

**LEGISLATIVE COUNCIL  
PANEL ON COMMERCE AND INDUSTRY**

**Promotion of Inward Investment**

**INTRODUCTION**

At the meeting on 18 April 2006, Members were briefed vide Paper CB(1)1287/05-06(3) on the work of Invest Hong Kong (InvestHK) in promoting inward investment. The purpose of this paper is to update Members on the work of the department in 2006 and outline developments planned for 2007.

**BACKGROUND**

2. InvestHK will soon begin its seventh year of operation since its establishment on 1 July 2000 to spearhead Hong Kong's efforts to attract foreign direct investment (FDI). Its mission is to attract to and retain in Hong Kong economically and strategically important investment. On 3 June 2003, the Finance Committee approved the creation of a new commitment of \$200 million to enable the department to strengthen its investment promotion work. The additional resources are to be spent over a period of five years, with \$30 million allocated for the first year in 2003-04 and thereafter \$42.5 million per year up to 2007-08.

3. The annual financial provision allocated to InvestHK for investment promotion from 2003-04 onwards, including the additional resources, is as follows:-

Items	2003-04 (\$ million)	2004-05 (\$ million)	2005-06 (\$ million)	2006-07 (\$ million)
Operational expenses	46.4	45.2	63.7 <sup>1</sup>	63.6
Investment promotion (block vote)	21.0	21.0	---	---
General non-recurrent expenses for	30.0	44.5 <sup>2</sup>	42.5	42.5

<sup>1</sup> With effect from 2005-06, the provision for investment promotion under Investment Promotion Block Vote (i.e. \$21 million) is transferred to the Operational Expenses subhead.

<sup>2</sup> The annual financial provision of this item (i.e. \$44.5 million) in 2004-05 included the unspent balance in 2003-04 and hence is more than the original cash flow forecast of \$42.5 million.

Items	2003-04 (\$ million)	2004-05 (\$ million)	2005-06 (\$ million)	2006-07 (\$ million)
enhancing investment promotion work				
<b>Total</b>	<b>97.4</b>	<b>110.7</b>	<b>106.2</b>	<b>106.1</b>

4. InvestHK has been making the best use of the additional resources to broaden its promotion work and coverage in strategic markets overseas and in the Mainland, strengthen the project-handling capacity of its sector teams in the Head Office<sup>3</sup>, increase marketing activities and joint promotional efforts with Mainland provinces and cities, and improve its corporate marketing and communications capability (especially in the areas of marketing, research, public relations, information technology and knowledge management) by engaging the full-time and exclusive service of an in-house consulting team.

5. As at 1 January 2007, InvestHK employed 90 staff in its Head Office. They work closely with 26 out-stationed staff operating Investment Promotion Units (IPUs) in ten designated Hong Kong Economic and Trade Offices (ETOs)<sup>4</sup> and the Beijing Office. Of the 116 staff, 74 were non-civil service appointments and 42 were civil servants. To strengthen its presence in existing markets and to cover new markets, InvestHK also engages 15 external consultant companies in different strategic locations not covered by the existing IPUs. An organisation chart of the department's Head Office and details of its overseas promotion arms are at **Enclosures 1 and 2** respectively.

## **MAJOR ACTIVITIES AND ACHIEVEMENTS IN 2006**

### **(a) Attracting foreign direct investment**

6. InvestHK has been actively promoting Hong Kong's unique position as a two-way platform for business between the Mainland and the rest of the world, a preferred destination for FDI in Asia and the international business hub for multinational corporations to oversee their regional operations. As part of its continued efforts to promote the strategic roles of Hong Kong in the Greater Pearl River Delta (PRD) economy, the department has recently published the fourth

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<sup>3</sup> *The nine sector teams specialise in the following sectors: business & professional services; consumer, retail & sourcing; financial services; information technology; telecommunications, media & multimedia; technology; tourism & entertainment; transportation; and special projects.*

<sup>4</sup> *Two IPUs were set up in 2006 upon the establishment of the new ETOs in Shanghai and Chengdu.*

edition of a study report entitled "The Greater Pearl River Delta"<sup>5</sup>. This report has been one of the most important sources of credible facts and figures about the Greater PRD, including Hong Kong and Macao, since its first edition in 2003.

