including the Asian Financial Forum, Art Basel, 'Think Global, Think Hong Kong' promotion in Paris and Milan, Asian Venture Capital Journal Private Equity and Venture Forum, Super Return Asia, and the Cable and Satellite Broadcasting Association of Asia Convention. In addition, Invest Hong Kong organised joint investment promotions with Guangdong Province, Guangzhou, Jiangmen, Macao, Zhaoqing and Zhuhai in Barcelona, Lyon, Mexico City, San Francisco, Vancouver and Taipei to promote the advantages offered by the economic integration of Hong Kong and the Mainland.

Invest Hong Kong has also organised a series of promotional programmes in high-growth Mainland cities including Chongqing, Guiyang, Hangzhou, Hefei, Nanjing, Quanzhou, Shijiazhuang, Tianjin, Wuxi, Xian and Yinchuan so as to promote Hong Kong as the ideal platform for Mainland companies to go global and to identify Mainland companies with potential to invest in Hong Kong. Invest Hong Kong completed 75 projects from the Mainland in 2014, representing 21 per cent of the total number of Invest Hong Kong's completed projects.

In addition, Invest Hong Kong organised the second StartmeupHK Venture Programme in 2014 to promote Hong Kong as a leading hub for entrepreneurship, and to encourage innovative and scalable global startups to use Hong Kong as a launch pad to grow their businesses.

Industrial Policy

With the global centre of economic gravity shifting to Asia, and the implementation of the National 12th Five-year Plan ushering in a new wave of development for the Mainland

³ These represent the investment amount and job opportunities reported by the companies assisted by Invest Hong Kong. Not all of these companies disclosed the data.

economy, Hong Kong has benefited significantly. Its competitive edge and the government's 'appropriately proactive' approach make Hong Kong well placed to diversify its industries to meet the needs of its people for start-up initiatives, investment, business operation and employment. The government's aim, as part of its efforts to develop an industrial policy, is to increase business volume, diversify the products and services of existing industries, and identify new areas for development.

Established in January 2013, the Economic Development Commission (EDC), led personally by the Chief Executive, has been studying and considering the overall strategy and policy to broaden Hong Kong's economic base and to enhance Hong Kong's economic growth and development. The EDC's four working groups (responsible for transportation; convention and exhibition industries and tourism; manufacturing industries, innovative technology, and cultural and creative industries; and professional services) have submitted specific recommendations for the related industries for the government's consideration.

Small and Medium Enterprises

Small and Medium Enterprises (SMEs) refers to those manufacturing businesses employing fewer than 100 people in Hong Kong, or non-manufacturing businesses employing fewer than 50 people in Hong Kong. There are over 320,000 SMEs in Hong Kong, representing over 98 per cent of all local enterprises and employing over 1.3 million people. The Trade and Industry Department operates three SME funding schemes to help SMEs secure loans from lending institutions, expand export markets and enhance their competitiveness.

With the continued support of the government's \$100 billion total loan guarantee commitment, the Hong Kong Mortgage Corporation Limited further extended the application period for the special 80 per cent loan guarantee product under its SME Financing Guarantee Scheme for one year until 28 February 2015 to continue to assist enterprises in obtaining loans in the commercial lending market.

Promotion of Innovation and Technology

Innovation and technology development is a key driver of economic growth. To facilitate the growth of this industry in which Hong Kong enjoys clear advantages and to help develop Hong Kong into a regional innovation hub, the government provides infrastructural and financial support, develops human resources, collaborates with economies outside Hong Kong, and fosters an innovation culture in the community.

Innovation and Technology Commission

The Commerce and Economic Development Bureau's Innovation and Technology Commission spearheads Hong Kong's drive to become a world-class, knowledge-based economy. It formulates and implements policies and measures to promote innovation and technology development and promotes internationally-accepted standards and conformity assessment services to underpin technological development and international trade in Hong Kong.

