Hong Kong Information Technology Federation

Recommendations to the Hong Kong SAR Government to Support Hong Kong's IT Industry and Small and Medium Enterprises

Introduction

1. Since 1997, the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) has set forth a vision for Hong Kong to be a "leader and not a follower in the information world of tomorrow," and to use information technology (IT) to retain Hong Kong's competitive edge and to drive overall economic expansion. This is reaffirmed by the "Digital 21" initiatives of the Information Technology and Broadcasting Bureau (ITBB).

2. In his Policy Address in October 2000, the Chief Executive reaffirmed the importance of small and medium enterprises (SMEs) as an important pillar of Hong Kong's economy, and the HKSAR Government's commitment to helping the development of SMEs.

3. Owing to the slowdown of the global economy and in particular to retrenchment of the IT and telecom industry in the world, demand for IT spending and related capital and human resource investment have seen a rapid decline, threatening the well-being and even survival of many IT firms in Hong Kong, especially the small and medium IT firms.

4. The Hong Kong Information Technology Federation (HKITF), as the leading organization representing the IT companies in Hong Kong, has recognized the severe market conditions that our members are facing. The HKITF has hence tasked itself to come up with practical recommendations to the HKSAR Government in improve the odds of companies and employees in the IT sector.

Hong Kong Information Technology Federation

<u>Philosophy in Developing Our Recommendations</u>

5. The IT industry plays a critical role in re-defining and transforming Hong Kong's overall economy into a knowledge economy driven market, taking advantage of Hong Kong's traditional strengths in our people and our businesses and the new opportunities presented to us with the advances in China's economy. However, we also observe that there are lots of room for improvement in the adoption of IT by Hong Kong's private and public institutions and companies, and ***the improvement in productivity and efficiency by the use of IT has not been fully realized by most companies, especially SMEs.***

6. The HKITF agrees in general with the HKSAR Government's prevailing philosophy that the Government's role in supporting local SMEs' development is to create a favorable business environment, striking a balance between maximum support and minimum intervention, under the principles of market economy.1

7. However, the HKITF believes that the principles of market economy do not preclude the Government from providing the necessary means of ***supportive intervention*** to strengthen those sectors that are critical to the development and transition of Hong Kong to a new paradigm of a knowledge-based economy. Therefore, the HKITF believes the Government must undertake effective and immediate measures to bolster the viability of the market for the IT industry – one of Hong Kong's critical sectors for our future – and the adoption of IT by the public and private sectors in Hong Kong, especially the SMEs.

8. The Government and the private sector must also understand that both must ***cooperate and co-invest*** – in all sense of investments – and share all the risks, responsibilities and consequences of these actions, in good times as well as challenged environments. Non-interventionist policies are itself a policy decision of doing nothing, and obviously can no longer be blindly followed in today's difficult economic conditions. Selective and stimulative measures by the public sector will go a long way in a recessive market, especially for the SMEs.

9. With the rapid economic downturn and increased competition from neighboring economies, Hong Kong companies need to urgently regain their competitive edge – investment into and deployment of IT are among the most important ways to make that happen. However, with the current economic environment, many companies of all sizes are not in a position to invest in IT, thus deferring these critically important steps to maintain their own competitiveness. This is a dangerous spiral of decay that Hong Kong cannot allow to happen. Therefore, the HKITF's ***recommendations will aim at creating the support for Hong Kong firms to invest in themselves by implementing IT, thereby contributing to the overall well-being of Hong Kong's businesses.***

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[1] A Report on Support Measures for Small and Medium Enterprises, Small and Medium Enterprises Committee, June 2001.

Hong Kong Information Technology Federation

Recommendations

10. Measure 1: Increase Government Information Technology Investment and Outsourcing.

- ❑ In today's recessive economic environment, Government spending is the only direct and immediate measure that can be taken to help sustain a critical local industry. For instance, the government of Taiwan recently announced a NT$36-billion "Knowledge Economy Development Program."

- ❑ The value of Government outsourcing investment for 2000-2001 is about HK$720 million[2], and it is increased to over HK$1.3 billion this year. But numerous Government IT systems can still use further upgrade, re-development or integrating into the newly developed systems.

- ❑ While the Information Technology Services Department (ITSD) has made significant stride in promoting IT outsourcing, substantial efficiency can be further gained by our Government if the *IT outsourcing will be increased to at least HK$3 billion each year*, not to mention the tremendous boost to the local IT market.