7. In 2006, InvestHK assisted 246 overseas, Mainland and Taiwan companies to set up or expand operations in Hong Kong. These investment projects are expected to lead to the creation of over 7 835 jobs, which include 3 092 jobs initially and an additional 4 743 jobs in the next two years as the companies expand. These companies have also brought in financial investments of more than \$10.24 billion, representing a 15% increase over last year's record total. A summary of the department's results over the years is at **Enclosure 3**. A detailed breakdown and the analysis of projects completed in 2006 are set out at **Enclosure 4**.

#### **(b) Undertaking joint promotional efforts with Mainland authorities**

8. In 2006, InvestHK organised eight joint investment promotional activities with major Mainland provinces and cities. Details are at **Enclosure 5**. All these joint seminars were well received by the audience, mostly overseas prospective investors. The overall response has been overwhelming and promising. For example, the large-scale joint investment promotion seminar co-organised with the Guangdong Province in Paris held in November 2006 attracted over 2 000 participants, and many of them showed strong interest in exploring business opportunities in the Greater PRD.

9. This collaborative strategy has proven to be successful. From 2002 to end 2006, InvestHK has already completed 32 investment projects arising from these joint promotional activities. Another 92 projects are still being pursued.

#### **(c) Attracting Mainland enterprises to set up business in Hong Kong**

10. InvestHK has continued to actively promote to Mainland enterprises Hong Kong's unique advantages as a springboard to expand overseas, and to work closely with relevant Mainland authorities to help Mainland enterprises set up operations in Hong Kong. In 2006, InvestHK conducted a total of 17 seminars in 13 cities in the Mainland, including a series of thematic seminars and other

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<sup>5</sup> *Commissioned by InvestHK, the report was written by Professor Michael Enright of the University of Hong Kong and Edith Scott.*

sector-specific seminars covering 9 cities in the Pan-PRD region. Details of these activities are summarised at **Enclosure 6**.

11. To ride on the successful launch of the “InvestHK Step-by-step Guide”<sup>6</sup> in 2005, which sets out the detailed procedures for Mainland enterprises to obtain relevant government approvals in the Mainland and the steps for setting up a business in Hong Kong, the department further introduced in mid-2006 a version tailored for Guangdong enterprises and is working on versions tailored for other provinces to be launched in future.

12. In 2006, InvestHK completed 41 projects related to Mainland investments in Hong Kong, which represented a 17% share of the total number of completed projects. This clearly demonstrates the important role of Hong Kong as a preferred base for Mainland enterprises to expand regionally and internationally.

#### **(d) Promoting Hong Kong’s profile and advantages**

13. Participation in major international business events constitutes an integral part of InvestHK’s investment promotion efforts. This helps to raise Hong Kong’s profile among key target markets and identify new prospective investors interested in Hong Kong. Major events in which InvestHK participated in 2006 include, for example, the Annual Asian Pacific Bond Congress; MIPIM Asia; the Cable and Satellite Broadcasting Association of Asia (CASBAA) Annual Convention; CNBC Asia Business Leaders Awards; and the 3G World Congress and Mobility Marketplace, etc.

14. InvestHK has made continuous efforts to leverage on the networking potential of its Investment Promotion Ambassadors (IPAs) to strengthen its investment promotion work as and when opportunities arise<sup>7</sup>. In 2006, the department appointed a further batch of 10 new IPAs, marking up a wider network of 71 IPAs in total, which stretches across different parts of the world as a number

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<sup>6</sup> *The “Step-by-Step Guide” is a joint publication of InvestHK, the Ministry of Commerce and the Commercial Office of the Economic Department of the Central People’s Government Liaison Office in HKSAR.*

<sup>7</sup> *The objective of the IPA Scheme is to harness the energy and networking potential of prominent figures in the business community to support Hong Kong’s investment promotion efforts, with emphasis on its role in the Greater PRD economy. The IPAs serve as “door openers” to help Government promote the investment strengths offered by Hong Kong and also act as “endorsers” for our investment promotion efforts.*

of them are based overseas. About 30 activities have been successfully arranged involving the participation of over 20 IPAs since the scheme was launched in 2003. For example, an IPA based in Paris was invited to deliver a keynote speech at the Hong Kong-Guangdong joint seminar in November 2006.

15. To strengthen the collaborative efforts in promoting Hong Kong, InvestHK has maintained close working relations with many strategic partners, both local and overseas, including consulates-general, chambers of commerce and the Hong Kong Trade Development Council (HKTDC). InvestHK has adopted a more diversified approach in its business community programmes by anchoring with major events of the chambers, and by attaching a sector-specific focus in collaboration with interested parties concerned. InvestHK's regular liaison meetings and other working level meetings with HKTDC also help to enhance mutual communications and collaboration. For example, during the past year the two organisations have reconciled and strengthened their respective in-house mechanisms in initiating and recording cross-referrals of companies.

