

LCQ14: Assisting enterprises in exploring overseas business opportunities

Following is a question by the Hon Jimmy Ng and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (March 24):

Question:

The Chief Executive (CE) indicated in the 2019 Policy Address that the Government would seek the policy support of the relevant Central ministries to provide Hong Kong enterprises intending to develop businesses in the nation's overseas Economic and Trade Co-operation Zones (ETCZs) with the same incentive measures and facilitation policies as those provided to Mainland enterprises. CE subsequently indicated in the 2020 Policy Address that the State Ministry of Commerce supported the Hong Kong SAR Government in encouraging Hong Kong enterprises to develop businesses by leveraging ETCZs, and that both sides had selected five ETCZs set up by the Mainland in Thailand, Malaysia, Cambodia and Indonesia, and priorities would be given to promoting the electronics, toys and electrical appliances industries, etc. on a pilot basis. On assisting enterprises in exploring overseas business opportunities, will the Government inform this Council:

(1) of the details of the aforesaid incentive measures and facilitation policies as well as the latest progress of the relevant work;

(2) of the respective numbers of Hong Kong enterprises (i) whose enquiries have been answered and (ii) which have been offered assistance, by the Government and the Hong Kong Trade Development Council, and the number of enterprises which have succeeded in developing businesses in the aforesaid five ETCZs (with a breakdown by scale of enterprise and type of industry), since the introduction of the incentive measures and facilitation policies;

(3) given that the Department of Commerce of Guangdong Province promulgated the Support Policies of the Guangdong Province for overseas Economic and Trade Co-operation Zones on August 4 last year, of the Government's specific measures to dovetail with the implementation of the policies;

(4) in order to reduce the costs and risks faced by Hong Kong enterprises in developing businesses in ETCZs, whether the Government will consider establishing an "overseas expansion support fund", strengthening the loan guarantees for the enterprises concerned, and amending sections 39E and 16EC of the Inland Revenue Ordinance (Cap. 112) to enable enterprises to claim tax allowances in respect of the machinery, equipment and intellectual property rights used in their production processes outside Hong Kong;

(5) of the measures in place to assist the commodities produced by Hong Kong enterprises in ETCZs in being granted preferential treatments in respect of access to the Mainland market, in order to tie in with the economic development strategy of "dual circulation" adopted by the Mainland authorities;

(6) given that the preparatory work of Hong Kong enterprises on developing businesses in ETCZs has inevitably been affected amid the epidemic, of the Government's measures to assist them in taking forward the relevant work; and

(7) whether it will strive for the support from the State Ministry of Commerce to allow Hong Kong enterprises to develop businesses in more ETCZs; if so, of the details?

Reply:

President,

Consolidated reply to various parts of the question is as follows:

Setting up production line(s) in the Mainland's overseas Economic and Trade Co-operation Zones (ETCZs) is a viable option for Hong Kong enterprises that plan to begin production abroad. The ETCZs are invested, developed and managed by Chinese enterprises, operation of which is generally based on market principles. The admission criteria and conditions for individual ETCZs vary and are subject to negotiations between the respective host countries and concerned Chinese enterprises, as well as prevailing local policies.

The Commerce and Economic Development Bureau (CEDB) has been taking actions along the following directions since the Policy Address of 2019 and 2020 mentioned about the encouragement of Hong Kong enterprises to develop businesses in the ETCZs:

(a) Enhancing Mutual Understanding between Hong Kong Enterprises and the Selected ETCZs

Having considered the views of Hong Kong enterprises and the Ministry of Commerce, five ETCZs in four member states of the Association of Southeast Asian Nations (ASEAN), namely Cambodia, Indonesia, Malaysia and Thailand, have been selected as pilot for encouraging Hong Kong enterprises to make use of them in business development. Due to prevailing travel restrictions, the original plan for organising Hong Kong enterprises to visit the selected ETCZs last year is being deferred till when the COVID-19 epidemic situation stabilises. Before that, the Government plans to invite the management of some of the above ETCZs to meet with Hong Kong enterprises through video conferencing within 2021 so as to enhance mutual understanding. This will facilitate the latter to better understand the investment environment of the relevant ETCZs and their host countries, and the admission criteria and applicable preferential terms of those ETCZs. In turn, the Hong Kong enterprises can conduct analyses of the feasibility and risks of developing businesses in the concerned ETCZs carefully.

In addition, the CEDB supported the Hong Kong Trade Development Council (HKTDC) in launching the Transformation Sandbox Programme in April 2020 to assist small and medium enterprises (SMEs) in their business transformation, including manufacturing and supply chain solutions. With a view to assisting those interested Hong Kong enterprises to invest in the ETCZs or to develop business there, they are provided with related information and support through the Programme so as to enhance their understanding of the ETCZs. As of February 2021, the Programme was joined by around 1 200 SME members.

