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Panel on Commerce and Industry

Meeting on 19 January 2010

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

Purpose

This paper sets out the progress of the performance of Invest Hong Kong (InvestHK) in promoting inward investment and summarizes the views and concerns expressed by the Panel on Commerce and Industry (the Panel) during previous discussions.

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. 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 2008-2009, to enable InvestHK to continue implementation of the following initiatives-

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.

- (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 targeting markets in Beijing/Tianjin and East China;
- (d) increase joint marketing activities with the Pearl River Delta 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 InvestHK; and
- (h) meet the additional expenditure on advertising, event sponsorship, office rental and overseas travel, etc arising from these enhanced promotional activities.

The annual financial provision allocated to InvestHK for investment promotion from 2005-2006 to 2009-2010 is as follows:

	2005-2006 (\$ m)	2006-2007 (\$ m)	2007-2008 (\$ m)	2008-2009 (\$ m)	2009-2010 (\$ 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

4. A summary of the results of the work of InvestHK from 2000 to 2008 is at **Appendix I**.

Previous discussions

5. The Panel has 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.

6. At the Panel meeting on 18 April 2006, members 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 almost seven years, it was high time for the Administration to formulate its long-term investment promotion 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 and avoid possible overlapping of resources.

7. At the Panel meeting on 18 December 2007, members noted that the Government had commissioned a follow-up study to review the strategy for promotion of inward investment in October 2007. They urged the Administration to report to the Panel the key findings of the study to facilitate discussion on the future development of InvestHK. The Administration subsequently advised that a follow-up study on InvestHK was being updated in the light of the latest global economic and investment environment, taking into account the impact of the financial crisis in 2008. The Administration assured members that subject to the outcome of the study, it would formulate a long-term investment promotion policy and work out relevant implementation details.

8. On 13 January 2009, the Administration briefed the Panel on the work of InvestHK in promoting inward investment and the progress and achievements made. Panel members noted that InvestHK had assisted 257 Mainland and overseas enterprises to establish operations in Hong Kong in 2008. Some members expressed concern over the repercussions of the global financial crisis in terms of possible delay or reduction in the scale of potential investors' planned operations. Members called on the Administration to be vigilant and keep a close watch on such developments, and report to the Panel the progress of projects targeted for completion in 2009 by InvestHK. The Administration assured members that it would monitor the situation closely and make suitable adjustments where necessary. InvestHK would strengthen marketing effort on investment promotion amidst the global economic crisis.

Latest position

9. The Administration will brief the Panel on 19 January 2010 on the work of Invest Hong Kong in promoting inward investment and the key findings of the consultancy study on the comprehensive review on Hong Kong's investment promotion policy.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
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Appendix I

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>	<u>2008</u>
No. of projects completed*	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 two 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

* *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
Meeting of CI Panel on 13 January 2009	Administration's paper : "Promotion of Inward Investment" Updated background Brief on "Promotion of Inward Investment" Minutes of meeting	CB(1)520/08-09(09) CB(1)520/08-09(10) CB(1)2176/08-09