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Panel on Commerce and Industry

Meeting on 13 January 2009

**Updated background brief on
promotion of inward investment**

Purpose

This paper sets out the progress of the performance of Invest Hong Kong (InvestHK) in developing and implementing strategies in investment promotion and summarizes the latest views and concerns expressed by the Panel on Commerce and Industry (the Panel).

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.

3. On 3 June 2003, the Finance Committee (FC) 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 include business and professional services; consumer, retail and sourcing; financial services; information technology (especially electronic and biotechnology); telecommunications; media and multi-media, technology; tourism and entertainment; and transportation.

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. With the additional resources, InvestHK has recruited 28 additional staff 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. Moreover, 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). InvestHK has also stepped up efforts to target Mainland enterprises with the potential to invest in Hong Kong. In addition, InvestHK has established a new IT platform, revamped its website and launched a new Customer Relationship Management system.

5. A summary of the results of the work of InvestHK from 2000 to 2007 is at **Appendix I**.

Discussion at the Panel on Commerce and Industry

6. The Panel had discussed issues on the promotion of inward investment since April 2003. Members attached great importance to the cost-effectiveness of the work of InvestHK. They were concerned about the Administration's policy on Mainland promotion and the Administration's plan to strengthen the work of InvestHK in the promotion of overseas investment in Hong Kong.

7. On 18 December 2007, the Administration briefed the Panel on its proposal for a further allocation of \$100 million to InvestHK. Since there would only be a remaining balance of \$9.5 million in 2008-2009 which would be insufficient for supporting InvestHK's future work, members' support was sought to increase the non-recurrent commitment for Item 009 Boosting Investment Promotion Work under Head 79 InvestHK Subhead 700 General Non-recurrent by \$100 million for InvestHK to continue its investment promotion (IP) efforts and to fund additional IP activities for three years starting from 2008-2009. Members generally supported the proposal and commended that IP efforts made by InvestHK was conducive to sustaining Hong Kong's competitive edge vis-à-vis its competitors in the region.

8. Members pointed out that the recent changes in the Mainland's policy had brought about implications on the business operation of Hong Kong businessmen operating in the Mainland, in particular those engaging in the processing industry. While appreciating that senior officials had taken lead in facilitating dialogues between Hong Kong and the Mainland, members urged that

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.

business opportunities beyond the most economically advanced provinces such as Sichuan, Shandong and Fujian Provinces, be actively explored for the Hong Kong business sector.

9. The Panel noted that the Efficiency Unit had commissioned a review of the cost-effectiveness of the work of InvestHK in February 2006. The review concluded that InvestHK was performing well in a cost-effective manner and that it was operating at close to maximum capacity in terms of the number of projects it could handle while maintaining the current level of service quality with the existing resources. The cost-effectiveness review had also identified a number of priority areas for further study with a view to enhancing InvestHK's performance. These included 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, members pointed out that as InvestHK had been in operation for seven years, it was high time for the Administration to formulate its long-term IP policy. While other Government/public bodies, such as the Hong Kong Economic and Trade Offices and the Hong Kong Trade Development Council, were also promoting Hong Kong to the Mainland and overseas countries, consideration should be given to merging InvestHK with these Government/public bodies for cost savings. Noting that the Government had commissioned a follow-up study to review the strategy for promotion of inward investment in October 2007, the outcome of which was expected to be available in 2008, members urged the Administration to report to the Panel on the key findings of the study to facilitate discussion on the future development of InvestHK. The Administration assured members that subject to the outcome of the study, it would formulate a long-term IP policy and work out relevant implementation details.

10. The funding proposal for a further allocation of \$100 million to InvestHK was approved by FC on 11 January 2008.

Latest position

11. The Administration is updating the follow-up study on InvestHK in the light of the latest global economic and investment environment, taking into account the impact of the financial crisis. The key findings of the study will be reported to the Panel when available.

12. The Administration will brief the Panel on 13 January 2009 on the work of investment promotion in the past year and the way forward for 2009.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
8 January 2009

Summary of Results of the Work of InvestHK

	<u>2000</u> <u>(Jul-Dec)</u>	<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 the 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

* 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. The figures 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.

List of relevant papers

Committee	Paper	LC Paper No.
Meeting of Panel on Commerce and Industry (CI Panel) on 14 April 2003	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	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	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	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	Administration's paper : "Promotion of Inward Investment" Minutes of meeting	CB(1)905/06-07(05) CB(1)1089/06-07

Committee	Paper	LC Paper No.
Meeting of CI Panel on 18 December 2007	Administration's paper : "Promotion of Inward Investment" Background Brief on "Promotion of Inward Investment" Minutes of meeting	CB(1)435/07-08(03) CB(1)435/07-08(04) CB(1)780/07-08
Meeting of the Finance Committee on 11 January 2008	HEAD 79 - INVEST HONG KONG Subhead 700 General non-recurrent Item 009 Boosting Investment Promotion Work Minutes of meeting	FCR(2007-08)43 FC85/07-08