

(For information)

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Update of Efforts to Promote Inward Investment by Invest Hong Kong

At the fourth EEC Meeting on 8 December 2004, members were given an update of the results of Invest Hong Kong (InvestHK)'s investment promotion work. This paper provides an update of the work of InvestHK in 2005 and the department's plan for 2006.

Background

2. Established in July 2000, InvestHK's mission is to attract to and retain in Hong Kong economically and strategically important investment. It promotes the many competitive advantages of Hong Kong as a preferred investment destination in the region to foreign potential investors, a superior regional hub for Asia Pacific operations, and a two-way platform for business between the mainland of China (the Mainland) and the rest of the world. It assists investors in setting up and expanding business in Hong Kong, and provides aftercare services to them after establishment. This targeted approach is complemented by proactive marketing efforts, e.g. sponsoring and/or participating in major international business conferences, building media relationships, and undertaking advertising campaigns etc, to increase Hong Kong's global exposure and help identify potential investment leads.

Major Activities in 2005

(a) Investment promotion activities in key overseas markets

3. InvestHK carries out a number of investment promotion activities worldwide in accordance with its business plans for the nine priority sectors¹

¹ The nine priority sectors are business & professional services, financial services, information technology, media and multimedia, technology, telecommunications, tourism & entertainment, trade related services and transportation.

and in collaboration with its overseas representatives². From time to time with the support of its overseas representatives, InvestHK arranges visits to call on potential investors in their home countries and/or target 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.

(b) Joint overseas promotions with Mainland Authorities

4. To promote the combined advantages offered by Hong Kong and the Mainland, in particular the Greater Pearl River Delta (PRD) and the Pan-PRD, InvestHK has since September 2002 conducted a series of joint seminars with Mainland authorities in key overseas markets. This strategy has proved to be successful and all the joint seminars have received an encouraging response from foreign investors. In 2005, InvestHK organised 10 such seminars with major Mainland provinces and cities, targeting prospective investors in different key international markets (details at **Annex I**).

5. InvestHK has stepped up its joint promotion efforts with the Mainland by extending the programme to include other provinces outside the PRD. For example in March 2005, InvestHK organised a joint Hong Kong-Shanghai promotion in Tokyo, and a joint seminar in Germany with Fujian Province in November to promote the Pan-PRD business environment.

6. A number of potential leads for inward investment have been generated from these joint seminars. As at end June 2005, there were 22 completed investment projects arising from the joint seminars, and another 68 cases were being pursued.

(c) Investment promotion activities targeting the Mainland market

7. The investment facilitation policy launched by the Ministry of Commerce (MOC) in late August 2004 has opened up new opportunities for more Mainland enterprises to invest in Hong Kong. InvestHK has since the beginning of this year reorganised its structure and deployed additional

² InvestHK deploys staff to operate an Investment Promotion Unit (IPU) in eight Hong Kong's Economic and Trade Offices (ETOs) overseas and in the Mainland, engages external consultants in 13 strategic locations covering key overseas markets, and operates another three Mainland-focused IPUs in the Head Office.

resources to strengthen its investment promotion efforts targeting the Mainland market. It operates four dedicated teams working at the Head Office to promote direct investment from different parts of China: one for Guangdong, one for East China (including Shanghai, Jiangsu and Zhejiang), one for North China (including Beijing, Tianjin, Hebei and Shandong), and one for the rest of China (including Taiwan). There is also a China Business team to coordinate all related China-focused activities. Apart from the first team which is stationed in the Guangdong ETO, the rest are based in Hong Kong. These dedicated teams conduct regular investment promotion visits, organise seminars and other promotional activities in the Mainland, as well as organise incoming missions to Hong Kong in coordination with the MOC, various local government departments and bodies from the Mainland.

