

First Meeting of the Economic and Employment Council

Agenda Item 3(c) : Promotion of Inward Investment

This paper outlines the work of Invest Hong Kong (InvestHK), the executive arm of the HKSAR Government to promote inward investment. It describes the results of the department's investment promotion efforts, and the progress of new initiatives following the injection of additional resources.

Background

2. The foreign business community plays a very important role in the Hong Kong economy. Foreign companies bring in capital, new technologies and business practices, and create employment opportunities for Hong Kong people. The Government firmly believes in, and supports a free market economy and a liberal investment regime. For the tenth consecutive year, the Heritage Foundation has rated Hong Kong as the freest economy in the world.

3. Over the last two decades, Hong Kong has established itself as a two-way platform for business between the Mainland of China and the rest of the world. In particular, Hong Kong has been the natural business hub in the Greater Pearl River Delta (PRD)¹. Following China's entry into the World Trade Organisation (WTO) in December 2001, there are increased opportunities for Hong Kong to leverage on its strategic role. Companies from around the world are attracted by China'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. At the same time, Mainland companies are increasingly interested in developing an international dimension to their business operation.

4. The implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) will open up new business opportunities in the Mainland for Hong Kong. It will also enhance the attractiveness of Hong Kong to foreign investors, who may leverage on CEPA

¹ The Greater PRD comprises the PRD (as defined by the Guangdong Provincial authorities) plus the Hong Kong Special Administrative Region and the Macao Special Administrative Region.

to gain greater access into the Mainland market through Hong Kong. The zero import tariff preference may attract to Hong Kong manufacturing of brand name products, or manufacturing processes with high-value added content or substantial intellectual property input. The market liberalisation measures for trade in services give enterprises in Hong Kong both a “first mover” advantage in respect of WTO concessions, plus in some cases special privileges.

Strategy and Approach

5. Established in July 2000, InvestHK took over the investment promotion function from the former Industry Department which was disestablished. InvestHK is tasked to promote Hong Kong’s many advantages as a trade, investment and business hub in Asia, and to attract foreign direct investment. Its mission is to attract to and retain in Hong Kong economically and strategically important investment. It offers solution-oriented investment promotion, facilitation, and aftercare services to foreign investors to ensure that companies have all the support required to establish and expand their operations in Hong Kong.

6. InvestHK adopts a targeted approach in its investment promotion strategy, with the express objectives to attract foreign corporations to set up their headquarters in Hong Kong, and to promote the nine business sectors in which Hong Kong has comparative advantages. It offers sector specific expert guides to potential investors throughout all stages of the investment process. These priority sectors are:

- Financial services
- Business and Professional Services
- Information Technology
- Media/Multimedia
- Technology (*especially electronics and biotechnology*)
- Telecommunications
- Tourism and entertainment
- Trade related services
- Transportation

7. InvestHK implements its investment promotion strategy mainly through the following activities:

- (a) Contact senior executives of overseas/ Mainland companies and provide them with the latest information on Hong Kong's investment environment and other developments;
- (b) Facilitate overseas/ Mainland companies to set up in Hong Kong by connecting investors with relevant government departments and commercial organisations, as well as assisting them with other administrative, legal and financial logistics;
- (c) Provide aftercare service to existing overseas/ Mainland companies in Hong Kong, and encourage them to expand their operations;
- (d) Through sponsoring major international conferences, introduce to participants the advantages of Hong Kong as an investment location; and
- (e) Organise activities to liaise with the foreign business communities in Hong Kong, e.g. business community programmes.

8. To strengthen investment promotion efforts with a view to attracting more overseas and Mainland companies to establish their business in Hong Kong, the Government has allocated additional resources of \$200 million to InvestHK to be expended over five years starting in 2003-04. The additional funds are being used in the following areas:

- (a) broaden InvestHK's external representation to cover markets not already included;
- (b) improve coverage in markets where InvestHK is already represented;
- (c) strengthen the two Hong Kong-based units which target Beijing/Tianjin and Shanghai/Jiangsu/Zhejiang;
- (d) increase joint marketing activities with PRD cities, and strengthen the Mainland coordination team;
- (e) create a new dedicated team to coordinate activities of the Investment Promotion Ambassadors (IPAs);

- (f) substantially improve the marketing, research, information technology and knowledge management capabilities of InvestHK; and
- (g) strengthen the sector teams in the Head Office to handle the additional projects to be generated.

