

LEGISLATIVE COUNCIL BRIEF

SECOND AND FINAL REPORT OF THE CHIEF EXECUTIVE'S COMMISSION ON INNOVATION AND TECHNOLOGY

INTRODUCTION

At the meeting of the Executive Council on 31 August 1999, the Council ADVISED and the Chief Executive ORDERED that –

- (a) the recommendations made by the Chief Executive's Commission on Innovation and Technology (the Commission) in its Second and Final Report (the Report) should be accepted; and
- (b) the plan to build a second Industrial Technology Centre should be withdrawn.

BACKGROUND AND ARGUMENT

General Background

2. In his 1997 Policy Address, the Chief Executive set forth his vision of making Hong Kong an innovation centre for South China and the region. In March 1998, he appointed the Commission to advise him on the measures necessary to fulfil this vision. The Commission's specific mission was to identify the steps that Hong Kong should take, and the institutional arrangements that should be put in place, to drive forward innovation and technology improvement in the Hong Kong economy, so as to add value to our commercial and industrial activities and our economic hinterland.

3. The Commission completed the first phase of its work and submitted its First Report to the Chief Executive in September 1998. The Chief Executive announced his acceptance of the recommendations of the First Report in his 1998 Policy Address. We have since been following up on the recommendations. For example, we established the \$5 billion

Innovation and Technology Fund (ITF) in June 1999. We are also working out the planning parameters of the Applied Science and Technology Research Institute (ASTRI).

4. The Commission finished the final phase of its work and submitted its Second and Final Report to the Chief Executive at the end of June 1999.

Major Recommendations of the Report and the Administration's Views

Institutional Arrangements

5. The Commission considers that innovation and technology policy cuts across many traditional policy areas and must be dealt with holistically and coherently. The Report recommends the establishment of a policy group headed by the Financial Secretary and comprising relevant bureau secretaries to set and co-ordinate policy on innovation and technology. In addition, a standing advisory body reporting to the Chief Executive should be set up to succeed the Commission. The policy group and advisory body should be serviced by a common secretariat with support from full-time science advisers.

6. At present, the Industry and Technology Development Council (ITDC) advises the Government on matters related to the strategic development of Hong Kong's manufacturing industry and the application and development of technology. The ITDC also advises the Government, through its seven subcommittees, on disbursements from the Industrial Support Fund¹. The Report recommends that the ITDC should be dissolved after the establishment of the new advisory body mentioned in paragraph 5 above. In addition, a separate body of sector-specific committees should be established to advise on the disbursements from the ITF.

7. The Report further recommends that the Hong Kong Science Park (HKSP), the Hong Kong Industrial Estates Corporation (HKIEC) and the Hong Kong Industrial Technology Centre Corporation (HKITCC) be merged. Moreover, the division of responsibility among various public

¹ The Industrial Support Fund was set up in 1994 to support projects that contribute to the industrial and technological development of Hong Kong. It has been subsumed under the Innovation and Technology Fund following the latter's establishment in June 1999.

institutions involved in service delivery should be sharpened. In particular, research and development support should be provided mainly by the universities and the future ASTRI. The Hong Kong Productivity Council should focus more on technology diffusion and productivity enhancement as the technological capability of industry grows.

8. We are broadly content with the above recommendations. We agree that the creation of the inter-bureau policy group and the standing advisory body will strengthen the formulation and co-ordination of policy on innovation and technology. We also agree that merging the HKSP, HKIEC and HKITCC would help streamline the service delivery structure, create synergy and achieve better economy among the three institutions.

Building up Human Capital

9. The Report notes that the Government has been according top priority to improving education and recommends that Hong Kong should continue to invest heavily in education, paying special attention to creativity, communication skills and information technology. The Government should vigorously promote a culture of lifelong learning among the workforce. The community should do more to inspire interest in science and technology among young people. To build up a deep pool of technology managers and entrepreneurs, the universities should offer more multi-disciplinary programmes blending business, science and engineering.

10. The Commission considers that there is an immediate need to attract talents from other places to bolster Hong Kong's intellectual capital and energize the technological sector in particular. The Report recommends that the Government should step up its overseas liaison and promotion efforts in major technology centres such as the Silicon Valley, targeting especially at Chinese talents and technology entrepreneurs.

11. The Report further recommends that the immigration restriction on Mainland talents be relaxed. The talents should take up jobs contributing to Hong Kong's transformation into a knowledge-driven and technology-intensive economy. The talents should possess outstanding qualifications, expertise or special experience. Mainland students in local universities who have outstanding academic achievement

should be permitted to work in Hong Kong after graduation. Mainland talents should be admitted quota-free and be allowed to bring along their immediate family members.