Innovation and Technology Fund

The Innovation and Technology Fund (ITF) supports applied research and development (R&D) projects that help upgrade technology and promote innovation in the manufacturing and service industries. By the end of 2014, the fund had committed about \$9 billion to support over 4,300 projects undertaken by research institutions and the industry.

The ITF's Small Entrepreneur Research Assistance Programme provides matching grants for R&D by small companies to turn innovative technological ideas into commercially viable products or services. By the end of 2014, \$483 million had been provided to support around 400 projects.

In 2014, the Innovation and Technology Commission set up, under the ITF, a new Technology Start-up Support Scheme for Universities to provide funding of up to \$4 million annually to each of six local universities to encourage students and faculty members to start technology businesses and commercialise their R&D results.

Research and Development Cash Rebate Scheme

The R&D Cash Rebate Scheme reinforces the research culture among enterprises and encourages them to establish stronger partnerships with local research institutions. The \$200 million scheme provides 30 per cent cash rebates to companies conducting applied R&D projects under the ITF, or in collaboration with designated research institutions. By the end of 2014, the scheme had approved over 1,000 applications for rebates amounting to about \$108 million.

The Hong Kong Science and Technology Parks Corporation

The Hong Kong Science and Technology Parks Corporation provides one-stop infrastructural support to technology-based companies. The 22-hectare Science Park in Sha Tin is the government's flagship infrastructure to turn Hong Kong into a regional innovation hub. Phases 1 and 2 have been completed and 92 per cent occupied. The first three buildings of Phase 3 were completed in March 2014, while the remaining two buildings will be completed in 2016. In total, they will provide 330,000 square metres of gross floor area for applied R&D to local and overseas companies in electronics, information technology and telecommunications, biotechnology, precision engineering and green technology. For start-ups, the corporation runs incubation programmes to provide rental, marketing, financial and technical assistance for their critical initial years. The corporation also manages three industrial estates in Tai Po, Yuen Long and Tseung Kwan O. They provide 217 hectares of serviced land to companies using new or improved technology and processes which cannot operate in ordinary multi-storey buildings. The corporation will continue to revitalise the industrial estates to meet the challenges and opportunities brought about by economic re-structuring and to broaden Hong Kong's industry base.

Hong Kong Applied Science and Technology Research Institute (ASTRI)

The publicly-funded ASTRI houses the R&D Centre for Information and Communications Technologies. It carries out R&D projects to raise the standard of Hong Kong's technology-based industries and to strengthen their growth.

Research and Development Centres

The government's five R&D Centres drive and co-ordinate applied R&D in selected focus areas and promote commercialisation of R&D results and technology transfer. The five centres are:

- Automotive Parts and Accessory Systems R&D Centre;
- Hong Kong R&D Centre for Information and Communications Technologies under ASTRI;
- Hong Kong Research Institute of Textiles and Apparel;
- Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies; and
- Nano and Advanced Materials Institute.

Technology Co-operation with the Mainland

The Mainland/Hong Kong Science and Technology Co-operation Committee is a high-level steering committee for the Mainland's Ministry of Science and Technology (MOST) and Hong Kong's Commerce and Economic Development Bureau to work together in fostering technology collaboration. Progress in 2014 included launching the first round of applications to establish Hong Kong Branches of Chinese National Engineering Research Centres, preparatory work for the first round of reassessment of the Partner State Key Laboratories in Hong Kong, and MOST's approval for Hong Kong Science Park's establishment of the Hong Kong National High-tech Industrialisation Partner Base for Integrated Circuits.

The HKSAR and Guangdong governments jointly run a Guangdong-Hong Kong Technology Co-operation Funding Scheme (TCFS) to encourage collaboration between their universities, research institutions and technology enterprises. As at the end of 2014, the ITF has funded 221 TCFS projects with about \$777 million, of which \$168 million was for 66 projects jointly funded by the ITF and Guangdong/Shenzhen authorities.

