

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

Promotion of Inward Investment

INTRODUCTION

At the meeting on 8 March 2004, Members were briefed vide Paper CB(1)1191/03-04(3) on the work of Invest Hong Kong (InvestHK) in promoting inward investment. The purpose of this paper is to update Members on the work of InvestHK in 2004 and outline developments planned for 2005.

BACKGROUND

2. Established in July 2000, InvestHK's mission is to attract to and retain in Hong Kong economically and strategically important investment. On 3 June 2003, the Finance Committee approved the creation of a new commitment of \$200 million to enable InvestHK to strengthen its investment promotion efforts over a period of five years starting in 2003-04¹.

3. Taking into account the additional resources, the approved annual financial provision allocated to InvestHK for investment promotion from 2003-04 onwards is as follows:-

Items	2003-04 (\$ million)	2004-05 (\$ million)	2005-06 (\$ million)
Operational expenses	46.4	45.2	63.7 ²
Investment promotion (block vote)	21.0	21.0	---
General non-recurrent expenses for enhancing	30.0	44.5 ³	42.5

¹ According to the cash flow forecast, \$30 million was allocated for the first year in 2003-04 and thereafter \$42.5 million per year up to 2007-08.

² With effect from 2005-06, the provision for investment promotion under Investment Promotion Block Vote (i.e. \$21 million) is transferred to the Operational Expenses subhead.

Items	2003-04	2004-05	2005-06
investment promotion work*			
Total	97.4	110.7	106.2

* Funded by the additional resources of \$200 million (see paragraph 2 above)

4. The additional resources have been, and will continue to be, used to broaden the department's external representation and coverage in overseas and Mainland markets; to increase joint marketing activities with Mainland cities; to implement an Investment Promotion Ambassador Scheme; to improve marketing, research, knowledge management and information technology capability; and to strengthen capacity for handling the additional projects to be generated.

(a) InvestHK Staff Position and Head Office Organisation

5. As at 1 April 2005, the Head Office of InvestHK employed 89 staff, and its external offices 17 staff and 13 consultant companies. Of the total 106 staff, 69 were non-civil service appointments and 37 were civil servants. The Head Office of InvestHK is made up of four divisions, as illustrated in the organisation chart at **Enclosure 1**.

(b) External Representation

6. To maintain close contact with potential investors in major foreign markets, InvestHK staff operate an Investment Promotion Unit (IPU) in eight of Hong Kong's Economic and Trade Offices (ETOs) overseas and in the Mainland. InvestHK also engages external consultants in other strategic locations not covered by the ETOs. Details of InvestHK's external representation are at **Enclosure 2**.

(c) Corporate Marketing & Communication Capacity

7. With the additional \$200 million resources (ref. para.2 above), InvestHK has engaged an in-house consulting team full-time and exclusively to strengthen its corporate marketing and communications capacity, especially on marketing, research, public relations, information technology and knowledge management. It

³ The approved annual financial provision of this item (ie \$44.5 million) in 2004-05 included the unspent balance in 2003-04 and hence is more than the original cash flow forecast of \$42.5 million.

has adopted a more systematic and integrated approach towards market research. Apart from the annual perception audit, it undertakes an in-country sector analysis to identify potential high-growth sectors in specific countries, and a global sector benchmarking study to assess Hong Kong's capabilities vis-à-vis external markets with regard to certain specific business areas. It has also developed a new IT-enhanced platform which is capable of building up and maintaining a comprehensive database of market information.

MAJOR ACTIVITIES IN 2004

(a) Joint overseas investment promotion with Mainland authorities

8. Hong Kong has long been viewed as the natural gateway to the Mainland, in particular the Pearl River Delta (PRD). To promote this HK-PRD formula, InvestHK has since 2002 conducted a series of joint seminars with Mainland cities in key overseas markets. In 2004, InvestHK organised a total of 10 joint seminars (including an on-line web-based one) with major Mainland provinces and cities, targeting prospective investors in different key international markets. A list of these joint seminars is at **Enclosure 3**. This strategy has proved to be successful and all the joint seminars received overwhelming response from foreign investors. For example, the Hong Kong-Guangdong joint seminar held in London in October 2004 in collaboration with the Guangdong Provincial Government attracted more than 1,200 attendees.

