

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Promotion of Inward Investment

PURPOSE

This paper updates Members on the work of Invest Hong Kong (InvestHK) in 2009 and outlines the way forward for 2010. It also briefs Members on the results and recommendations of a consultancy study of investment promotion work in Hong Kong.

BACKGROUND

2. InvestHK was set up in July 2000 to spearhead Hong Kong's efforts to attract and retain foreign direct investment (FDI). Its mission is to encourage and assist overseas, Mainland and Taiwan companies, with the potential to contribute to Hong Kong's economic development, to set up and expand their operations in Hong Kong. The Finance Committee (FC) approved in June 2003 and January 2008 respectively, a non-recurrent commitment of \$200 million over a period of five years from 2003-04 and an increase of \$100 million of the non-recurrent commitment, to be spent over three years from 2008-09, to enable InvestHK to strengthen and sustain its investment promotion (IP) efforts.

MAJOR ACTIVITIES AND ACHIEVEMENTS IN 2009

On-going investment promotion activities to attract companies from key overseas markets

3. InvestHK adopts a targeted approach in promoting the business sectors and industries where Hong Kong has a competitive edge. It prepares business plans based on its priorities and carries out investment promotion activities worldwide through its Investment Promotion Units (IPUs) in 11 designated Hong Kong Economic and Trade Offices (ETOs) and the Beijing Office as well as its overseas consultants in 14 different strategic locations not covered by the IPUs. The external promotion units of the Department are listed at **Annex A**.

4. In addition to general promotion activities, InvestHK provides on-going one-to-one advisory services and practical support to companies interested in setting up or expanding their operations in Hong Kong throughout their planning and implementation process. Dedicated teams of IP staff at the Head Office work with its overseas representatives in 26 locations around the world to proactively identify and approach target companies in key geographic markets, encouraging them to set up offices in Hong Kong to access opportunities on the Mainland and elsewhere in Asia.

Investment promotion efforts on the Mainland, in Taiwan and emerging markets

5. In recent years, InvestHK has accorded priority to encouraging companies from the Mainland, Taiwan and target emerging markets to set up a presence in Hong Kong and to use Hong Kong as a springboard to expand globally.

(a) Mainland

6. In 2009, InvestHK continued to tap into the outward investment potential of the Mainland or to promote the combined advantages offered by the economic integration of Hong Kong and the Mainland through –

- (i) a series of promotional programmes, comprising IP seminars and workshops under the nationwide ‘On Your Marks, Get-set, Go’ marketing campaign, in Jiangsu and Sichuan in addition to programmes carried out in previous years in Zhejiang, Shandong and Fujian;
- (ii) 21 seminars in 16 cities¹, some of which were sector-focused workshops, including the traditional pharmaceutical services, technology and financial services sectors;
- (iii) six study missions for corporations from the Mainland and briefings for 23 incoming delegations from the Mainland on Hong Kong’s investment environment;
- (iv) 11 joint seminars in partnership with seven Mainland authorities² in key overseas cities³ in 2009; and

¹ The 16 cities included Chengdu, Nanjing, Shenzhen, Zhuhai, Shanghai, Beijing, Nantong, Guangzhou, Changzhou, Chongqing, Shantou, Xiamen, Foshan, Dongguan, Chaozhou and Nanping.

² The seven Mainland authorities included Jiangmen, Foshan, Fujian, Huizhou, Shenzhen, Guangzhou and Guangdong.

³ The 11 key overseas cities included London, Liverpool, Sao Paulo, Stockholm, Helsinki, New York, Osaka, Bengaluru, Berlin, Hamburg and Sydney.

- (v) a 'Mainland Companies Aftercare Programme' in collaboration with the Hong Kong Chinese Enterprises Association, to step up efforts in providing aftercare support for the Mainland companies seeking to expand and upgrade their presence in Hong Kong.
7. As at the end of 2009, the Department had helped over 280 Mainland companies to establish their operations in Hong Kong. In the year 2009, InvestHK completed 48 projects related to Mainland investments in Hong Kong, representing around 18% of the total number of completed projects.

