

ITEM FOR FINANCE COMMITTEE

**HEAD 79 - INVEST HONG KONG
Subhead 700 General non-recurrent
Item 009 Boosting Investment Promotion Work**

Members are invited to approve a \$100 million increase in the approved commitment for boosting investment promotion work.

PROBLEM

The additional funds provided in 2003 to boost Hong Kong's investment promotion (IP) work will shortly be exhausted. We need additional resources to sustain the momentum of our IP efforts.

PROPOSAL

2. The Director-General of Investment Promotion, with the support of the Secretary for Commerce and Economic Development, proposes to increase the non-recurrent commitment for boosting IP work by \$100 million from \$200 million to \$300 million to enable Invest Hong Kong (InvestHK) to continue its current level of IP efforts.

JUSTIFICATION

The existing non-recurrent commitment for boosting investment promotion

3. On 3 June 2003, the Finance Committee (FC) approved the creation of a new commitment of \$200 million to enable InvestHK to strengthen its IP efforts. The additional resources were allocated to InvestHK for implementation of the following initiatives to boost IP work –

- (a) broaden the external representation of InvestHK to markets not already included;
- (b) improve coverage in markets where InvestHK is already represented;
- (c) strengthen Investment Promotion Units (IPUs) targeting markets in Beijing/Tianjin and East China;
- (d) increase joint marketing activities with the Pearl River Delta (PRD) municipalities and strengthen the team responsible for Mainland coordination in InvestHK's Head Office;
- (e) strengthen the sector teams in the Head Office to generate and handle additional projects;
- (f) support the Investment Promotion Ambassador Scheme;
- (g) improve the marketing, research, information technology (IT) and knowledge management capacity of the department (through outsourcing the services to a consultant company); and
- (h) meet the additional expenditure on advertising, event sponsorship, office rental and overseas travel, etc. arising from these enhanced promotional activities.

It was envisaged that the additional resources would be expended evenly over a period of about five years, starting from 2003-04 (\$30 million in 2003-04 and \$42.5 million per year from 2004-05 to 2007-08).

Deployment of and benefits brought about by the additional resources

Staff Complement and Caseload

4. Making use of the additional resources, InvestHK has recruited 28 additional staff on non-civil service contract terms over the past five years. These staff members are primarily deployed to strengthen the capacity of the Head Office teams for exploring and identifying potential leads for investment projects, and for coping with increased numbers of projects.

5. With the additional resources, coupled with the recovery of the Hong Kong economy, since 2002, InvestHK has more than doubled the number of completed investment projects¹ that it facilitates each year, from 117 in 2002 to 253 in 2007 (as at 22 December). In terms of “live” projects², the caseload in hand has also substantially increased, from less than 300 to over 600 in the three years since 2004.

6. In 2007, InvestHK successfully completed 253 projects, involving total investment amount of more than \$8.3 billion and the creation of over 8 100 jobs. The results of the department’s work since its establishment up to and including 22 December 2007 are summarised below –

	<u>2000</u> (Jul - Dec)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
No. of projects completed*	35	99	117	142	205	232	246	253
Jobs created**	347	1 504	2 075	7 634	7 696	7 924	7 835	8 134
jobs created at opening/ expansion	347	1 504	2 075	2 456	3 008	2 517	3 092	3 130
jobs to be created in next two years#	-	-	-	5 178	4 688	5 407	4 743	5 004
Investment amount (\$million)**	506	3,500	1,360	2,493	4,658	8,895	10,243	8,387

* 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.

/External

¹ A “completed” project is one where a foreign, Mainland or Taiwan company has physically established a presence or undergone a significant expansion in Hong Kong.

² A “live” project is one where a foreign, Mainland or Taiwan company has an active plan to set up a new presence (or expand an existing one) in East Asia in the next 18 months with Hong Kong being a candidate location, and where the company is in regular contact with and being assisted by InvestHK.

External Representation

7. With the additional resources, InvestHK has engaged external consultants to establish a presence in new strategic locations, including South Korea, Singapore, India, the Nordics and the Middle East, and strengthened its coverage of existing markets such as the USA (Central), Canada, Europe, Australia, and Japan (West). The external promotion units of the department are listed at the Enclosure.

Encl.

