

## ITEM FOR FINANCE COMMITTEE

**HEAD 79 - INVEST HONG KONG**  
**Subhead 700 General other non-recurrent**  
**New Item “Boosting Investment Promotion Work”**

Members are invited to approve the creation of a new commitment of \$200 million for boosting investment promotion work.

### PROBLEM

Hong Kong faces increasing competition from other business locations for foreign direct investment (FDI).

### PROPOSAL

2. The Director-General of Investment Promotion (DGIP), with support of the Secretary for Commerce, Industry and Technology, proposes to create a new commitment of \$200 million to enable Invest Hong Kong (InvestHK) to strengthen its investment promotion efforts to attract and retain foreign investors.

### JUSTIFICATION

#### **Opportunities and challenges**

#### *China’s accession to the World Trade Organisation*

3. Following China’s entry into the World Trade Organisation in December 2001, there are increasing opportunities for Hong Kong to leverage on its strategic role as a two-way platform between the Mainland and the rest of the world. Companies from around the world are attracted by the Mainland’s continuing robust economic growth – its GDP is now the world’s sixth largest and the Mainland is the fastest growing major economy in the world; and Mainland companies are increasingly interested in developing an international dimension to their business operations.

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4. Moreover, there are strong reasons why we need to move quickly to secure for Hong Kong a fuller share of the increasing opportunities, including -

- (a) there is increasing competition from other business locations to function as a gateway to the Mainland;
- (b) the Yangtze River Delta has attained a high profile in the international business community whereas the Pearl River Delta (PRD) success story has not received the level of attention that it deserves; and
- (c) the “going out” initiatives of Mainland companies will gain momentum in the next few years and we need to ensure the merits of Hong Kong as an outward springboard register with those Mainland enterprises that have overseas expansion strategies.

#### *Investment Promotion Ambassador Scheme*

5. Acknowledging the increasing opportunities and challenges facing Hong Kong, as well as the need to move quickly, a number of senior business leaders in the private sector have volunteered their time and international connections to help promote Hong Kong as a business location to overseas and Mainland companies. We welcome this offer. InvestHK could leverage on the networking strengths of these successful businessmen in reaching out to more potential investors. With practical experience of doing business in this part of the world, these businessmen would have much to share with potential investors. We have identified the first group of 19 Investment Promotion Ambassadors (IPAs) and expect others to join progressively in future. We plan to invite the IPAs to help in the following ways -

- (a) as “door openers” to introduce InvestHK staff to key decision making personnel in companies which the IPAs think have potential to set up a business in Hong Kong;
- (b) as speakers at various business seminars and conferences organised or co-sponsored by InvestHK, e.g. the joint overseas promotion events that InvestHK will undertake with cities in the PRD, and
- (c) to share practical experience about doing business in Hong Kong with potential investors.

6. In order to take full advantage of the new opportunities and support the IPA scheme with a view to securing further FDI and jobs for Hong Kong, InvestHK needs to strengthen its work in investment promotion. The Financial Secretary has announced, in the 2003 Budget Speech, the provision of an additional \$200 million over the next five years for investment promotion activities.

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**Further work in investment promotion**

7. DGIP proposes to strengthen the work in investment promotion as follows -

- (a) broaden InvestHK's external representation by covering markets in which we currently have no presence but which we believe to have considerable potential, such as Korea, India, the Middle East and Singapore;
- (b) strengthen InvestHK's presence in existing markets where there are opportunities for attracting further FDI, including USA, Japan, Europe, Canada and Australia;
- (c) attract Mainland companies to establish offices in Hong Kong with specific focus on Beijing/Tianjin and Shanghai/Jiangsu/Zhejiang;
- (d) increase the frequency of holding joint marketing activities with other cities in the PRD. InvestHK already undertook a successful joint promotion with the Guangzhou authorities in Tokyo last September, and a joint promotion with Shenzhen in April this year in San Francisco. It plans to hold another promotion with Guangzhou in Germany later this year, and has begun preliminary discussions with other municipalities in the PRD and the Guangdong provincial authorities on similar joint IP promotion events;
- (e) provide support to the IPA Scheme. InvestHK will be responsible for liaising with the private offices of the IPAs on their overseas or Mainland business visits, securing the IPAs' agreement to devote some time during these visits to introduce InvestHK staff to their overseas or Mainland contacts, and making related transport and other logistics arrangements. In addition, InvestHK will brief the IPAs on its programme of promotional events and seek to secure the IPAs' agreement to speak at these events. InvestHK will also arrange for individual IPAs to share experience with potential investors on a one-on-one basis; and
- (f) improve the marketing, research, information technology and knowledge management capabilities of InvestHK.

