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**Panel on Commerce and Industry**

**Meeting on 21 May 2019**

**Updated background brief on the work of Invest Hong Kong  
in promoting inward investment**

**Purpose**

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

**Background**

2. InvestHK was established in 2000 with the mission to attract and retain foreign direct investment ("FDI") and 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 identify and reach out to overseas and Mainland companies to set up or expand their businesses in Hong Kong.

3. According to the Administration, 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 businesses in Hong Kong. A summary of the results of InvestHK's work from 2000 to 2017 is tabulated in **Appendix I**.

4. InvestHK has representatives in 30 global locations, including 16 investment promotion units<sup>1</sup> ("IPUs") based in the Hong Kong Economic and

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<sup>1</sup> Investment promotion units of the Invest Hong Kong ("InvestHK") are available in the following 16 locations:

- (a) Americas: New York, San Francisco and Toronto;
- (b) Asia Pacific: Beijing, Chengdu, Guangzhou, Jakarta, Shanghai, Singapore, Sydney, Taipei, Tokyo and Wuhan; and
- (c) Europe and Middle East: Berlin, Brussels and London.

Trade Offices ("ETO") in the Mainland and overseas, the Hong Kong Economic, Trade and Cultural Office in Taipei and the Beijing Office, and 14 overseas consultants<sup>2</sup> in key locations not covered by IPU.

5. As regards the sector teams in the Head Office of InvestHK, they are arranged under two main streams, namely: (a) pillar industries covering six sector teams (i.e. Business and Professional Services, Creative Industries, Consumer Products, Financial Services, Tourism and Hospitality as well as Transport and Industrial); and (b) innovation and related industries covering two sector teams (i.e. Innovation and Technology ("I&T") and Financial Technology ("fintech")) and the StartmeupHK Team.<sup>3</sup>

6. InvestHK has been conducting annually the Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong and the Survey of Start-ups since 2000 and 2014 respectively. According to the Administration, the surveys help InvestHK better understand the needs of foreign companies in Hong Kong, tailor its promotions of Hong Kong as a leading destination for FDI, and keep track of the start-up scene with a view to creating a more robust start-up ecosystem in Hong Kong.<sup>4</sup>

### **Invest Hong Kong's strategy in 2018-2019**

7. The Panel was briefed at the meeting on 17 July 2018 on InvestHK's strategy in 2018-2019. The Panel noted 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 Greater Bay Area ("Greater Bay Area"). InvestHK would also continue with an active programme of investment promotion visits to both traditional as well as emerging markets and work closely with relevant government departments, "HK Inc" members and other key partners (including the Hong Kong Trade Development Council ("HKTDC"), the Hong Kong Tourism

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<sup>2</sup> InvestHK's overseas consultants are available in the following 14 locations:

- (a) Americas: Mexico City, Rio de Janeiro and Santiago;
- (b) Asia Pacific: Bangkok, Mumbai, Osaka and Seoul; and
- (c) Europe and Middle East: Dubai, Gothenburg, Istanbul, Jerusalem, Milan, Moscow and Paris.

<sup>3</sup> The team looks after the StartmeupHK programme, which aims to actively promote Hong Kong as a vibrant start-up hub in priority areas such as artificial intelligence and big data, financial technology, healthtech, smart city and robotics by staging or sponsoring start-up events and roundtable meetings in cities such as Amsterdam, Helsinki, Lisbon, London, San Francisco, Toronto and Vancouver to reach out to potential entrepreneurs, innovation labs, incubator and accelerator platforms.

<sup>4</sup> See LC Paper No. CB(1)562/18-19(06) for the key findings of the two surveys conducted in 2018.

Board, the Hong Kong Science and Technology Parks Corporation, Cyberport and Create Hong Kong) to attract and assist companies to set up or expand their businesses in Hong Kong.

### **Discussions by the Panel on Commerce and Industry**

8. The Administration briefed the Panel on the work of InvestHK and the key findings of the two annual surveys as mentioned in paragraph 6 above at the meetings on 17 July 2018 and 19 February 2019 respectively. The major views and concerns expressed by members are set out in the following paragraphs.

