

立法會 *Legislative Council*

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Panel on Commerce and Industry

Meeting on 17 July 2018

Updated background brief on promotion of inward investment

Purpose

This paper provides updated background information on and the work progress of Invest Hong Kong ("InvestHK") in promoting inward investment. It also provides a summary of views and concerns expressed by members of the Panel on Commerce and Industry ("the Panel") during previous discussions on the subject.

Background

2. Established in July 2000, InvestHK's mission is to attract and retain foreign direct investment and to promote Hong Kong as the leading international business hub. InvestHK prioritizes its investment promotion work to support government policy objectives, and adopts a sector-focused and market-oriented approach to proactively identify and reach out to companies in target sectors in key geographical markets.

3. InvestHK has nine specialist teams based in Hong Kong covering the city's priority sectors, namely, Business and Professional Services, Consumer Products, Creative Industries, Financial Services, Financial Technology ("fintech"), Information and Communications Technology, Innovation and Technology ("I&T"), Tourism and Hospitality as well as Transport and Industrial. InvestHK partners with clients on a long-term basis and offers free, customized and confidential services from the planning stage right through to the setup, launch and expansion of their business in Hong Kong.

4. In 2016, InvestHK has representatives in 30 global locations, including 15 investment promotion units ("IPUs") based in the Hong Kong Economic and Trade Offices in the Mainland and overseas, the Hong Kong Economic, Trade and

Cultural Office in Taipei and the Beijing Office, as well as 15 overseas consultants in locations not covered by IPU. A list of InvestHK's external promotion units in 2016 is in **Appendix I**. A summary of the results of InvestHK's work provided by the Administration from 2000 to 2016 is tabulated in **Appendix II**.

5. The Panel was briefed at the meeting on 20 June 2017 that InvestHK would refine further the overall Hong Kong proposition to highlight Hong Kong's particular and unique strengths, and as an investment destination to capitalize on new business opportunities arising from the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area ("the Bay Area"). InvestHK would continue to adopt a sector-focused approach in attracting overseas, Mainland and Taiwan companies in priority sectors where Hong Kong had a clear competitive edge through its global network of IPUs and overseas consultants. Specific priority sectors included financial services, transport and logistics as well as I&T. Tying into the innovation agenda, InvestHK would continue to work closely with Hong Kong Science and Technology Parks Corporation, Cyberport and other organizations to promote Hong Kong as a major start-up hub, paying attention to the promotion of the Hong Kong-Shenzhen Innovation and Technology Park at the Lok Ma Chau Loop.

Discussions by the Panel on Commerce and Industry

6. The Panel has been keeping a close watch on how relevant government policies contribute to achieving the strategies on promoting inward investment to ensure that Hong Kong stays competitive in attracting foreign direct investment to drive economic growth, spur I&T, and create jobs on a regular basis. The major concerns expressed by members at the meetings on 16 February 2016 and 20 June 2017 are summarized in the ensuing paragraphs.

Attracting inward investment and support services

7. At the meeting on 16 February 2016, members urged the Administration to introduce measures such as tax deduction to attract and retain high value-added technology companies to expand their business in Hong Kong to maintain Hong Kong's competitive edges. The Administration advised that instead of offering incentives tailored for individual investors, the Administration had all along maintained an open and level playing field for business investment. Moreover, the various government funding schemes to promote I&T and research and development ("R&D") were also open to eligible overseas companies operating in Hong Kong.

8. At the meeting on 20 June 2017, members pointed out that some companies, which had set up their business operations in Hong Kong, such as Uber and GoBee Bike, had encountered problems relating to legal and operational

issues. They queried whether InvestHK or other government departments had provided adequate support services to the target companies, particularly in assisting these companies to comprehend the relevant laws, rules and regulations governing the mode of operation of the relevant business sectors.

9. The Administration advised that InvestHK had been offering proactive, one-to-one support services to such companies throughout their planning and implementation process to invest in Hong Kong. Besides, InvestHK maintained regular liaison with government departments to keep them abreast of the changing dynamics in the business environment. Nevertheless, the Administration considered it was the ultimate responsibility of the companies to clarify any legal issues associated with their operations.