8. InvestHK has been actively promoting the advantages of using Hong Kong as a springboard for Mainland enterprises to expand overseas. In 2005, it organised a number of sector-specific seminars in the Mainland, e.g. a seminar specifically for restaurants in Sichuan and a seminar for pharmaceutical and biotechnology industries in Yunnan. It also organised thematic seminars on such subject as fund raising and getting listed in Hong Kong. Details of these activities are at **Annex II**.

9. To further promote its “One Stop Service (投資香港一站通服務)” initiative in response to the MOC’s investment facilitation policy, InvestHK has organised a number of briefing sessions for the relevant Mainland provincial authorities. Besides, it receives from time to time incoming delegations which comprise senior executives of enterprises and government officials from the Mainland. In June 2005, InvestHK organised for the first time in collaboration with the Commercial Office of the Economic Affairs Department of the Liaison Office of the Central People’s Government in HKSAR, and the MOC, a training programme for senior executives of Mainland enterprises, namely the Forum on Global Business Strategies for Chinese CEOs.

(d) Investment Promotion Ambassador (IPA) Scheme

10. In 2005, InvestHK identified another nine suitable business leaders for appointment as IPAs, thus making up a total pool of 61 ambassadors. A number of public relations and promotional activities, both in Hong Kong and overseas, have been lined up with the support of the IPAs, of which 14 events were organised this year.

(e) Monitoring development of companies assisted by InvestHK

11. Providing aftercare services to companies which have set up and/or expanded operations in Hong Kong with the assistance of InvestHK, is one of the key activities of the department. To further strengthen its aftercare services, InvestHK has since December 2004 introduced a new aftercare monitoring system to keep track of the development of these companies and provide appropriate assistance to better suit their needs. 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. It enables InvestHK to keep track of these companies' latest development, both in terms of capital investment and job creation, and understand their plan for further expansion, if any, and their needs for any specific aftercare services.

Results and achievements

12. Since its establishment in 2000, InvestHK has assisted over 800 foreign, Mainland and Taiwan companies to set up or expand their business in Hong Kong, bringing in over \$14.5 billion of capital and creating over 11,400 new jobs. In 2004, InvestHK successfully completed 205 investment projects, representing an increase of 44% over 2003. It set a target of 220 completed projects for 2005 and has already completed 204 projects in the first nine months of the year. Detailed breakdown of these completed projects by industry, geographical location, capital investment and number of jobs created is at **Annex III**. A summary of the department's results over the years is appended below.

	<u>2000</u> (Jul-Dec)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u> (Jan-Sep)
No. of projects completed*	35	99	117	142	205	204
Jobs created**	347	1,504	2,075	2,456	3,008	2,014
Investment amount (\$ million)**	506	3,500	1,360	2,493	4,658	1,942

* 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

13. Of the 400 plus projects completed in the past two years, 100 indicated that CEPA was one of the factors considered when making the investment. Some 49 companies said they had invested in Hong Kong because of CEPA, while others said they had accelerated their investment plan, and/or invested more capital or employed more staff as a result of CEPA.

14. Besides, there has been significant growth in the number of completed projects in respect of Mainland enterprises, namely 35 cases in 2004 and 33 up to end September this year. 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 inward investment from the Mainland.

15. Most of the newly established companies in Hong Kong started with a relatively small amount of capital, *i.e.* about 54% did not exceed \$5 million, and some 78% created not more 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

16. Foreign Direct Investment (FDI) in Hong Kong has been consistently strong in recent years, reinforcing Hong Kong’s leading position as a preferred destination for external investors. According to statistics compiled by the Census & Statistics Department (C&SD), Hong Kong’s inflow of FDI in 2004 was US\$34 billion. In the latest “World Investment Report 2005” 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 7th in the world.

17. Hong Kong is the chosen base for nearly 3,800 regional headquarters (RHQ) and regional offices (RO) representing companies from around the world, according to the 2005 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 their regional operations. The survey indicates that as at 1 June 2005, there were 1,167 companies (up 6.3% over one year ago) that were RHQs and 2,631 companies (up 4.8%) that were ROs in Hong Kong of parent companies located outside Hong Kong. More details are set out at **Annex IV**.