- ❑ Such investment will benefit the Government by gaining higher productivity, our citizens by getting better services from our Government via more use of IT, and of course also the IT industry. A wide spectrum of our IT industry in fact will also benefit by gaining the experience of e-government development, enabling us to potentially export our knowledge and solutions to the Mainland China and other parts of the world.

11. Measure 2: Ensure Small and Medium IT Businesses a Fair Proportion of Government IT Contracts and Procurements.

- ❑ Recognizing the importance in sustaining a viable and competitive IT SME sector, the Government must take all viable and legal steps to aid the IT SMEs, especially in ensuring them a fair proportion of Government IT contracts and procurement.

- ❑ While the Hong Kong Government must abide by all general procurement rules under the World Trade Organization (WTO), it is still our Government's absolute responsibility to explore ways to assist its local SMEs, as other WTO-member governments around the world have successfully done for their domestic companies. Specifically, *we request a quota requirement of locally provided services – including subcontracting – be established for all Government IT tenders.*

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[2] According to Policy Initiatives, Policy Address 2000.

12. Measure 3: Implement a Dollar-for-dollar Matching Fund for SMEs to Adopt and Improve IT Applications.

❑ In today's difficult economic environment, the only way to foster the adoption and improvement of IT applications by SMEs will be for the Government to provide incentives to entice companies to enable themselves for the globalized knowledge economy market of the 21st century. The Government and the private sector must recognize the indispensable role of each other and co-invest.

❑ A plan administered by Singapore's Productivity and Standards Bureau has provided since 2000 to SMEs there government matching subsidies of up to S$10,000 or 70 percent for each SME's to invest exclusively in technology adoption, employee training, purchase of hardware and software, etc.

❑ By establishing an SME IT Adoption Fund of at least HK$1 billion, an estimated 10,000 SMEs of all disciplines will benefit and numerous employment opportunities created for both user and supplier companies, through a dollar-for-dollar matching of investment that SMEs make on IT.

❑ The objective of the scheme will be to enhance the competitiveness of local companies through the application of IT in their operation, from automation of workflow to better control of their operations, sourcing of new business to providing better customer service, etc. All these will go a long way in developing Hong Kong's core industrial and commercial strength, and at the same time build up a vibrant world-class local IT industry.

13. Measure 4: Improve the Efficiency of Government-IT Funding Schemes, and Provide Investment Incentives for Overseas IT Investors.

❑ Since the dotcom downturn, venture investment for IT startups in Hong Kong has largely dried up, and has made many genuinely innovative local companies unable to sustain. Curiously, Government funding administered directly or indirectly under the Innovation and Technology Fund largely remains under-invested.

❑ *A reform of the present vetting system* needs to be urgently considered. In addition, in face of fierce competition in the region and even with other parts of China, in order to attract more investors and companies to establish their businesses in Hong Kong, the Government *must rethink its outdated policy of not providing incentives to outside investors*.

14. Measure 5: Support Hong Kong Companies to Develop IT Businesses in the Pearl River Delta.

❑ Hong Kong's IT industry development will not be separable from the development of the same industry in southern China, especially in the Pearl River Delta.

❑ *The Hong Kong Government should establish an investment fund of no less than HK$100 million, earmarked from the existing Innovation and Technology Fund, exclusively to support Hong Kong IT companies to establish its presence in southern China.*

❑ The Government should also take the initiative role in discussing with the governments in southern China to achieve favorable terms for Hong Kong companies to invest or participate in projects in China.

15. **Measure 6: Provide Proactive Support for Business Matching and Lead Generations for Hong Kong IT Companies to Create Markets for Their Products and Services Overseas.**

❑ The Hong Kong Government must take the initiatives in creating overseas opportunities for Hong Kong companies, in the same ways as overseas consulates in Hong Kong have consistently supported companies from their home countries to develop business partnership and even bid for specific tenders from the Hong Kong Government.

❑ In the past, Hong Kong companies have received next to none of such support or services. On the contrary, Korea's Information and Communication Ministry has established IT support centers in Beijing, San Jose, Boston, Tokyo, Shanghai and London and will add six more around the world in 2002.

❑ The Government should ***establish a centralized service for Hong Kong companies to obtain all information about business opportunities overseas, and receive direct assistance, including support in bidding tenders in other countries as well as other parts of China including the Mainland and Taiwan.*** This can be established by consolidating and coordinating the global offices of the Hong Kong Economic and Trade Offices and the Hong Kong Trade Development Council.