Publicity and Promotional Events

The Innovation and Technology Commission's annual InnoTech Month features a wide range of activities to foster a stronger innovation and technology culture in the community. In 2014, they included an 'InnoCarnival', roadshows, exhibitions, workshops, industry conferences and seminars. The commission also collaborated with academia and non-profit-making organisations in supporting science competitions and activities to strengthen students' interest in innovation and technology. The Innovation and Technology Scholarship Award Scheme provides recognition to outstanding science undergraduates in local universities and encourages them to pursue careers in science and technology.

Protection of Intellectual Property Rights

Hong Kong maintains a robust regime for protecting intellectual property rights. With its comprehensive legislation, convenient registration systems, rigorous enforcement and creative public education programmes, Hong Kong has gained a reputation for effective protection of intellectual property.

Registration

The Intellectual Property Department is committed to providing high-quality and responsive registration services to the public. The department provides various electronic services to enable efficient and cost-effective registration and management of trade marks, patents and registered designs. The registers of trade marks, patents and designs are maintained in electronic format, allowing searches of relevant data in Chinese or English through the internet, at any time, free of charge. The electronic filing system also provides a secure and user-friendly environment for intellectual property owners or agents to file their applications at any time.

By using the department's interactive services, owners of intellectual property rights or their agents can make changes directly to certain particulars of their registrations and applications recorded in the registers. These changes are updated instantly in the various registry records. The electronic services, particularly electronic filing, have been well received. In 2014, the proportions of electronic filings for trade mark, patent and design applications were 56 per cent, 73 per cent and 69 per cent respectively, an increase of 1 per cent, 8 per cent and 3 per cent respectively compared to the previous year.

Trade Marks

In 2014, the Trade Marks Registry received 40,063 applications. During the period, 34,251 marks were registered, an increase of 8.9 per cent as compared with 2013. The principal countries/ areas out of the 119 filing applications were:

Hong Kong	15,173	France	873
Mainland	8,564	Taiwan	858
USA	3,861	Korea, Republic of	820
Japan	2,483	Switzerland	731
United Kingdom	956	Germany	664

The register had 342,696 registered marks by the end of the year.

Patents

The Patents Ordinance provides for the grant of standard patents based on patents granted by the State Intellectual Property Office of China, the United Kingdom Patent Office or the European Patent Office (in respect of patents designating the United Kingdom). It also provides for the grant of short-term patents, which may be registered following local formality examination procedures. The Patents Registry received 12,542 standard patent applications and 587 short-term patent applications in 2014, and 5,932 standard patents and 522 short-term patents were granted, a decrease of 9.6 per cent and 2.9 per cent respectively as compared with 2013.

The government is preparing legislative proposals to amend the Patents Ordinance to establish an 'original grant' patent system and to refine the short-term patent system.

Registered Designs

In 2014, the Designs Registry received 2,453 applications for the registration of 4,477 designs, and 4,300 designs were registered, representing a 9.8 per cent decrease compared with 2013.

Copyright

The Copyright Ordinance protects literary, dramatic, musical and artistic works, typographical arrangements of published editions, sound recordings, films, broadcasts, cable programmes and performers' performances irrespective of the domicile of the copyright owners. In line with international practice, there is no requirement to register copyright.

Following a public consultation exercise in 2013 on parody, the government introduced the Copyright (Amendment) Bill 2014 into the Legislative Council in June 2014 to update Hong Kong's copyright regime and ensure that it keeps pace with technological and overseas developments. A Bills Committee of the Legislative Council is now scrutinising the bill.

Enforcement

The Customs and Excise Department enforces criminal sanctions for infringement of intellectual property rights. It investigates reports of copyright infringement and trade mark counterfeiting; maintains licensing control on all optical disc and stamper factories; and takes action against the manufacture, distribution, sale, import and export of pirated and counterfeit goods and possession for business use. It also combats copyright piracy and other infringement on the internet.