18. The survey shows that the top five important factors affecting the choice of location for setting up RHQ/ROs are low and simple tax system, free flow of information, corruption free government, absence of exchange controls and communication, transport and other infrastructure. All these factors were regarded by over 65% of the surveyed companies to be favourable factors for Hong Kong as a location for regional operation. On the other hand, some factors directly affecting the operation costs were consistently regarded by some companies as comparatively less favourable for Hong Kong, namely the cost and availability of residential and business accommodation.

Way forward

19. Looking ahead, InvestHK aims to achieve at least 240 completed projects in 2006, an increase of 9% over the 2005 target.

20. InvestHK will continue to step up its joint promotion efforts with the Mainland provinces/ cities and is planning for 10 overseas joint-promotional activities with the Mainland authorities for 2006. In parallel with a targeted approach to call on Mainland enterprises with potential to expand overseas using Hong Kong as a springboard, it will continue to organise more seminars, road shows and other promotional activities in the Mainland. It also aims to build stronger rapport with the relevant Mainland authorities, including the MOC, the State Administration of Foreign Exchange, the China Securities Regulatory Commission and the Hong Kong and Macao Affairs Office, etc.

21. On the international front, InvestHK will in collaboration with its overseas representatives continue to conduct investment promotion proactively by directly approaching target potential investors. It will call on potential investors and meet with local associations and government bodies so as to encourage and assist expanding foreign enterprises to use Hong Kong as a gateway to China, underlining where appropriate the many business

opportunities offered by CEPA, and/or as a superior hub for regional operations in Asia.

22. 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.

23. 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 possible 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

24. Members are invited to note the progress of the investment promotion work by InvestHK and the results to date.

InvestHK
December 2005

Joint Overseas Promotions with Mainland Provinces/ Cities in 2005

<u>Date</u>	<u>Partner Province/ City</u>	<u>Location</u>
8 March	Shanghai	Tokyo
25 May	Shenzhen	Milan
14 October	Guangdong	San Francisco
20 October	Dongguan	Toronto
24 October	Guangdong	Vancouver
2 November	Shenzhen	London
4 November	Shenzhen	Hamburg
23 November	Fujian	Düsseldorf
29 November	Jiangmen	Tokyo
30 November	Jiangmen	Osaka

Note : Some of these seminars were organised in cooperation with the Hong Kong Trade Development Council.

Major Activities organised by InvestHK in the Mainland in 2005

Date	Title	Location
2 February	Briefing Session at GDETO on “One Stop Service” 內地企業投資香港一站通服務介紹會及新聞發佈會	Guangzhou 廣州
7 - 8 March	2005 Executive Forum on Investing Abroad 投資海外管理層論壇 2005	Shanghai 上海
9 March	Investment Promotion Seminar on ‘One Stop Service’ for Mainland Investors “投資香港一站通”服務研討會	Guangzhou 廣州
30 March	Hong Kong - platform for Mainland enterprises to go global seminar - Mainland Restaurants to expand in Hong Kong “立足香港 邁向國際”介紹會 – 內地餐飲業如何在香港發展	Chengdu 成都
7 – 8 April	Road Show on "Investing and Raising Fund in Hong Kong for Guangdong Enterprises" “粵企赴港投資巡迴研討會”	Guangzhou 廣州
18 - 22 April	China Tianjin Economic Cooperation & Investment Conference 天津經濟合作與投資洽談會	Tianjin 天津
22 - 28 June	Investment Promotion Seminar at Hebei-Hong Kong Week 河北香港周 - “立足香港 邁向國際”香港投資環境介紹會	Shijiazhuang 石家莊
19 July	“Hong Kong – platform for Mainland enterprises to go global” seminar - Pharmaceutical and Biotechnological enterprises “立足香港 邁向國際”介紹會 - 香港助內地制藥及生物科技企業走向國際	Kunming 昆明
11 August	"Hong Kong – platform for Mainland enterprises to go global" seminar “立足香港 邁向國際”介紹會 - 如何利用香港作為平台打進國際市場	Ningbo 寧波
19 August	Seminar on “Going Global – Expert Consultation Campaign in Foshan” “邁向國際 — 佛山專家諮詢活動”	Foshan 佛山