## **CEPA EFFECT**

16. Since the implementation of Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2003, InvestHK has been actively organising or participating in seminars in North America, Europe and Asia Pacific to promote the benefits of setting up operations in Hong Kong under CEPA to potential investors. The department has also measured CEPA's impact on companies' investment decisions

17. Of the 246 investment projects completed in 2006, 61 companies (25%) have indicated that CEPA was one of the factors considered in making the investment. Of these 61 companies, 22 companies invested because of CEPA, and some of them have accelerated their investment plans, and/or invested more capital and/or employed more staff as a result of CEPA.

## **REGIONAL OPERATIONS AND FDI DESTINATION**

18. Hong Kong continues to maintain its leading position as a preferred destination for FDI. According to the "World Investment Report 2006" released by the United Nations Conference on Trade and Development (UNCTAD), Hong

Kong has remained the second largest FDI recipient in Asia, after the Mainland. On a global scale, Hong Kong ranked 6<sup>th</sup> in FDI inflows in 2005<sup>8</sup>.

19. Overall FDI inflow into Hong Kong continues to be strong. According to the preliminary figures reported by Census and Statistics Department (C&SD), the FDI inflows during the first three quarters of 2006 have reached US\$29.8 billion (\$231 billion), representing an increase of some US\$5.1 billion (\$40.3 billion) over the same period of 2005. A summary of the FDI figures over the past few years are as follows:

<u>Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Amount (US\$ billion)	9.7	13.6	34.0	33.6

*Source: Census & Statistics Department*

20. The number of regional operations in Hong Kong reached an all-time high in 2006. As at 1 June 2006, there were 3 845 companies that were regional headquarters (RHQ) or regional offices (RO) in Hong Kong representing parent companies located outside Hong Kong<sup>9</sup>. This demonstrates that Hong Kong has remained the preferred base in Asia for overseas companies to oversee their regional operations. More details are set out at **Enclosure 7**.

## **LOOKING FORWARD**

21. InvestHK remains committed to its targeted investment promotion activities in both traditional investment source markets and emerging markets. InvestHK's target for 2007 is to achieve at least 250 completed projects. Its sector-focused teams will continue to identify, attract and assist investors in their respective priority sectors from various regions around the world. At the same time, the department will continue to work closely with the local and international business community in Hong Kong and around the world.

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<sup>8</sup> *The ranking is based upon the initial figures quoted in the World Investment Report 2006 published by UNCTAD in October 2006. The FDI inflow figures of Hong Kong for 2005 have subsequently been revised and updated in External Direct Investment Statistics of Hong Kong for 2005 published by C&SD in December 2006.*

<sup>9</sup> *The figures are reported by the C&SD in its Report on 2006 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong.*

22. Furthermore, InvestHK is fully aware of the importance of aftercare services and has since December 2004 implemented an aftercare monitoring programme to keep track of the development of companies assisted by the department in setting up or expanding operations in Hong Kong. As a matter of continuous improvement, InvestHK is reviewing its aftercare strategy with a view to developing a deeper relationship with key strategic investors.

23. In February 2006, the Government's Efficiency Unit commissioned a review of the cost-effectiveness of the work of InvestHK<sup>10</sup>. The review has concluded that InvestHK is performing well in a cost-effective manner and that it is operating at close to maximum capacity in terms of the number of projects it can handle while maintaining the current level of service quality with the existing resources.

24. The cost-effectiveness review has also identified a number of priority areas for further study with a view to enhancing InvestHK's performance. These include a review of the relevance of InvestHK's nine priority sectors, its major activities and target markets, as well as the governance arrangement and performance measures for maximising the value generated from InvestHK. In this connection, the Government will commission a follow-up study within the next few months to review the current strategy for promotion of inward investment into Hong Kong, in particular to review the role and mission of InvestHK and the relevance of its existing priority sectors in the context of the overall economic policy of Hong Kong. The key findings of the study will be available in the second or third quarter of this year and will be taken into account when considering funding allocation to InvestHK in future.