In 2014, the department took action in 60 piracy cases, arrested 87 people and seized goods (mostly pirated optical discs) worth \$3 million. The department took action to prevent on-street sale of pirated and counterfeit goods. In addition to targeted raids, officers carry out intensive and high-profile patrols in high risk areas to deter and suppress the peddling of pirated and counterfeit goods. In 2014, the department took action in 794 forged trade mark cases, seizing counterfeit goods worth \$84 million and arresting 690 people.

Customs-Business Partnership

To help effective enforcement against piracy and counterfeiting activities, the department closely liaises with the business sector to promote intellectual property rights protection

Public Education

In 2014, nine trade associations with 951 retail merchants, covering 6,727 outlets in Hong Kong, took part in the Intellectual Property Department's 'No Fakes Pledge' scheme. The department's school visits programme covered 72 schools and 15,367 students and the interactive drama programme covered 104 schools and 30,521 students in 2014. The department also promoted the value of intellectual property trading and the importance of protecting intellectual property rights through local seminars and exhibitions.

Intellectual Property Trading

Led by the Secretary for Commerce and Economic Development, in 2014 the Working Group on Intellectual Property Trading completed its deliberations on the policies and support

measures to promote Hong Kong's development as a premier regional intellectual property trading hub. It plans to submit its recommendations to the government in the first quarter of 2015.

Co-operation with Mainland Counterparts

The Intellectual Property Department works closely with its Mainland counterparts at the national, regional and provincial level to promote the importance of intellectual property protection and management and intellectual property trading.

The Customs and Excise Department maintains close co-operation with its Mainland counterparts in exchanging experience and information on the detection and prosecution of intellectual property-related offences. Hong Kong and Guangdong customs conduct regular joint operations to intercept infringing goods smuggled across the boundaries. The department and the National Copyright Administration provide mutual administrative assistance in the fight against internet piracy to better protect the interests of intellectual property rights owners.

Participation in International Organisations

The Intellectual Property Department participates in various international forums (including discussions, activities and conferences of the World Trade Organisation Council for Trade-related Aspects of Intellectual Property Rights and the World Intellectual Property Organisation) and represents Hong Kong, China at various international and regional intellectual property symposiums and conferences, including the 38th and 39th meetings of the Asia-Pacific Economic Cooperation Intellectual Property Experts Group respectively held in Ningbo and Beijing.

Business Facilitation

The Business Facilitation Advisory Committee (BFAC) advises the government on the development and implementation of programmes and measures to facilitate business compliance with government regulations and to sustain a competitive regulatory environment for business in Hong Kong while safeguarding the public interest. The BFAC is made up of representatives from the business, academic, professional and political sectors and senior government officials from the relevant bureaus. Around 30 government bureaus and departments involved in providing licensing services to various business sectors participate in the government's 'Be the Smart Regulator' programme, aimed at improving the efficiency, transparency and business-friendliness of the licensing system.

Business Liaison Groups foster communication between the government bureaus and departments and the major business sectors and help resolve regulatory and licensing matters at the operational level. A business consultation e-platform has been set up under the GovHK portal to help the business community access information on proposed regulations, administrative measures and procedures that would impact on business, and offer their views or comments. Its mobile app is also available for free download by searching for 'eabfu' on the iPhone App Store or the Google Play Store.

The Efficiency Unit under the Chief Secretary's Office and the Business Facilitation Division (BFD) of the Economic Analysis and Business Facilitation Unit under the Financial Secretary's Office jointly co-ordinate the 'Be the Smart Regulator' programme. The BFD also supports the work of the BFAC and its task forces

Trade Documentation

As a free port, Hong Kong maintains optimal import and export documentation requirements to facilitate trade. Most products do not need licences to enter or leave Hong Kong. Licences are required mainly to fulfil Hong Kong's international obligations; to protect public health, safety, the environment, or intellectual property rights; or ensure Hong Kong's continued access to advanced technologies and hi-tech products.