(b) Taiwan

8. InvestHK has also stepped up its IP efforts in Taiwan to promote Hong Kong as a prime destination for Taiwan enterprises. The Department launched a major marketing campaign in Taiwan in October 2009, which included direct mailing, telemarketing and a perception survey. InvestHK also held a seminar in Taipei in December 2009 during which the Director General of Investment Promotion and guest speakers from the financial and accounting services industries introduced and promoted the investment environment of Hong Kong to the Taiwan business people. These efforts have enabled InvestHK to reach out to a wider spectrum of the Taiwan business community and promote the positive messages of setting up presence in Hong Kong.

(c) Emerging markets

9. Apart from sustaining its on-going investment promotion efforts in traditional target markets, such as the USA, Canada, Western Europe and Japan, InvestHK has enhanced promotional efforts to tap the investment opportunities arising from emerging markets like India, the Middle East and Latin America. In 2009, InvestHK conducted IP visits to meet with top management of major companies with sizable international operations in the target cities e.g. Mumbai in India, with a view to attracting the companies to establish a presence in Hong Kong.

Corporate Marketing and Communications

10. In the face of growing regional competition, InvestHK has refined its marketing strategy and sales messages, revamped its website and channeled more of its promotion efforts into direct marketing and online advertising to better position Hong Kong's distinct identity and advantages as a gateway to the

Mainland market.

11. InvestHK has organised a range of events including sector-focused events that provided networking platforms for overseas companies from various industries and services, for example, information and communications technology, financial services, tourism and entertainment, as well as consumer, retail and sourcing sectors. It also organised programmes for foreign communities in Hong Kong and participated in major international and regional business forums to raise the profile of the city, identify potential leads and provide aftercare services to existing companies in Hong Kong. Major events sponsored in 2009 included Forbes Fab 50 Award Dinner; the Hong Kong Rugby Sevens; Society of Publishers in Asia Awards Dinner; World SME Expo; the China Entrepreneur Forum; and 3rd Chinese Enterprises Outboard Investment Conference; .

Achievements of InvestHK

(a) Projects completed

12. InvestHK has almost doubled the number of completed investment projects⁴ that it facilitates annually, from 142 in 2003 to 265 in 2009. The project caseload has also substantially increased from less than 300 in early 2005 to more than 600 in 2009.

13. In 2009, notwithstanding the challenges of the financial crisis, InvestHK has completed 265 projects, involving direct investment of some \$4.4 billion and the creation of over 6 000 new jobs within the first two years of operation or expansion of the companies. The results of InvestHK's work in the past five years are summarised below.

⁴ A "completed" project is one where a foreign, Mainland or Taiwan company has established a presence or undergone a significant expansion in Hong Kong.

	2005	2006	2007	2008	2009
No. of projects completed*	232	246	253	257	265
• jobs created within the first year#	2 517	3 092	3 130	2 450	2 711
• jobs created/ to be created within the first two years #	7 924	7 835	8 134	7 881	6 033

* *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.

(b) International recognition of Hong Kong as an Ideal Destination for Regional Operations and Foreign Direct Investment (FDI)

14. According to the “World Investment Report 2009” released by the United Nations Conference on Trade and Development (UNCTAD) in September 2009, Hong Kong remains the second largest FDI recipient in Asia, after the Mainland of China, and was the world’s seventh largest FDI recipient in 2008. According to the figures released by the Census & Statistics Department in December 2009, Hong Kong attracted some US\$59.6 billion inward direct investment in 2008, representing a 9.7% year-on-year increase. The high ratio of the stock of inward direct investment to Hong Kong’s GDP at 377% has continued to underline Hong Kong’s status as a regional business hub.

15. As an externally-oriented economy, Hong Kong was inevitably affected by the global financial situation. Yet it remained an attractive destination for foreign direct investment amidst the uncertain global economic outlook. According to the results of the *2009 Annual Survey of Companies in HK Representing Parent Companies Located outside Hong Kong* conducted by the Census & Statistics Department in collaboration with InvestHK, Hong Kong was host to 6 397 overseas, Mainland and Taiwan companies representing parent companies located outside Hong Kong, as at 1 June 2009. Together, these companies engage some 355 000 persons (around 10.1% of Hong Kong’s overall employment). Of these companies, 3 580 served as regional headquarters or regional offices, indicating investors’ confidence in Hong Kong’s advantages and

their preference for Hong Kong as a base in Asia from which to oversee their regional operations.

CONSULTANCY STUDY ON INVESTMENT PROMOTION

16. Following the Efficiency Unit's recommendations in 2006 to conduct a review on InvestHK's priority sectors with a view to enhancing InvestHK's performance, the Government commissioned a follow-up study to review the strategy for inward investment promotion and the related institutional and governance arrangements. An executive summary of the consultancy study is given at *Annex B*.

