

LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY

Promotion of Inward Investment

PURPOSE

At the meeting on 18 December 2007, Members were briefed vide Paper CB(1)435/07-08(03) on the work of Invest Hong Kong (InvestHK) in promoting inward investment. This paper updates Members on the work of the Department in 2008 and outlines the way forward for 2009.

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 (FC) approved a new commitment of \$200 million over a period of five years from 2003-04, to enable the Department to strengthen its investment promotion (IP) efforts. On 11 January 2008, the FC further approved an increase of \$100 million of the approved non-recurrent commitment, to be spent over three years from 2008-09, to enable InvestHK to continue implementation of the following initiatives-

- (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 and knowledge management capacity of the Department; and
- (h) meet the additional expenditure on advertising, event sponsorship, office rental and overseas travel, etc arising from these enhanced promotional activities.

FINANCIAL RESOURCES

3. The annual financial provision to InvestHK for IP work from 2005-06 to 2009-10 is summarised below –

	2005-06	2006-07	2007-08	2008-09	2009-10
	(\$ m)				
Operational expenses	63.7	63.6	64.7	66.5	67.9
General non-recurrent expenses for enhancing IP work	42.5	42.5	42.5	42.8	42.5
Total	106.2	106.1	107.2	109.3	110.4

MAJOR ACTIVITIES AND ACHIEVEMENTS IN 2008

Investment promotion activities in key overseas markets

4. With additional resources, InvestHK has strengthened its promotion work by broadening coverage in strategic markets overseas and in the Mainland as well as enhancing the capacity of its sector teams in the Head Office for exploring and identifying potential leads of investment projects and coping with the increase in projects.

5. In accordance with the business plans of its nine Sector Teams¹, InvestHK proactively carries out a number of investment promotion activities worldwide in collaboration with its overseas representatives operating Investment

¹ 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 other special projects.

Promotion Units (IPUs) in ten designated Hong Kong Economic and Trade Offices (ETOs) and the Beijing Office as well as its overseas consultants in different strategic locations not covered by the IPUs.

6. InvestHK has engaged external consultants to target potential investors in new strategic locations or emerging markets, including South Korea, Singapore, India, the Nordics, the Middle East and Latin America and strengthened its coverage of existing markets such as the USA (Central), Canada, Europe, Australia and Japan(West). Currently, InvestHK has engaged 15 overseas consultants in locations not covered by IPUs. External promotion units of the Department are listed in the **Annex**.

7. With the support of its overseas representatives, 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. InvestHK calls on individual potential investors in their home countries, meets with local multiplying organisations, media and government bodies, participates in significant publicity events and promotional programmes, and speaks at appropriate business forums as and when opportunities arise.

Promotion activities in the Mainland and Taiwan

8. In recent years, InvestHK has placed particular focus on efforts to encourage Mainland enterprises to set up operations in Hong Kong and to use Hong Kong as a springboard to expand internationally.

9. In 2004, InvestHK, in collaboration with the relevant Mainland authorities, launched the "One Stop Service"² 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 "Invest Hong Kong Services Centre" in the Beijing Office and the ETOs in Guangdong, Shanghai and Chengdu. In June 2007, InvestHK launched a three-year nation-wide marketing campaign "On Your Marks, Get-set, Go!" to reach out to

² "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 and the Ministry of Commerce and the Commercial Office of the Economic Department of the Central People's Government Liaison Office in Hong Kong.

privately-owned enterprises in seven high-growth provinces³ across the Mainland. The campaign in Zhejiang, Shandong and Fujian were completed by the end of 2008, featuring a series of IP seminars and workshops supported by advertising and public relations campaigns. In 2008, InvestHK has conducted a total of 25 seminars in 14 cities, including a series of thematic seminars, e.g. Branding and Fund Raising; as well as other sector specific seminars, e.g. for Information Technology, Technology, Financial Services sectors, etc.

10. In 2008, InvestHK has organised five Study Missions and conducted briefings to 34 incoming delegations of Mainland officials and enterprises on Hong Kong's investment environment and advantages as a gateway to the international market.