10. Members urged the Administration to facilitate closer coordination among government departments and provide more proactive support to companies setting up business operations in Hong Kong, particularly for sectors in the face of keen competition from neighbouring countries such as Singapore. The Administration was requested to include in its next progress report work directions for InvestHK to strengthen its role in providing ongoing support services (such as advice on and assistance in compliance with all the relevant legislation and regulations and liaison with other government departments to help apply for necessary licences, etc.) to companies which were keen to set up or expand their businesses in Hong Kong.

Statistics on jobs created and income generated

11. Members also enquired whether InvestHK had compiled statistics on the number of jobs which were subsequently cut due to termination/completion of the investment projects. The Administration advised that, in order to follow up with companies that InvestHK had assisted in setting up or expanding in Hong Kong, InvestHK would survey the companies concerned at regular intervals, i.e. within 12-18 months and 30-36 months of operation. In 2016, InvestHK contacted 616 companies from the 1 067 projects completed by InvestHK between 2013 and 2015 and noted that 538 projects among the 616 contacted (close to 90%) were still in operation. The total number of staff employed by these companies at the time of contact was 9 980, which was more than the total number of staff employed by these companies upon their establishment in Hong Kong.

12. In response to members' enquiry on the amount of income generated by each of the foreign investment projects assisted by InvestHK, the Administration advised that InvestHK would not disclose information specific to each individual project without the consent of the company concerned. InvestHK did not have information on the amount of income generated by each of the completed projects indeed.

Selection of priority sectors

13. At the meeting on 20 June 2017, members enquired how the priority sectors for each year were selected and opined that InvestHK should also focus effort on attracting foreign investment to tap the ever-expanding global e-commerce market.

14. The Administration advised that the priority sectors were selected for the distinct competitive edge and development potential which Hong Kong possessed, taking into account the policy objectives of the Government as well as the latest global business trends. The then priority sectors included fintech, corporate treasury centres and aircraft leasing. Besides, the Administration would continue to place particular emphasis on e-commerce. According to InvestHK's annual survey on start-ups, the number of start-ups in the e-commerce, supply chain management and logistics technology in Hong Kong had increased from 142 in 2015 to nearly 250 in mid-2016. Apart from being a major market for e-commerce, Hong Kong also served as a platform for e-commerce enterprises and start-ups from the Mainland and overseas to connect with potential buyers and suppliers.

Encouraging investments in innovation and technology

15. At the meeting on 16 February 2016, members noted that some leading I&T companies had difficulties in fulfilling the application requirements of the relevant funds in Hong Kong and eventually opted for investment in neighbouring economies such as Shanghai and Taiwan. Members called on the Administration to look into the reasons why such companies chose to expand their businesses in other places, and to propose effective measures to address the issues. Some members also commented that the new jobs created by companies assisted by InvestHK were not quality jobs which would interest young people to enter the technology sector. These members suggested that InvestHK should attract well-established multinational enterprises to set up R&D offices in Hong Kong and create quality jobs in the I&T sector, and to analyse the nature of such jobs created for a comprehensive assessment of InvestHK's effectiveness in enhancing employment opportunities.

16. The Administration advised that it would explore the possibility of enhancing flexibility in the existing funding support and other facilitation measures, and would continue to meet with representatives of the relevant sectors on a regular basis to understand their concerns on business development.

Promoting Hong Kong as a hub for offshore renminbi business and financial technology

17. At the meeting on 20 June 2017, some members enquired how InvestHK would promote Hong Kong as a leading offshore Renminbi ("RMB") business hub and Asia's fintech hub, in the face of keen competition from Singapore. The Administration advised that promoting Hong Kong's role as an offshore RMB centre had been an integral part and recurrent theme in InvestHK's promotional efforts to both Mainland and overseas target companies. A dedicated fintech team was set up in September 2016 in InvestHK to appeal to overseas and Mainland fintech enterprises, investors as well as R&D institutions to establish a presence in Hong Kong. The Administration had also been actively exploring the potential of applying new technologies, including artificial intelligence, blockchain and insurance technology, etc., in financial services.