17. The study underscored the importance of investment promotion to the sustainable economic development of Hong Kong. It recognised that the current investment promotion strategy of marketing Hong Kong's business friendly environment and adopting a target sector and source market oriented approach was consistent with our development objective of being a Asia's world city and a major city in China. This strategy was also in line with international best practices and prevailing international and regional investment landscapes.

18. The study also reaffirmed that InvestHK has performed well in fulfilling its mandate and is cost-effective in terms of its output. It concluded that the current investment promotion programme and institutional framework did not need a radical overhaul and came up with a number of key findings and recommendations as highlighted below:

- (a) Investment promotion is crucial to our economic development and our long-term objectives of maintaining the status as a leading location for international direct investment within Asia. InvestHK has made significant contribution in this respect;
- (b) The separation of investment promotion organisations and trade promotion organisations aligns with international best practice. InvestHK should remain an investment promotion agency of the Government given the distinct remit and objectives of investment and trade promotion agencies;
- (c) InvestHK should continue to adopt a targeted approach for sectors and source markets which have the potential to generate economic benefits for Hong Kong; and

- (d) InvestHK should adopt an organisation structure which will better reflect its targets. It should accord a higher priority to delivering aftercare function for retention and expansion of existing overseas investors in Hong Kong as well as to strengthen its research capabilities to cope with the development needs of the Department.

NEXT STEPS

19. InvestHK will restructure its target sectors⁵ into -

- (i) creative industries;
- (ii) innovation and technology;
- (iii) business and professional services;
- (iv) information and communications technology;
- (v) transport and industrial;
- (vi) tourism and hospitality;
- (vii) consumer products; and
- (viii) financial services,

to take into account the findings of the consultancy and to better align with Government's policy direction to develop the six new growth industries⁶ where Hong Kong has a clear competitive advantage. InvestHK will reorganise its investment promotion teams according to these restructured target sectors. InvestHK also aims to (i) strengthen the monitoring, management and coordination of overseas offices and consultants; (ii) refocus resources to improve the delivery of aftercare services; and (iii) enhance its research capabilities to cope with the development needs of the Department.

20. In the year ahead, InvestHK will continue to attach particular importance to encouraging companies from the Mainland, Taiwan and emerging markets to set up operations in Hong Kong. InvestHK will engage a new consultant for Russia and recruiting a second consultant in India. InvestHK is also planning to launch an integrated marketing and advertising campaign in India in 2010 in collaboration with the Hong Kong Trade and Development Council (HKTDC).

⁵ InvestHK's existing target sectors are business and professional services; consumer, retail and sourcing; financial services; information technology; telecommunications, media and multimedia; technology; tourism and entertainment, transportation; and special projects.

⁶ The six new growth industries are education services, medical services, testing and certification services, environmental industries, innovation and technology and cultural and creative industries.

21. InvestHK will continue to strengthen its aftercare support services to companies already established in Hong Kong with a view to positioning the Department as the Government's one-stop help desk to support retention and expansion of investment. InvestHK will increase its efforts in calling on existing companies in Hong Kong, irrespective of whether they have been assisted by InvestHK, with a view to encouraging these companies to expand their operations in Hong Kong and to provide assistance as and when required. On marketing strategy, InvestHK will focus on direct marketing and online advertising to reach out to potential investors. InvestHK will also work on broadening its performance measurement.

22. In addition, InvestHK will continue to strengthen cooperation with HKTDC and Hong Kong Tourism Board to achieve synergy to promote Hong Kong as an international business hub. Besides, InvestHK will leverage on the major international exhibitions/trade shows organised by HKTDC to promote its work and attract potential international companies to Hong Kong.

23. InvestHK will continue to engender a government-wide perspective for the investment promotion programme to ensure that investment promotion will remain a focus of senior officials' overseas visits and a core element in their public speech whenever an appropriate audience is present.

24. With sound fundamentals, a strong regulatory framework and an open economy, Hong Kong's unique advantages as a two-way platform between the Mainland and the rest of the world continued to attract overseas, Mainland and Taiwan companies to the city despite the global economic downturn. With the anticipated global recovery in 2010, InvestHK aims to increase its target of completed projects to 270 in 2010.