Date	Title	Location
23 August	Roundtable with Hunan gov officials and enterprises 湖南政府官員及企業代表圓桌會議	Changsha 長沙
2 September	Seminar "Hong Kong-your platform to go global" Jilin-Hong Kong Co-operative Symposium "香港—助您走向國際的平台" 吉林•香港合作交流及 東北振興研討會	Changchun 長春
8 - 11 September	Seminar "Hong Kong : Your business platform for going global" “立足香港，邁向國際”介紹會 - 如何利用香港優勢開 拓國際市場	Xiamen 廈門
16 September	Hong Kong – platform for Mainland enterprises to go global seminar 立足香港 邁向國際” - 香港投資環境介紹會	Xian 西安
22 September	Hong Kong Investment Promotion Seminar 赴港投資實務宣講會	Guangzhou 廣州
19 October	Roundtable with Henan government officials and enterprises 河南政府官員及企業圓桌會議	Zhengzhou 鄭州
1 December	Hubei-HK Week (30 Nov - 6 Dec) - HK Investment Promotion Seminar “ 湖北香港周 “立足香港 邁向國際”香港投資環境介 紹會	Wuhan 武漢
9 - 10 December	Road Show on Investing and Raising Funds in Hong Kong for Foshan Enterprises 佛山香港企業投融資論壇	Foshan 佛山
13 December	Hong Kong Investment Promotion Seminar 善用香港服務平台、提升品牌競爭力研討會	Shantou 汕頭
15 December	Investment Promotion Seminar 東莞企業走向國際菁英會	Dongguan 東莞

20 IP seminars organised in 16 cities

Breakdown of Projects Completed by InvestHK in 2004 and 2005

(A) Breakdown by Industry

<u>Sector</u>	<u>2004</u>	<u>2005</u> (Jan – Sep)
Business and Professional Services	24	22.5*
Financial Services	23	18
Information Technology	17	19
Technology	22	25
Telecommunications, Media & Multimedia	15	19
Tourism and Entertainment	15	20
Trade Related Services	37	32
Transportation	24	18.5*
Others	28	30
Total:	205	204

Note : Shared projects (i.e. projects which entailed the joint efforts of more than one sector team)

(B) Breakdown by Geographical Location

<u>Region</u>	<u>2004</u>	<u>2005</u> (Jan – Sep)
Europe	60	49
USA	42	36
Japan and Korea	38	41
The Mainland	35	33
Australia and New Zealand	9	12
Canada	5	6
Rest of Asia	14	23
Others	2	4
Total:	205	204

(C) Breakdown by Capital Investment

<u>Capital Investment (HK\$)</u>	<u>2004</u>	<u>2005</u> (Jan – Sep)
≤ 5 million	102	117
> 5 million and ≤ 50 million	41	55
> 50 million	14	6
N/A*	48	26
Total:	205	204

(D) Breakdown by Number of Jobs Created

<u>No. of Jobs Created</u>	<u>2004</u>	<u>2005</u> (Jan – Sep)
1 – 10	153	166
11 – 100	38	32
100 +	4	3
N/A*	10	3
Total:	205	204

* 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	2005	Change (2004-2005)	% Change (2004-2005)
RHQs	944	948	966	1 098	1 167	+69	+6.3%
ROs	2 293	2 171	2 241	2 511	2 631	+120	+4.8%
LOs	1 230	1 748	2 207	2 334	2 474	+140	+6.0%
RHQs + ROs	3 237	3 119	3 207	3 609	3 798	+189	+5.2%
RHQs + ROs + LOs	4 467	4 867	5 414	5 943	6 272	+329	+5.5%

Source: Census and Statistics Department