

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Promotion of Inward Investment

PURPOSE

At the meeting on 13 February 2007, Members were briefed vide Paper CB(1)905/06-07(5) on the work of Invest Hong Kong (InvestHK) in promoting inward investment. This paper updates Members on recent developments and seeks Members' support for a further allocation of \$100 million to InvestHK.

BACKGROUND

2. InvestHK was set up in 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 a new commitment of \$200 million to enable the department to strengthen its IP efforts. The additional resources were allocated to InvestHK over five years, starting from 2003-04 for implementation of the following initiatives –

- (a) to broaden the external representation of InvestHK to include new markets;
- (b) to improve coverage in markets where InvestHK is already represented;
- (c) to strengthen Investment Promotion Units (IPUs) targeting markets in Beijing, Tianjin and East China;
- (d) to 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) to strengthen the sector teams in the Head Office to generate and handle additional projects;
- (f) to support the Investment Promotion Ambassador Scheme;
- (g) to improve the marketing, research, information technology and knowledge management capacity of the department (through outsourcing the services to a consultant company); and

- (h) to meet the additional expenditure on advertising, event sponsorship, office rental and overseas travel, etc arising from these enhanced promotional activities.

3. The additional resources were allocated in accordance with the following cash flow forecast –

Financial Year	\$ million
2003-04	30
2004-05	42.5
2005-06	42.5
2006-07	42.5
2007-08	42.5
Total	200

4. Taking into account the additional resources, the annual financial provision to InvestHK for IP work from 2003-04 onwards is summarised below –

	2003-04	2004-05	2005-06	2006-07	2007-08
	(\$ m)	(\$ m)	(\$ m)	(\$ m)	(\$ m)
Operational expenses	46.4	45.2	63.7	63.6	64.7
Investment promotion (block vote)	21.0	21.0	-	-	-
General non-recurrent expenses for enhancing IP work	30.0	44.5 ¹	42.5	42.5	42.5
Total	97.4	110.7	106.2	106.1	107.2

RECENT DEVELOPMENTS

Staff Complement and Caseload

5. Over the past five years, InvestHK has recruited 28 additional staff on non-civil service contract (NCSC) terms, who are primarily deployed to strengthen the capacity of the Head Office teams for exploring and identifying potential leads of investment projects, and coping with the increase in projects.

¹ 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.

6. 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 projects² that it facilitates annually, from 117 in 2002 to 246 in 2006. In terms of “live” projects³, the caseload has also substantially increased, from less than 300 to over 600 in the three years since 2004.

7. In the first half of 2007, InvestHK completed 147 projects, involving a total of more than \$5.5 billion of direct investment and the creation of over 1,700 jobs. The results of its work since 2000 are summarised below –

	2000 (Jul - Dec)	2001	2002	2003	2004	2005	2006	2007 (Jan – Jun)
No. of projects completed*	35	99	117	142	205	232	246	147
Jobs created**	347	1 504	2 075	7 634	7 696	7 924	7 835	5 297
• jobs created at opening/ expansion	347	1 504	2 075	2 456	3 008	2 517	3 092	1 747
• jobs to be created in the next 2 years#	-	-	-	5 178	4 688	5 407	4 743	3 550
Investment amount (\$ million)**	506	3,500	1,360	2,493	4,658	8,895	10,243	5,513

* 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 Representation

8. 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,

² 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

³ 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.

and Japan (West). The external promotion units of the department are listed at the **Annex**.

Mainland Promotion

9. 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 investment projects and was pursuing another 127 cases.

10. 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”⁴ package to facilitate cross-border investment. Since 2005, the department has strengthened its presence on the Mainland by: setting up an IPU in the Beijing Office and in the Economic and Trade Offices (ETOs) in Shanghai and Chengdu; broadening the geographical responsibilities of its IPU at the Guangdong ETO; and launching an “InvestHK 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 a gateway.

11. Prior to 2002, InvestHK had no completed projects of Mainland origin. As at the end of June 2007, the department had helped 159 Mainland enterprises to establish operations in Hong Kong. In the first half of 2007, InvestHK completed 23 projects related to Mainland investments in Hong Kong, representing 16% of the total number of completed projects.

Corporate Marketing and Communications

12. In January 2004, 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

⁴ “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 in the Mainland, a service centre at InvestHK Head Office, a tailor-made information kit and the “Step-by-Step Guide” — a joint publication of InvestHK, the Ministry of Commerce and the Commercial Office of the Economic Department of the CPG Liaison Office in Hong Kong.

perception survey on the awareness ratings of InvestHK. Between 2001 and 2007, awareness increased from 13% to 68% among the international business community, and from 10% to 89% among the general public. In 2006, a study on the cost-effectiveness of InvestHK's work⁵ rated the department strongly on its performance in enhancing awareness, projecting a positive image and disseminating consistent marketing messages to key stakeholders.