16. **Measure 7: Invest in IT Manpower Through Training and Work Assistance Programs.**

❑ As the IT industry is undergoing tough times, there may appear to be over-supply of IT workers. However, visionary policy makers must not let up our focus in developing IT manpower, and take the opportunity today to further invest in the enhancement of the skills of our IT workers with innovative programs.

❑ For instance, the Japanese Ministries of Public Management, Home Affairs, and Posts and Telecommunications have cooperated to allocate supplementary budget to create 250,000 jobs for unemployed IT experts, making them "IT leaders" who will train the population on a full-time basis basic computer knowledge and consult public services organization on the adoption of IT.

❑ Such programs will have the effect of preserving and further developing our IT workers, bolstering their self-image and at the same time letting them serve for the good of society as a whole.

❑ We call for the Government to ***establish a work assistance program valued at HK$2.5 billion a year that will create 10,000 positions for unemployed or new IT graduates to be employed on contract for one year to help provide IT training, support and consulting services to schools, charity organizations, and non-government organizations in Hong Kong.***

17. Measure 8: Establish a New Permanent Small and Medium Enterprise Service Department (SMESD) to Aid, Counsel, Assist and Protect the Interests of Small Business Concerns.

❑ Despite all that the Government has said in the past about the value it sees in the SMEs in Hong Kong, few concrete policies have been established, and SMEs has received precious little assistance other than moral support.

❑ But, as an example from other countries, in the Small Business Act of 1953, the U.S. Congress created the Small Business Administration (SBA), whose function was to "aid, counsel, assist and protect, insofar as possible, the interests of small business concerns." The charter also stipulated that the SBA would ensure small businesses a "fair proportion" of government contracts and sales of surplus property.[3]

❑ The many programs of the U.S. SBA over the years include direct business loans (including its own venture capital program) and guaranteeing bank loans, working to get government procurement contracts for small companies, and helping business owners with management and technical assistance and business training delivered through training partners.

❑ *There is a SME office under the Trade and Industry Department with major activities include policy development, co-ordination of support programmes, as well as information delivery. However, it is believed that only few of the 300,000 Small and Medium Enterprises in Hong Kong know the existence of this office. We urge the Government to upgrade the Office to Department level, so as to maximize its capacity in helping the SMEs by acting as a one-stop supportting center, with strict and measurable performance target.*

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[3] "47 Years of Service to America's Small Business: The U.S. Small Business Administration, 1953-2000", from www.sba.gov

Conclusions

18. The Chief Executive and the HKSAR Government were correct when they put their policy emphases into the IT industry and the SME sector. Information technology will continue to be the engine of growth and the key to knowledge management in the new century, and especially as Hong Kong carves our role in China's development. While we welcome the Government's continuous focus and support for the IT industry, now is the time to do more.

19. The demands from the IT industry as proposed here are fundamentally different in nature from the demands often made by other sectors – because IT is an enabler, not merely end products and services for consumption. The goal of the local IT industry that the Federation represents has been to strengthen Hong Kong's competitiveness – by boosting IT applications, we create more productive and competitive SMEs of all trades in Hong Kong, that will contribute toward to building of a stronger and more resilient Hong Kong economy.

20. As for the focus on SMEs, there are those who argue that big businesses, profiting from "economies of scale," can produce more efficiently than small businesses. But small business is where the innovations take place. Swifter, more flexible and often more daring than big businesses, small firms produce the items that fill the world's museums, shops, offices and homes. They keep intact the heritage of ingenuity and enterprise.4

21. ***Our recommendations will let Hong Kong as a whole to create a <u>Win-Win-Win-Win situation</u>:***
    - ❑ ***A Win for all Hong Kong SMEs and their employees***, which will become more IT savvy and competitive regionally;
    - ❑ ***A Win for all Hong Kong IT companies***, including SMEs and large IT companies, local and multinational, because of enlarged market demands;
    - ❑ ***A Win for IT workers in Hong Kong***, by providing more long-term and short-term employment positions;
    - ❑ ***A Win for the Hong Kong SAR Government***, by achieving its IT and e-Government goals sooner than previously planned.

    In other words, this will be a ***SURE WIN for ALL of Hong Kong***.

22. In order to expedite the implementation of the previous recommendations made, we, the HKITF, would call for the Government to establish immediately a working group between the relevant government bureaus and departments to work through the implementation of these schemes. The HKITF will lend our fullest support for the Government in this regard. In addition, the HKITF will also support the Government's implementation of these recommendations through our support in promoting these measures to the IT and other industry players, and as usual, continue to work with the Government in promoting IT to our communities.

