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Panel on Commerce and Industry

Meeting on 18 December 2007

**Background Brief on
Promotion of Inward Investment**

Purpose

This paper summarizes the views and concerns expressed by members on the Government's efforts to attract external direct investment and the performance of Invest Hong Kong (InvestHK) in developing and implementing strategies in investment promotion.

Background

2. Attracting external direct investment was one of the Government's major initiatives announced in the 2000-2001 Budget Speech to revive Hong Kong's economy after two years of recession following the Asian financial crisis. The establishment of InvestHK in July 2000 provided institutional support to spearhead the work of attracting inward direct investment and the improvement of Hong Kong's investment environment for promoting, in particular, the growth of multinational business activities. InvestHK adopts a targeted approach and promotes nine priority sectors¹ in which Hong Kong has comparative advantages.

Financial provisions for and work of InvestHK

3. On 3 June 2003, the Finance Committee approved the creation of a commitment of \$200 million to enable InvestHK to strengthen its investment promotion efforts over a period of five years from 2003-2004 to 2007-2008. The annual financial provision allocated to InvestHK for investment promotion during recent years is as follows:

¹ These nine priority sectors are: business and professional services, consumer, retail and sourcing; financial services, information technology; telecommunications, media and multi-media; technology; tourism and entertainment; transportation; and other special projects.

Year	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Annual provision (\$ '000) ²	97,410	110,718	106,183	106,063	107,151

4. A summary of the results of the work of InvestHK from 2000 to 2006 is at **Appendix I**.

5. In February 2006, the Efficiency Unit commissioned a review of the cost-effectiveness of the work of InvestHK. 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. 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 maximizing the value generated from InvestHK. In this connection, the Government has undertaken to conduct a follow-up study 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 taken into account when considering funding allocation to InvestHK in future.

Members' major views and concerns

6. Issues related to the promotion of inward investment have received ongoing attention by the Panel at a number of meetings held since April 2003. Members' latest concerns expressed on the promotion of inward investment and the work of InvestHK are summarized below.

Investment promotion in new markets

7. While appreciating InvestHK's effort in promoting inward investment in overseas markets such as those in Western Europe, members have urged that efforts be enhanced to promote two-way trading between Hong Kong and new markets such as the Middle East and Eastern Europe. The Administration has assured members that these new markets have not been neglected. For instance, representative offices have been set up in Dubai (Arab Middle East), Tel Aviv (Israel), Istanbul (Turkey) and Mumbai (India) respectively. The Administration has also planned to set up an Investment Promotion Unit in the new Economic and Trade Office (ETO) in Berlin to strengthen InvestHK's representation in Eastern Europe.

² The figures represent the approved total allocation for InvestHK for the respective year and include the amount earmarked for each year from the \$200 million commitment approved in June 2003.

Investment facilitation measures

8. Members are of the view that the Administration should strive to create a favourable business environment for investors. In this connection, they have pointed out that businessmen from many parts of the world, including Eastern Europe, Vietnam, Taiwan and Russia, have reflected their difficulties in obtaining business visas to visit Hong Kong. Members have therefore urged the Administration to consider relaxing the existing control measures for the issue of business visas. In the light of members' concern, the Administration has advised that the Immigration Department pledges to finalize a visit visa application within four weeks upon receipt of all necessary documents. The Administration has added that the vast majority of these applications, including those from nationals of emerging economies such as Eastern Europe, Russia and Vietnam are processed ahead of the pledged timeframe. In urgent cases, they can be finalized within a few days. The Immigration Department will also consider issuing multiple-journey visit visas valid up to 24 months for frequent travelers to Hong Kong. Regarding the entry of Taiwan residents, there are various ways to apply for visit to Hong Kong. Under the "iPermit" Scheme, approval for applicants to visit and stay in Hong Kong for up to 14 days is generally given within minutes after online submission of a simple application. Since June 2006, Taiwan residents holding "Mainland Travel Permit for Taiwan Residents" with a valid entry endorsement to the Mainland are allowed to visit Hong Kong for a stay up to seven days. Alternatively, Taiwan residents may apply for single entry permits allowing them to stay in Hong Kong for 90 days, or multiple-journey entry permits which are valid for a stay of up to 14 days on each landing.