#### Attracting inward investment and support services

9. At the meeting on 17 July 2018, members opined that apart from contributing actively to the work of investment promotion, the Administration should review its policies and remove any regulatory or legal hurdles facing foreign technology companies looking to set foot in Hong Kong. Members also urged the Administration to formulate long-term land development policies to facilitate companies looking to build data centres in Hong Kong, and provide one-stop hand-holding service to assist those interested companies.

10. The Administration advised that InvestHK would act as a conduit of communication between overseas companies and policy bureaux/regulatory authorities. The dialogue in this regard had taken great strides over the previous year. InvestHK would advise potential investors to seek their own independent legal advice when in need, and point them in the right direction when they actually did so. If the companies faced any regulatory and legal hurdles, InvestHK would reflect their problems to the relevant policy bureaux or refer them to the relevant authorities for further assistance.

11. At the same meeting, members also urged the Administration to formulate an action programme for promoting local professional services, including legal, arbitration, accounting and information technology, in the face of keen competition from neighbouring countries such as Singapore, and to work with members of the relevant professions in carrying out its promotion work.

12. The Administration advised that professional services were one of the major areas of focus of InvestHK. The strength of Hong Kong's professional services such as legal, accounting and engineering consultancy was much emphasized in InvestHK's promotion work in the Belt and Road Initiative and the Greater Bay Area development. In promoting arbitration and dispute resolution services in Hong Kong, InvestHK had conducted a number of joint seminars with the Department of Justice and the Law Society of Hong Kong in Malaysia and the Mainland. The Administration would reflect the outcome of such programmes more clearly in future reports to the Panel.

### Source countries of inward investment

13. At the meeting on 19 February 2019, noting that the Mainland ranked first in terms of source countries/territories of regional headquarters ("RHQ")/regional offices ("RO")/local offices ("LO") in the 2018 Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong, members expressed concern whether Hong Kong had been overly dependent upon the Mainland as the source of inward investment. They enquired whether Hong Kong's major competitors such as Singapore had carried out similar surveys and what the findings were. Given that companies would be seizing business opportunities arising from the Greater Bay Area development, members sought details of the Administration's measures to maintain Hong Kong's comparative advantages as a major hub for start-ups, and the positioning of start-ups in Hong Kong.

14. The Administration advised that the overall number of business operations in Hong Kong with parent companies overseas and in the Mainland recorded a stable growth of 6.4% in 2018 compared to that in 2017, and the number of RHQs showed a robust growth of 8.3% from 2017 to 2018. The Mainland's top ranking as the source for inward investment could be explained by the Mainland enterprises' penchant for choosing Hong Kong as a destination for public listing and financing. That said, the numbers of companies from other markets (e.g. Japan and the United States) that used Hong Kong as a base for business expansion were also comparable. The Greater Bay Area development did not advocate a one-sided development approach favouring only the Mainland at the expense of Hong Kong, but rather a multilaterally beneficial approach for the benefit of all parties. As regards the comparative advantages of start-ups in the Greater Bay Area, it was evident from the findings of the 2018 Survey of Start-ups that the start-up community in Hong Kong was highly international in composition (35% from outside Hong Kong). Moreover, riding on Hong Kong's comparative strength as an international financial centre under the "one country, two systems", fintech had ranked the top business sector of the start-ups. On the other hand, the Mainland's comparative strength might lie more in its I&T capabilities. The Administration was not aware of similar surveys on RHQs/ROs/LOs in such detail in other jurisdictions.

15. At the same meeting, members enquired about the measures the Administration would take to attract more enterprises from the Association of Southeast Asian Nations ("ASEAN") region in support of the Belt and Road Initiative, and to encourage more I&T enterprises and start-ups from ASEAN to set foot in Hong Kong.

16. The Administration advised that at present, major source countries of RHQ/RO/LO remained the traditional ones such as the Mainland, Japan and the United States. The Administration saw the importance of attracting more enterprises from the ASEAN region to set foot in Hong Kong, given Hong Kong's increasingly closer economic ties with ASEAN countries. In this regard, the overseas ETO in Bangkok, which would commence operation in February 2019, would be the third ETO established in the ASEAN region. The Administration

added that Hong Kong's strong foundation in import and export trade, wholesale and retail industries had attracted overseas and Mainland enterprises engaging in those lines of business to invest in Hong Kong. In keeping with Hong Kong's economic restructuring, the Administration would put more efforts in supporting overseas and Mainland I&T enterprises and start-ups to come to Hong Kong for investment.