Hong Kong maintains an origin certification system to facilitate its exports to external markets.

Road Cargo System

The Customs and Excise Department's Road Cargo System (ROCARS) facilitates customs clearance through prior risk-profiling. To do this, a shipper or his agent is required to submit a few items of cargo information electronically to the department through ROCARS before the consignment is imported to, or exported from, Hong Kong. All cross-boundary goods vehicles, except those selected for inspection, now enjoy seamless customs clearance at the land boundary.

Intermodal Transhipment Facilitation Scheme

The Intermodal Transhipment Facilitation Scheme (ITFS) simplifies customs clearance procedures for air-land and sea-land intermodal transhipment cargoes. Enrolment to ITFS is voluntary. Transhipment cargoes of participating enterprises, conveyed by goods vehicles installed with electronic locks and tracking devices approved by the Customs and Excise Department, will normally be subject to inspection only once (if selected) at either the point of entry or exit.

Government Electronic Trading Services

The Government Electronic Trading Services allows the trading community to submit certain trade-related documents electronically to fulfil statutory obligations in a cost-effective and environmentally friendly manner. Three government-appointed operators provide the services, which processed about 22 million transactions in 2014.

Trade and Industrial Support Organisations

Hong Kong Trade Development Council

The Hong Kong Trade Development Council (HKTDC) was established under the HKTDC Ordinance to promote, assist and develop Hong Kong's trade with places outside Hong Kong, with particular reference to exports; and to make such recommendations to the government as it sees fit in relation to any measures which it considers would achieve an increase in Hong Kong's trade. With its global network of more than 40 offices, including 13 in the Mainland, the

HKTDC promotes Hong Kong as a platform for doing business with the Mainland and throughout Asia.

The HKTDC helps Hong Kong companies, especially small and medium enterprises (SMEs), capitalise on business opportunities by promoting Hong Kong as Asia's global business platform. The HKTDC also promotes Hong Kong's advantages in services sectors including design and marketing, licensing, entertainment, finance, information and communication technology, infrastructure and real estate, intellectual property trade, logistics and professional services.

Enhancing the competitiveness of Hong Kong SMEs and start-ups in the digital era is a major focus of the HKTDC's work to help sustain Hong Kong's long-term economic growth.

Hong Kong Export Credit Insurance Corporation

The Hong Kong Export Credit Insurance Corporation (ECIC) was established by statute to encourage and support export trade through the provision of insurance protection for Hong Kong exporters against non-payment risks arising from commercial and political events.

In 2014, the ECIC's total insured business amounted to \$112 billion, an increase of 12 per cent over 2013. Compared with 2013, the gross premium income grew modestly by 3.5 per cent to \$292.5 million. Cash claims payments slightly increased by 4.2 per cent to \$58.1 million. In view of the uncertain global economy, the ECIC continued to provide various measures to assist Hong Kong exporters, including waiver of annual policy fees and free buyer credit checks. The ECIC also offered premium discount to Small Business Policy policyholders, designed for exporters with annual business turnover of less than \$50 million.

Hong Kong Productivity Council

The Hong Kong Productivity Council (HKPC) promotes productivity excellence among Hong Kong enterprises. Its focus is on the manufacturing and service industries in Hong Kong and the Mainland in four areas: manufacturing technologies, information technologies, environmental technologies and management systems. The council helps Hong Kong manufacturers move up the value ladder through higher technology and better manufacturing processes. The HKPC is a strong promoter of 'green' manufacturing and continually introduces new technology to assist manufacturers in meeting the environmental requirements of Hong Kong, the Mainland and other countries. The HKPC also houses the Automotive Parts and Accessory Systems R&D Centre which undertakes market-led R&D projects in collaboration with industry, universities and research institutions. In addition, the HKPC continues to forge close technological collaboration between Hong Kong and the Mainland to help innovative industries capitalise on new business opportunities and to strengthen the competitiveness of Hong Kong's business and manufacturing sectors.