9. From these promotional activities, InvestHK has identified a number of foreign potential investors, and has been proactively following up with them. According to the preliminary results, up to end-December 2004, 15 investment projects have been successfully completed, and another 57 projects are being pursued.

(b) Promotion activities in the Mainland

10. InvestHK has been actively promoting the advantages of using Hong Kong as a springboard for Mainland enterprises to expand overseas. In 2004, InvestHK organised a series of 23 investment promotion seminars in 13 major cities in the Mainland to introduce Hong Kong's investment environment and its competitive advantages to potential investors from the Mainland. InvestHK received more than 20 incoming delegations from the Mainland during the year,

including large-scale delegations of over 100 members from Guangdong and Fujian Provinces. Details of these activities are at **Enclosure 4**.

(c) *New initiatives in response to the investment facilitation policy of the Mainland*

11. The Ministry of Commerce (MOC) launched in late August 2004 a new investment facilitation policy for Mainland enterprises to invest in Hong Kong. In response, InvestHK has devised a series of tailored services under the name of "One Stop Service (投資香港一站通服務)" for Mainland investors. The services include –

- (a) InvestHK 800 Hotline: A toll free InvestHK hotline in the Mainland for handling enquiries from Mainland enterprises about investing in Hong Kong;
- (b) InvestHK Service Centre: A rich database of resources for public access. Enquirers can visit the centre at InvestHK Head Office to collect information about investing in Hong Kong. They can also consult directly with InvestHK's experts on more complicated questions;
- (c) InvestHK Guidebook: An information kit, tailor-made for Mainland companies interested in establishing or expanding in Hong Kong, which is provided free of charge; and
- (d) InvestHK Step-by-step Guide: The first joint publication produced by InvestHK, MOC and the Commercial Office of the Economic Affairs Department of the Liaison Office of the Central People's Government in the HKSAR. It describes in detail the procedures for obtaining relevant government approvals and documents required in the Mainland, and the steps for setting up a business in Hong Kong.

(d) *Promotion activities in other key overseas markets*

12. InvestHK carries out a number of investment promotion activities worldwide in accordance with the business plans for the nine priority sectors⁴ and in collaboration with its overseas representatives. The objective is to capitalise on the competitive advantages of Hong Kong as the superior regional hub for Asia

⁴ *The nine priority sectors are business & professional services, financial services, information technology, media & multimedia, technology, telecommunications, tourism & entertainment, trade-related services and transportation.*

Pacific operations, and as a two-way platform for business between the Mainland and the rest of the world. With the support of its overseas representatives, InvestHK arranges visits to call on potential investors in their home countries and/or targeted cities, to meet with the local multiplying organisations, media and government bodies, to participate in significant publicity events, promotional programmes, and to speak at appropriate business forums when opportunities arise, etc.

(e) *Investment Promotion Ambassador (IPA) Scheme*

13. Since the IPA Scheme was launched in April 2003, InvestHK has been actively identifying suitable business leaders to serve as IPAs. So far, a total of 61 IPAs have been appointed. The appointees come from a wide spectrum of business sectors, and include both local, overseas and Mainland business leaders. A number of public relations and promotional activities, both in Hong Kong and overseas, have been lined up with the support of the IPAs, including seven events organised in 2004.