Invest Hong Kong plays an active role in major initiatives

18. At the meeting on 20 June 2017, members enquired how InvestHK would position Hong Kong as an investment destination to capitalize on new business opportunities arising from major projects such as the Belt and Road Initiative and the Bay Area. The Administration advised that Hong Kong, as a "super-connector", could act as a platform for Mainland companies to "go global" under the Belt and Road Initiative, for instance in terms of financing infrastructure projects along the Belt and Road, working closely with the Asian Infrastructure Investment Bank. Moreover, Hong Kong could serve as a springboard for overseas companies to tap the Bay Area market.

Investment promotion in emerging markets

19. At the meeting on 16 February 2016, members asked whether InvestHK would focus on emerging markets such as Mexico, the Middle East and the Belt and Road region, and the resource allocation for different markets. The Administration advised that InvestHK would hire consultants on a need basis to analyse the potential of emerging markets and reach out to companies in the respective geographic markets which had the interest and potential to set up in Asia and encourage them to set up a company in Hong Kong.

Council question

20. At the Council meeting of 15 November 2017, Mr Jimmy NG asked a written question referring to the concerns from the commercial sector that rapid economic development and the ever-increasing competitiveness of the cities in the Asia-Pacific Region had posed challenges to Hong Kong's position as a financial hub. He enquired whether the Administration had any new measures, such as tax

concessions, in addition to the services offered by InvestHK, to attract companies located outside Hong Kong to invest and establish operations in Hong Kong.

21. The Administration advised that InvestHK was strengthening its efforts to promote Hong Kong as a prime investment destination, and to encourage enterprises to leverage on Hong Kong's professional services, particularly by using Hong Kong as a centre for fund-raising, financing, bond issuance and wealth management. Besides, the Administration believed the two-tiered profits tax rates regime¹ as announced in the 2017 Policy Address could reduce the tax burden on enterprises, especially small and medium enterprises, and helped promote Hong Kong as a preferred investment destination. The Administration would continue to actively consider other tax measures conducive to the development and diversification of Hong Kong's economy, thereby bringing more valuable job opportunities.

Latest position

22. The Administration will update the Panel on 17 July 2018 on the work of InvestHK in 2017 and outline its way forward.

Relevant papers

23. A list of relevant papers is in **Appendix III**.

Council Business Division 1
Legislative Council Secretariat
10 July 2018

¹ The Inland Revenue (Amendment) (No. 7) Bill 2017 was passed by the Council on 21 March 2018. The Bill is to implement the two-tiered profits tax rates regime announced in the 2017 Policy Address. The two-tiered profits tax rates regime is applicable to any year of assessment commencing on or after 1 April 2018. The profits tax rate for the first \$2 million of profits of corporations will be lowered to 8.25%. Profits above that amount will continue to be subject to the tax rate of 16.5%.

Invest Hong Kong's external promotion units in 2016

<u>Region</u>	<u>Office Location</u>	<u>Area Covered</u>	<u>Remarks</u>
North America	New York	US East & Central	Based in New York ETO
	San Francisco	US West	Based in San Francisco ETO
	Toronto	Canada	Based in Toronto ETO
Central America	Mexico City	Central America and Mexico	Consultant Company
South America	Bogota	South America (except Brazil)	Consultant Company
	Rio de Janeiro	Brazil	Consultant Company
Europe	Berlin	Austria, Czech Republic, Germany, Hungary, Poland, Slovak Republic, Slovenia and Switzerland	Based in Berlin ETO
	Brussels	Belgium, Bulgaria, Croatia, Cyprus, Greece, Ireland, Luxembourg, Malta, the Netherlands, Portugal, Romania and Spain	Based in Brussels ETO
	Gothenburg	Nordics (Denmark, Finland, Iceland, Norway and Sweden)	Consultant Company
	Istanbul	Turkey	Consultant Company
	London	UK	Based in London ETO
	Milan	Italy	Consultant Company
	Moscow	Russia, Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan) and the Baltic States (Estonia, Latvia, and Lithuania)	Consultant Company
	Paris	France	Consultant Company

