

International Business Committee Paper

Benefits of Foreign Direct Investment

Purpose

This paper outlines the major benefits of foreign direct investment (FDI) and gives an account of the work of Invest Hong Kong (InvestHK) in attracting foreign investment to Hong Kong.

Background

2. FDI helps to broaden the base of our economy, brings in new technology and management culture, creates employment and enhances Hong Kong's status as an international business hub. Hong Kong continues to be a preferred destination for FDI. According to the "World Investment Report 2007" released by the United Nations Conference on Trade and Development (UNCTAD), Hong Kong was the second largest FDI recipient in Asia after the Mainland of China in 2006. FDI inflow to Hong Kong that year reached US\$45.1 billion, representing an increase of 34.0% over 2005, according to the survey findings of the Census & Statistics Department (C&SD). With an FDI inflow of US\$40.0 billion¹, the first three quarters of 2007 saw a further increase, by 33.6%, over the same period of 2006.

3. InvestHK is the inward investment promotion agency of the HKSAR Government to spearhead Hong Kong's efforts to attract FDI and to promote Hong Kong's status as an ideal destination for international investors. Its mission is to attract to and retain in Hong Kong economically and strategically important investment.

¹ Figure subject to revision later on when more data become available.

Contribution of Foreign and Mainland-Owned Firms to Hong Kong's Economy

4. With increasing globalisation of the world economy, it has become popular for companies to deliver services to customers in another economy through setting up affiliated companies abroad. In view of the importance of foreign affiliated companies in Hong Kong, the C&SD has developed a statistical framework for compiling annual statistics relating to such activities and has compiled some statistics on foreign affiliated companies (including those from the Mainland) in Hong Kong for 2004 and 2005. Such statistics are known as *inward foreign affiliates trade in services* (inward FATS) statistics. Inward FATS statistics for 2006 will be released around the second half of 2008.

5. Foreign affiliates covered in inward FATS statistics are majority-owned foreign affiliates (MOFAs), i.e. firms with a single foreign investor or an associated group of foreign investors acting in concert, owning more than 50% of the ordinary shares or voting power. According to the inward FATS² statistics, there were around 8 400 MOFAs in Hong Kong in 2005, employing 579 000 people, up by 6.6% over 2004. This represented 17.3% of the total employment in Hong Kong, up from 16.4% in 2004.

6. The value added contributed by MOFAs in Hong Kong amounted to HK\$389.1 billion, or 28.9% of the total GDP in 2005, representing an increase of 9.2% compared with the 2004 figure. The major figures for 2005 are highlighted below:

Year	Number of MOFAs (approx)	Employment			Value Added		
		in thousand persons	year-on-year change	as contribution to Hong Kong's total employment	in HK\$ billion	year-on-year change	as contribution to Hong Kong's GDP at factor cost
2005	8400	579	6.6%	17.3%	389.1	9.2%	28.9%

² The inward FATS statistics are not meant to reflect the economic contribution of the total inward FDI as only MOFAs (with foreign investor(s) owning more than 50% of the ordinary shares of the firms concerned) are covered.

7. The MOFAs from the Mainland employed around 20 000 people and contributed HK\$14.9 billion of value added in 2005, representing increases of 9.4% and 22.5% respectively compared with the corresponding figures in 2004.

8. A summary of contribution of MOFAs to Hong Kong's economy, indicating inward FATS statistics for 2004 and 2005, is at Annex I.

Investment Promotion in Hong Kong

9. The establishment of InvestHK in July 2000 provided institutional support to spearhead the work of attracting inward direct investment. InvestHK attracts overseas, Mainland and Taiwan companies to establish operations in Hong Kong, offers solution-oriented facilitation and sector specific expert guidance to potential investors throughout the investment process, and provides aftercare services when an operation in Hong Kong has been established.

10. Since its establishment in 2000 and up to the end of 2007, InvestHK has assisted over 1 300 companies in setting up or expanding operations in Hong Kong, involving the creation of over 43 000 jobs (over 18 100 jobs on initial establishment of the companies and over 25 000 jobs in the following two years) as well as an investment of more than HK\$40 billion.

11. Both the number of companies assisted by InvestHK and jobs created by these companies reached an all-time high last year. In 2007, InvestHK successfully assisted 253 overseas, Mainland and Taiwan companies in setting up or expanding operations here, involving a total investment amount of more than HK\$8.3 billion. These companies expect the projects to lead to the creation of over 8 100 jobs, including 3 130 jobs established initially and an additional 5 004 jobs in the next two years as these companies expand. The target for 2008 is to facilitate at least another 250 new investment projects.

12. We have our challenges, such as pollution, the high cost of rent and limited international school places. But, as these figures demonstrate, our city is still able to attract the best overseas and Mainland companies

to our shore.

13. The results of the InvestHK's work since its establishment are summarised below:

	<u>2000</u> (Jul - Dec)	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
No. of projects completed*	35	99	117	142	205	232	246	253	1 329
Jobs created**	347	1 504	2 075	7 634	7 696	7 924	7 835	8 134	43 149
• jobs created at opening/expansion	347	1 504	2 075	2 456	3 008	2 517	3 092	3 130	18 129
• jobs to be created in the next 2 years#	-	-	-	5 178	4 688	5 407	4 743	5 004	25 020
Investment amount (\$ million)**	506	3,500	1,360	2,493	4,658	8,895	10,243	8,387	40,042

* These 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 are willing to disclose the data.

For 2000 to 2002, companies were not asked to provide the forecast figure.

14. These companies not only bring about employment opportunities for our people, but also new skills and technologies, which contribute to the long-term growth of our economy. Our professional service providers, restaurants, hotels, and shopping centres all benefit from this influx of new people. We will continue to work proactively to retain and attract even more companies of strategic importance to Hong Kong.

Conclusion

15. Hong Kong prospers as an international trading hub and service centre. It is one of the most open, competitive and externally-oriented economies, embracing globalisation of trade and services. The city scores highly for its business friendly environment, economic potential,

infrastructure, favourable tax regime, human resources, etc. and has been consistently rated as the world's freest economy for the past 14 years. Besides, Hong Kong has retained its crown as the top "Asian City of the Future" in the rankings by fDi Magazine (Financial Times group), based on our "bold infrastructure developments, sound investment promotion strategy and high-quality workforce." An fDi article highlighting Hong Kong's leading position is at Annex II. Foreign direct investment is the key to our continued success as an international business hub. The establishment of overseas and Mainland companies in Hong Kong not only brings about the initial investment and job creation, but also helps retain Hong Kong's vibrant, cosmopolitan business environment.

16. InvestHK will continue to take a proactive approach to promote inward investment as well as Hong Kong's status as an ideal destination for international investors. InvestHK is also committed to promoting Hong Kong's role as a springboard into the Mainland for international investors; a springboard out to world markets for Mainland investors, and a platform for business between the Mainland and the rest of the world. While there are many variables including the general state of the world economy which are beyond the control of InvestHK, we will continue to work hard to attract and retain investors from all over the world.