#### Factors affecting Hong Kong's attractiveness for inward investment

17. At the meeting on 19 February 2019, members enquired whether the Administration had collated any survey statistics on overseas enterprises/start-ups coming to Hong Kong to leverage its status as the gateway to the Mainland, and on Mainland enterprises and start-ups coming to Hong Kong to capitalize on its advantage as the springboard to the world.

18. The Administration advised that approximately 90% of international start-ups' long term ambition in coming to Hong Kong was to penetrate the Mainland market, using Hong Kong as a test bed for their products and services. Likewise, Mainland companies from cities of different tiers were using Hong Kong as a stepping stone for their internationalization campaign. Start-ups had also been invited in recent years to join Hong Kong's delegation on trade visits to the Mainland and overseas countries. Riding on Hong Kong's signing of the Free Trade Agreement with ASEAN, certain start-ups based in the Hong Kong Science Park were beginning to set up subsidiaries in the Southeast Asia.

19. At the same meeting, noting that with the introduction of profits tax reduction measures for enterprises in 2018, the percentage of respondents regarding "simple tax system and low tax rate" as a favourable factor had still dropped from 72% in 2017 to 67% in 2018, members opined that the Administration should review its strategy in promoting inward investment, such as whether Hong Kong should adopt a target-oriented approach similar to the promotion strategy adopted by Singapore. They also enquired about InvestHK's promotion strategy focusing on the favourable factors.

20. The Administration advised that in 2018-2019, InvestHK would continue to highlight to prospective overseas investors Hong Kong's unique strengths under "one country, two systems", its favourable macroeconomic environment, low tax regime and business-friendly government, advantageous geographical location and free port status, as well as the special attractions offered to overseas investors depending on the sectors/lines of business. In addition, InvestHK customized its marketing efforts in accordance with matters of interest to individual investors such as market opportunities.

21. Besides, while Hong Kong and Singapore might adopt different approaches in the promotion of inward investment, the positive effect of the Administration's latest tax concessionary measures in 2018 on inward investment had yet to be seen when enterprises filed their tax return in 2019 for the preceding year. While some neighbouring tax jurisdictions might offer time-limited and

discriminatory tax concessionary measures to specific overseas investors, Hong Kong as a free port prided itself on its level playing field for all, and adopted a non-discriminatory approach in offering tax concessions to all overseas investors in Hong Kong. In this regard, the lowering of the profits tax rate of the first HK\$2 million of profits earned by a company by half (i.e. to 8.25%) commencing from the year of assessment 2018-2019 had made Hong Kong one of the lowest tax regimes in the world. Looking ahead, Hong Kong's low tax regime would continue to be the focus of its promotion strategy.

22. In response to members' enquiry about the assistance provided to overseas and Mainland enterprises and start-ups facing difficulties in opening bank accounts, the Administration advised that InvestHK had worked closely with the banking community and referred such cases directly to them. InvestHK also worked closely with the Hong Kong Monetary Authority which provided information on its website on the steps to be taken by overseas/Mainland enterprises when opening bank accounts in Hong Kong. The problem was improving in general, although it remained a challenge particularly with start-ups and fintech companies.

23. Some members enquired about the impact of other factors, such as press freedom, on Hong Kong's attractiveness for overseas companies as a destination for FDI. The Administration advised that it had committed to enhancing Hong Kong's global competitiveness and would keep in view the ranking surveys carried out by global think-tanks and similar organizations. In practice, there would be far more factors to consider when an enterprise decided to set foot in Hong Kong. Among these factors, operating cost which was directly affected by profits tax rate would be the prime concern. Economic freedom was another important factor in determining a city's global competitiveness. For 25 consecutive years, Hong Kong had ranked first in the United States Heritage Foundation's Index of Economic Freedom which measured the impact of liberty and free markets around the globe.

#### Impact of the trade conflict between China and the United States

24. At the meeting on 17 July 2018, some members were concerned about the impact of the trade conflict between China and the United States on the global investment sentiment and financial market, and enquired whether there would be any major changes in the promotion strategy of InvestHK in the face of the trade conflict between the two countries. They also enquired whether there was any change in foreign companies' interest to invest in Hong Kong, especially after two Mainland stock exchanges' barring of Mainland investors from buying shares with weighted-voting rights in Hong Kong.

