

For Discussion
14 April 2003

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Measures to Enhance Investment Promotion

Introduction

This paper outlines the progress made since Invest Hong Kong (InvestHK) was established on 1 July 2000 and seeks Members' support for the additional allocation of \$200 million in the coming five years to boost investment promotion work.

Staffing

2. The Head Office of InvestHK consists of three divisions employing 65 staff as outlined in the organisation chart at *Enclosure 1*. The department's external representation, comprising 20 employed individuals and four consultant companies, is set out at *Enclosure 2*. Of the total 85 employed persons, 45 are non-civil service appointments and 40 are civil servants.

Encl 1

Encl 2

Resources

3. InvestHK's approved estimate for 2002-03 was \$73.7 million, made up as follows –

\$49.4 m	Operational expenses
\$21 m	Investment Promotion Block Vote (IPBV)
\$3.3 m	General Other non-recurrent expenses

4. The department's approved estimate for 2003-04 is \$67.4 million, made up of –

\$46.4 m	Operational expenses
\$21 m	IPBV

5. The deletion of the item under General other non-recurrent arises from completion of the special PR programme to help launch the department. The reduction in operational expenses reflects the department's contribution towards reducing the Government's overall operating expenditure in view of the tight fiscal position, reduction in salary requirement mainly due to full-year effect of civil service pay cut in 2002 and transfer of resources to Hong Kong Economic and Trade Offices to strengthen investment promotion support in Brussels Office.

Results

6. The results to date are as follows –

<u>Year</u>	<u>No. of projects completed</u>	<u>Investment amount * (\$ million)</u>	<u>Jobs * created</u>
2000 (July to Dec only)	35	508	352
2001	99	3500	1504
2002	117	1360	2075

(* As reported by the companies themselves. Not all are willing to disclose the data.)

The target for 2003, as set out in the Controlling Officer's report for 2003-04 estimate, is to complete 125 projects.

Comparison with other investment promotion agencies

7. It is difficult to obtain directly comparable data on other investment promotion agencies. We understand the Irish Development Agency has 295 staff and 24 offices. In 2001 it completed 40 projects, but it

is likely these were on average larger than those assisted by InvestHK. Scottish Development International has 95 staff in 23 offices and in 2001 completed 59 projects. Czech Invest has 65 staff in 9 offices and reported having completed 186 projects in the 10 years since it was established. We understand the Singapore EDB has at least 386 staff (some reports say as many as 600) in 18 offices.

New Developments

8. Following China's entry into the World Trade Organisation in December 2001, there are increased opportunities for Hong Kong to leverage on its strategic role as a two-way platform between the Mainland and the rest of the world. These opportunities arise because –

- (a) companies from around the world are attracted by China's continuing robust economic growth – its GDP is now the world's sixth largest and the Mainland is the fastest growing major economy in the world; and
- (b) Mainland companies are increasingly interested in developing an international dimension to their business operations.

9. Moreover there are strong reasons why we need to move quickly to secure for Hong Kong a fuller share of the increased opportunities, including –

- (a) there is increased competition from other business locations to function as a gateway to China;
- (b) the Yangtze River Delta has developed a high profile in the consciousness of the international business community whereas the Pearl River Delta (PRD) success story has not received the level of attention that it deserves; and
- (c) the “going out” initiatives of Mainland companies will gain momentum in the next few years and we need to ensure the merits of Hong Kong as an outward springboard register with the Mainland enterprises with overseas expansion strategies.

10. Acknowledging the presence of increased opportunities and the need to move quickly, a number of senior business leaders in the private sector have volunteered their time and international connections to help promote Hong Kong as a business location to overseas and Mainland companies. The Administration welcomes this offer as it would enable InvestHK to leverage on the networking strengths of our private sector and would help to bring about more investment and economic benefits for Hong Kong. The Secretary for Commerce, Industry and Technology has identified the first group of Investment Promotion Ambassadors (IPAs) (see *Encl 3* *Enclosure 3*) and we expect others to join progressively in future. We plan to utilise the IPAs' energy and networking potential in two broad ways –

- (a) as “door openers” to introduce InvestHK staff to key decision making personnel in companies which the IPAs think have potential to set up a business in Hong Kong; and
- (b) as speakers at the various business seminars and conferences organised or sponsored by InvestHK, e.g. the joint overseas promotion events we are undertaking with PRD cities.

Proposals

11. In order to take full advantage of the new opportunities, support the IPA scheme, and secure for Hong Kong the maximum results in terms of extra investment and creation of new jobs, the Financial Secretary has announced, in the 2003 Budget Speech, the allocation of an additional \$200 million to InvestHK over the next five years to boost investment promotion work.