<u>Region</u>	<u>Office Location</u>	<u>Area Covered</u>	<u>Remarks</u>
Asia/ Australasia	Bangkok	Thailand	Consultant Company
	Kuala Lumpur	Malaysia and Indonesia	Consultant Company
	Mumbai	India	Consultant Company
	Osaka	West Japan	Consultant Company
	Seoul	Korea	Consultant Company
	Singapore	ASEAN (except Indonesia, Malaysia and Thailand)	Based in Singapore ETO
	Sydney	Australia and New Zealand	Based in Sydney ETO
	Tokyo	East Japan	Based in Tokyo ETO
Mainland and Taiwan	Beijing	Beijing, Tianjin, Hebei, Liaoning, Heilongjiang, Jilin, Gansu, Xinjiang, Ningxia and Inner Mongolia	Based in Beijing Office
	Chengdu	Chongqing, Sichuan, Guizhou, Xizang (Tibet), Shaanxi and Qinghai	Based in Chengdu ETO
	Guangzhou	Guangdong, Fujian, Guangxi, Hainan and Yunnan	Based in Guangdong ETO
	Shanghai	Shanghai, Jiangsu, Zhejiang, Anhui and Shandong	Based in Shanghai ETO
	Wuhan	Hubei, Hunan, Henan, Jiangxi and Shanxi	Based in Wuhan ETO
	Taipei	Taiwan	Based in Taipei HKETCO
Middle East and North Africa	Dubai	Middle East (Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates and Yemen), and North Africa (Algeria, Egypt, Libya, Morocco and Tunisia)	Consultant Company
	Jerusalem	Israel	Consultant Company

[Source: Annex A to the Administration's paper on "Promotion of inward investment" for the meeting of the Panel on Commerce and Industry on 20 June 2017 ([LC Paper No. CB\(1\)1144/16-17\(05\)](#)).]

Summary of results of Invest Hong Kong's work[^]

Year	No. of projects completed*	Jobs created within the first year of operation or expansion of the companies [#]	Investment amount (\$ million)
2000 (Jul – Dec)	35	347	506
2001	99	1 504	3,500
2002	117	2 075	1,360
2003	142	2 456	2,493
2004	205	3 008	4,658
2005	232	2 517	8,895
2006	246	3 092	10,243
2007	253	3 130	8,387
2008	257	2 450	4,608
2009	265	2 711	4,360
2010	284	3 063	8,130
2011	303	2 716	5,060
2012	316	2 937	over 7,600
2013	337	2 897	over 12,500
2014	355	2 681	over 8,900
2015	375	3 641	more than 10,100
2016	391	3 968	more than 16,300

[^] Compiled from Administration's papers and website of Invest Hong Kong ("Invest HK") (<http://www.investhk.gov.hk>).

* A completed project refers to one where an overseas, a Mainland or Taiwan company has established a presence or undergone a significant expansion in Hong Kong. The figures 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 of the companies are willing to disclose the data.

List of relevant papers

Date of meeting	Meeting	Papers
16/2/2016	Panel on Commerce and Industry	<p>Administration's paper on "Promotion of inward investment" (LC Paper No. CB(1)550/15-16(05))</p> <p>Updated background brief prepared by the Legislative Council Secretariat (LC Paper No. CB(1)550/15-16(06))</p> <p>Minutes of meeting (LC Paper No. CB(1)890/15-16)</p>
20/6/2017	Panel on Commerce and Industry	<p>Administration's paper on "Promotion of inward investment" (LC Paper No. CB(1)1144/16-17(05))</p> <p>Updated background brief prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1144/16-17(06))</p> <p>Minutes of meeting (LC Paper No. CB(1)1382/16-17)</p>
15/11/2017	Council	<p>Question No. 22 on "Measures to attract companies located outside Hong Kong to establish operations in Hong Kong" raised by Hon Jimmy NG (Hansard) (page 2368 – 2371)</p>