## **ADVICE SOUGHT**

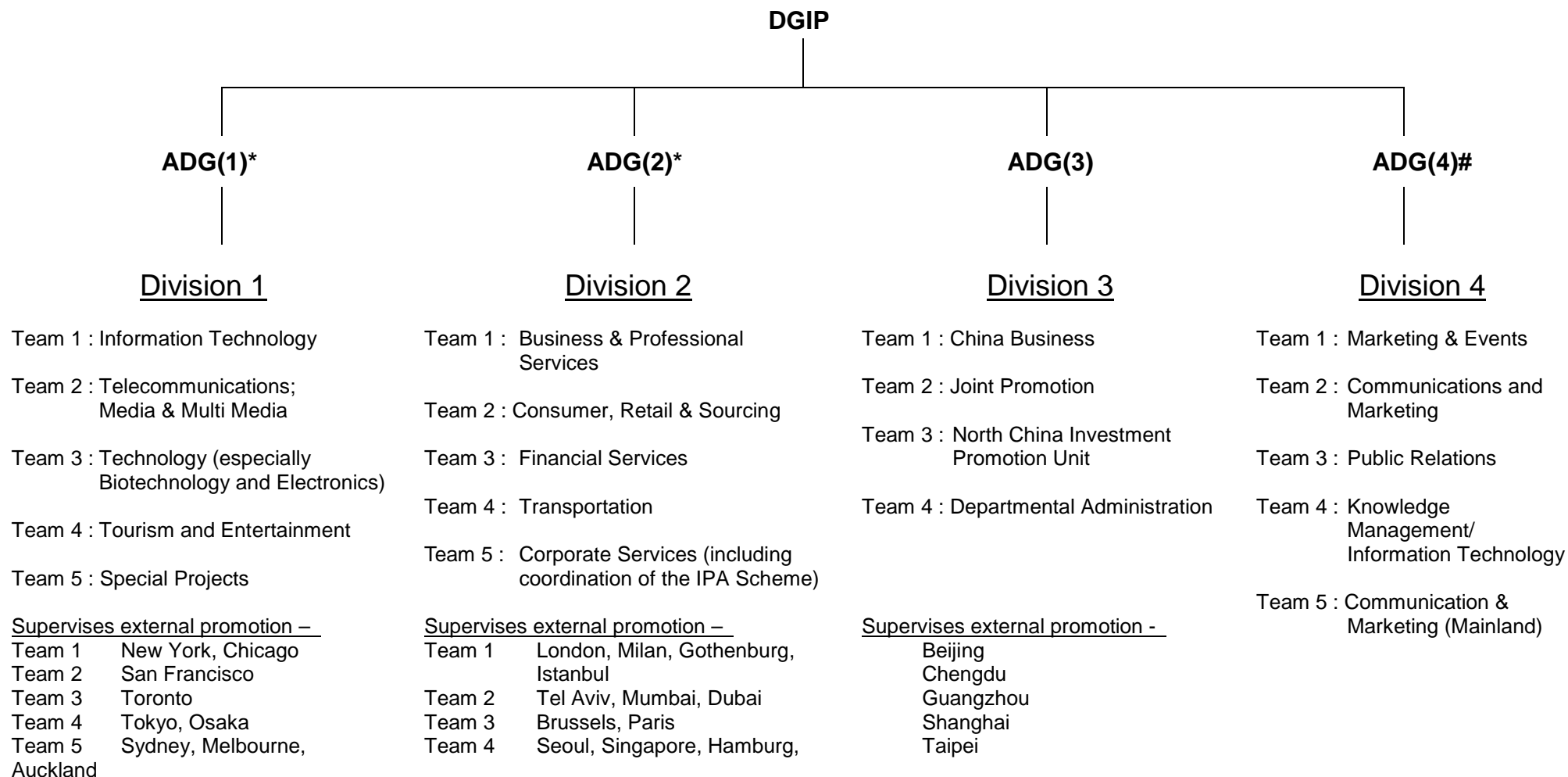
25. Members are invited to note the inward investment promotion work of InvestHK, and the progress and achievements to date.

*Invest Hong Kong*  
*February 2007*

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<sup>10</sup> *An independent study commissioned by the Efficiency Unit. The key objectives of the cost-effectiveness review are (a) to review the general cost-effectiveness of the work of InvestHK; (b) to examine how the time-limited allocation of the additional funds of \$200 million (see paragraph 2) has contributed to the overall situation; and (c) in the light of the findings, to consider whether the time-limited additional funding should be converted into recurrent funding.*

