

LCQ9: Developing the “headquarters economy”

Following is a question by the Hon Martin Liao and a written reply by the Acting Secretary for Commerce and Economic Development, Dr Bernard Chan, in the Legislative Council today (March 27):

Question:

The Chief Executive indicated in the 2023 Policy Address that "headquarters economy" will be developed. Nonetheless, it has been reported that the number of multinational companies with regional headquarters (RHQs) set up in Hong Kong last year has decreased by 75 to 1 336 as compared with that of the year before last, and some companies have relocated their RHQs from Hong Kong to Singapore. In this connection, will the Government inform this Council:

(1) given that the number of multinational companies with RHQs set up in Hong Kong has recorded a drop continuously despite Hong Kong's full resumption of normal travel last year, whether the authorities will approach those companies that have withdrawn from Hong Kong to look into the reasons for their withdrawal; if so, of the details;

(2) given that the Government indicated in the 2023 Policy Address that it will explore with the relevant Central authorities measures to facilitate Mainland enterprises in setting up RHQs in Hong Kong, such as arrangements for investments relating to capital account, of the details and implementation timetable of the relevant measures;

(3) given that there are views that Hong Kong's low tax rates and free flow of information are ranked as important factors for enterprises in choosing to set up offices in Hong Kong, but according to a research publication of the Legislative Council Secretariat, some enterprises find that the favourableness of the relevant factors has been weakened, and there are also views pointing out that upon the introduction of the global minimum tax proposal, tax concession is not the only consideration of enterprises in choosing to set up offices in Hong Kong, whether the Government has considered formulating medium and long-term planning for developing "headquarters economy", as well as rolling out complementary incentive measures in respect of land, talent, innovation and technology, children's education, etc; if so, of the details; and

(4) given that there are views pointing out that the Government's definition of RHQs is not comprehensive enough as some smaller-sized RHQs covered by the definition have limited contribution to the economy of Hong Kong, whether the Government will consider reviewing the existing criteria in defining RHQs, including the capital size of the enterprises concerned, the size of their RHQs in Hong Kong, etc; if so, of the details; if not, the reasons for

that?

Reply:

President,

Invest Hong Kong (InvestHK) is committed to attracting and retaining foreign direct investment, including Mainland and overseas companies' regional headquarters, regional offices and local offices in Hong Kong, thereby promoting the development of various sectors and enhancing impetus for economic growth in Hong Kong.

On the Hon Martin Liao's question, upon consulting the Financial Services and the Treasury Bureau (FSTB), InvestHK and the Office for Attracting Strategic Enterprises (OASES), my reply is as follows:

(1) Since the Government began to relax anti-epidemic measures in end-2022, InvestHK has already stepped up its engagement efforts with overseas and Mainland companies across various sectors to gauge their sentiments, understand their concerns and needs, provide updates on Hong Kong's latest business opportunities and offer appropriate support. Subsequently, with the full resumption of cross-boundary travel with the Mainland since February 2023 and lifting of the mask mandate from March 2023, InvestHK further strengthened its engagement efforts, including identifying targeted companies that might have relocated some or all of their operations from Hong Kong earlier due to COVID-19, and providing the necessary support to facilitate their businesses to return to Hong Kong. InvestHK will continue its work on this front.

(2) The 2023 Policy Address announced that the Government would develop "headquarters economy" to attract Mainland and overseas companies to set up headquarters/corporate divisions in Hong Kong, bringing in quality enterprises to explore the immense opportunities under the national and international dual circulation initiative. The initiative will facilitate foreign enterprises to tap into the Mainland market, and also assist Mainland enterprises in expanding abroad. The Government understands that many enterprises have cross-boundary funding needs arising from business development or research activities. Our ability to facilitate such funding requirements could incentivise enterprises to establish in Hong Kong. The FSTB will explore with relevant Mainland authorities measures to facilitate Mainland enterprises to set up headquarters/corporate divisions in Hong Kong (such as arrangements conducive to capital investment), with a view to developing "headquarters economy" in Hong Kong. The detailed measures, including proposals applicable to the development of headquarters businesses, will be announced in a timely manner once they are ready for implementation.

(3) The Government agrees that different enterprises may have different considerations when deciding whether to set up businesses in Hong Kong. In this regard, when carrying out its investment promotion work, InvestHK will follow relevant bureaux' policy steer to actively attract and assist enterprises that are interested in setting up and expanding businesses in

Hong Kong, and offer one-stop customised services, from the planning to implementation stages, so as to assist the enterprises to set up headquarters/corporate divisions and other businesses in Hong Kong. In addition, the OASES, which was established in end-2022 as announced in the 2022 Policy Address, will also formulate facilitation measures and offer tailor-made proposals in the light of individual strategic enterprises' needs so as to assist them in realising their plans in Hong Kong.

(4) According to the definition by the Census and Statistics Department, a "regional headquarters" refers to 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). With the evolving global business environment and trends, the Government will keep pace with the times and review the relevant definition as necessary, so as to tie in with the overall investment promotion work.

In 2023, InvestHK assisted a total of 382 enterprises to establish or expand their operations in Hong Kong, an increase of 27 per cent when compared with 2022. This figure well exceeded the performance indicator as set out in the 2022 Policy Address on a pro-rata basis (i.e. to attract at least a total of 1 130 enterprises to set up or expand their operations in Hong Kong from 2023 to 2025). These enterprises included those that have returned to Hong Kong after previously relocating their businesses elsewhere, those that set up in Hong Kong for the first time, as well as those that continued to expand their existing businesses. They brought in direct investment of more than \$61.6 billion and created over 4 100 jobs within the first year of operation or expansion.

Meanwhile, the OASES is focusing to attract high-potential and representative strategic enterprises from around the globe, particularly those from industries of strategic importance, such as life and health technology, artificial intelligence and data science, financial technology, and advanced manufacturing and new energy technology. As at mid-March 2024, the Government has successfully attracted over 40 companies to set up or expand their operations in Hong Kong, including companies with a market capitalisation/valuation of over \$10 billion, or those engaging in cutting-edge technologies. Many of them are planning to set up headquarters/corporate divisions in Hong Kong. They are expected to invest over \$40 billion in Hong Kong, and create over 13 000 jobs over the next few years. Their presence in Hong Kong will attract upstream, midstream and downstream partners from their industrial supply chains, promoting the vibrant development of our innovation and technology sector. The OASES will continue to enhance promotion of our various schemes to attract investments and businesses, our new policy measures as well as the advantages of Hong Kong in the Mainland and overseas markets. It will also take into account future industry development and the latest government policies when formulating promotional strategies tailored for individual markets, with a view to attracting high-quality enterprises from around the world, in particular those that are relevant to Hong Kong's development of the "eight centres", to set up their headquarters/corporate divisions in Hong Kong.

The above has fully demonstrated the favourable business environment of Hong Kong, which continues to attract Mainland and overseas companies from different sectors to set up or expand their businesses in Hong Kong, and that Mainland and overseas companies continue to be fully confident in Hong Kong and have therefore chosen to invest locally, leveraging Hong Kong's distinctive advantages of enjoying strong support of the motherland and being closely connected to the world under "one country, two systems", Hong Kong's roles as a "super-connector" and "super value-adder" and other core advantages, in order to better seize the opportunities arising from the post-pandemic recovery. The Government will continue to take proactively forward its work to attract enterprises and investment.