12. The Director-General of Investment Promotion (DGIP) proposes to utilise the additional funds as follows –

- (a) broaden InvestHK's external representation by engaging local consultant companies to cover markets in which we currently have no presence but which we believe to have considerable potential, such as Korea, India, Taiwan, the Middle East and Singapore (\$5 million p.a.);

- (b) strengthen our presence by engaging local consultant companies in those existing markets where there are opportunities for us to attract additional investment, including USA, Japan, Europe, Canada and Australia (\$7.2 million p.a.);
- (c) boost efforts to attract Mainland companies to establish offices in Hong Kong by strengthening units targeting Beijing/Tianjin and Shanghai/Jiangsu/Zhejiang (\$2 million p.a.);
- (d) increase joint marketing activities with PRD cities, and strengthen the head office team responsible appropriately (\$4.5 million p.a.). We undertook a very successful joint promotion with Guangzhou city in Tokyo last September, and plan to hold a similar function with the same city in Germany later this year. We are undertaking a joint promotion with Shenzhen city in April this year in San Francisco. Preliminary discussions have begun for similar joint IP promotion events to be held with other municipalities in the PRD and also with the Guangdong provincial authorities. The additional funds will enable us to increase the frequency of such promotions from about three per year to eight or more;
- (e) create by redeployment a new dedicated team to coordinate activities of the IPAs. The team will be responsible for liaising with the private offices of the IPAs on a weekly (and in some cases daily) basis to keep track of their overseas visit programmes, arranging for appropriate InvestHK escorts plus surface transport and other logistics in respect of those parts of their programmes related to investment promotion, advising the IPAs of speaking opportunities arising in future and arranging for them to appear at the events, dealing with requests for reimbursement of out of pocket expenses etc. As it is envisaged the number of IPAs will increase from the initial 19 to perhaps as many as 100, a dedicated team is required. Some funds will be required for their activities (\$2 million p.a.);

- (f) substantially improve the Marketing, Research, IT and Knowledge Management capability of the department (\$10.5 million p.a.);
- (g) strengthen the sector teams in head office so that they can handle the additional projects to be generated (\$5 million p.a.); and
- (h) additional expenditure to cover office rental, overseas travel etc. (\$6.3 million p.a.).

13. Specifically on para. 12(f) we need to market the Greater PRD product including Hong Kong much more effectively, coherently and consistently and on a sustained basis. This will be particularly important when we “relaunch” Hong Kong following the adverse publicity about the atypical pneumonia outbreak. We require specialist marketing and corporate communication expertise for the purpose. The existing directorate have been engaged for their expertise in other areas, which is still required. They will not be able to cope with the expansion in scope of the department’s activities on top of the planned additional volume of work. ADGs (1) and (2) are already fully loaded and face the prospect of a doubling of their caseload and a broadening of their geographic responsibilities which will require extra travel. ADG(3) is already overloaded and unable to give sufficient attention to some aspects of her schedule. This problem will be exacerbated by the additional responsibilities and extra workload. Accordingly DGIP proposes to employ an outside agency to provide these specialist skills on a term contract basis. The contract will be awarded by competitive tender. An outline of the company’s responsibilities is at *Enclosure 4*.

Encl 4

14. These proposals will require employment of an additional 13 staff in Hong Kong (all on non-civil service terms) and engagement of consultant companies in nine additional locations overseas in addition to the Marketing and Research consultant. Full details of the deployment are at *Enclosure 5*. If implemented, the department structure will be as per *Enclosure 6*.

Encl 5

Encl 6

Financial Implications

15. The cost of the proposals is estimated at \$42.5 million in a full year. Of this amount, we envisage \$9 million will be spent to hire additional staff within Hong Kong and provide accommodation for them while \$33.5 million will be spent on additional overseas representation, the Marketing and Research consultant, and promotion related activities. Because recruitment of additional staff and engagement of IP consultants will take time, the cost in the first year is likely to be somewhat less, around \$30 million. Accordingly, DGIP intends to seek the approval of the Finance Committee of the Legislative Council next month to allocate the additional \$200 million to InvestHK and phase the expenditure as follows –

