Hinrich Foundation Case Study

Hong Kong Pioneers' contribution to China through FDI

An excerpt from the book *Developing China: The Remarkable Impact of Foreign Direct Investment* by Michael J. Enright

China's economic reforms have created the world's most dynamic economy. A major part of China's economic development has involved foreign companies. This document contains an excerpt from a larger project initiated by the Hinrich Foundation and undertaken by Enright, Scott and Associates on the impact of foreign investment and foreign enterprises as a whole on China's economy. The results of the larger project were published in a book by Michael J. Enright, *Developing China: The Remarkable Impact of Foreign Direct Investment* (Routledge 2017). Using the tools of economic impact analysis, the author concludes that foreign direct investment (FDI) has contributed 33% to China's GDP and 27% to its employment in recent years. The book offers a balanced and rigorous view of the full impact of FDI – using China as an example to illuminate the mutually beneficial partnership between investing companies and host economies – and more importantly, serves as an effective toolkit for policymakers and corporations to approach FDI globally. It is available in English and Chinese. Visit www.hinrichfoundation.com/trade-research/fdi-in-china for more information about the book.

This case study includes the following key findings:

- Hong Kong has been the largest single source of foreign investment into the Chinese Mainland. From 1985 to 2014, Hong Kong was the source of USD 744.8 billion in foreign direct investment, or 47 percent of all of the FDI into the Chinese Mainland, according to Chinese statistics.
- Hong Kong companies have been pioneers in many aspects of China's development and particularly its interaction with the rest of the world. Hong Kong companies helped develop the supply chains and production systems that made China one of the world's leading manufacturing and export locations. They were also early investors in the infrastructure that helped link China to the global economy.
- While the relative importance of Hong Kong investors has diminished over the years, they still make vital contributions to China.

Contents

Introduction 3
Investment and employment 3
Connecting China to the world 6
Creating infrastructure and utilities in China 7
Developing China's cities 8
Technology and management transfer 9
Hong Kong's contribution 10
Conclusion 11
Notes 12
References 12

About the author

Michael J. Enright, a leading expert on competitiveness, regional economic development, and international business strategy became the Sun Hung Kai Professor of Business at the University of Hong Kong in 1996 after six years as a professor at the Harvard Business School. He is also a director of Enright, Scott & Associates consultancy and a founder of The Competitiveness Institute. Professor Enright has consulted to companies, governments, and multilateral organizations in more than 30 countries on six continents on international business strategy, competitiveness, regional clustering, technology policy, and economic development; has appeared in 40 countries as a featured speaker; and has authored numerous books and monographs on international competitiveness and China's development. Enright, Scott & Associates is an Asia-based economics and strategy consultancy that works extensively with governments, leading corporations, and multilateral organizations on strategy and economic development issues.

Introduction[1]

Hong Kong companies were pioneers among investors in China. Hong Kong's proximity to the Shenzhen Special Economic Zone, cultural similarity, family ties, history in light manufacturing, and global business and financial links allowed Hong Kong investors to take the risks to make the business connections that others hesitated to take. Hong Kong's ability to link Chinese land, labour, and resources to global markets, and to link global finance, skills, and capabilities to China's needs allowed Hong Kong pioneers to become major investors in China's manufacturing, infrastructure, utilities, property, hospitality, and service sectors. In many industries and many locations in China, it was Hong Kong companies that were the first to enter, and while this pioneering function is less pronounced today than it once was, Hong Kong investors are critical contributors in a wide range of industries and geographies in China.

Hong Kong has been the largest single source of foreign investment into the Chinese Mainland since the onset of the reform period. While the amounts of investment are impressive, so too are the contributions that Hong Kong and Hong Kong companies have made to China's economic development. Hong Kong companies were among the first non-Mainland companies to invest in export-oriented production in China. They helped develop the supply chains and production systems that made China in general (and South China in particular) one of the world's leading manufacturing and export locations. Many of the systems that were developed in China for dealing with foreign investment, including the legal regime, property rights, export processing rules, customs systems, labour regulations, and land use rules, were first worked out in the context of Hong Kong investment and investors.

Hong Kong companies were also early investors in the infrastructure that helped link China to the global economy. This included investments in ports and roads in China's major manufacturing and exporting regions. Hong Kong developers were among the first to create mixed-use developments that made Chinese cities 'user-friendly' to international companies and foreign residents. Hong Kong investors were also instrumental in the transfer of technology, management capabilities, and knowledge of world markets from the rest of the world to China, at least in the early days of China's reform program. While the relative importance of Hong Kong investors has diminished over the years, they still make vital contributions to China, and it is hard to imagine that China would have emerged so quickly as a world-leading economy without the investment and other linkages to Hong Kong.