(f) *Monitoring development of companies assisted by InvestHK*

14. Since its establishment in July 2000, InvestHK has assisted some 600 foreign, Mainland and Taiwan companies to set up or expand their business in Hong Kong. Over the years, InvestHK has been providing continuous aftercare services to some of these companies on a need basis, with a view to retaining their investment and encouraging them to expand further in Hong Kong. To keep track of the development of these companies and provide appropriate assistance to better suit their needs, InvestHK has since December 2004 introduced a new aftercare monitoring system. Under the new monitoring system, InvestHK takes on a more proactive and structured approach in its aftercare service programme by initiating contacts with all those companies which have, with its assistance, established operations in Hong Kong for three years. The new monitoring system will help InvestHK keep track of these companies' latest development, both in terms of capital investment and job creation, and understand their plans for further expansion, if any, and their needs for any specific aftercare services.

(g) *Major international business events*

15. InvestHK has continued to support and participate in major international business events with a view to raising Hong Kong's profile in the international

business community. For example, InvestHK was the host-sponsor of the Forbes Global CEO Conference, held in Hong Kong on 21-23 September 2004. The Conference was attended by over 350 delegates, of which 55% were from overseas markets including the US, Europe and Asia. This provided a very good opportunity for InvestHK to foster its networking and establish long-term relationships with business leaders participating in the event.

RESULTS AND ACHIEVEMENTS

16. In 2004, InvestHK successfully assisted 205 foreign and Mainland companies to set up or expand operations in Hong Kong, representing an increase of 44% over 2003. These completed projects have brought in HK\$4.7 billion and created more than 3,000 jobs in Hong Kong. Detailed breakdown of these completed projects by industry, geographical location, capital investment and number of jobs created in 2004 is at **Enclosure 5**. A summary of the results since the department was established in 2000 is provided below:-

	<u>2000</u> (Jul - Dec)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
No. of projects completed*	35	99	117	142	205
Jobs created**	347	1,504	2,075	2,456	3,008
Investment amount (\$ million) **	506	3,500	1,360	2,493	4,658

* *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.*

(a) Analysis

17. Of the 205 completed projects in 2004, 45 companies (22%) indicated that CEPA was one of the factors considered when making the investment. Some 19 companies said they had invested in Hong Kong because of CEPA, while 26 others said they had accelerated their investment plan, and/or invested more capital or employed more staff as a result of CEPA.

18. Of the 205 completed projects in 2004, 35 were Mainland enterprises, representing a sharp increase over 2003. This reflects the more liberal external investment regime ("going-out") adopted by the Mainland, the strength of Hong Kong in its role as a springboard to the world for Mainland enterprises, and the strengthened efforts by InvestHK to attract investment from the Mainland.

19. Most of the newly established companies in Hong Kong started with a relatively small amount of capital, *i.e.* about 46% did not exceed \$5 million, and most created less than 10 jobs on first establishment. Even companies which are large in their home market tend to start small when first entering new markets.

(b) Inflow of Foreign Direct Investment

20. Foreign Direct Investment (FDI) (including that from the Mainland) in Hong Kong has been consistently strong in recent years, reinforcing Hong Kong's leading position as a preferred destination for external investors. In the latest "World Investment Report 2004" released by the United Nations Conference on Trade and Development (UNCTAD), Hong Kong has remained the second largest recipient of FDI in Asia after China, and is ranked the 11th in the world. Despite the outbreak of Severe Acute Respiratory Syndrome (SARS) and significant economic challenges, the inflow of FDI in 2003 reached US\$13.6 billion, up by 40% from an adjusted US\$9.7 billion in 2002, according to the Census and Statistics Department (C&SD). There was continuous growth in FDI inflow in 2004 reaching US\$34 billion, which already exceeded the 2001 level. The FDI figures for the past few years are summarised below:

Year	2000	2001	2002	2003	2004
Amount * (US\$ billion)	61.9 ⁵	23.8	9.7 ⁶	13.6	34

* The FDI survey conducted by C&SD does not collect information on the amount of capital that subsequently remained in Hong Kong or transferred to other destinations through Hong Kong.