Other Trade and Industrial Support Organisations

The Federation of Hong Kong Industries, the Chinese Manufacturers' Association of Hong Kong, the Hong Kong General Chamber of Commerce, the Chinese General Chamber of Commerce and the Hong Kong Chinese Importers' and Exporters' Association promote the interests of, and

foster relationships among, their members. There are numerous other associations representing specific sectors or interests, and overseas chambers of commerce.

Development of Testing and Certification Industry

The Hong Kong Council for Testing and Certification (HKCTC) advises the government on the overall development strategy of the testing and certification industry. The HKCTC comprises members from the testing and certification industry, the business sector, professional organisations and relevant public bodies and government departments.

The government works closely with the HKCTC to implement recommendations made in the HKCTC's 2013 review report. General improvements have been made to the accreditation service and factors of production (manpower, technology, capital and land) for industry, whilst promoting development of new testing and certification services in six specific trades (Chinese medicines, construction materials, food, jewellery, environmental protection, and information and communications technologies). These services include Chinese Materia Medica certification, product certification for construction materials, food hygiene standard certification system, standard methods for testing *Fei Cui*, energy management system certification, and information security management system certification.

The Mainland is gradually opening up its market to Hong Kong's testing and certification industry. The Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong, signed in December 2014, allows testing organisations in Hong Kong to co-operate with designated Mainland organisations to undertake testing of products in the China Compulsory Certification System's 'audio and visual apparatus' category that are designed and prototyped in Hong Kong as well as processed or manufactured in Guangdong Province, and in respect of voluntary certification, to undertake testing of products manufactured or processed in Hong Kong or on the Mainland. With respect to the mode of 'commercial presence', the agreement also offers Hong Kong's testing and certification industry market access to Guangdong Province on the same terms as Mainland enterprises.

The ITC's Hong Kong Accreditation Service operates in accordance with international standards and is active in international and regional accreditation communities. Through its multilateral mutual recognition arrangements, the results of tests, calibrations, certifications and inspections provided by its accredited organisations are widely recognised globally, thus facilitating cross-border business and trading.

Standards and Calibration Services

The Standards and Calibration Laboratory is the HKSAR's official custodian of physical measurement reference standards. It provides a calibration service traceable to the International System of Units with calibration certificates recognised internationally. It is a signatory to the Mutual Recognition Arrangement of the International Committee for Weights and Measures.

The Product Standards Information Bureau disseminates information relating to documentary standards. It operates a product standards library and provides sales of standards and free

technical advice on standards-related matters. The bureau represents the HKSAR in regional and international standardisation bodies and acts as Hong Kong's Enquiry Point and Notification Authority under the World Trade Organisation Agreement on Technical Barriers to Trade.

Human Resources, Vocational Education and Training

The knowledge-based economy of the 21st century requires talent and skilled manpower at all levels. A variety of post-secondary education and training programmes are available in Hong Kong. The Vocational Training Council provides a comprehensive system of vocational education and training for school leavers and adult learners. It also administers the New Technology Training Scheme which provides financial help to employers to train their staff to use new technologies. The Clothing Industry Training Authority runs two training centres for the clothing and footwear industries.

Creative Industries

Create Hong Kong and CreateSmart Initiative

'Create Hong Kong' (CreateHK) under the Commerce and Economic Development Bureau's Communications and Technology Branch aims to drive the development of creative industries by:

- nurturing a pool of creative human capital;
- facilitating start-ups and development of creative establishments;
- generating demand for innovation and creativity and expanding the local market size for creative industries;
- promoting creative industries in the Mainland and overseas to help explore outside markets;
- fostering a creative atmosphere within the community;
- developing creative clusters in Hong Kong to generate synergy and facilitate exchanges; and
- organising major events to promote Hong Kong as Asia's creative capital.