11. To promote the advantages offered by the economic integration of Hong Kong and the Mainland, InvestHK has been conducting joint seminars with Mainland provincial and municipal authorities in key overseas markets. In 2008, InvestHK has organised 11 such seminars in collaboration with seven Mainland authorities in major cities overseas. This collaborative strategy has proven to be successful and has helped attract foreign investors. By the end of June 2008, InvestHK had completed 38 investment projects derived from these seminars and was pursuing another 111 cases.

12. Prior to 2002, InvestHK had no completed projects of Mainland origin. As at the end of 2008, the Department had helped 233 Mainland enterprises to establish operations in Hong Kong. In 2008, InvestHK completed 50 projects related to Mainland investments in Hong Kong, representing 19% of the total number of completed projects. The figures reflected the unique position and significant role of Hong Kong as a preferred base for Mainland enterprises to expand regionally and internationally.

13. In view of the business potential of Taiwan, InvestHK has stepped up efforts in tapping direct investment from the market, including the appointment of a Taiwan consultant on 1 May 2006 to cater specifically for this market. InvestHK has also extended the "Community Programme" to include Taiwan since 2005. In 2008, two speaking engagements were organised in conjunction with local trade associations. The two speaking engagements attracted some 150 senior executives from diverse business sectors. This has proven to be a very effective way to update the Taiwan business community on Hong Kong's latest

³ The seven provinces are Zhejiang, Shandong, Fujian, Jiangsu, Sichuan, Liaoning and Guangdong.

economic development and to promote InvestHK's services.

Corporate Marketing and Communications Capacity and Promotion of Hong Kong's advantages

14 In December 2003, InvestHK engaged a consultant, on the basis of a five-year agreement up to December 2008, to strengthen its corporate marketing and communications capacity. With the assistance of the consultant, InvestHK has established a new information technology platform; revamped its website and the outlook and design of its publications; launched a new Customer Relationship Management system to facilitate the recording, monitoring and reporting of project information and statistics, etc. With effect from January 2009 these strategically important functions have been brought back in-house.

15. Participation in major international and regional 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. InvestHK participated in a number of major international and regional events in 2008 including the Cathay Pacific/Credit Suisse Hong Kong Sevens 2008, the Cable and Satellite Broadcasting Association of Asia's annual convention, the 47th Orient and South East Asia Lions (OSEAL) Forum, Hedge Funds World Asia and the Association of South East Asian Nations (ASEAN) Ports & Shipping Exhibition and Conference. The Department also organised a series of 17 community programmes for foreign communities in Hong Kong to provide useful aftercare support and networking opportunities to existing investors.

Foreign companies setting up/expanding operations in Hong Kong

16. With the additional resources, InvestHK has more than doubled the number of completed investment projects⁴ that it facilitates annually, from 117 in 2002 to 257 in 2008. In terms of "live" projects⁵, the caseload has also substantially increased, from less than 300 to about 600 in the three years since 2006.

⁴ 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

⁵ 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. Besides, the company should have made a recent visit to HK and / or has begun to implement a plan to open an office in HK; with the assistance of InvestHK.

17. In 2008, InvestHK completed 257 projects, involving a total of more than \$4.6 billion of direct investment. These companies expect that their projects will create over 7 880 jobs, including 2 450 jobs established initially and an additional 5 431 jobs in the next two years as these companies expand. Results of the Department's work since its establishment in 2000 are summarised below.

	2000	2001	2002	2003	2004	2005	2006	2007	2008
No. of projects completed*	(Jul – Dec) 35	99	117	142	205	232	246	253	257
Jobs created**	347	1 504	2 075	7 634	7 696	7 924	7 835	8 134	7 881
• jobs created at opening/expansion	347	1 504	2 075	2 456	3 008	2 517	3 092	3 130	2 450
• jobs to be created in the next 2 years#	-	-	-	5 178	4 688	5 407	4 743	5 004	5 431
Investment amount (\$ million)**	506	3,500	1,360	2,493	4,658	8,895	10,243	8,387	4,608

* 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. The upsurge in the investment amounts between 2005 and 2007 was primarily due to a few major acquisitions by banks and fund management companies.

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

Regional operations and Foreign Direct Investment (FDI) Destination

18. According to the “World Investment Report 2008” released by the United Nations Conference on Trade and Development (UNCTAD), Hong Kong remains the second largest FDI recipient in Asia, after the Mainland China in 2007. On a global scale, Hong Kong ranked 7th in FDI inflows in 2007, attracting US\$54.4 billion inward investment in the year.