Cost-effectiveness of Resource Utilisation

13. 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 sectors⁶, its major activities and target markets, as well as institutional arrangements and performance measures. In October, 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.

PROPOSED ADDITIONAL ALLOCATION

14. We propose to increase the non-recurrent commitment for Item 009 Boosting Investment Promotion Work under Head 79 Invest Hong Kong Subhead 700 General Non-recurrent by \$100 million from \$200 million to \$300 million for InvestHK to continue its IP efforts and to fund additional IP activities.

JUSTIFICATION

15. The enhanced IP measures listed in paragraph 2 above were planned for implementation on a 5-year basis up to 2007-08. With other economies in the region increasing their efforts to attract FDI, we need to maintain the momentum of our IP work to stay competitive. This will require additional resources.

⁵ In February 2006, the Efficiency Unit commissioned a study to review the cost-effectiveness 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 allocation of \$200 million had contributed to the situation; and
- (c) consider whether the additional funding should be converted into recurrent funding.

⁶ 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.

16. 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 where InvestHK should establish a presence, the work of the department would inevitably be affected if the proposed resources are not made available. Any significant reduction in overseas representation may signal to the international community that we no longer see attracting FDI as a priority.

17. 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.

18. 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.

19. 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 intend to hire additional staff upon expiry of the aforementioned contract to undertake this work.

20. 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. We will make full use of the remaining balance of the allocation to fund our IP efforts in 2008-09.

FINANCIAL IMPLICATIONS

21. We intend to seek the approval of the Finance Committee of the Legislative Council to increase the non-recurrent commitment for IP work by \$100

million from \$200 million to \$300 million. We plan to expend the additional provision according to the following cash-flow forecast –

<u>2008-09</u> <u>(\$ million)</u>	<u>2009-10</u> <u>(\$ million)</u>	<u>2010-11</u> <u>(\$ million)</u>
33.3	33.3	33.4

22. The breakdown of the proposed allocation of the additional funding sought 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 ⁷
(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)

23. Taking into account the proposed additional provision and the remaining balance of \$9.5 million under the existing non-recurrent commitment for boosting IP work in 2008-09 (as highlighted in paragraph 20 above), the estimated cash flow of the increased commitment will be \$42.8 million for 2008-09, \$33.3 million for 2009-10 and \$33.4 million for 2010-11.

⁷ Additional staff will be hired upon the expiry of the consultancy contract (paragraph 19 refers) in end December 2008.

LOOKING FORWARD

24. It is difficult to forecast exactly 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.

25. According to the latest Annual Survey of Companies in Hong Kong Representing Parent Companies located outside Hong Kong, we remain the preferred city in Asia for companies managing their operations in the Asia Pacific region. As at 1 June 2007, there were 1,246 companies that were regional headquarters (RHQ), 2,644 regional offices (RO), and 2,550 local offices (LO) in Hong Kong representing parent companies located outside Hong Kong⁸. Despite these encouraging figures, we need to ensure our continued competitiveness, and we will take into account the findings of the consultancy study on IP mentioned in paragraph 13 above when formulating future marketing strategies.

ADVICE SOUGHT

26. We invite Members' views on and support for the proposed additional allocation set out in paragraph 14 of this paper.

InvestHK

Commerce and Economic Development Bureau

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⁸ For the purpose of the survey, -

- (a) a regional headquarters (RHQ) is an office that has managerial control over offices in the region (i.e. Hong Kong plus one or more other places) on behalf of its parent companies located outside Hong Kong;
- (b) a regional office (RO) is an office that coordinates offices and/or operations in the region (i.e. Hong Kong plus one or more other places) on behalf of its parent company located outside Hong Kong;
- (c) a local office (LO) is an office that only takes charge of the business in Hong Kong (but nowhere else) on behalf of its parent company located outside Hong Kong.

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
Asia/ Australasia	Gothenburg	Nordics	Consultant Company
	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,	Team of two based in BJO &

<u>Region</u>	<u>Office Location</u>	<u>Area Covered</u>	<u>Remarks</u>
		Shanxi, Gansu, Qinghai, Xinjiang, Xizeng (Tibet), Ningxia, and Inner Mongolia	Team of two 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