External Representation

9. In order to maintain close contact with potential investors in major overseas markets, InvestHK deploys staff to overseas Economic and Trade Offices (ETOs) including New York, San Francisco, Brussels, London, Tokyo and Guangzhou. It also employs external consultants to take care of other markets. In addition, it operates three dedicated teams in the Head Office to promote direct investment from Beijing, East China, and other provinces in the Mainland.

10. With the extra resources, InvestHK has engaged additional local consulting companies in nine strategic locations, so as to strengthen its work on investment promotion and to broaden its exposure and external representation. A full schedule of InvestHK's external representation is at *Annex I*.

11. The external representatives are responsible for formulating investment promotion strategy in the respective home countries/cities which they are targeting at, conducting market research, identifying leads to potential investors, visiting targeted companies, organising publicity events such as seminars and receptions, developing links and networking with multiplier organisations and media, supporting investment promotion visits by InvestHK Head Office teams, and responding to enquiries from potential investors by providing timely advice and practical assistance.

Springboard for Mainland Enterprises

12. InvestHK has devoted increased resources to encouraging more Mainland companies to invest in Hong Kong as the gateway to global markets, taking advantages of our first-class business infrastructure, free flow of goods and information, liquid capital markets and strong regulatory environment. In the past 12 months, InvestHK has actively promoted these advantages in key Mainland cities such as Beijing, Shanghai, Tianjin, Jiangsu, Zhejiang, Xiamen, and Guangzhou.

13. These activities have aroused the interest of Mainland enterprises in investing in Hong Kong, and reinforced Hong Kong's position as the springboard for Mainland private enterprises to expand regionally and globally.

Gateway to Mainland

14. Hong Kong has always been viewed as the natural gateway to the Mainland of China, in particular the PRD. Another priority of InvestHK has been to promote Hong Kong's distinct advantages as a place for multinational firms to source from and gain access to the PRD. Several successful joint investment promotions with key PRD cities, such as Guangzhou, Shenzhen and Dongguan, have been conducted in America, Europe, Japan and Korea, introducing to overseas investors this Hong Kong plus PRD formula. More joint promotional efforts have been planned for 2004.

CEPA Promotion

15. InvestHK has spared no effort in encouraging the overseas business sector to make full use of the advantages under CEPA. It co-organised two CEPA seminars in Seoul and Tokyo in October 2003 and set up a booth in the "CEPA SME Expo" in Hong Kong in December 2003. It also co-organised the "CEPA Promotion Week for Mainland, Hong Kong and Macau" in Beijing, Shanghai and Guangzhou in January and February 2004. We will continue to underline the many business opportunities offered by CEPA in our promotion work to attract more foreign direct investment to Hong Kong.

Investment Promotion Ambassador (IPA) Scheme

16. The IPA Scheme was launched in April 2003. The objective of the Scheme is to harness the energy and networking potential of prominent figures in the local business community to support Hong Kong's overseas investment promotion efforts, with emphasis on its role as part of the Greater PRD economy. Business leaders who become Members of the Scheme serve as "door openers" to help Government promote the investment strengths offered by Hong Kong, the PRD, and indeed the whole of the Mainland of China. As and when opportunities arise, Members may introduce InvestHK's investment promotion staff to key decision making personnel in companies which they think have potential to invest in Hong Kong. On other occasions,

Members may be invited to speak at various overseas investment promotion events, as an “endorser”, to expound on the potential of the Greater PRD and the merits of using Hong Kong as a base for foreign direct investment.

17. The Scheme did not start off as smoothly as envisaged essentially because of the outbreak of Severe Acute Respiratory Syndrome (SARS) in the second quarter of 2003, when business travel was largely put on hold. Nevertheless, a number of overseas promotional activities have successfully been arranged with the help of the IPAs when the economy has gradually returned to normal. So far a total of 37 IPAs have been appointed. To strengthen the Scheme, more IPAs will be nominated in 2004 to make up a more sizeable pool (about 80 – 100 members) of Ambassadors.

Major International Business Events

18. InvestHK has been playing an active and supportive role in sponsoring and participating in major international business events. In 2001, the department sponsored the Fortune Global Forum at which then President Jiang Zemin gave the opening address. In 2002, InvestHK sponsored the Forbes Global CEO Conference. In 2003, it took part in a number of major events held in Hong Kong, such as the 21st Pacific Insurance conference with 300 senior executives from the life and health insurance industry; the Cable & Satellite Broadcasting Convention 2003 (CASBAA) with 91 speakers and some 1,100 delegates from around the world; the Chinese World Seminar, which attracted 300 French CEOs based in France and Asia, sinologists and senior officials from France and China; and the BusinessWeek’s CEO Forum in November 2003, which featured leading business executives and government officials, such as Chinese Vice Premier Zeng Peiyan and former US President Bill Clinton, and attracted over 600 delegates. In 2004, the Forbes Global CEO Conference will return to Hong Kong.