8. To cater for the additional work, InvestHK plans to -

- (a) employ 13 additional staff in Hong Kong (all on non-civil service contract (NCSC) terms) to strengthen the sector teams in InvestHK's head office;

/(b) .....

- (b) engage nine consultant companies in nine locations overseas to undertake promotional activities; and
- (c) engage a corporate communications consultant company to help strengthen the department's capabilities in various areas.

Encls. 1-4 An outline of the responsibilities of the consultant companies and the corporate communications consultant company are at Enclosures 1 and 2 respectively. The existing and proposed structure of InvestHK's head office are at Enclosures 3 and 4 respectively.

9. InvestHK is of the view that private sector expertise would be essential if the department were to be effective in communicating with the targeted commercial enterprises. It has therefore employed the bulk of investment promotion staff on non-civil service contract (NCSC) terms. It plans to continue to employ NCSC personnel to execute the proposed work in paragraph 7 because -

- (a) the priority sectors for investment promotion work are kept under regular review and may change from time to time, hence different expertise needs to be brought in at different times;
- (b) within the same sector, market circumstances change from time to time and new expertise may be needed; and
- (c) as the work of InvestHK progresses, the skills requirements in terms of language proficiency, market knowledge etc have to be kept under regular review.

10. It is difficult to forecast the results that may be achieved from the additional allocation for investment promotion because many variables are not within the control of InvestHK, e.g. the state of world economy. Moreover, investment projects tend to have a long lead time. Nonetheless, InvestHK aims to facilitate the completion of over 200 projects per annum i.e. approximately double the current level, starting from 2004.

## FINANCIAL IMPLICATIONS

11. The implementation of the additional measures requires funding of \$200 million to cover the following costs -

/(a) .....

	<b>HK\$'000</b>
(a) Engage consultant companies in new markets	23,500
(b) Engage additional consultant companies in existing markets	33,900
(c) Strengthen Investment Promotion Units (IPUs) targeting Beijing/Tianjin and Shanghai/Jiangsu/Zhejiang	9,400
(d) Increase joint promotions with PRD municipalities and strengthen the responsible team in InvestHK's head office	21,200
(e) Support IPA Scheme	9,400
(f) Outsource InvestHK's marketing, research, information technology and knowledge management services to consultant company	49,400
(g) Strengthen sector teams in InvestHK's head office	23,500
(h) Additional office rental and overseas travel, etc	29,700
<b>Total</b>	<b>200,000</b>

12. As regards paragraph 11(a), the provision of \$23,500,000 is for engaging consultant companies overseas to undertake investment promotional activities in promising new markets, including Korea, India, the Middle East and Singapore.

13. As regards paragraph 11(b), the provision of \$33,900,000 is for engaging additional consultant companies to undertake more investment promotional activities in existing markets which present considerable opportunities in terms of prospective inward investment, including the region centred round Chicago, Kansai in Japan, Nordics / Eastern Europe, Canada outside of Ontario, and Australia outside of the Sydney/Melbourne area.

14. As regards paragraph 11(c), the provision of \$9,400,000 is for strengthening the staffing complement of the IPUs targeting Beijing/Tianjin and Shanghai/Jiangsu/Zhejiang, with a view to attracting more companies from these regions to establish offices in Hong Kong.

15. As regards paragraph 11(d), the provision of \$21,200,000 is for holding more joint overseas marketing activities with PRD cities and for strengthening the staffing complement of the team in InvestHK's head office that is responsible for the Mainland. With the additional resources, InvestHK plans to increase the frequency of holding such joint marketing activities from three times to eight or more per year.

16. As regards paragraph 11(e), the provision of \$9,400,000 is to cover activities related to the IPA Scheme that are to be undertaken by a new dedicated team to be set up in InvestHK through redeployment. IPAs will volunteer their time and efforts free of charge as a community service. InvestHK will only pay for their out-of-pocket expenses such as transportation and hotel accommodation. It is envisaged that the number of IPAs will increase from the initial 19 to perhaps as many as 100 over time.

17. As regards paragraph 11(f), the provision of \$49,400,000 is for engaging a corporate communications consultant company on a term contract basis for the provision of specialist services in marketing, research, information technology and knowledge management etc. Due to the constraint in resources, InvestHK has so far not been able to fully develop these capabilities which are fundamentally important to investment promotion work because-

- (a) like many other investment promotion agencies, InvestHK's services and activities are predominantly information driven. Building up and maintaining a comprehensive database of market information through systematic market research is highly necessary;
- (b) during the relative short period since its establishment, InvestHK has strategically built up and promoted the awareness of its brand name, alongside with its investment promotion work. To further develop the brand name of InvestHK, and to better market the Greater PRD product including Hong Kong, specialist marketing expertise is required; and
- (c) commissioned by InvestHK in 2002, the Information Systems Strategy Study strongly recommended that the department should explore greater opportunities for on-line marketing, and put in place collaboration tools to formalize the knowledge management system by phases, among other things.

