Commerce and Industry

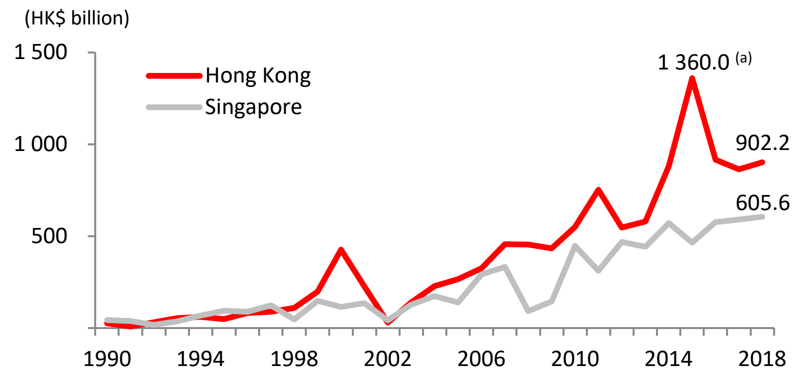
Research Office
Legislative Council Secretariat

Statistical Highlights

ISSH27/19-20

Foreign/Mainland companies setting up offices in Hong Kong

Figure 1 – Foreign direct investment inflow to Hong Kong



Note: (a) The sharp rise in 2015 was attributed to corporate restructuring of two large companies.

Figure 2 – Number of offices set up in Hong Kong by foreign/Mainland companies

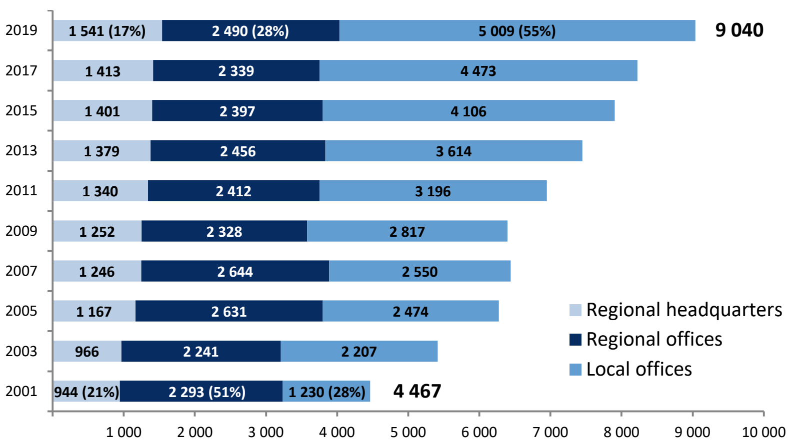
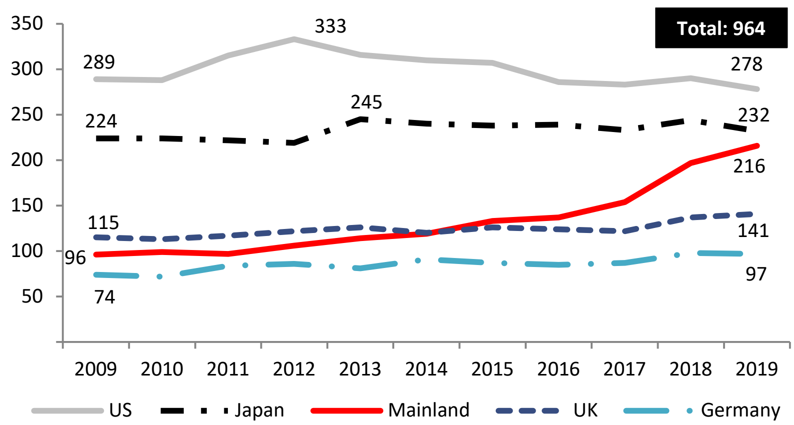


Figure 3 – Regional headquarters by top origins



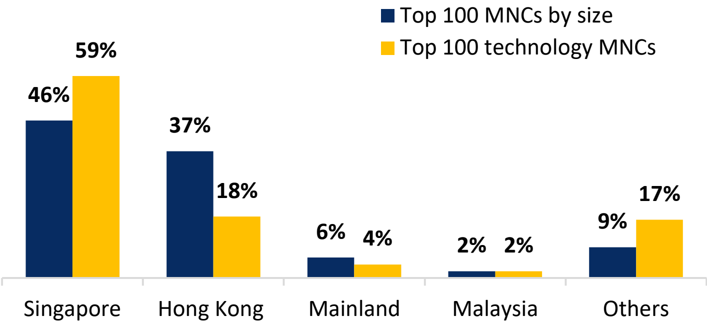
Highlights

- With a good geographical location and proximity to the Mainland and other fast growing markets in South East Asia, Hong Kong has always been a hub for global businesses and a magnet for foreign investment. Since the 1990s, foreign direct investment ("FDI") in Hong Kong has been increasing sharply, especially after 2006. Its FDI level has been consistently higher than that of the competing counterpart, Singapore. In 2018, it remained strong at $HK902.2 billion (**Figure 1**).