(b) Working with the Ministry of Commerce to Assist Hong Kong Enterprises in Setting up Businesses in the ETCZs

By virtue of the support rendered by the Ministry of Commerce which the Government greatly appreciates, the Economic and Commercial Office of the Chinese Embassy or Consulate-General where the ETCZs are located would provide assistance to Hong Kong enterprises. Furthermore, relevant local Mainland business chambers are encouraged to contact Hong Kong business chambers and enterprises, or accept Hong Kong enterprises as members. Concerning admission to the ETCZs, the management of the five selected ETCZs welcome discussion with Hong Kong enterprises on admission matters. The CEDB will continue to maintain communication with the Ministry of Commerce regarding provision of assistance to Hong Kong enterprises over admission to the ETCZs, and continue to maintain dialogue with business chambers in Hong Kong on Hong Kong enterprises' latest needs.

(c) Supporting Hong Kong Enterprises to Develop Outside Hong Kong and Assisting them in Accessing the Mainland Market

The Government has entered into Investment Protection and Promotion Agreements (IPPAs) with the four countries where the selected ETCZs are located which will provide protection for investments made by Hong Kong enterprises therein. These four countries are also contracting parties of the Free Trade Agreement (FTA) signed between ASEAN and China. As such, goods produced in the selected ETCZs by Hong Kong enterprises that meet the requirements of the agreement would stand to benefit from applicable preferential treatments when they are imported into the Mainland.

In addition, the Government provides funding support, on a matching basis, under the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to assist Hong Kong enterprises in exploring the Mainland and other markets with which Hong Kong has signed FTAs (including the above four ASEAN countries where the selected ETCZs are located). Eligible fundable items include setting up production lines and carrying out promotional activities, etc. To support enterprises in exploring more diversified markets, the Financial Secretary announced in the 2021-22 Budget a proposal to further inject \$1.5 billion into the BUD Fund so as to increase the cumulative funding ceiling for each enterprise from \$4 million to \$6 million; and extend its geographical coverage from 20 economies to 37 economies with which Hong Kong has entered into FTAs and/or IPPAs. This should facilitate Hong Kong enterprises in exploring the domestic Mainland market and more

overseas markets.

Moreover, different types of insurance services are available in the market to help mitigate the risk faced by Hong Kong enterprises in expanding to overseas markets. In addition to the services provided by private insurance companies, the Hong Kong Export Credit Insurance Corporation, which is a statutory entity, offers export credit insurance services to Hong Kong enterprises for their trade with overseas buyers covering goods produced outside Hong Kong (such as in the Mainland) for exports to other places or for sale at the respective place of production.

In respect of providing depreciation allowance for the use of machinery, as advised by the Financial Services and the Treasury Bureau, in accordance with the established "territorial source" and "tax symmetry" principles, the Inland Revenue Department will not charge profits tax on profits which are derived outside Hong Kong. Similarly, depreciation allowance will not be granted for any machinery and plant solely used in manufacturing activities outside Hong Kong. Section 39E of the Inland Revenue Ordinance (IRO) aims at preventing tax avoidance opportunities arising from machinery or plant leasing arrangements, and similar requirements are also imposed under section 16EC of the IRO in relation to the purchase of intellectual property rights for use outside Hong Kong by other parties.

To assist Hong Kong enterprises expand into the Mainland market (including goods manufactured in the ETCZs), the Government will provide funding for the HKTDC to launch a one-stop "GoGBA" platform alongside the "HKTDC GBA Centre" in Shenzhen to provide multi-faced support. In addition, the HKTDC has set up physical and online outlets of its "Design Gallery" in the Mainland, and has launched a one-stop "ConsignEasy" service to help enterprises tackle logistics, warehousing, taxation and other matters related to domestic sales in the Mainland. To strengthen promotion, the HKTDC will organise online and offline marketing campaigns to underline Hong Kong's capabilities in design and creativity, as well as organise Hong Kong enterprises for participating in Mainland exhibitions to promote our brands and products. The Government will continue to actively participate in the annual China International Import Expo to promote Hong Kong's quality products and services.

Regarding the "Support Policies for Guangdong overseas Economic and Trade Co-operation Zone" as promulgated by the Department of Commerce of Guangdong Province on August 4, 2020, the Government is given to understand that it is targeted at specific enterprises in Guangdong Province. That said, it mentioned that efforts would be made to promote complementary integration of advantages enjoyed by Guangdong manufacturing industries with capital sources, modern services sector, international economic and trade networks of Hong Kong and Macao; and enterprises would be jointly organised to visit the ETCZs. The Government will consider participating in relevant activities when the epidemic situation stabilises.