To tap the best practices elsewhere and the specialist skills and expertise in corporate marketing and communications in the private sector, InvestHK considers that the most economically viable and cost-effective means is to outsource the whole range of corporate marketing, communications and knowledge management services to a term consultant.

18. As regards paragraph 11(g), the provision of \$23,500,000 is for strengthening the staffing complement of the sector teams in InvestHK's head office so that they can handle the additional projects to be generated.

19. As regards paragraph 11(h), the provision of \$29,700,000 is to meet additional expenditure on office rental and overseas travel, etc.

20. We plan to expend the provisions above more or less evenly over a period of five years or so. Since it will take some time to recruit additional staff and engage investment promotion consultants, the expenditure in the first year is estimated to be 70% of the full-year provision. We anticipate the cash flow to be as follows -

<b>Financial year</b>	<b>\$'000</b>
2003-04	30,000
2004-05	42,500
2005-06	42,500
2006-07	42,500
2007-08	42,500
<b>Total</b>	<b>200,000</b>

21. Subject to Members' approval, the Secretary for Financial Services and the Treasury shall approve under delegated authority the supplementary provision required in 2003-04 by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 789 Additional commitments. Sufficient provision will be included in future Estimates for expenditure from 2004-05 onwards.

#### **IMPLEMENTATION TIMETABLE**

22. Subject to Members' approval of this proposal, our aim is to commence the proposed measures immediately.

#### **CONSULTATION WITH LEGISLATIVE COUNCIL PANEL**

23. We consulted the Legislative Council Panel on Commerce and Industry on the proposal. At the Panel meeting held on 14 April 2003, Members expressed general support for the proposal.

**/BACKGROUND .....**

**BACKGROUND INFORMATION*****The role of InvestHK***

24. The mission of InvestHK is to attract and retain in Hong Kong economically and strategically important investment which brings benefits to our economy. Having regard to the comparative advantages of Hong Kong, InvestHK focuses its investment promotion efforts on nine priority sectors. In 2002, it facilitated the completion of 117 projects with an investment amount of \$1,360 million.

***Relationship between InvestHK and Hong Kong Economic and Trade Offices***

25. InvestHK maintains external representation in 13 places, either in the form of an IPU with staff employed locally or in the form of a consultant/consultant company. The IPUs are part of the respective Hong Kong Economic and Trade Offices (ETOs) and report to the respective heads of office. The consultant/consultant companies are supervised by the relevant ETO heads while reporting to InvestHK's head office in parallel.

***Relationship between InvestHK and Hong Kong Trade Development Council (TDC)***

26. InvestHK also cooperates and collaborates closely with the overseas offices of TDC as well as its headquarters in Hong Kong. For example, the two organisations refer promising leads to each other, viz., InvestHK passes trade enquiries to TDC, and the latter refers investment enquiries to InvestHK. They also undertake joint marketing and promotional projects, for example, business promotion mission to Seoul and Suwon in Korea in March this year which was also co-sponsored by the Dongguan municipality.



**Responsibilities of Consultant Companies**

The consultant companies will provide consultancy services to InvestHK as follows -