- Foreign/Mainland companies have also taken Hong Kong as a prime location for setting up local offices ("LOs") for local market, regional offices ("ROs") and headquarters ("RHs") catering for neighbouring markets outside Hong Kong. Between 2001 and 2019, these offices have strongly grown by 102% to 9 040 in number. Most of the increase was attributed to the drastic expansion of LOs. While there was a mild rise in the number of RHs, the number of ROs has remained largely steady. In 2019, 55% of these offices are LO, compared to just 28% in 2001 (**Figure 2**).

- Over 62% (964) of RHs in Hong Kong are set up by parent companies from five major trading partners of Hong Kong. Of them, the United States ("US") accounted for the largest number (278), followed by Japan (232) and the Mainland (216). However, RHs with parent companies in the US have seen decreasing presence in Hong Kong since 2012. In contrast, Mainland-based companies overtook the United Kingdom as the third largest origin (**Figure 3**).

Figure 4 – RH locations of multi-national companies ("MNCs") in 2017[(a)]



Note: (a) Only those MNCs with RH in Asia were included.

Figure 5 – Factors affecting the choice of RH, RO and LO location

Location factors	Ranking of importance		Percentage of companies viewing the factor as favourable for Hong Kong	
	2019	2015	2019	2015
Simple tax system and low tax rate	1	1	71%	68%
Free flow of information	2	2	63%	63%
Corruption free government	3	3	55%	54%
Rule of law and independent judiciary	4	4	**46%**	**52%**
Free port status	5	7	59%	48%
Political stability and security	6	6	35%	41%
Productivity of staff	7	5	50%	59%
Geographical location	8	8	61%	59%
Access to market	9	n.a.[(a)]	53%	n.a.[(a)]
Communication/infrastructure	10	9	55%	55%
Availability and cost of staff	11	10	27%	27%
Business premise availability/cost	12	12	15%	14%
Business opportunity in mainland	13	11	52%	51%
Environment quality	14	13	**35%**	**12%**
Residential housing availability/cost	15	14	13%	12%
International school availability	16	15	**22%**	**15%**

Note: (a) This access to market factor was not included in 2015 survey.

Figure 6 – Specific issues raised by RH, RO and LO

	2012	2013	2014	2015	2016	2017	2018	2019
Companies raising issues	**8%**	**8%**	**10%**	**9%**	**7%**	**8%**	**8%**	**10%**
Specific issues raised								
Political problems	*3%*	*6%*	*18%*	*17%*	*15%*	*9%*	*8%*	*30%*
Staff and rental costs	*49%*	*51%*	*38%*	*40%*	*36%*	*32%*	*39%*	*22%*
Government support	*28%*	*20%*	*19%*	*19%*	*20%*	*21%*	*12%*	*13%*
Others	*44%*	*45%*	*52%*	*47%*	*53%*	*58%*	*58%*	*52%*
Companies without comment	**92%**	**92%**	**90%**	**91%**	**93%**	**92%**	**92%**	**90%**

Highlights

- Though its level of FDI inflow is lower than that of Hong Kong, Singapore remains a top choice of RH location in Asia for multi-national companies ("MNCs"), especially among technology MNCs (**Figure 4**). This might partly be attributable to Singapore's aggressive tax incentives offered to approved headquarters, which can enjoy a lower profit tax rate of 5% to 15% on qualifying activities, and 8% for corporate treasury centre ("CTC") for intra-group financing activities. In contrast, Hong Kong does not have concessionary tax for RH, and CTC is taxed at 8.25% under the CTC scheme introduced in 2016.

- Location choices are affected by many factors. Apart from tax rate, information flow and clean government are viewed as the top favourable factors for Hong Kong, according to InvestHK surveys. However, Hong Kong's favourableness has weakened in certain factors. For example, 46% of companies viewed rule of law/judiciary independence as a favourable factor for Hong Kong, six percentage points down from 2015 (**Figure 5**). While the availability of international school place and environmental quality are considered less important, they have seen improved ranking in the 2019 survey with an increased share of companies citing them as favourable factors for Hong Kong.

- Based on the InvestHK surveys, about 10% of RHs, ROs and LOs have raised specific issues for the attention of the Government. Major issues reported in the surveys were political problems, staff and rental costs, and government support, with the percentage in the former up visibly in 2019 (**Figure 6**). Despite the various local and global uncertainties, it is believed that Hong Kong could still offer unique market advantages for companies interested in the Greater Bay Area market. According to InvestHK, about half of the companies it has provided support considered such opportunities as a key driver for business expansion.

Data sources: Latest figures from Census and Statistics Department, KPMG, and United Nations.

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