Mainland Promotion

8. To promote the advantages offered by the economic integration of Hong Kong and the Mainland, InvestHK has conducted joint seminars with Mainland provincial and municipal authorities in key overseas markets. This strategy has helped attract foreign investors. By the end of June 2007, InvestHK had completed 32 foreign investment projects derived from these seminars and was pursuing another 127 cases.

9. InvestHK has also stepped up efforts to target Mainland enterprises with the potential to invest in Hong Kong. In 2004, in collaboration with the relevant Mainland authorities, InvestHK launched the “One Stop Service”³ package to facilitate cross-border investment. Since 2006, the department has strengthened its presence on the Mainland by: setting up an IPU in the Beijing Office and in the newly established Economic and Trade Offices (ETOs) in Shanghai and Chengdu; broadening the geographical responsibilities of its IPU at the Guangdong ETO; and launching an “Invest Hong Kong Services Centre” in the Beijing Office and the ETOs in Guangdong, Shanghai and Chengdu. In June 2007, InvestHK launched a campaign to provide privately-owned enterprises in high-growth regions with the information and tools to expand internationally using Hong Kong as their gateway.

10. Prior to 2002, InvestHK had no completed projects of Mainland origin. As at the end of 2007, it had helped 183 Mainland enterprises to establish operations in Hong Kong. In 2007, InvestHK completed 47 projects related to Mainland investments in Hong Kong, representing about 19% of the total number of completed projects.

/Corporate

³ “One Stop Service (投資香港一站通服務)” is a series of tailored services for Mainland investors, including a toll-free 800 hotline on the Mainland, a service centre at InvestHK Head Office, a tailor-made information kit and the “Step-by-Step Guide” — a joint publication by InvestHK, the Ministry of Commerce and the Commercial Office of the Economic Department of the Central People’s Government Liaison Office in Hong Kong.

Corporate Marketing and Communications Capacity

11. In December 2003, InvestHK engaged a consultant to strengthen its corporate marketing and communications capacity. As a result, InvestHK has established a new IT platform, revamped its website and launched a new Customer Relationship Management system. The consultant has also conducted an annual perception survey on the awareness ratings of InvestHK. Between 2001 and 2007, awareness increased from 13% to 89% among the general public. In 2006, a study on the cost-effectiveness of InvestHK's work⁴ rated the department strongly on its performance in enhancing awareness, projecting a positive image and disseminating consistent marketing messages to key stakeholders.

Cost-effectiveness in Resource Utilisation

12. The cost-effectiveness study also concluded that InvestHK is operating at close to maximum capacity in terms of the number of projects it can handle whilst maintaining the current level of service quality. The report identified areas for further study with a view to enhancing InvestHK's performance, including a review of InvestHK's nine priority sectors⁵, its major activities and target markets, as well as institutional arrangements and performance measures for maximising the value generated from InvestHK. In October 2007, the Government commissioned a follow-up study to review the strategy for promotion of inward investment. The key findings of the study are expected to be available in the second quarter of 2008.

Sustaining the Momentum

13. The enhanced IP measures funded by the \$200 million commitment were planned for implementation on a five-year basis up to 2007-08. With other economies in the region increasing their efforts to attract foreign direct investment (FDI), we need additional resources to maintain the momentum of our IP work to stay competitive.

/14.

⁴ In February 2006, the Government's Efficiency Unit commissioned a consultancy study to review the cost-effectiveness of the work of InvestHK. The key objectives of the study were to –

- (a) review the general cost-effectiveness of the work of InvestHK;
- (b) examine how the time-limited allocation of \$200 million had contributed to the overall situation; and
- (c) consider, in the light of the findings, whether the time-limited additional funding should be converted into recurrent funding.

⁵ The nine priority sectors include business & professional services; consumer, retail & sourcing; financial services; information technology (especially electronics and biotechnology); media & multimedia; technology; telecommunications; tourism & entertainment; and transportation.

14. To sustain its momentum, InvestHK must maintain its current level of global representation. Whilst we will continue to identify, review and adjust the preferred locations in which InvestHK should establish a presence, the work of the department would inevitably be affected if the proposed additional resources are not made available. Any significant reduction in InvestHK's overseas representation may signal to the international community that we no longer see attracting FDI as a priority.

15. InvestHK is committed to promoting the combined advantages offered by Hong Kong and the PRD in collaboration with the Mainland authorities, whilst emphasising Hong Kong's role as a platform for business between the Mainland and the rest of the world. Apart from the ongoing work on the Mainland, InvestHK also plans to step up efforts to promote new marketing initiatives.