**Organisational Structure of InvestHK Head Office**



\* *Non-civil service posts*

# Leading member of the consulting team deployed from the Corporate Communications Consultant



**InvestHK's External Promotion Units**

<u>Region</u>	<u>Office Location</u>	<u>Area Covered</u>	<u>Remarks</u>
North America	New York	US East	Team of three based in ETO
	San Francisco	US West	Team of three based in ETO
	Chicago	US Central	Consultant Company
	Toronto	Canada	Individual based in ETO
Europe	Brussels	Western Europe	Team of two based in ETO
	Paris	France	Consultant Company
	Hamburg	Germany	Consultant Company
	Milan	Italy	Consultant Company
	London	UK, Switzerland, Russia, Estonia, Latvia, Lithuania, Romania, Czech Republic, Hungary, Poland, Slovak Republic, Slovenia	Team of two based in ETO
	Gothenburg	Nordics	Consultant Company
Asia/ Australasia	Tokyo	North Japan	Team of two based in ETO
	Osaka	West Japan	Consultant Company
	Singapore	Singapore	Consultant Company
	Seoul	Korea	Consultant Company
	Mumbai	India	Consultant Company
	Dubai	Arab Middle East	Consultant Company
	Istanbul	Turkey	Consultant Company
	Tel Aviv	Israel	Consultant Company
	Sydney	Australia, less Victoria & South Australia	Individual based in ETO
	Melbourne	Victoria & South Australia	Consultant Company
	Auckland	New Zealand	Consultant Company
Mainland and Taiwan	Guangzhou	Guangdong and four Pan-PRD provinces namely Fujian, Jiangxi, Guangxi and Hainan	Team of five based in ETO
	Beijing / Hong Kong	Beijing, Tianjin, Hebei, Shangdong, Liaoning, Heilongjiang, Jilin, Henan, Shanxi, Gansu, Qinghai, Xinjiang, Xizeng (Tibet), Ningxia, and Inner Mongolia	Team of two based in BJO & Team of three based in IHK Head Office
	Chengdu	Chongqing, Sichuan, Yunnan, Guizhou, Hunan, and Shaanxi	Team of two based in ETO
	Shanghai	Shanghai, Jiangsu, Zhejiang, Anhui, and Hubei	Team of three based in ETO
	Taipei	Taiwan	Consultant Company

**Summary of Results of the Work of InvestHK**

	<u>2000</u> (Jul - Dec)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
No. of projects completed*	35	99	117	142	205	232	246
Jobs created**	347	1 504	2 075	7 634	7 696	7 924	7 835
• jobs created at opening/expansion	347	1 504	2 075	2 456	3 008	2 517	3 092
• jobs to be created in the next 2 years#	-	-	-	5 178	4 688	5 407	4 743
Investment amount (\$ million)**	506	3,500	1,360	2,493	4,658	8,895	10,243

\* *These represent companies assisted by InvestHK, and do not include companies set up in Hong Kong without such assistance.*

\*\* *As reported by the companies assisted by InvestHK themselves. Not all are willing to disclose the data.*

# *For 2000 to 2002, companies were not asked to provide the forecast figure.*

**Analysis of Investment Projects Completed by InvestHK in 2006****(A) Breakdown by Industry**

<b>Sector</b>	<b>Completed projects</b>
Business and Professional Services	29
Consumer, Retail and Sourcing	40.5
Financial Services	23
Information Technology	22
Technology	27.5
Telecommunications, Media & Multimedia	24.5
Tourism & Entertainment	26
Transportation	23
Others	30.5
<b>Total</b>	<b>246*</b>

\* About 4% of the cases were of manufacturing nature.

**(B) Breakdown by Geographical Location**

<b>Region</b>	<b>Completed Projects</b>
Europe	75 (30.5%)
USA	51 (20.7%)
Japan and Korea	26 (10.6%)
Mainland	41 (16.7%)
Australia and New Zealand	15 (6.1%)
Taiwan	6 (2.4%)
Canada	10 (4.1%)
Rest of Asia	13 (5.3%)
Middle East	6 (2.4%)
Others	3 (1.2%)
<b>Total</b>	<b>246</b>

**(C) Breakdown by Capital Investment**

<b>Capital Investment (HK\$)</b>	<b>Completed Projects</b>
5 million	131 (53.3%)
> 5 million      50 million	61 (24.8%)
> 50 million	21 (8.5%)
N/A #	33 (13.4%)
<b>Total</b>	<b>246</b>

**(D) Breakdown by Number of Jobs Initially Created**

<b>No. of Jobs Created</b>	<b>Completed Projects</b>
1 - 10	186 (75.6%)
11 - 100	51 (20.7%)
100 +	2 (0.8%)
N/A #	7 (2.8%)
<b>Total</b>	<b>246</b>

# Some companies were not willing to reveal the information.

**(E) CEPA Effect**

<b>Response</b>	<b>Completed Projects</b>
CEPA is a factor for the current investment,	61
with one or more of the following effects:	
× Invested because of CEPA	22
× Investment accelerated	38
× More capital invested	22
× More staff employed	20

× These figures add up to more than 61 because a company can indicate more than one effect.