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
\$m	30	42.5	42.5	42.5	42.5

16. The breakdown of the additional resources is as follows –

<u>Expenditure items</u>	<u>Amount</u> <u>(\$m)</u>		
(a) Emoluments for 13 staff	7.5		
(b) Office accommodation	<u>1.5</u>		
		Sub-Total	9.0
(c) Engaging consultants in new markets	5.0		
(d) Engaging additional consultants in existing markets	7.2		
(e) Boosting efforts in Beijing/Tianjin and Shanghai	1.0		
(f) Increase joint promotions overseas with PRD municipalities	3.3		
(g) IPA scheme	2.0		
(h) Improve marketing, research, IT and knowledge management	10.5		
(i) Additional expenditure on overseas marketing activities	2.5		
(i) Reserve for contingencies	<u>2.0</u>		
		Sub-Total	33.5
		Total	42.5

Forecast Results

17. It is difficult to forecast the results of allocating additional resources for investment promotion work because many variables are not within the control of InvestHK e.g. state of world economy, effect of armed conflict (or threat of same) on oil prices etc. Moreover investment projects tend to have a long lead time. Nonetheless the aim would be for InvestHK by 2004 to be facilitating completion of over 200 projects per annum i.e. approximately double the current level.

Employment on NCSC terms

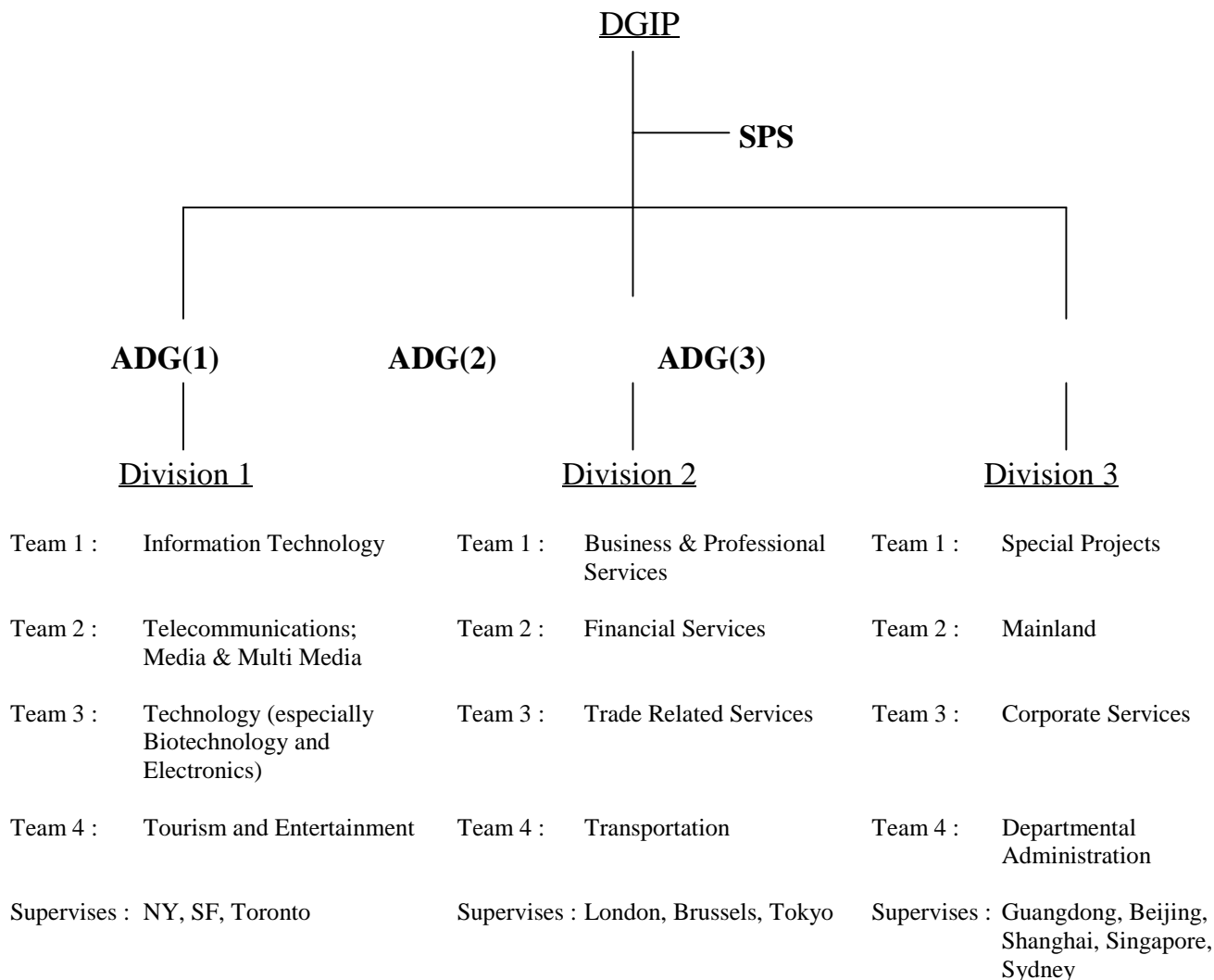
18. From the outset, InvestHK realised that private sector expertise would be essential if the department were to operate effectively in communicating with the commercial enterprises it was assisting. For this reason, we have made extensive use of NCSC staff. We intend to continue to employ the bulk of our IP staff on NCSC terms because –