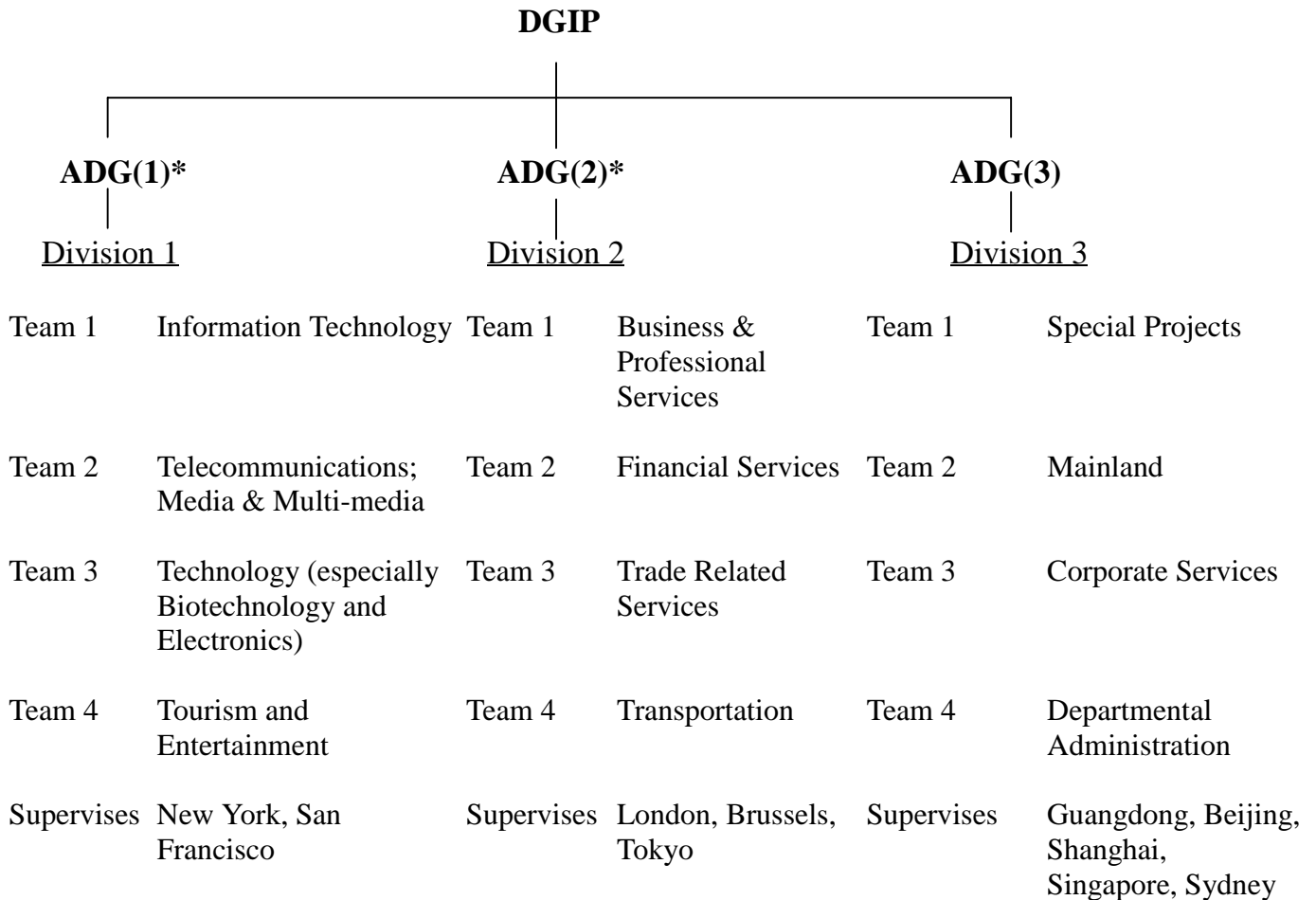
- (a) Formulate an investment promotion strategy for the market;
- (b) Prepare an annual business plan based on the guidelines given by InvestHK;
- (c) Research and/or collect market/business intelligence on the market and industry sectors as suggested by InvestHK;
- (d) Identify and interview target companies which have the potential to establish a presence in Hong Kong;
- (e) Identify and recommend relevant externally organised conferences, seminars, exhibitions and speaking engagements for InvestHK's participation;
- (f) Organise seminars, receptions, speaking engagements, roadshows and other publicity events relevant to Hong Kong's investment promotion effort;
- (g) Develop links with "multiplier organisations", such as chambers of commerce, trade councils, business associations etc to generate project leads;
- (h) Arrange and accompany visiting InvestHK staff on duty visit programmes relevant to InvestHK's investment promotion efforts; provide logistics support (transportation, accommodation bookings and interpretation/translation) and prepare meeting reports after the visits;
- (i) Maintain frequent contact with potential and existing investors;
- (j) Respond to enquiries from potential investors by providing timely advice and practical assistance; and
- (k) Identify and develop links with relevant media organisations.

**Responsibilities of Specialist  
Corporate Communications Consultant Company**

The company will provide corporate communications services to InvestHK as follows -

- (a) Develop and implement an overall public relations and marketing strategy for the department;
- (b) Develop and implement a knowledge management strategy and system to ensure constant improvement in the quality and timeliness of the information we provide to customers;
- (c) Attract and support key international business events with a view to promoting the image of Hong Kong and InvestHK;
- (d) Develop a consistent corporate branding for the department in the production of generic marketing materials for use by departmental staff, the external consultants and the IPAs;
- (e) Maximise positive media coverage in Hong Kong and in key overseas markets; and
- (f) Ensure a more effective use of information technology in achieving InvestHK's investment promotion objectives and improving customer service.