Investment and employment

Hong Kong has been by far the largest foreign investor into the Chinese Mainland. From 1985 to 2014, the Chinese National Statistical Bureau reported that Hong Kong was the source of USD 744.8 billion in foreign direct investment, or 47 percent of all of the FDI into the Chinese Mainland.[2] While some of that investment is likely to have been 'round tripped' investment from the Chinese Mainland, and some is likely to have been brought into Hong Kong by foreign companies and then redeployed into the Mainland, the fact remains that Hong Kong and Hong Kong companies have been huge investors into the Chinese Mainland. This is particularly true in neighbouring Guangdong Province, but Hong Kong companies have been prominent if not leading investors in Shanghai and many other major cities and provinces in China.

Hong Kong investors paved the way for other foreign investors into China. China began opening to outside investors for the first time in decades in 1979. At the time, there was considerable uncertainty about the rules governing such investment and how China's economy would evolve. In the early years, much of the investment from Hong Kong into China relied on family ties as Hong Kong business people invested in their ancestral hometowns (Leung, 1993). One reason for this focus was a sense of contributing to the development of the ancestral hometown. A less prosaic reason was that many Hong Kong entrepreneurs still had family or friends in these towns that could help reduce the uncertainty and risk associated with investment. In any case, it was Hong Kong entrepreneurs who were willing to take the risks to work out how to do business in China at a time when China was still working out its approach toward foreign investment, its legal regime was unclear, and enforcement of agreements uncertain.

The bulk of the early Hong Kong investment went into manufacturing. In the years 1979 to 1984, 69 percent of the Hong Kong investment into Guangdong Province, was in the secondary sector, 28 percent in the tertiary sector, and only 2.4 percent the primary sector (Zhongshan University, 2002, p.7-8). Most Hong Kong investment into China in this period involved labour-intensive export processing attracted by very low land and labour costs (Wang, 1994, p.169). Much of the investment was in industries in which Hong Kong companies had developed strong competitive positions, but for which Hong Kong was becoming too expensive. Thus Hong Kong companies fed their existing sales and distribution networks with China-sourced production. The investments were concentrated in the Shenzhen Special Economic Zone and areas along the Guangzhou-Shenzhen railway line, especially in Dongguan. This minimized the travel times from Hong Kong at a time when travelling to adjacent cities in China could take hours or more (Zhongshan University, 2002, p.7; Li et al., 2002, p.38). Early successes attracted new investors and development of several infrastructure projects allowed for easier transportation from Hong Kong to the eastern portion of the Pearl River Delta region. Investment from Hong Kong into China increased rapidly, spreading beyond areas neighbouring Hong Kong further into the Pearl River Delta region and beyond.

After Deng Xiaoping's South China tour in 1992, China launched a second round of reform and economic opening, and received another round of investment from Hong Kong, with the stock of Hong Kong investment in China rising by nearly a factor of ten from 1992 to 2002. Again much of this investment was in traditional industries in the Pearl River Delta region of Guangdong Province (Hong Kong Commercial Daily, 2002; Ta Kung Pao, 2002a; Ta Kung Pao, 2002b). By 2000, some 70 percent of the Hong Kong-invested enterprises in the Pearl River Delta region were engaged in production of textiles, garments, electronics, toys, metal products, plastics, and other labour-intensive light industrial products. Some 80 to 90 percent of Hong Kong's plastic industry, roughly 85 percent of its electronic industry, and 90 percent of its watch and toy industries had moved to the Pearl River Delta region. The vast majority of these facilities were engaged in export activities in export processing OEM or ODM arrangements (Zhongshan University, 2002, p.10). The Hong Kong Chinese Manufacturers' Association estimated that 86.1 percent of its members had set up factories in the Chinese Mainland by October 2001 and that the total number of Hong Kong-invested entities in the Chinese Mainland was 198,188, most of these in manufacturing and most of those in Guangdong Province (Ta Kung Pao, 2002a). In general, the Hong Kong companies kept their pre-production and post-production activities, including design, development, marketing, sales, and logistics in Hong Kong, along with senior management and finance, while decentralizing production and activities closely related to production (author's interviews).

Deng's tour and subsequent developments heralded greater opening in the service sector in China and established the Yangtze River Delta as a second engine of economic growth and destination for foreign investment. Hong Kong investment also became more diversified, with Hong Kong firms investing in finance, insurance, real estate, building materials, and a range of services. Although the geographic focus remained in the Pearl River Delta region, investments also started to be made elsewhere in Guangdong. Many Hong Kong entrepreneurs with family ties to Shanghai, for example, began to explore opportunities in the Yangtze River Delta. For many years, Hong Kong accounted for more than 50 percent of the external investment into Shanghai. Hong Kong began to be viewed as a partner for Shanghai's development (HKTDC, 2001).