In 2014, CreateHK's CreateSmart Initiative (CSI) provided \$94 million to support 65 promotional and educational projects for various creative sectors and to encourage wider use of design by small and medium enterprises.

Creative Events

CreateHK works closely with stakeholders to foster an environment conducive to the development of creative industries. In particular, it assists industry groups in organising major creative events to engage the general public and to attract enterprises, talent and academics in creative industries from around the world to visit Hong Kong.

Initiatives and events in 2014 included:

- the 'Fashion Forward Festival' to create exposure opportunities for local emerging fashion designers;
- 'Entertainment Expo', co-ordinated by the Hong Kong Trade Development Council;
- the Hong Kong Design Centre's 'Business of Design Week';
- the first Hong Kong – Shenzhen Design Biennale; and
- the Third Hong Kong Comic Camp, featuring comic artists from Hong Kong, Guangdong, Macao and Taiwan.

Support for Design

CreateHK funds the Design Incubation Programme to nurture design start-ups at InnoCentre. By the end of 2014, the programme had admitted over 160 start-ups since its launch in 2006.

Mainland, Taiwan and Overseas Promotions

CreateHK promotes the accomplishments of Hong Kong's creative industries to the Mainland, Taiwan and overseas countries and helps them explore new markets.

In 2014, Hong Kong film festivals were organised by the Hong Kong Economic and Trade Offices in major overseas cities to promote Hong Kong as a film production centre. CreateHK also participated in major international exhibitions and events to promote location filming in Hong Kong. In 2014, 27 overseas film crews came to Hong Kong for location filming.

Funding was also provided to creative establishments and industry and trade organisations for participation in major international exhibitions and events, targeting potential clients in strategic markets outside Hong Kong. For example, Hong Kong's publishing and printing sectors set up a Hong Kong pavilion at international book fairs in Beijing, Bologna, Frankfurt, Guangzhou and Taipei to showcase their achievements. Hong Kong designs and designers were also displayed at Singapore Fashion Week 2014, Ambiente 2014 in Frankfurt and Milan Design Week 2014.

The Hong Kong Week 2014 in Taipei included a screening of 13 commercial feature films produced in 2013 and three compilations of award-winning short films, as well as an exhibition on Hong Kong's animation development in the past 50 years.

Nurturing Creative Talent

CreateHK sponsors programmes that help nurture the next generation of Hong Kong's creative talent. Its First Feature Film Initiative provided funding for the three winning teams in the screenplay and production proposals competition to make their first feature films. CreateHK also sponsored 12 winners of the Hong Kong Young Design Talent Award to undertake overseas work attachments or study. The Second Animation Support Program provided resources, training and mentorship to animation start-ups, and in 2014, the first Microfilm Production Support Scheme (Music) provided support to 15 new production companies to produce original music microfilms while offering more performance and exposure opportunities to budding singers.

International Awards

CreateHK supports the participation of local creative talent and creative works in international competitions and promotional events to help them gain exposure and recognition overseas, and to raise the profile of Hong Kong and its creative industries internationally. As at end 2014, 129 awards had been won by Hong Kong's creative talents and companies sponsored by CreateHK.

To recognise design excellence, CreateHK funds design awards, including the EcoChic Design Awards, the Global Design Awards, the Greater China Illustration Awards, the Hong Kong Design Centre Awards, and the Hong Kong Smart Gifts Design Awards.

New Creative Clusters

The former Police Married Quarters on Hollywood Road was opened in June 2014 as PMQ, providing studio shops for young designers to display and retail their creative products, and creative events such as the 1,600 Pandas World Tour in Hong Kong and Detour 2014 were held there.

Film Development Fund

The Film Development Fund (FDF) finances small-to-medium budget film productions and funds projects conducive to the long-term development of the local film industry. In 2014, one film production financing project and 21 other film-related projects beneficial to the healthy and long-term development of the film industry, involving a total funding of \$35 million, were approved. In 2014, a review of the FDF to chart the way forward for the scheme was completed.