- (a) we keep the priority sectors under regular review and these may change from time to time, and therefore we will need to bring in different expertise at different times;
- (b) even where the identity of sectors remains the same, market circumstances within them change and we may need to bring in new expertise; and
- (c) as our work progresses, we regularly identify the need for new skills and techniques on such matters as language ability, market knowledge etc.

19. In addition, we acknowledge it is useful to offer new contracts to those staff whose skills remain relevant and whose sector knowledge remains current.

InvestHK
April 2003

InvestHK Head Office



All teams in Divisions (1) and (2), and teams 1-3 in Division (3), comprise one Investor Relations Officer (IRO) and two Investor Support Officers (ISO). Of the 11 IROs, 10 are on Non Civil Service Contract (NCSC) terms. The eleventh is a civil servant on contract. In each team, one ISO is a Trade Officer, the other an NCSC employee.

Each Division is supported by one Investment Promotion Assistant (IPA) on NCSC terms, plus one Personal Secretary (PS) and one Assistant Clerical Officer (ACO) who are civil servants.

There are a further 19 support staff of whom 14 are civil servants and five are on NCSC terms.

InvestHK External Representation

<u>Office Location</u>	<u>Area of Responsibility</u>	<u>Representation</u>	Remarks
New York:	US East	1 IRO + 2 ISOs	IRO is a contract civil servant from HK. ISOs are locally recruited.
San Francisco:	US West	1 IRO + 2 ISOs	IRO is a contract civil servant from HK. ISOs are locally recruited.
Toronto:	Canada	Consultant Company	Supervised by Toronto ETO.
Brussels:	EU	1 IRO + 1 ISO	Both locally recruited.
Paris:	France	Consultant Company	Supervised by Brussels ETO.
Steisslingen	Germany	Consultant Company	Supervised by Brussels ETO.
Milan	Italy	Consultant Company	Supervised by Brussels ETO.
London	UK and non EU Europe	1 IRO + 1 ISO	IRO is a contract civil servant from HK. ISO is locally recruited.
Tokyo	Japan	1 IRO + 1 ISO	IRO is locally recruited. ISO is a Trade Officer posted from HK.
Sydney	Australasia	1 Consultant	Individual, locally engaged.
Guangzhou	Guangdong	1 IRO + 2 ISOs	IRO and one ISO (a Trade Officer) are permanent civil servants from HK. One ISO is locally engaged.
Shanghai	Shanghai, Jiangsu and Zhejiang	1 IRO + 1 ISO	Both are NCSC staff and HK based.
Beijing	Beijing and Tianjin	1 IRO + 1 ISO	Both are NCSC staff and HK based.

Enclosure 3

1. Mr Philip Chen 陳南祿
2. Mr Christopher Cheng 鄭維志
3. Mr Raymond Chien 錢果豐
4. Mr Po Chung 鍾普洋
5. Mr David Eldon 艾爾敦
6. Dr Victor Fung 馮國經博士
7. Mr William Fung 馮國綸
8. Dr Hari Harilela 夏利萊博士
9. Mr James Hughes-Hallett 何禮泰
10. Mr Bill Kong 江志強
11. Mr Leo Kung 孔令成
12. Dr David Li 李國寶博士
13. Mr Richard Li 李澤楷
14. Mr Victor Lo 羅仲榮
15. Mr Patrick Ma 馬清鏗
16. Mr James Thompson 詹康信
17. Mr Allan Wong 黃子欣
18. Mr Peter Wong 王冬勝
19. Mr Peter Woo 吳光正

**Responsibility of Specialist
Marketing and Research Consultant**

The company will provide corporate communications services to the department as follows –

- (a) developing and implementing an overall PR and marketing strategy for the department;
- (b) developing and implementing a knowledge management system and strategy to ensure a constant improvement in the quality and timeliness of the information we provide to customers;
- (c) attracting and supporting key international business events with a view to promoting the image of Hong Kong and InvestHK;
- (d) developing a consistent corporate branding for the department in the production of generic marketing materials for use by departmental staff, the external consultants and the IPAs;
- (e) maximising positive media coverage in Hong Kong and in key overseas markets; and
- (f) ensuring a more effective use of IT in achieving our investment promotion objectives and improved customer service.