25. The Administration advised that it had been watching closely the development of the trade conflict between China and the United States and the change in global trade and investment landscape. On a more positive note, the Belt and Road Initiative would open up new investment opportunities. At the moment, there was no direct impact on the work of InvestHK, which tended to be related to longer-term investment rather than the stock market or export-related

sector, which might be more likely to be impacted in the shorter term.

### Scope of Invest Hong Kong's work

26. At the meeting on 17 July 2018, members sought details on the division of work among InvestHK, the overseas ETOs and HKTDC.

27. The Administration advised that the respective scope of work of InvestHK, ETOs and HKTDC was complementary to one another and clearly defined. Whereas InvestHK's remit was focusing purely on attracting FDI, HKTDC's primary focus was to assist Hong Kong companies to do business overseas and promote Hong Kong in overseas countries. The InvestHK teams in IPUs sat within the overall ETO infrastructure. IPUs reported to the Heads of ETOs concerned on the day-to-day management and also to InvestHK which set the overall direction of promotional efforts and targets.

### **Latest position**

28. The Administration will brief the Panel on 21 May 2019 on the work of InvestHK in 2018 and outline the way forward for 2019.

### **Relevant papers**

29. A list of relevant papers is in **Appendix II**.

Council Business Division 1  
Legislative Council Secretariat  
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Summary of results of Invest Hong Kong's work<sup>^</sup>

Year	No. of projects completed*	Jobs created within the first year of operation or expansion of the companies <sup>#</sup>	Investment amount (HK\$ million)
<b>2000</b> (Jul – Dec)	35	347	506
<b>2001</b>	99	1 504	3,500
<b>2002</b>	117	2 075	1,360
<b>2003</b>	142	2 456	2,493
<b>2004</b>	205	3 008	4,658
<b>2005</b>	232	2 517	8,895
<b>2006</b>	246	3 092	10,243
<b>2007</b>	253	3 130	8,387
<b>2008</b>	257	2 450	4,608
<b>2009</b>	265	2 711	4,360
<b>2010</b>	284	3 063	8,130
<b>2011</b>	303	2 716	5,060
<b>2012</b>	316	2 937	over 7,600
<b>2013</b>	337	2 897	over 12,500
<b>2014</b>	355	2 681	over 8,900
<b>2015</b>	375	3 641	more than 10,100
<b>2016</b>	391	3 968	more than 16,300
<b>2017</b>	402	5 098	more than 16,600

<sup>^</sup> Compiled from Administration's papers and website of Invest Hong Kong ("InvestHK") (<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 with the assistance of InvestHK. The figures do not include companies set up in Hong Kong without such assistance.

<sup>#</sup> 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
17/7/2018	Panel on Commerce and Industry	<p>Administration's paper on "Promotion of inward investment" (<a href="#">LC Paper No. CB(1)1238/17-18(06)</a>)</p> <p>Updated background brief on promotion of inward investment prepared by the Legislative Council Secretariat (<a href="#">LC Paper No. CB(1)1238/17-18(07)</a>)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)1402/17-18</a>)</p>
19/2/2019	Panel on Commerce and Industry	<p>Administration's paper on "Findings of the Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong and the Survey of Start-ups in Hong Kong" (<a href="#">LC Paper No. CB(1)562/18-19(06)</a>)</p> <p>Updated background brief on promotion of inward investment prepared by the Legislative Council Secretariat (<a href="#">LC Paper No. CB(1)562/18-19(07)</a>)</p> <p>Pamphlet entitled "Hong Kong: from startups to regional headquarters - Asia's vibrant international business community" provided by Invest Hong Kong (<a href="#">LC Paper No. CB(1)562/18-19(08)</a>)</p> <p>Pamphlet entitled "Hong Kong: Asia's most dynamic startup ecosystem" provided by Invest Hong Kong (<a href="#">LC Paper No. CB(1)562/18-19(09)</a>) (English version only)</p> <p>Minutes of meeting (<a href="#">LC Paper No. CB(1)864/18-19</a>)</p>