Enhancement of Corporate Communications Capacity

19. In order to enhance the effectiveness of its investment promotion efforts, InvestHK perceives the needs to strengthen its corporate communications capacity, particularly in the areas of marketing, public relations, event management, market research, knowledge management and information technology. To tap best practices, specialist skills and expertise in these areas, InvestHK has outsourced the whole range of corporate communications services to a Consultant on term contract basis.

20. The ultimate aim of the consultancy is to promote foreign direct investment in Hong Kong. Specifically, the objectives of corporate communications in the context of InvestHK's work are to -

- (a) Promote Hong Kong's competitive advantages as the best choice of business location in Asia and the unrivalled gateway to China;
- (b) Increase the awareness of InvestHK as the government department spearheaded to attract foreign inward investment, and its services among international target groups and local stakeholders;
- (c) Maximise positive media coverage in Hong Kong, the Mainland and other overseas markets by further developing relations with the local and international media, in particular the business media;
- (d) Raise the profile of Hong Kong as well as InvestHK by attracting and supporting key international business and other events; and
- (e) Enhance the marketing capacity of InvestHK by strengthening the capability in market research, knowledge management, and the use of information technology.

21. A tender exercise was conducted in 2003 for the selection of a Corporate Communications Consultant. The selected Consultant has been engaged on a 3-year term contract commencing 1 January 2004. Under the terms of engagement, the Consultant has deployed a dedicated Consulting Team which is stationed in-house and works full-time exclusively for InvestHK.

Results

22. Since its establishment in 2000, InvestHK has helped almost 400 foreign/ Mainland companies set up or substantially expand operations in Hong Kong, bringing in \$7.9 billion of capital and creating some 6,400 new jobs. A summary is provided below:

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

* *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.*

Annexes II to VI gives detailed breakdown of the projects by industry sector, geographical location, capital investment, number of jobs created and manufacturing/services sectors respectively.

23. Foreign Direct Investment (FDI) in Hong Kong has been consistently strong in recent years. Hong Kong is the second largest recipient of FDI in Asia after China, and the 15th in the world, according to the World Investment Report 2003 published by the United Nations Conference on Trade and Development (UNCTAD). The UNCTAD Report has also named Hong Kong as the best-performing host economy of FDI in Asia, and third in the world after Belgium/Luxemburg and Angola.

24. Based on statistics compiled by the Census & Statistics Department (C&SD), Hong Kong's inflow of FDI in 2002 was US\$13.7 billion². For the first three quarters of 2003, C&SD has reported an inflow of US\$14.8 billion (HK\$115.4 billion) of FDI into Hong Kong, which already exceeded the total amount of FDI in all of 2002.

² As reported in the World Investment Report 2003. The figure has subsequently been adjusted downwards by C&SD, in the light of new information, to US\$9.7 billion. 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.

25. Hong Kong is the chosen base for over 3,200 regional headquarters (RHQ) and regional offices (RO) representing companies from around the world. Our position as the key location for regional operations is likely to strengthen in the coming years, according to a study by the Economist Intelligence Unit in 2000.

26. In the latest annual survey conducted by the C&SD in 2003, there were 966 RHQs, 2,241 ROs and 2,207 local offices set up by overseas companies in Hong Kong, an all-time high. The survey shows that the top five important factors affecting the choice of setting up RHQ/ROs are low and simple tax system; free flow of information; political stability and security; corruption free government; and rule of law and independent judiciary. All these factors were regarded by over 50% of the surveyed companies to be favourable factors for Hong Kong as a location for regional operation. In fact, low and simple tax system was regarded as a favourable factor for Hong Kong by the largest proportion of companies (71%). Other factors with a large proportion of favourable rating for Hong Kong include free flow of information (68%); absence of exchange controls (68%); communication, transport and other infrastructure (67%); and geographical location (65%). On the other hand, some factors directly affecting the operation costs were regarded by some companies as comparatively less favourable for Hong Kong, namely the costs and availability of residential accommodation, business accommodation, and staff. However, it is worth noting that there have been substantial downward adjustments of the property and labour costs in the recent years. To some extent, this has helped reduce the operation costs of overseas companies in Hong Kong.

Way Forward

27. 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 companies with an interest in Hong Kong by either its in-house staff or external consultants. It will work in collaboration with Consulates and chambers of commerce to organise business community programmes in conjunction with some of these visits. It will continue to offer value-added assistance in the investment process from decision making to setting up of operations in Hong Kong, as well as providing after-care services.