12. We agree that human capital is an essential factor for developing Hong Kong into an innovation and technology centre. The Commission's recommendations are in the right direction to help strengthen Hong Kong's capability in this regard. In fact, a task force chaired by the Secretary for Security has been formed to consider the necessary measures to facilitate the admission of talents to work in Hong Kong. The task force has taken the Commission's recommendations into account in working out the details of the scheme.

Fostering an Innovation and Technology Culture

13. At present, an incubator programme is operated by the HKITCC. The objective of the programme is to nurture technology-based start-up companies by providing them with low-cost accommodation as well as management, marketing, financial and technical assistance in the critical initial years. The Report recommends that the Government expand its incubator programme through a distributed model, whereby physical facilities will be dispersed to, for example, the universities, Science Park, and other relevant publicly-funded support bodies. Furthermore, a \$500 million funding scheme should be introduced under the ITF to assist small entrepreneurs undertaking commercial R&D work at the pre-market launch stage. The ITF should also earmark \$250 million for a matching grant scheme for private companies undertaking commercial R&D work in collaboration with local universities and for other funding schemes promoting university-industry partnership.

14. We agree that, given Hong Kong's compact environment and having regard to the development of our technological support programme in the past few years, it is not necessary to house all the start-up firms under one roof to facilitate interaction or service provision. We can instead link the incubator programme more closely to universities and other technological support bodies to facilitate the incubatees' access to existing facilities and resources and to enhance cross-fertilisation of ideas. We therefore agree with the Commission that the incubator programme should be expanded through a distributed model. This will in turn have a

bearing on the earlier plan to build a second Industrial Technology Centre to meet the increasing demand for HKITCC's incubator service. Changing the mode of the incubator programme to a distributed one would mean that there is no longer a need for building a second Industrial Technology Centre. We have therefore decided to withdraw the plan to build such a centre.

15. We also concur with the Commission's view that funding support should be provided to promote technology entrepreneurship and to encourage industry-university collaboration. These elements have been built into the newly established ITF.

Creating an Enabling Business Environment

16. The Commission considers that Hong Kong must maintain its business-friendly environment and be vigilant in promoting competition. The banking sector should pay more attention to the financing needs of small firms and the technology sector particularly insofar as it is consistent with prudent operating principles. The Report recommends that the Government should explore the feasibility of setting up a co-investment scheme providing government venture capital on a matching basis with private funds. The Report also stresses that Hong Kong must continue to combat vigorously infringements of intellectual property rights.

17. We agree with the Commission's recommendations. In particular, the Government has set up the Applied Research Fund (ARF) as a venture capital fund to encourage private technology ventures. Since the contracting out of the management of the ARF to three private sector venture capital firms in November 1998, the ARF has funded a number of investments involving the co-investment of the ARF's money and the venture capital firms' own funds. We will keep in view the feasibility of setting up a co-investment scheme to further encourage private venture capital for the technology sector.

Overall

18. The Commission has made very useful recommendations in its Second and Final Report. Together with those recommendations in its First Report, the Commission has outlined the measures and steps required to facilitate the realization of the vision of turning Hong Kong into an innovation and technology centre. As the recommendations only seek to

set out the major principles and framework, they have been accepted as they are. We will work out the details for implementing them.

FINANCIAL AND STAFFING IMPLICATIONS

19. The strengthening of the institutional setup within the Government to formulate and co-ordinate policy on innovation and technology will require additional financial and staffing resources. We will work out the resource requirements in the light of the implementation details. In resourcing the new institutional arrangement, we will assess the scope for redeployment of existing resources whilst taking account of the Commission's view about adequate resourcing.

20. The initiatives recommended in the Report for merging some of the non-government public institutions, building up human capital and expanding the incubator programme may require additional funding. However, it is not possible to quantify the requirements until more detailed proposals have been formulated. The Commission's recommendations on funding support to promote technology entrepreneurship and to encourage industry-university collaboration have been reflected in the scope of the ITF. The funds required for these initiatives will be met from within the \$5 billion approved in the setting up of the Fund.

ECONOMIC IMPLICATIONS

21. The Report's recommendations, when implemented, should help improve Hong Kong's capability to develop into a knowledge-driven and technology intensive economy, and in turn help strengthen our long-term competitiveness.

PUBLIC CONSULTATION

22. In the lead-up to the Report, the Commission held four workshops on issues covered in the Report. Participants included representatives from the industry, academia, industrial support organizations and venture capital firms. In addition, the Commission received written representations on issues to be covered in the Report from 28 organizations and individuals. We briefed the Legislative Council Trade and Industry Panel on the Report when it was released in early July. Panel Members were generally supportive of the Report's recommendations.

PUBLICITY

23. A press release will be issued on 3 September 1999. A spokesman will be available to answer media queries.

ENQUIRIES

24. Any enquiry on this brief shall be directed to Mr Bobby Cheng, Principal Assistant Secretary for Trade and Industry on tel. : 2918 7460 or fax : 2869 4420.

Trade and Industry Bureau
September 1999