19. The number of regional headquarters and regional offices and local offices in Hong Kong reaffirms the city's premier position as the region's hub for international business. According to the results of the 2008 Annual Survey of Companies in HK Representing Parent Companies Located outside Hong Kong conducted by the Census and Statistics Department, Hong Kong was the host to 6 612 overseas, Mainland and Taiwan companies representing parent companies outside Hong Kong, as at 2 June 2008. This represents an increase of 2.7% from

2007. 3 882 of these companies served as regional headquarters or regional offices.

LOOKING FORWARD

20. It is still difficult to predict how the global economic crisis will affect InvestHK's investment promotion initiatives in 2009 as many variables are beyond the Department's control. Although some potential investors have indicated a possible delay or reduction in the scale of their planned operations, InvestHK still aims to maintain a target of facilitating the completion of 250 projects in 2009 in the absence of reliable signs of their withdrawal.

21. Furthermore, InvestHK is fully aware of the increasing importance of aftercare support services to companies that have already established a presence here. As a matter of continuous improvement, InvestHK will strengthen its aftercare support services with a view to positioning the Department as Government's help desk for existing foreign and Mainland investors to support retention and expansion of investment in the face of growing regional competition and the global economic downturn.

22. Besides, to enhance the economic relations and co-operation between Hong Kong and Taiwan, InvestHK will increase its efforts to promote Hong Kong as a prime investment destination for Taiwan enterprises. It will carry out more investment promotion activities in the market, including calling on more individual investors and organising more seminars. It will also strengthen the liaison with working partners and chambers of commerce in Taiwan and proactively attract Taiwan enterprises to establish regional headquarters and companies in Hong Kong, with a view to benefiting the economic development of Hong Kong and the entire PRD Region.

23. Hong Kong's unique advantage as a two-way platform between the Mainland and the rest of the world continues to attract overseas and Mainland companies to our city. Businesses also highly value Hong Kong's political stability, pro-business governance, free market principles, low taxes and the fundamental principles which Hong Kong is built and will continue to pursue. Nevertheless, the global economic crisis and credit crunch will, definitely, have an adverse effect on world's FDI levels. This, together with increased competition with many countries offering incentives and tax breaks, will demand more intensive and strategic efforts from InvestHK on investment promotion. InvestHK will continue to focus on improving the environment for new and

existing investors and strive to provide the quality services and support they need to help their businesses continue to succeed in our city.

ADVICE SOUGHT

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

InvestHK
Commerce and Economic Development Bureau
6 January 2009

Annex

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	Based in New York ETO
	San Francisco	US West	Based in San Francisco ETO
	Chicago Toronto	US Central Canada	Consultant Company Based in Toronto ETO
South America	Sao Paulo	South America	Consultant Company
Europe	Brussels	Western Europe	Based in Brussels ETO
	Paris	France	Consultant Company
	Hamburg	Germany	Consultant Company
	Milan	Italy	Consultant Company
	Gothenburg	Nordics	Consultant Company
	London	UK, Switzerland, Russia, Estonia, Latvia, Lithuania, Romania, Czech Republic, Hungary, Poland, Slovak Republic, Slovenia	Based in London ETO
Asia/ Australasia	Tokyo	North Japan	Based in Tokyo 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	Based in Sydney ETO
	Auckland	New Zealand	Consultant Company
Mainland and Taiwan	Guangzhou	Guangdong and four Pan-PRD provinces namely Fujian, Jiangxi, Guangxi and Hainan	Based in Guangdong ETO
	Beijing / Hong Kong	Beijing, Tianjin, Hebei, Shandong, Liaoning, Heilongjiang, Jilin, Henan, Shanxi, Gansu, Qinghai, Xinjiang, Xizeng (Tibet), Ningxia, and Inner Mongolia	Based in the Beijing Office A Team based in InvestHK Head Office
	Chengdu	Chongqing, Sichuan, Yunnan, Guizhou, Hunan, and Shaanxi	Based in Chengdu ETO
	Shanghai	Shanghai, Jiangsu, Zhejiang, Anhui, and Hubei	Based in Shanghai ETO
	Taipei	Taiwan	Consultant Company