28. In the coming year, InvestHK will continue to host and participate in major international business events to promote inward investment. For example, both the BusinessWeek's Asia Leadership Forum and the Forbes Global CEO Conference will return to Hong Kong in 2004. InvestHK will also actively take part in targeted overseas seminars and events to raise Hong Kong's profile, inform investors about Hong Kong's advantages and to strengthen Hong Kong's position as an investment destination.

29. With the implementation of CEPA, InvestHK will also organise or take part in more seminars in the coming months to provide information and advice to Mainland companies planning to expand abroad, and to companies abroad interested in investing in Hong Kong and the Greater PRD.

30. It is difficult to forecast the results that may be achieved arising from these planned efforts because many variables are not within the control of InvestHK, e.g. the state of the world economy. Moreover, investment projects tend to have a long lead time. Nonetheless, InvestHK aims to facilitate the completion of some 200 projects per annum starting in 2004.

Advice Sought

31. Members are invited to note the Government's efforts in promoting inward investment, particular the work of InvestHK, and the progress and achievements to date.

InvestHK
February 2004

InvestHK External Representation

North America

New York	Team of 3 based in ETO ¹
San Francisco	Team of 3 based in ETO
Canada	Consultant company

¹ *In addition, action is in hand to engage an extra staff member to be based in Chicago.*

Europe

London	Team of 2 based in ETO
Brussels	Team of 2 based in ETO
France	Consultant company
Germany	Consultant company
Italy	Consultant company
Nordics	Consultant company

Asia/Australasia

Tokyo	Team of 2 based in ETO
India	Consultant company
Middle East	Consultant company
Singapore	Consultant company
Australia	Individual consultant ²
Osaka	Consultant company

² *In addition, action is in hand to secure supplementary representation in Melbourne and Auckland.*

Mainland

Guangzhou	Team of 3 based in ETO
Beijing/Tianjin	Team of 3 based in Hong Kong
Shanghai/Jiangsu/Zhejiang	Team of 3 based in Hong Kong
Rest of Mainland	Team of 3 based in Hong Kong

Completed Projects by InvestHK
Breakdown by Industry

Sector	2000*	2001	2002	2003	Total
FS	2	9	12	15	38
BPS	4	7	15	15	41
IT	5	16	10	15	46
Tech	5	11	12	14	42
Tel	3	16	12	10	41
M&M	-	4	2	5	11
T&E	1	1	2	7	11
TRS	2	10	21	23	56
Tran	2	4	12	15	33
Others	11	21	19	23	74
Total	35	99	117	142	393

* July – December figures

FS - Financial Services
BPS - Business and Professional Services
IT - Information Technology
Tech - Technology
Tel - Telecommunications
M&M - Media & Multimedia
T&E - Tourism and entertainment
TRS - Trade related services
Tran - Transportation

Annex III

**Completed Projects by InvestHK
Breakdown by Geographical Location**

Sector	2000*	2001	2002	2003	Total
Europe	11	30	54	37	132
USA	12	36	28	35	111
Japan	7	24	12	24	67
Mainland	0	0	6	17	23
Canada	2	3	5	4	14
Others	3	6	12	25	46
Total	35	99	117	142	393

* July – December figures

Annex IV

Completed Projects by InvestHK Breakdown by Capital Investment

Capital Investment (HK\$ million)	2000*	2001	2002	2003	Total
1	18	15	19	25	77
> 1 5	10	22	24	38	94
> 5 10	0	7	13	20	40
> 10 50	2	6	17	17	42
> 50 100	0	4	7	6	17
> 100	1	8	1	3	13
N/A**	4	37	36	33	110
Total	35	99	117	142	393

* July – December figures

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

Annex V

Completed Projects by InvestHK
Breakdown by Number of Jobs Created

No. of Jobs Created	2000*	2001	2002	2003	Total
1 - 2	7	22	22	47	98
3 - 5	17	28	29	36	110
6 - 10	6	16	16	18	56
11 - 20	1	7	17	9	34
21 - 50	1	8	11	8	28
51 - 100	2	5	6	1	14
> 100	0	2	5	5	12
N/A**	1	11	11	18	41
Total	35	99	117	142	393

* July – December figures

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

Completed Projects by InvestHK
Breakdown by Manufacturing/Services Sectors

	2000*	2001	2002	2003	Total
Manufacturing	1	3	6	2	12
Services	34	96	111	140	381
Total	35	99	117	142	393

* July – December figures