ADVICE SOUGHT

25. Members are invited to note the investment promotion work of InvestHK, the progress and achievements to date and results and recommendation of the consultancy study.

Annex A

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 & Central	Based in New York ETO
	San Francisco	US West	Based in San Francisco ETO
	Toronto	Canada	Based in Toronto ETO
South America	Bogota	South America	Consultant Company
Europe	Brussels	Belgium, Bulgaria, Croatia, Cyprus, Greece, Ireland, Luxembourg, Malta, the Netherlands, Portugal, Romania and Spain	Based in Brussels ETO
	Berlin	Austria, Germany (11 states including Hamburg, Schleswig-Holstein, Mecklenburg-West Pomerania, Brandenburg, Berlin, Saxony-Anhalt, Saxony, Thuringia, Hesse, Baden-Württemberg, Bavaria), Czech Republic, Hungary, Poland, Slovak Republic, Slovenia and Switzerland	Based in Berlin ETO
	Paris	France	Consultant Company
	Düsseldorf	Germany (Bremen, lower Saxony, North Rhine Westphalia, Rhineland Palatinate, Saarland)	Consultant Company
	Milan	Italy	Consultant Company
	Gothenburg	Nordics	Consultant Company
Asia/ Australasia	London	UK, Russia, Estonia, Latvia and Lithuania	Based in London ETO
	Tokyo	North Japan	Based in Tokyo ETO
	Osaka	West Japan	Consultant Company
	Singapore	Singapore	Consultant Company
	Seoul	Korea	Consultant Company
	Mumbai	North West India	Consultant Company
	Bangalore	South East India	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,	Based in Guangdong ETO

<u>Region</u>	<u>Office Location</u>	<u>Area Covered</u>	<u>Remarks</u>
	Beijing / Hong Kong	Guangxi and Hainan Beijing, Tianjin, Hebei, Shandong, Liaoning, Heilongjiang, Jilin, Henan, Shanxi, Gansu, Qinghai, Xinjiang, Xizang (Tibet), Ningxia, and Inner Mongolia	A team based in the Beijing Office and another team 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

* A consultant will be engaged in Russia in 2010.

Consultancy Study on Investment Promotion in Hong Kong

Executive Summary

Background

- Following the Efficiency Unit's recommendations in 2006 to conduct a study with a view to enhancing Invest Hong Kong (InvestHK)'s performance, the Government commissioned an external consultant to conduct a study of Hong Kong's inward investment promotion strategy and the related institutional and governance arrangements.
- Through research on the international investment landscape, stakeholder consultations with investors, chambers of commerce, trade organizations and leading academic leaders as well as benchmarking¹ with international good practice, the Consultants have come up with findings on the international and regional investment landscape and recommendations on the investment promotion strategy, organization, functions / services, targets, performance and resources of InvestHK. The Consultants have also examined the implications of the global economic crisis on the investment landscape in their study.

Findings and recommendations

- **Global investment landscape** – The global investment landscape has been characterized by the concentration of investment stock and investment flow from developed economies and the emergence of transition economies, such as Mainland China, Russia, India, Taiwan and the Middle East as a growing source of international investment. In Asia, India and China (including Hong Kong) continue to be preferred investment locations for international and regional investors. The increasing integration between Hong Kong and the Mainland reinforces Hong Kong's competitiveness as an international location for inward direct investment.
- **Investment promotion strategy and programme** – Investment promotion is crucial to the economic development of Hong Kong. The existing investment promotion strategy of marketing Hong Kong's business friendly environment and adopting a target sector and source market oriented approach is consistent with Hong Kong's long term development objectives of being Asia's world city and a major city in China. This strategy is in line with international best practice, prevailing international and regional investment landscapes. There is a continued need to maintain an effective and efficient investment programme to realize Hong Kong's long-term objectives and to maintain our status as a leading location for internationally mobile investment within Asia. Regular communication to the public about the importance of investment promotion and its contribution to the economic development of Hong Kong should be made to strengthen public awareness.

¹ The five benchmark agencies are The New South Wales Department of State and Regional Development of Australia, Copenhagen Capacity of Denmark, the Industrial Development Agency of Ireland, the Economic Development Board of Singapore and the UK Trade and Investment.