**Joint Overseas Promotions with Mainland Provinces/Cities in 2006**

<b><u>Date</u></b>	<b><u>Partner Province/City</u></b>	<b><u>Location</u></b>
17 March	Guangzhou	Stockholm
25 April	Dongguan	Copenhagen
27 April	Zhuhai	Florence
30 May	Shenzhen	Seoul
15 June	Jiangmen	San Diego
27 September	Foshan	Dusseldorf
18 October	Fujian	Philadelphia
10 November	Guangdong	Paris

**Major Events organized by InvestHK in the Mainland in 2006**

<u>Date</u>	<u>Events</u>	<u>Location</u>
1 March	"Hong Kong – platform for Mainland enterprises to go global" seminar - Pharmaceutical enterprises	Jilin
17 March	"Going Global - Expert Consultation Campaign in Panyu" co-organised with Hong Kong Professional Consultants Association	Panyu
6 April	Hong Kong Investment Promotion Seminar in Shenzhen jointly organised with Guangdong Federation of Industry and Commerce	Shenzhen
22 - 23 May	IHK/MOFCOM seminar for Food & Beverages industry	Chongqing
24 - 26 May	Western Expo cum IHK IT seminar	Chengdu
26 May	"Going Global - Expert Consultation Campaign" in Zhongshan co-organised with Hong Kong Professional Consultants Association	Zhongshan
29 May	"Roadshow for 'Hong Kong Research and Development Programmes'" - Guangzhou leg	Guangzhou
30 May	"Roadshow for `Hong Kong Research and Development Programmes"- Foshan leg	Foshan
8 June	"Roadshow for `Hong Kong Research and Development Programmes"- Shenzhen leg	Shenzhen
8 - 12 June	Zhejiang Investment & Trade Symposium	Ningbo
9 June	"Roadshow for `Hong Kong Research and Development Programmes"- Dongguan leg	Dongguan
22 - 24 June	IHK/MOFCOM seminar for IT industry	Dalian
9 August	"Invest Hong Kong" Forum in Foshan jointly organised with the Guangdong side of the Greater Pearl River Delta Investment and Trade Promotion Sub Group (Guangdong Association of Enterprises with Foreign Investment and Guangdong Province	Foshan

**Enclosure 6**

<u>Date</u>	<u>Events</u>	<u>Location</u>
	Private Enterprises Association and Guangdong Sub-Council of CCPIT) and the Joint Investment and Trade Promotion Sub Group of the Greater Pearl River Delta Business Council	
7 - 9 September	"Hong Kong – Your Platform to Go Global" Forum - Capitalise on Hong Kong's Professional Services for International Expansion" at China International Fair for Investment & Trade (CIFIT)	Xiamen
27 October	Roundtable on "Hong Kong – Your Platform to Go Global"	Chengdu
31 October	"Hong Kong: the Platform for Guangxi Enterprises to Go Global" jointly organised with Guangxi Dept of Commerce	Nanning
29 November	Experience Sharing Session of Shenzhen Enterprises Invested / Interested in Investing in HK	Shenzhen

**Regional Operations in Hong Kong**

	2002	2003	2004	2005	2006	Change (2005-06)	% Change (2005-06)
RHQs	948	966	1 098	1 167	1 228	61	5.23
ROs	2 171	2 241	2 511	2 631	2 617	-14	-0.53
LOs	1 748	2 207	2 334	2 474	2 509	35	1.41
RHQs + ROs	3 119	3 207	3 609	3 798	3 845	47	1.24
RHQs + ROs + LOs	4 867	5 414	5 943	6 272	6 354	82	1.31

*RHQ: An office that has managerial control over offices in the region (i.e. HK plus one or more other places) on behalf of its parent company located outside HK*

*RO: An office that coordinates offices and/or operations in the region (i.e. HK plus one of more other places) on behalf of its parent company located outside HK*

*LO: An office that only takes charge of the business in HK (but nowhere else) on behalf of its parent company located outside HK*

*Source: Census & Statistics Department*