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Panel on Commerce and Industry

Meeting on 17 May 2005

**Background Brief on
Work of Invest Hong Kong**

Purpose

This paper summarizes the views and concerns expressed by Members when reviewing the work of Invest Hong Kong (InvestHK).

Invest Hong Kong

Mission

2. Established on 1 July 2000, InvestHK is tasked to promote Hong Kong as a trade, investment and business hub in Asia, and to attract inward direct investment. Its mission is to attract to and retain in Hong Kong economically and strategically important investment.

3. InvestHK adopts a targeted approach in its investment promotion strategy, with the express objectives to attract corporations from other parts of the world to set up their headquarters in Hong Kong, and to promote nine business sectors¹ in which Hong Kong has comparative advantages.

¹ These nine sectors are : financial services, business and professional services, information technology, media/multi-media, technology (especially electronics and biotechnology), telecommunications, tourism and entertainment, trade-related services and transportation.

Financial provision

4. The annual financial provision allocated to InvestHK for investment promotion during recent years is as follows :

Year	2001-02	2002-03	2003-04	2004-05	2005-06
Annual provision (\$ '000) ²	70,366	73,709	97,410	110,718	106,183

Members' concerns

5. Issues related to InvestHK have been discussed at the Panel on Commerce and Industry (CI Panel), as well as during meetings of the Finance Committee (FC). Members are fully aware of the importance of foreign direct investment for Hong Kong and the need to undertake investment promotion initiatives. Their major concerns are summarized in the following paragraphs.

Use of the additional resources of \$200 million

6. On 3 June 2003, FC approved a new commitment of \$200 million to enable InvestHK to strengthen its investment promotion efforts over a period of five years starting from 2003-04 as follows :

<u>Financial year</u>	<u>\$ million</u>
2003-04	30
2004-05	42.5
2005-06	42.5
2006-07	42.5
2007-08	42.5
Total	200

7. While expressing support for the \$200-million commitment, Members are keen to ensure that the additional resources, which represent roughly some 50% increase in the annual provision for InvestHK, is put to effective use.

² The figures represent the approved total allocation for InvestHK for the respective year.

8. In this connection, Members note that with the new resources, InvestHK would plan to increase its original target of attracting companies to Hong Kong and to broaden its external representation. The Administration has also advised that since the \$200 million is to be expended in five years, its full impact can be more clearly seen in a few years' time.

InvestHK and the Hong Kong Economic and Trade Offices (ETOs)

9. Concern has been expressed by some Members that the work of InvestHK overlaps to a great extent with that of ETOs. They consider that the institutional structure for promoting trade and investment should be streamlined or the respective functions of InvestHK and ETOs be more clearly delineated to improve efficiency and avoid resources duplication.

10. On the division of work between InvestHK and ETOs, Members note the Administration's view that the two are complementary to each other. InvestHK has deployed out-stationed staff to operate an Investment Promotion Unit (IPU) devoted to the task of investment promotion in eight of the ETOs. In the process of investment promotion, InvestHK relies on ETOs (including the IPUs) to formulate and implement an investment promotion strategy in their respective home countries/targeted cities and to identify potential foreign investors. It will then approach these investors and render necessary advice and assistance to facilitate them to establish business in Hong Kong. The Administration has assured Members that it will keep in view the working relationship between the two to ensure its effectiveness.

Cost-effectiveness of investment promotion work

11. In reviewing the work of InvestHK, the CI Panel has considered the number of investment projects completed, the number of jobs created in Hong Kong and the investment amount involved since the establishment of InvestHK in 2000. Panel members are also concerned about the effectiveness of overseas promotional activities jointly organized with major cities in the Pearl River Delta region since 2002, as well as InvestHK's work in promoting the business opportunities brought about by the Mainland and Hong Kong Closer Economic Partnership Arrangement.

12. On the profile of foreign/Mainland companies established in Hong Kong through the assistance of InvestHK, members noted that they were of a relatively small size during the initial stage. In response to the Panel's request to keep track of the expansion or otherwise of these companies, the Administration has confirmed that it will adopt an appropriate mechanism starting from 2005 to keep track of the development of those foreign/Mainland companies which have established their operations in Hong Kong for more than three years, particularly with respect to any additional capital investment and creation of jobs.

13. To better ascertain the effectiveness of investment promotion work, members have also urged the Administration to continue its effort to persuade those companies receiving assistance from InvestHK to reveal more useful information such as their employment size on a voluntary basis, as this is one of the key indicators of how Hong Kong's economy and labour market can benefit from promotion of foreign investment.

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