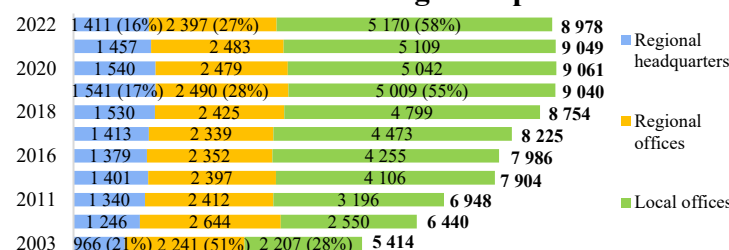




Mainland and foreign companies setting up offices in Hong Kong

Figure 1 – Number of offices set up in Hong Kong by Mainland and foreign companies



Highlights

- As a prime location for international business, Hong Kong has been a magnet for the Mainland and foreign companies (“MFCs”) seeking a presence in the regional or local market. However, during the COVID-19 pandemic from 2020 to 2022 when business and travel were disrupted, the city’s long-established attractiveness has undergone certain changes. Among them was a drop in the presence of regional headquarters (“RHs”) and regional offices (“ROs”) set up by MFCs, with their numbers dropping by 8% and 4% to 1 411 (a six-year-low) and 2 397 (five-year-low) respectively between 2019 and 2022 according to the Census and Statistics Department. That loss, however, was partly compensated by a 3% rise in the number of local offices (“LOs”), which were offices that reported to take charge of business in Hong Kong only (and nowhere else) (**Figure 1**).
- As at 2022, the 1 411 RHs in Hong Kong were set up by parent companies based in reportedly 52 locations. Analyzed by region, the 20 most reported locations of parent companies were from Asia, followed by EU and North America. However, between 2019 and 2022, reported parent locations from Europe and North America fell by a total of 12% each, while that of Asia (including Singapore but excluding all other ASEAN member states) rose by 4%, with the strongest percentage growth being South Korea conceivably amid the significance of the Mainland market. Although as a whole parent companies with North American and European background have reduced the presence, individual places like Austria, Canada, and the Netherlands have seen the opposite or remained stable (**Figure 2**).

Figure 2 – Major reported locations of parent companies of RHs in Hong Kong⁽¹⁾

| Regions | Locations | 2019 | 2022 | 2019-2022 change | |
|---|---------------|---------|------|------------------|------|
| Asia (excl. other ASEAN regions) ⁽²⁾ | The Mainland | 216 | 251 | +16% | |
| | Japan | 232 | 212 | -9% | +4% |
| | Singapore | 47 | 49 | +4% | |
| | Taiwan | 26 | 24 | -8% | |
| | South Korea | 10 | 17 | +70% | |
| United States | 278 | 240 | -14% | -12% | |
| Canada | 22 | 24 | +9% | | |
| European Union (“EU”) | Germany | 97 | 92 | -5% | |
| | France | 96 | 80 | -17% | |
| | Italy | 40 | 36 | -10% | |
| | Netherlands | 26 | 28 | +8% | |
| | Austria | 11 | 17 | +55% | -12% |
| | Sweden | 30 | 15 | -50% | |
| | Belgium | 19 | 13 | -32% | |
| | Spain | 11 | 12 | +9% | |
| | Luxembourg | 11 | 11 | * | |
| | Non-EU | Denmark | 12 | 7 | -42% |
| United Kingdom | | 141 | 134 | -5% | -4% |
| Switzerland | 55 | 54 | -2% | | |
| Oceania | Australia | 35 | 27 | -23% | -23% |
| Middle East | Not specified | - | 13 | n.a. | - |

- Notes: (1) The number does not represent the actual number of parent companies of RHs. An RH may have parent companies from multiple locations or a parent company formed by companies from multiple locations.
(2) A total of 17 parent locations in ASEAN member states other than Singapore were reported by RHs (no further breakdown).
(*) Change of less than 0.5%.

Figure 3 – Percentage changes of MFCs’ offices by major line of businesses between 2019 and 2022

| Types of businesses/activities ⁽¹⁾ | RHs | ROs | LOs | Total |
|---|------|------|------|-------|
| Human health activities and R&D (natural sciences) | +43% | +19% | +20% | +23% |
| Insurance | +14% | -20% | -17% | -13% |
| Transportation, storage and courier | +7% | +2% | +10% | +7% |
| Manufacturing | +2% | +24% | +29% | +19% |
| Construction | * | -29% | +19% | +3% |
| Financing and banking | -2% | * | -8% | -6% |
| Import/export trade, wholesale and retail | -10% | -5% | +6% | * |
| Information technology | -15% | +3% | +5% | * |
| Professional, business and education services | -15% | -11% | +3% | -5% |
| Restaurants and hotels | -17% | -7% | +9% | +3% |
| Telecommunications | -17% | +8% | -19% | -12% |
| Creative, performing arts and specialized design activities | -29% | -4% | +67% | +21% |
| Real estate | -29% | -16% | -6% | -11% |
| Publishing, media and multi-media | -33% | +7% | -11% | -12% |

- Notes: (1) Each surveyed office may participate in more than one line of business.
(*) Change of less than 0.5%.

- During the pandemic, only four out of 14 businesses (human health, insurance, transport, and manufacturing) showed increased participation of MFCs (in form of number of RHs) by 2% to 43%, possibly taking advantage of supply chain challenges during the pandemic. The other key business lines, such as the import/export trade and professional services, have registered decreases of 2% to 33% from 2019 to 2022. Another notable observation was that while RHs’ engagement in certain businesses has dropped, there appeared to be corresponding increases of different extent by ROs and/or LOs in these businesses (**Figure 3**). However, it is unclear whether or to what extent it was related to business restructuring and/or downsizing.