16. Given the substantial increase in project caseload in recent years, InvestHK is operating at close to maximum capacity. Furthermore, the department has extended its aftercare services to firms whose initial set-ups were not facilitated by InvestHK. Operationally, there is little room for InvestHK to scale down its manpower without compromising service quality.

17. The enhancement of InvestHK's corporate marketing and communications capacity was initially planned on the basis of a five-year consultancy from December 2003 to December 2008. With the necessary hardware in place, InvestHK's capacity for market research, communications, IT and knowledge management has been gradually internalised. However, continued marketing and promotional efforts are required to reassure potential investors of the advantages of Hong Kong. To this end, InvestHK intends to hire additional staff upon the expiry of the aforementioned contract to undertake this work.

18. Of the \$200 million non-recurrent allocation approved by FC in 2003 for boosting IP work, \$148 million has been spent up to 2006-07. With an estimated spending of \$42.5 million for 2007-08, there will be a remaining balance of \$9.5 million in 2008-09. While we will make full use of the remaining balance of the allocation to partly fund the IP activities in 2008-09, InvestHK needs an additional allocation of \$100 million to sustain the momentum of its IP work. We will further review the future funding requirement for IP work having regard to the findings of the current review on our IP strategy mentioned in paragraph 12 above.

19. It is difficult to forecast precisely the economic benefits that will result from allocating additional resources for IP. Many variables are beyond the control of InvestHK, in particular the general state of the world economy. Nevertheless, InvestHK has set itself the target of facilitating the completion of at least 250 projects annually from 2007 onwards.

FINANCIAL IMPLICATIONS

20. We propose to increase the commitment for boosting IP by \$100 million from \$200 million to \$300 million. We plan to expend the additional provision according to the following cash flow forecast –

2008-09 (\$ million)	2009-10 (\$ million)	2010-11 (\$ million)
33.3	33.3	33.4

21. The breakdown of the proposed \$100 million additional allocation is as follows –

Expenditure Items	Amount (\$ million per year)	
	2008-09	2009-10 to 2010-11
(a) Emoluments for additional staff employed on non-civil service terms	14.0	16.5 ⁶
(b) Consultants in new markets	4.0	4.0
(c) Consultants to strengthen our presence in existing markets	2.5	2.5
(d) Promotional efforts on the Mainland	4.5	3.0
(e) Joint promotional efforts overseas with Mainland provinces and municipalities	5.0	5.0
(f) Marketing and event sponsorship	3.3	2.3 (2.4 for 2010-11)
Total:	33.3	33.3 (33.4 for 2010-11)

/22.

⁶ Additional staff will be hired upon the expiry of the consultancy contract (paragraph 17 refers) in end December 2008.

22. Taking into account the proposed additional provision and the estimated remaining balance of \$9.5 million under the existing non-recurrent commitment for boosting IP work in 2008-09 (as indicated in paragraph 18 above), the estimated cash flow of the commitment after increase will be \$42.8 million for 2008-09, \$33.3 million for 2009-10 and \$33.4 million for 2010-11.

PUBLIC CONSULTATION

23. We consulted the Legislative Council Panel on Commerce and Industry on the proposal. At the Panel meeting held on 18 December 2007, Members expressed support for the proposal.

BACKGROUND

24. InvestHK was set up in July 2000 to spearhead Hong Kong's efforts to attract FDI. Its mission is to attract to and retain in Hong Kong economically and strategically important investment.

25. Taking into account the \$200 million non-recurrent commitment for boosting IP work, the annual financial provision allocated to InvestHK for IP from 2003-04 onwards is summarised below –

	2003-04	2004-05	2005-06	2006-07	2007-08
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Operational expenses	46.4	45.2	63.7	63.6	64.7
Investment promotion (block vote)	21.0	21.0	-	-	-
General non-recurrent funding for enhancing IP work	30.0	44.5 ⁷	42.5	42.5	42.5
Total	97.4	110.7	106.2	106.1	107.2

Commerce and Economic Development Bureau
January 2008

⁷ 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.

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 Toronto	US Central Canada	Consultant Company 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 Auckland	Victoria & South Australia New Zealand
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 Beijing Office and Team of two based in InvestHK 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