21. Hong Kong is the chosen base for over 3,600 regional headquarters (RHQ) and regional offices (RO) representing companies from around the world, according to the 2004 Annual Survey of Regional Offices Representing Overseas Companies in Hong Kong conducted by C&SD. This demonstrates that Hong Kong has remained the preferred base in Asia for foreign companies to oversee

⁵ The 2000 figure of US\$61.9 billion was boosted by a single transaction relating to China Mobile. The local subsidiary, China Mobile (Hong Kong) Limited, acquired seven mobile networks in the Mainland from its parent company at a total price of \$32.8 billion. It paid for these networks partly in cash (\$9.6 billion) and partly by the issue of new shares to the parent company (\$23.3 billion). The result was that our Balance of Payments statistics recorded a direct investment outflow of \$32.8 billion and an inflow of \$23.3 billion for the transaction.

⁶ According to C&SD, the significant drop from 2001 was mainly attributable to negative direct investment flow related to inter-company debt transactions in the year.

their regional operations. The survey indicates that as at 1 June 2004, there were 1,098 companies (up 13.7% over one year ago) that were RHQs and 2,511 companies (up 12%) that were ROs in Hong Kong of companies incorporated outside Hong Kong. More details are set out at **Enclosure 6**.

WORK IN 2005

22. InvestHK aims to achieve at least 220 completed projects in 2005, a 10% increase over the 2004 target, and 7% more than the actual result in 2004.

23. InvestHK will step up its joint promotion efforts with the Mainland by extending the programme to include other provinces. A recent example is the Hong Kong-Shanghai joint promotion jointly organised with the Shanghai authorities in Tokyo in March 2005. A joint promotion with Fujian Province in Germany is being planned for November 2005. For 2005-06, we are planning for 13 overseas joint-promotions with Mainland authorities.

24. The facilitation policy launched by the MOC has opened up new opportunities for more Mainland enterprises to invest in Hong Kong. In the light of the growing interest of and investment by Mainland enterprises in Hong Kong, InvestHK has reorganised its structure since the beginning of the year. Under the new organisation structure, there are four investment promotion teams dedicated to assisting investors from China: one for Guangdong, one for East China (including Shanghai, Jiangsu and Zhejiang), one for North China (including Beijing, Tianjin, Hebei and Shandong), one for the rest of China (including Taiwan), and a China Business team to coordinate related activities, all under Division 3. Apart from the first team, which is stationed in the Guangdong ETO, the rest are based in Hong Kong. These dedicated teams will conduct more frequent investment promotion visits to Mainland enterprises, organise more seminars and other promotion activities in the Mainland, as well as organise more incoming missions to Hong Kong in coordination with the MOC, various local government departments and bodies from the Mainland. InvestHK will also build stronger rapport with the Central Government authorities, including the MOC, the State Administration of Foreign Exchange, the China Securities Regulatory Commission and the Hong Kong and Macao Affairs Office.

25. On the international front, InvestHK will in collaboration with its overseas representatives continue to conduct investment promotion proactively by direct approaching target potential investors. With the benefit of additional resources,