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4 Adopted from "47 Years of Service to America's Small Business: The U.S. Small Business Administration, 1953-2000", from www.sba.gov

23. Bold measures are needed in difficult times, and more importantly bold leadership is needed from our Government leaders. If our proposals and recommendations are those that are to be expected by our Government officials, then we would not have been living up to our responsibility for our IT industry community to call for unprecedented measures to help us overcome both a recessive economy and the challenge in moving into a knowledge economy, and at the same time take advantage of the tremendous opportunities in China.

The Council
The Hong Kong Information Technology Federation
October 7, 2001

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About HKITF

24. The HKITF was founded in 1980 to provide a forum in which the normally competitive IT Vendor companies in Hong Kong could work together to improve the industry and to maintain a high level of business practice amongst its members. Over the next several years HKITF developed into a dynamic organization which now comprises all of the major hardware and software vendors together with many of the IT related service, training, systems integration and consultancy companies. The fast growing importance of the Internet is reflected in the recent establishment of a sub-group within HKITF representing the interests of Internet Service Providers. HKITF is a not-for-profit and non-political organization, which functions under the direction of an elected Executive Council. The HKITF also counts a number of important industry forums as our affiliate organizations, including the Hong Kong Internet Service Providers Association (HKISPA) and the Open Software Forum (OSF).

PRESS RELEASE   **FOR IMMEDIATE RELEASE**

HKITF PROPOSES STIMULUS PACKAGE OF RECOMMENDATIONS TO HKSAR GOVERNMENT FOR ASSIST OF INFORMATION TECHNOLOGY INDUSTRY AND ENHANCE COMPETITIVENESS OF SMES

Proposals supported by IT Legislative Councillor Mr Sin Chung Kai, who joined HKITF officials to unveil support plans at press conference

[Hong Kong SAR, October 9, 2001] In face of the current economic downturn, many companies in the information technology (IT) sector are struggling – thus threatening the plan by the Chief Executive of the HKSAR to develop Hong Kong to be a "leader in the information world of tomorrow." The Hong Kong Information Technology Federation, the representative organization of IT-related companies in Hong Kong, has come up with a series of practical recommendations in a stimulus package, that has been presented to the Hong Kong Government.

"The principal underlying philosophy of the Federation in coming up with these recommendations is that most companies in Hong Kong, especially small and medium enterprises (SMEs), have not realized the benefits of using IT, and at this junction of severe market conditions, positive and proactive *'supportive interventions'* are absolutely necessary from the Government," comments Mr Charles Mok, President of HKITF. "The Government must actively cooperate and even co-invest with the private sector in order to bring Hong Kong out of the current difficulties."

The eight measures included in the proposed stimulus package are:

1. Immediately increase Government IT investment and outsourcing to at least HK$3 billion each year
2. Implement a fair quota for small and medium IT businesses to bid for Government IT contracts and procurement
3. Set up a dollar-for-dollar Matching Fund of at least HK$1 billion for about 10,000 SMEs to adopt IT applications
4. Improve the efficiency of Government-run IT funding schemes and provide investment incentives for overseas IT investors
5. Support local companies to develop IT businesses in the Pearl River Delta region with a HK$100 million fund
6. Support proactively business matching and lead generations for local IT companies to create markets overseas
7. Invest in IT manpower through training and establish a HK$2.5 billion-a-year Work Assistance Program
8. Upgrade the SME Office under the Trade and Industry Department to provide a one-stop services to SMEs

"The IT industry is fundamentally different from the other sectors in that IT is an enabling process," says Mr Sin Chung-Kai, Legislative Councillor for the IT functional constituency. "By boosting IT applications, we can create for Hong Kong more productive and competitive SMEs of all trades. This is a critical step for the re-building of a new, stronger and more resilient knowledge-based economy for Hong Kong."

With the support from Mr Sin, the HKITF will present its recommendations in a detailed position paper to the Chief Executive of the HKSAR, and various relevant Government bureaus and departments. The HKITF has also pledged its commitment to further discuss and deliberate with the Government, the industry, and the community at large for the adoption of these recommendations as soon as possible.

For more information, please contact: Ms Rachel Wong, HKITF (Tel: 2293 2939 Fax:229 32900 Email: rachel.wong@halogroup.com.hk) or Ms Wong Fung-Chu, the Office of Mr Sin Chung Kai (Tel:2509 3211, Fax: 2509 9688, Email: fcwong@sinchungkai.org.hk).

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