Duplication of resources between InvestHK and other Government/public bodies promoting Hong Kong

9. Members have from time to time expressed grave concern about the duplicated resources allocated to InvestHK and other Government and public bodies which are set up to promote Hong Kong, namely the ETOs, Hong Kong Trade Development Council (HKTDC) and the Tourism Board (TB). They have urged the Administration to consider pooling resources of these bodies together for cost savings and synergy. The Administration has explained that despite their common mission to promote Hong Kong, each of the above bodies is in fact responsible for promoting a unique aspect. While ETOs promote to overseas governments and business sectors Hong Kong's overall image and advantages as an international business centre, InvestHK is tasked with promoting inward investment, HKTDC with trade promotion and TB with tourism promotion. Members have remarked that as the additional financial provision allocated to InvestHK for investment promotion will come to an end in 2007-2008 and a study on, inter alia, the role and mission of InvestHK will be commissioned, it is high time to consider whether InvestHK should remain as a separate Government department.

Motions passed at Council meetings

10. The importance of promoting inward investment was one of the key issues in Members' questions raised at Council meetings on Mainland enterprises investing and setting up business in Hong Kong, as well as joint Hong Kong and Guangdong efforts to promote investment. In passing a motion on enhancing economic and trade cooperation between Hong Kong and the Pan-Pearl River Delta (PPRD) on 23 November 2005 and another one on cooperation between Hong Kong and the PPRD region on 15 November 2006, Members urged the Administration to, inter alia, continue its efforts to actively promote inward investment by Mainland enterprises.

Latest position

11. The Administration will consult members on its proposal on additional time-limited funding for InvestHK at the Panel meeting to be held on 18 December 2007.

Relevant papers

12. A list of relevant papers is at **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
12 December 2007

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.

Source: Enclosure 3 to the paper provided by the Administration for the meeting of the Panel on Commerce and Industry on 13 February 2007 (LC paper No. CB(1)905/06-07(05))

List of relevant papers

Committee	Paper	LC Paper No.
Meeting of Panel on Commerce and Industry (CI Panel) on 14 April 2003	<ul style="list-style-type: none"> ✧ Administration's paper : "Briefing on measures to enhance investment promotion" ✧ Minutes of meeting 	CB(1)1410/02-03(03) CB(1)1823/02-03
Meeting of CI Panel on 8 March 2004	<ul style="list-style-type: none"> ✧ Administration's paper : "Briefing on the work of Invest Hong Kong" ✧ Minutes of meeting 	CB(1)1191/03-04(03) CB(1)1688/03-04
Meeting of CI Panel on 17 May 2005	<ul style="list-style-type: none"> ✧ Administration's paper : "Promotion of Inward Investment" ✧ Background Brief on "Work of Invest Hong Kong" ✧ Minutes of meeting 	CB(1)1496/04-05(05) CB(1)1498/04-05 CB(1)1794/04-05
Meeting of CI Panel on 18 April 2006	<ul style="list-style-type: none"> ✧ Administration's paper : "Promotion of Inward Investment" ✧ Minutes of meeting 	CB(1)1287/05-06(03) CB(1)1463/05-06
Meeting of the Legislative Council on 23 November 2005)	✧ Motion on "Enhancing economic and trade cooperation between Hong Kong and the Pan-Pearl River Delta region"	Hansard
Meeting of the Legislative Council on 15 November 2006	✧ Motion on "Cooperation between Hong Kong and the Pan-Pearl River Delta region"	Hansard
Meeting of CI Panel on 13 February 2007	<ul style="list-style-type: none"> ✧ Administration's paper : "Promotion of Inward Investment" ✧ Minutes of meeting 	CB(1)905/06-07(05) CB(1)1089/06-07