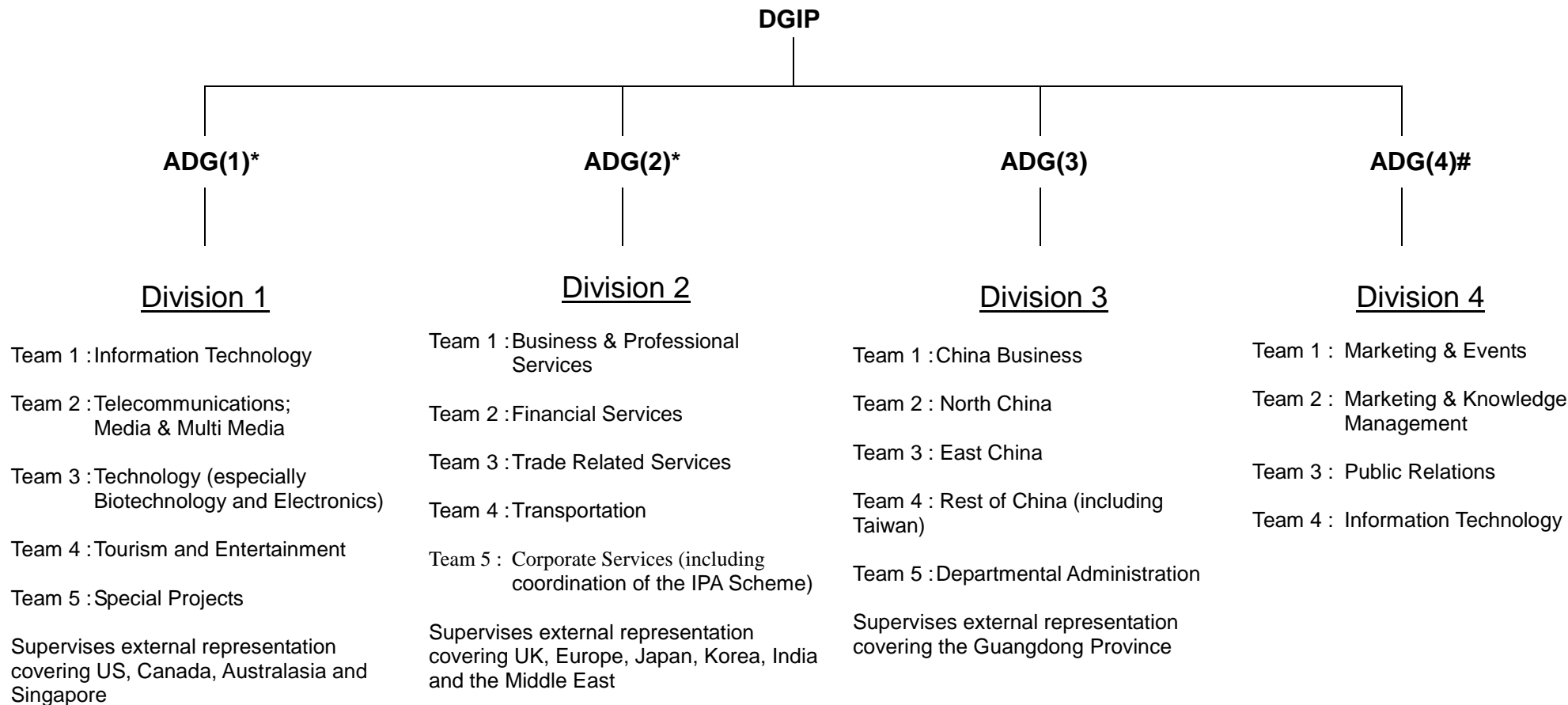
InvestHK has strengthened its investment promotion efforts which will enable more frequent overseas visits to be arranged to call on potential investors and to meet with local associations and government bodies so as to encourage and assist expanding enterprises in using Hong Kong as a gateway to China and the rest of Asia. It will closely monitor the development of CEPA and underline the many business opportunities offered by CEPA in its promotion work. To retain existing investors and to encourage their expansion in Hong Kong, InvestHK will continue to provide aftercare services and work with Consulates-General and international chambers of commerce to organise business community programmes.

26. InvestHK has been working closely with the external offices of the Hong Kong Trade Development Council (HKTDC), as well as its headquarters in Hong Kong. The mission of InvestHK is to attract foreign direct investment whereas the main function of HKTDC is to promote, assist and develop Hong Kong's trade in goods and services with places outside Hong Kong, with particular reference to exports. Both agencies have been conducting intensive external promotional activities to deliver their respective messages to the foreign and Mainland business communities. To maintain coordination of activities, InvestHK and HKTDC meet on a regular basis to exchange plans and initiatives and to discuss ways of cooperation. This mechanism has proved to be an effective platform whereby duplication and conflict can be avoided, and synergy and economy of scale achieved. For instance, InvestHK has shared HKTDC's exhibition space in some overseas exhibitions to promote Hong Kong. On the other hand, HKTDC has contributed guest speakers for seminars organised by InvestHK.