- **Segregation of investment and trade promotion** – InvestHK should continue to conduct Hong Kong’s investment promotion work separated from other trade promotion agencies due to their differences in terms of target clients, objectives, functions and operation as illustrated in the following table. The arrangement of having separate investment promotion and trade agencies is also similar to that in most of the surveyed overseas jurisdictions².

	Investment Promotion Agency	Trade Promotion Agency
Target clients	<ul style="list-style-type: none"> • Foreign companies usually without local presence 	<ul style="list-style-type: none"> • Companies already established in a host location or / and already shown interest
Objective	<ul style="list-style-type: none"> • to sell a location offer and help reduce entry barriers 	<ul style="list-style-type: none"> • to help companies usually with local presence to identify and take advantage of trading or partnership opportunities
Contact point	<ul style="list-style-type: none"> • the corporate strategy, investment or resource allocation departments of a parent company’s headquarters 	<ul style="list-style-type: none"> • marketing or sales and distribution departments
Expertise required from staff	<ul style="list-style-type: none"> • client relationship, project management, facilitation, consulting and problem solving 	<ul style="list-style-type: none"> • general marketing skills - trade capacity building and matchmaking
Timescale of project	<ul style="list-style-type: none"> • 18 to 36 months or longer from initiation to completion 	<ul style="list-style-type: none"> • linked to product lifecycles and usually within months

- **Governance** – Government should demonstrate commitment and importance it accords to investment promotion through continued involvement of officials at senior level in investment promotion work. Cross-government communication on investment promotion programmes could be further enhanced to ensure coordinated approach on investment promotion.
- **Targets** – InvestHK should continue to adopt a targeted approach for sectors and source markets which represent the best market opportunities for inward direct investment and with good potential of generating greatest economic benefit to Hong Kong. Recommended target sectors and geographical markets are given in Appendices A and B. InvestHK should be given the flexibility to consider the target sectors and markets taking account of actual operational experience and changing market circumstances.
- **Organization** – InvestHK should conduct a more detailed organization design

² Among 18 economies studied (i.e. Australia, Belgium, Denmark, France, Germany, Indonesia, Ireland, Italy, Japan, Korea, Malaysia, Netherlands, New Zealand, Singapore, Spain, Sweden, Taiwan and UK), only Australia, UK and Japan have combined the investment and trade promotion functions.

assessment to strengthen the aftercare and advocacy functions for retention of inward investment and to streamline the existing sector or source market led organization structure.

- ***Functions and services*** – InvestHK should rebalance its resources to place more emphasis on aftercare and advocacy in light of practices of comparable agencies overseas and for capturing investment promotion opportunities arising from reinvestment and expansion projects of investors already set up in Hong Kong.
- ***Performance measurement*** – InvestHK performs well in fulfilling its mandate. Its performance has been improving steadily since its establishment in 2000. To more comprehensively monitor its performance, there is room for broadening InvestHK's performance measurement by introducing new performance targets and indicators subject to availability of data and feasibility.
- ***Resources*** – InvestHK is working to its maximum capacity and is cost-effective in terms of output. Consideration on more funding as appropriate should be given to enable the department to enhance its services and capacity.

*Invest HK
Commerce and Economic Development Bureau
January 2010*

Programme targets: Sector recommendations

	“Core”	“Quick win”	“Future goal”
Target Sectors	<ul style="list-style-type: none">● Business support services● Finance/Investment companies● Insurance● Environmental technology development● Transport services● Transport and logistics● Hotels, hospitality and tourism – includes Meetings, Incentives, Conventions and Exhibitions	<ul style="list-style-type: none">● Supporting services to air transport● Shipping services	<ul style="list-style-type: none">● Education services● Telecommunications● Information technology/software● Media and multimedia graphics design

Programme targets: Source market recommendations

	Greater China	Asia and Australasia	Europe	Middle East	Americas
High priority	<ul style="list-style-type: none">● Mainland China	<ul style="list-style-type: none">● Japan	<ul style="list-style-type: none">● Germany● UK● Spain● Belgium● Switzerland● Italy● France● Netherlands		<ul style="list-style-type: none">● USA● Canada
Secondary priority	<ul style="list-style-type: none">● Taiwan	<ul style="list-style-type: none">● Australia● India● Singapore● South Korea	<ul style="list-style-type: none">● Sweden● Russia● Norway● Austria● Finland● Denmark	<ul style="list-style-type: none">● United Arab Emirates (UAE)	<ul style="list-style-type: none">● Mexico