**Existing Organisational Structure of InvestHK Head Office**



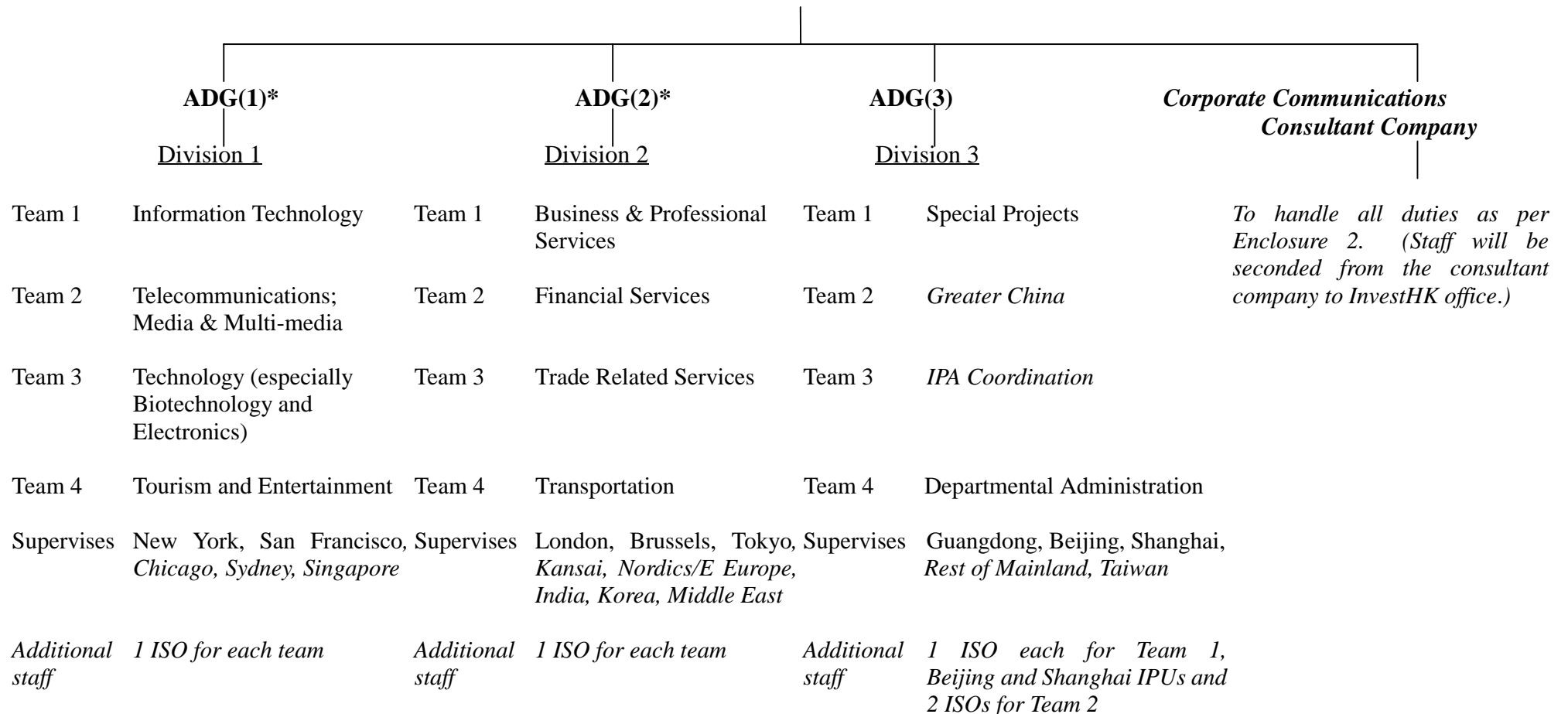
\* Non-civil service posts

Note

- (i) All teams in Divisions (1) and (2), and teams 1-3 in Division (3), comprise one Investor Relations Officer (IRO) and two Investor Support Officers (ISO). Of the 11 IROs, 10 are on Non Civil Service Contract (NCSC) terms. The eleventh is a civil servant on contract. In each team, one ISO is a Trade Officer, the other an NCSC employee.
- (ii) Each Division is supported by one Investment Promotion Assistant on NCSC terms, plus one Personal Secretary and one Assistant Clerical Officer who are civil servants.
- (iii) There are a further 19 support staff of whom 14 are civil servants and five are on NCSC terms.

**Proposed Organisational Structure of InvestHK Head Office**

**DGIP**



\* Non-civil service posts  
*Note: All proposed changes are in italics.*