ADVICE SOUGHT

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

Organisational Structure of InvestHK Head Office



* *Non-civil service posts*

Leading member of the consulting team deployed from the Corporate Communications Consultant

InvestHK External Representation

<u>Region</u>	<u>Office Location</u>	<u>Area Covered</u>	<u>Remarks</u>
North America	New York	US East	Team of three based in ETO
	San Francisco	US West	Team of three based in ETO
	Chicago	US Central	Consultant Company
	Toronto	Canada	Individual based in ETO
Europe	Brussels	Western Europe	Team of two based in ETO
	Paris	France	Consultant Company
	Hamburg	Germany	Consultant Company
	Milan	Italy	Consultant Company
	London	UK, Switzerland, Norway, Russia	Team of two based in ETO
	Gothenburg	Nordics	Consultant Company
Asia/ Australasia	Tokyo	North Japan	Team of two based in ETO
	Osaka	West Japan	Consultant Company
	Singapore	Singapore	Consultant Company
	Seoul	Korea	Consultant Company
	Mumbai	India	Consultant Company
	Dubai	Arab Middle East	Consultant Company
	Tel Aviv	Israel	Consultant Company
	Sydney	Australia, less Victoria & South Australia	Individual based in ETO
	Melbourne	Victoria & South Australia	Consultant Company
	Auckland	New Zealand	Consultant Company
Mainland	Guangzhou	Guangdong	Team of three based in ETO
	Hong Kong	East China (including Shanghai, Jiangsu and Zhejiang)	Team of three based in IHK Head Office
	Hong Kong	North China (including Beijing, Tianjin, Hebei, Shandong)	Team of three based in IHK Head Office
	Hong Kong	The rest of China (including the Taiwan market) other than Shanghai, Jiangsu, Zhejiang, Beijing, Tianjin, Hebei, Shandong and Guangdong	Team of three based in IHK Head Office

Joint Overseas Promotions with Mainland Provinces/Cities in 2004

<u>Date</u>	<u>Partner Province/City</u>	<u>Location</u>
29 April	Foshan	New York
25 May	Dongguan	Singapore
8 June	Guangzhou	Seoul
10 June	Shenzhen	Tokyo
29 June	Guangdong	on-line seminar
24 August	Shenzhen	Stockholm
26 October	Guangdong	London
28 October	Dongguan	Marseilles
22 November	Zhuhai	Mumbai
24 November	Zhuhai	New Delhi

Major Events organized by InvestHK in the Mainland in 2004

<u>Date</u>	<u>Events</u>	<u>Location</u>
7 - 10 January	CEPA for Hong Kong & Macau Promotion Week CEPA – 香港澳門(內地)推廣週	Beijing
15 – 18 January	CEPA for Hong Kong & Macau Promotion Week CEPA – 香港澳門(內地)推廣週	Shanghai
11 – 14 February	CEPA for Hong Kong & Macau Promotion Week CEPA – 香港澳門(內地)推廣週	Guangzhou
31 March	“Experience Sharing” Seminar at Guangdong Economic & Trade Office 香港投資環境考察團企業回粵後到駐粵辦進行心得交流會	Guangzhou
1 April	Seminar on “Hong Kong – Gateway for Wuxi Private Enterprises to the World” “無錫民營企業走進香港”研討會	Wuxi
6 April	Hong Kong Investment Environment Seminar “CEPA – 內地企業走向香港和世界的橋樑” 研討會	Shenzhen
15 April	Hong Kong Investment Environment Seminar 香港投資環境和上市規例介紹會	Guangzhou
15 April	Hong Kong Investment Environment Seminar 香港投資環境介紹會	Qingdao
21 May	Shanghai Information Technology Enterprises – Seminar on Business Opportunities and Investment Environment in Hong Kong “上海資訊科技企業 – 香港商機及融資”研討會	Shanghai

