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Panel on Commerce and Industry

Meeting on 21 January 2020

**Background brief on
the two annual surveys conducted by Invest Hong Kong**

Purpose

This paper provides background information on the two annual surveys conducted by Invest Hong Kong ("InvestHK"), namely the Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong and the Annual Start-up Survey. It also provides a summary of views and concerns expressed by members of the Panel on Commerce and Industry ("the Panel") on the subject at the meeting on 19 February 2019.

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 2018 is tabulated in **Appendix I**.

4. InvestHK has representatives in 30 global locations, including 16 investment promotion units¹ ("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, and 14 overseas consultants² in key locations not covered by IPUs.

Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong

5. Starting from the early 1990s, the Administration has been collecting information annually on companies in Hong Kong that are regional headquarters³ ("RHQs") and regional offices⁴ ("ROs") representing their parent companies located outside Hong Kong.⁵ From 2001, the survey coverage has been extended to include companies in Hong Kong that are local offices⁶ ("LOs") representing their parent companies located outside Hong Kong.

6. With reference to international standard, the scope of this survey has been expanded in 2018 to cover companies with parent companies located

¹ 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.

² 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.

³ A regional headquarters is an office with parent company located outside Hong Kong which has managerial control over offices and/or operations in the region (i.e. Hong Kong plus one other place or more).

⁴ A regional office is an office with parent company located outside Hong Kong which coordinates offices and/or operations in the region (i.e. Hong Kong plus one other place or more).

⁵ Since the disestablishment of the ex-Industry Department in 2000, the Census and Statistics Department has been conducting the Annual Survey of Regional Offices Representing Overseas Companies in Hong Kong to collect such information, at the request of InvestHK.

⁶ A local office is an office with parent company located outside Hong Kong which only takes charge of the business in Hong Kong (and nowhere else).

outside Hong Kong but not representing their parent companies. As a result, this survey has been renamed as the Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong.

7. The purpose of this survey is to: (a) enumerate RHQs, ROs and LOs in Hong Kong with their parent companies located outside Hong Kong; (b) obtain basic information (e.g. the number of persons engaged, major line of business, country/territory where the parent company is located) of these companies; and (c) seek views from these companies on the attractiveness of Hong Kong as a location for setting up RHQs/ROs/LOs. The latest report was published in October 2019.

Annual Start-up Survey

8. In order to keep track of the start-up scene with a view to creating a more robust start-up ecosystem in Hong Kong, InvestHK has since 2014 conducted an annual Start-up Survey in collaboration with operators of major co-work spaces, incubators and accelerators in Hong Kong. This survey enumerates the start-ups operating in the premises of these co-work spaces, incubators and accelerators but does not cover start-ups operating outside these premises. The latest report was published in October 2019.

Invest Hong Kong's strategy in 2019-2020

9. The Panel noted at the meeting on 21 May 2019 that according to InvestHK's strategy in 2019-2020, InvestHK would continue to proactively attract and assist overseas and Mainland companies to set up or expand their businesses in Hong Kong by capitalizing on Hong Kong's full range of advantages, including excellent geographical location, world-class professional service support and rich international experience through:

- (a) working closely with relevant government departments, "HK Inc" members and other key partners (including the Airport Authority Hong Kong, the Create Hong Kong, the Cyberport, the Hong Kong Monetary Authority, the Hong Kong Productivity Council, the Hong Kong Science and Technology Parks Corporation, the Hong Kong Tourism Board and the Hong Kong Trade Development Council);
- (b) reaching out to companies through marketing campaigns, seminars and investment promotion visits to seize the business opportunities arising from the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area;

- (c) implementing an active programme of investment promotion visits to both traditional and emerging markets;
- (d) promoting Hong Kong as a leading hub for start-ups and entrepreneurship; and
- (e) strengthening of aftercare services.

Previous discussion

10. At the Panel meeting on 19 February 2019, the Administration briefed the Panel on the key findings of the two annual surveys conducted in 2018. Members' major views and concerns on the subject are set out in the ensuing paragraphs.

Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong

11. Some members suggested that the Administration should adopt a more detailed classification of the line of business in its future Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong. The Administration advised that while in that survey the sector classification might reflect more the traditional pillars, the Annual Start-up Survey began to show a change in the economy's makeup with more companies coming from innovative sectors. InvestHK would make use of the findings to better reflect the situation and convince overseas investors to come to Hong Kong.

12. Noting that the introduction of the enhanced research and development ("R&D") tax deduction in Hong Kong would encourage more Mainland/overseas enterprises to conduct R&D activities in Hong Kong, members urged the Administration to compile and analyze relevant statistics for formulating appropriate promotion strategies for inward investment in future.

13. The Administration advised that it had adopted a targeted approach in assisting all major Mainland/overseas innovation and technology enterprises in Hong Kong in expanding their businesses by introducing new business opportunities to them, and reaching out to those companies which had yet to set up their businesses in Hong Kong.

Source countries of inward investment

14. Noting that the Mainland ranked first in terms of source countries/territories of RHQs/ROs/LOs in the 2018 Annual Survey of

Companies in Hong Kong with Parent Companies Located outside Hong Kong, some 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.

15. 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 Administration was not aware of similar surveys on RHQs/ROs/LOs in such detail in other jurisdictions.

Factors affecting Hong Kong's attractiveness for inward investment

16. 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.

17. 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 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 the Association of South East Asian Nations, certain start-ups based in the Hong Kong Science Park were beginning to set up subsidiaries in the Southeast Asia.

18. 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.

19. 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.

20. The Administration also advised that 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 InvestHK's promotion strategy.

21. 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.

Latest position

22. The Administration will brief the Panel on 21 January 2020 on the key findings of the 2019 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong and the 2019 Annual Survey of Start-ups in Hong Kong.

Relevant papers

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

Council Business Division 1
Legislative Council Secretariat
14 January 2020

Appendix I

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 (HK\$ 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
2017	402	5 098	more than 16,600
2018	436	5 268	more than 22,900

[^] 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.

[#] 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
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" (LC Paper No. CB(1)562/18-19(06))</p> <p>Updated background brief on promotion of inward investment prepared by the Legislative Council Secretariat (LC Paper No. CB(1)562/18-19(07))</p> <p>Pamphlet entitled "Hong Kong: from startups to regional headquarters - Asia's vibrant international business community" provided by Invest Hong Kong (LC Paper No. CB(1)562/18-19(08))</p> <p>Pamphlet entitled "Hong Kong: Asia's most dynamic startup ecosystem" provided by Invest Hong Kong (LC Paper No. CB(1)562/18-19(09)) (English version only)</p> <p>Minutes of meeting (LC Paper No. CB(1)864/18-19)</p>