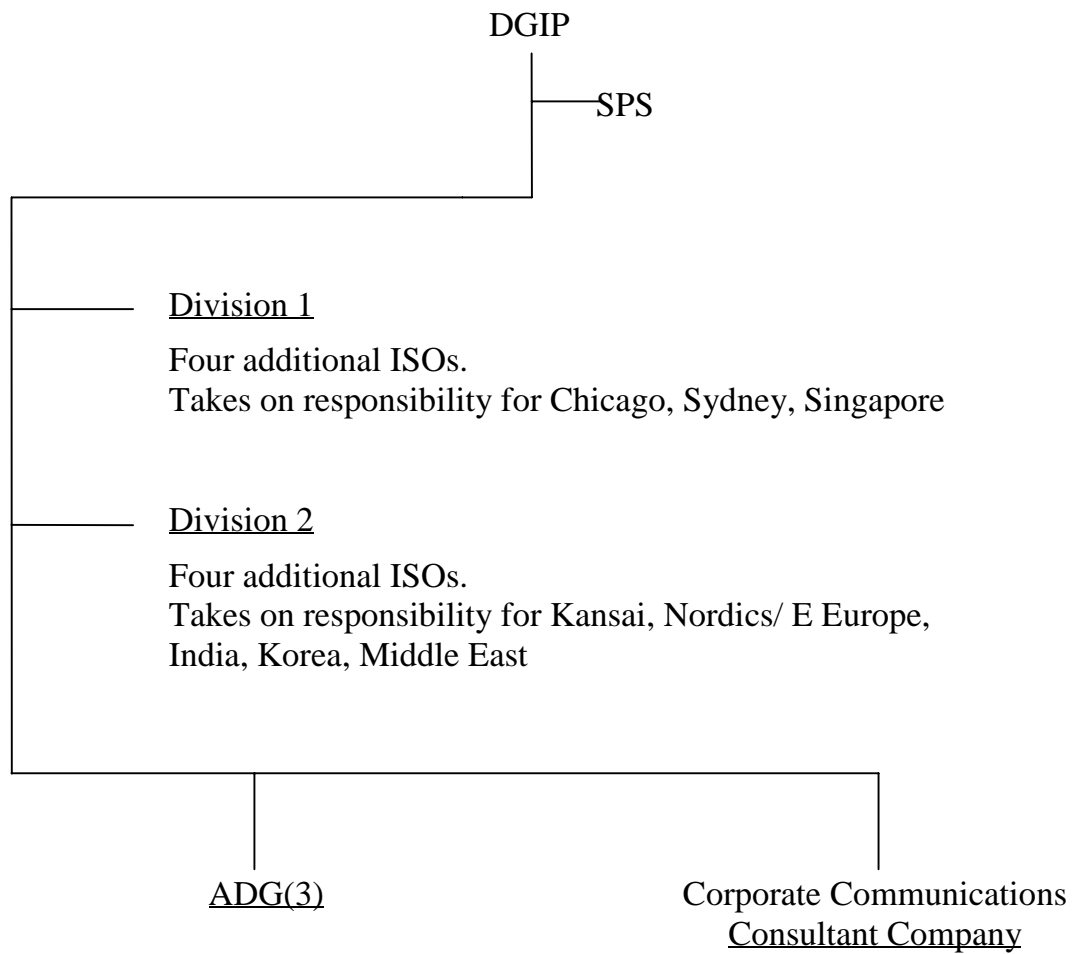
Deployment of Additional Resources

Employment of Additional NCSC Staff

<u>Rank</u>	<u>No.</u>	<u>Purpose</u>
ISO	13	Four to strengthen sector teams in Div 1. Four to strengthen sector teams in Div 2. One to strengthen Special Projects team in Div 3. Two to strengthen Mainland team in Div 3. One to strengthen Beijing IPU. One to strengthen Shanghai IPU.

Engagement of additional Consultant firms

Korea
Japan (Kansai)
Australia
Singapore
Canada
US (Chicago)
India
Middle East
Nordics/E Europe



Team 1 : Special Projects To handle all duties as per Enclosure 4

Team 2 : Greater China

Team 3 : IPA Coordination

Team 4 : Departmental Administration

Responsibility for Guangdong, Beijing, Shanghai, Rest of Mainland, Taiwan