Mainland and foreign companies setting up offices in Hong Kong (cont'd)

Figure 4 – Number of persons engaged by MFCs' offices in Hong Kong

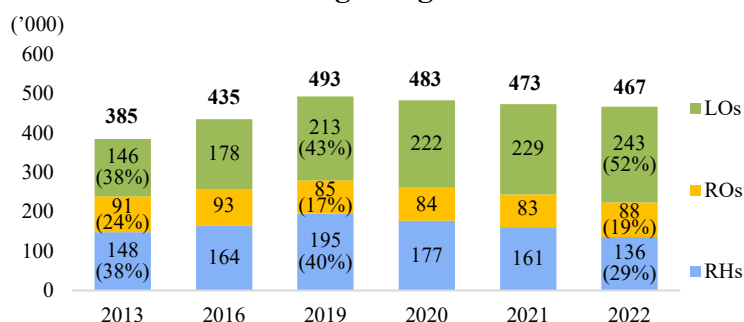


Figure 5 – Factors affecting location choices

| Factors ⁽¹⁾ | Percentage of companies viewing the factor as favourable in Hong Kong | | |
|--|---|------|---------------------|
| | 2022 | 2019 | 2016 |
| 1 Simple tax system and low tax rate | 59% | 71% | 73% |
| 2 Free flow of information | 45% | 63% | 66% |
| 3 Corruption free government | 42% | 55% | 57% |
| 4 Rule of law and independent judiciary | 34% | 46% | 55% |
| 5 Free port status | 45% | 59% | 62% |
| 6 Political stability and security | 28% | 35% | 42% |
| 7 Productivity of staff | 40% | 50% | 54% |
| 8 Geographical location | 48% | 61% | 63% |
| 9 Access to market | 41% | 53% | n.a. ⁽²⁾ |
| 10 Communication/infrastructure | 44% | 55% | 59% |
| 11 Availability and cost of staff | 25% | 27% | 31% |
| 12 Business opportunity in the Mainland | 42% | 52% | 54% |
| 13 Environment quality | 30% | 35% | 34% |
| 14 Business premise availability/cost | 15% | 15% | 16% |
| 15 Residential housing availability/cost | 12% | 13% | 14% |
| 16 International school availability | 21% | 22% | 20% |

Notes: (1) Ranked by importance as indicated by survey respondents in 2022.

(2) The access to market factor was not included in the 2016 survey.

Figure 6 – Key initiatives to boost enterprises investing in Hong Kong

| | |
|--|---|
| 1. Establishing the Office for Attracting Strategic Enterprises (OASES) | <ul style="list-style-type: none"> Formulate special facilitation measures on land, tax and financing applicable exclusively to target enterprises Provide the employees of these target enterprises with one-stop facilitation services Set up Advisory Committee on Attracting Strategic Enterprises |
| 2. Dedicated Teams for attracting businesses and talents | <ul style="list-style-type: none"> To be set up in 17 Mainland Offices and overseas Economic and Trade Offices (ETOs) |
| 3. Co-Investment Fund | <ul style="list-style-type: none"> Set aside HK\$30 billion from the Future Fund to attract enterprises setting up operations in Hong Kong and investing in their business |
| 4. Facilitating Mainland companies to set up RHs | <ul style="list-style-type: none"> Introduce new facilitation measures (<i>details to be announced</i>) |
| 5. Arrangement for re-domiciliation | <ul style="list-style-type: none"> Provide facilitation for companies domiciled overseas, particularly enterprises with a business focus in the Asia-Pacific region, for re-domiciliation to Hong Kong (<i>details to be announced</i>) |

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Highlights

- RHs, ROs and LOs are contributors to local employment. In 2022, they hired an estimated 467 000 persons, accounting for about 13% of all employed persons (excluding foreign domestic helpers) in Hong Kong and increasing by 21% over the 2013 level. However, the extent of their contribution has also changed during the pandemic. In particular, nearly 60 000 fewer persons, or 30% less were hired by RHs in 2022 than in 2019 amidst the contraction in the number of RHs. On the other hand, growth in LO numbers have offset part of the job loss, with an increase of 30 000 persons working in LOs during the period (**Figure 4**).
- Simple tax regime, free information flow and clean government are ranked as the most important factors in location choices by MFCs offices in Hong Kong. However, these offices have flagged their concerns over Hong Kong's "favourableness" in these factors between 2019 and 2022 when businesses operating in Hong Kong were challenged by the strict quarantine measures and other business disruptions. Generally, the perceived favourableness has been weakened across a list of factors to varying degrees. In particular, 10 out of 16 factors considered to be important have suffered double-digit drops, ranging from 10% (e.g. staff productivity) to 18% (free flow of information), with the remaining six seeing softer declines or no change (**Figure 5**).
- With the anti-COVID restrictions ended and in light of all those challenges outlined above, the Government has taken a more proactive approach in post-pandemic economic recovery by developing "headquarters economy". To support the initiative, the Financial Secretary has set up the Office for Attracting Strategic Enterprise in late 2022 to lure strategic enterprises from outside Hong Kong. A target enterprise list has been drawn up, and it is hoped that at least 1 000 enterprises would be attracted in from 2023 to 2025. According to the 2023 Policy Address, at least 30 out of 300 enterprises on the target list were prepared to invest a total of HK\$30 billion in Hong Kong. In the first 10 months of 2023, InvestHK has also assisted over 300 Mainland and overseas enterprises to set up or expand business in Hong Kong. In addition, the Government is also set to introduce new arrangements to facilitate Mainland companies to set up RHs in Hong Kong (**Figure 6**). Detailed proposals are to be announced.

Data sources: Latest figures from Census and Statistics Department, Policy Address 2023 and Budget 2023.

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