<u>Date</u>	<u>Events</u>	<u>Location</u>
22 May	Seminar on Investment Environment and Financing in Hong Kong for Mainland High Tech Enterprises 北京高科技企業-香港商機及融資研討會	Beijing
27 May	Hong Kong Investment Environment Seminar 香港投資環境研討會	Chongqing
28 May	Hong Kong Investment Environment Seminar 香港投資環境研討會	Chengdu
13 August	Hong Kong Investment Environment Seminar “香港貿易市場和營商環境”介紹會	Zhuhai
9 September	The 8th CIFIT – “Hong Kong – Your Financial Services Platform to International Markets” seminar 第八屆中國投資貿易洽談會 – “善用香港金融服務業優勢助您邁向國際市場”介紹會	Xiamen
15 September	“Experience Sharing” Seminar at Guangdong Economic & Trade Office 香港投資環境考察團企業回粵後到駐粵辦進行心得交流會	Guangzhou
19 September	2004 Nanjing Golden Autumn Economic & Trade Fair Hong Kong Investment Environment Seminar 2004 南京金秋經貿洽談會 – 香港投資環境推介會	Nanjing
22 September	2004 Wuxi Taihu Expo - Hong Kong Investment Environment Seminar 2004 無錫太湖博覽會 – 香港投資環境推介會	Wuxi
23 September	Investment promotion forum in Xian 西安 - 投資香港座談會	Xian

<u>Date</u>	<u>Events</u>	<u>Location</u>
28 October	Tianjin-HK Week Hong Kong Investment Environment Seminar 天津-香港周 香港投資環境介紹會	Tianjin
15 November	Meeting with Jiangsu DOFTEC promoting one stop services 江蘇省外經貿廳交流會，推廣"一站通"	Nanjing
15 December	Meeting with Shanghai COFTEC promoting one stop services 上海市外經貿委交流會，推廣"一站通"	Shanghai
16 December	Meeting with Zhejiang DOFTEC promoting one stop services 浙江省外經貿廳交流會，推廣"一站通"	Hangzhou
17 December	Hong Kong Investment Environment Seminar 香港投資環境研討會	Shenzhen

Completed Projects by InvestHK

(A) Breakdown by Industry

Sector	2004
Financial Services	23
Business and Professional Services	24
Information Technology	17
Technology	22
Telecommunications	11
Media & Multimedia	4
Tourism & Entertainment	15
Trade Related Services	37
Transportation	24
Others	28
Total	205

(B) Breakdown by Geographical Location

Region	2004
Europe	60
USA	42
Japan and Korea	38
Mainland	35
Australia and New Zealand	9
Canada	5
Rest of Asia	14
Others	2
Total	205

(C) Breakdown by Capital Investment

Capital Investment (HK\$)	2004
5 million	102
> 5 million 50 million	41
> 50 million	14
N/A #	48
Total	205

(D) Breakdown by Number of Jobs Created

No. of Jobs Created	2004
1 – 10	153
11 – 100	38
100 +	4
N/A #	10
Total	205

Some companies were not willing to reveal the information to InvestHK.

**Regional Headquarters (RHQs), Regional Offices (ROs) and
Local Offices (LOs) in Hong Kong**

	2001	2002	2003	2004	Change (2003-2004)	% Change (2003-2004)
RHQs	944	948	966	1,098	+132	+13.7%
ROs	2,293	2,171	2,241	2,511	+270	+12%
LOs	1,230	1,748	2,207	2,334	+127	+5.8%
RHQs + ROs	3,237	3,119	3,207	3,609	+402	+12.5%
RHQs + ROs + LOs	4,467	4,867	5,414	5,943	+529	+9.8%

Source: Census and Statistics Department