Film Development Council

The Film Development Council (FDC) advises the Secretary for Commerce and Economic Development on the policy, strategy and institutional arrangements for the promotion and development of the film industry; the use of public funds to support the film industry; the planning, co-ordination and implementation of film-related activities; the industry's manpower and training needs; and the promotion of film literacy in Hong Kong. The FDC is chaired by a non-official member and is comprised mainly of members of the film industry.

Consumer Protection

Consumer Council

The Consumer Council is a statutory body which protects and promotes the interests of consumers of goods and services and purchasers, mortgagors and lessees of immovable property. The council comprises 22 members (including the Chairman and Vice-chairman) appointed by the government.

The council's work includes testing of consumer products, market surveys, price surveillance, monitoring of trade practices, handling of complaints and enquiries, advising the government and public authorities on consumer protection issues, and consumer education. It also administers the Consumer Legal Action Fund, which enhances consumer access to legal remedies.

In 2014, the council completed 43 product tests, 25 survey projects and 27 in-depth studies. The council publishes its findings and disseminates practical consumer advice in its monthly magazine, *CHOICE*.

In 2014, the council received 31,048 consumer complaints and 104,559 consumer enquiries.

2014 marked the 40th anniversary of the council's establishment. The council continued to conduct various activities to raise awareness of consumer rights. It also maintained close contact with its overseas and Mainland counterparts, and collaborated with them in promoting and protecting consumer interests (including through the Cross-Strait Symposium on Consumer Protection conducted in April 2014).

Enforcement of Consumer Protection Legislation

The Customs and Excise Department enforces the Consumer Goods Safety Ordinance, the Toys and Children's Products Safety Ordinance, the Trade Descriptions Ordinance, and the Weights and Measures Ordinance.

In July 2014, the Toys and Children's Products Safety (Additional Safety Standards or Requirements) Regulation commenced operation. It controls the concentration limits of six types of phthalates in certain toys and children's products.

The Customs and Excise Department carries out spot checks and investigations to ensure that toys, children's products and consumer goods supplied in Hong Kong are safe, that the quantity of goods supplied in the course of trade by weight and other measures is accurate, and to guard against misstatements and unfair trade practices in respect of goods and services. In 2014, the department carried out 9,041 spot checks and concluded 2,100 investigations.

The Government Laboratory provides analytical and advisory services to the Customs and Excise Department in the enforcement of consumer protection legislation. In 2014, the laboratory carried out 34,351 tests to check the compliance of toys, children's products and consumer goods with relevant safety standards, and to determine the weight of retailed goods. Where necessary, it conducted on-site investigations in support of the enforcement of the Weights and Measures Ordinance. The laboratory also carried out 4,608 tests to examine the authenticity of commodities and the correctness of trade descriptions in relation to investigations under the Trade Descriptions Ordinance.

Trade in Endangered Species

The Protection of Endangered Species of Animals and Plants Ordinance implements the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). It regulates the import, export, re-export, introduction from the sea or possession of endangered species. The commercial import, export and re-export of highly endangered species are prohibited, and international trade in less endangered species is subject to licensing requirements.

The ordinance is administered by the Agriculture, Fisheries and Conservation Department, and enforced by both that department and the Customs and Excise Department. It provides for a maximum fine of \$5 million and imprisonment for up to two years. In 2014, 25,894 licences and certificates were issued and 266 prosecutions were conducted.

Websites

Business consultation e-platform: www.gov.hk/bizconsult

Commerce and Economic Development Bureau: www.cedb.gov.hk

Consumer Council: www.consumer.org.hk

Create Hong Kong: www.createhk.gov.hk

Environment Bureau: www.enb.gov.hk

Film Development Council: www.fdc.gov.hk

Film Services Office: www.fso-createhk.gov.hk

Intellectual Property Department: www.ipd.gov.hk

Special Effects Licensing Unit: www.createhk-esela.gov.hk