While many of the Hong Kong manufacturing companies that invested in the Chinese Mainland were small companies, a number leveraged their China production facilities to become internationally prominent, such as Johnson Electric (mini-motors), VTech (electronics and toys), Gold Peak (batteries and electronics), Techtronic (tools), TAL (garments), Esquel (garments), and many others. In addition to the manufacturers and traders, Hong Kong-based property developers, infrastructure companies, retailers, banks, logistics companies, and others joined in on investing in the Chinese Mainland, their path eased somewhat by several rounds of CEPA (Closer Economic Partnership Arrangements) between Hong Kong and the Chinese Mainland (which provided easier access to the Mainland market to Hong Kong firms), the first round of which was agreed in 2003. In the meanwhile, conditions for smaller Hong Kong companies began to change in the 2000s as Mainland competitors emerged, costs began to rise in the Pearl River Delta, and some of the leading localities for Hong Kong investment began placing greater emphasis on sustainable development, favouring investments involving cleaner manufacturing processes, and targeting investments with higher levels of technology content. In any case, the stock of foreign investment in the Chinese Mainland from Hong Kong roughly tripled in the years 2003 to 2013.

Hong Kong investment also generated employment in the Chinese Mainland, particularly on the Pearl River Delta region of Guangdong Province. In 1981, Hong Kong manufacturing firms employed roughly 870,000 manufacturing workers in Hong Kong and few elsewhere. By 2001, they employed only around 230,000 manufacturing workers in Hong Kong (HKCSD, 2002). By our estimates, by 2002, Hong Kong firms employed up to 10 million to 11 million (directly or indirectly) in the Pearl River Delta region and between 500,000 and one million elsewhere in Asia.[3] While we are not aware of any subsequent study of the employment of Hong Kong companies in the Chinese Mainland, we note that the stock of Hong Kong sourced foreign direct investment into China roughly tripled in the years 2003 to 2014, and that the 11 million figure for 2003 represented employment in just one province, albeit the province that had received the largest portion of Hong Kong investment.

Connecting China to the world

Hong Kong and Hong Kong firms have long played a role in connecting China to the rest of the world. Examples include Hong Kong's role in physically connecting China through the port and airport in Hong Kong; connecting China commercially through trading, trade fairs, and B2B communication; and connecting China to global capital markets. For the first two decades of China's reform period, the port of Hong Kong provided the connections for the seaborne exports of South China to the rest of the world. Hong Kong's share of South China direct export container traffic was around 95 percent as late as 1996. With massive investments in capacity and increased efficiency in the ports in Guangdong Province, this figure began to fall. Hong Kong's share of South China direct export container traffic fell to 76 percent in 2001 to 47 percent in 2006 and to 40 percent in 2011 (HKTHB, 2008; HKTHB, 2014). Thus while Hong Kong's importance has diminished, it is clear that Hong Kong provided the port access from South China to the rest of the world for the first two decades of China's reform period, a time within which South China became established as a world leading export location.

Hong Kong has been the dominant supplier of air cargo services that link China with the rest of the world. Hong Kong International Airport (HKIA) accounted for around 70 percent of the total air cargo of the Greater Pearl River Delta (GPRD) region and 90 percent of the international air cargo for the region in 2004 (Lam, 2005). In 2014, HKIA accounted for on the order of 65 percent of the total air cargo traffic in the GPRD, and a larger share of international air cargo.[4]

Hong Kong has emerged as a leading location for trading, trade fairs, and international B2B communication. The import-export trading sector in Hong Kong employed 516,700 people in 2013 (HKCSD, 2014),[5] the vast majority of whom were involved in China trade. Large trading companies, like Hong Kong's Li & Fung competed alongside tens of thousands of small companies in this sector. Trade fairs organized in Hong Kong and by Hong Kong-based trade fair operators such as Global Sources and the Hong Kong Trade Development Council attract millions of buyers each year to more than 100 events a year. Most of these events are dominated by Chinese manufactured goods. Hong Kong has also emerged as a leading B2B media hub, again largely, though not exclusively, connecting China-based buyers and suppliers to the rest of the world, with Global Sources again a major player.

Hong Kong has also been a principal avenue for companies from the Chinese Mainland to access international sources of capital. The first 'Red Chip' companies from the Chinese Mainland were listed on the Hong Kong Stock Exchange in 1973.[6] In 1993, Tsingtao Brewery became the first 'H Share' company from the Chinese Mainland to list on the Hong Kong Stock Exchange.[7] By the end of September 2015, a total of 212 H share companies, 144 Red Chip companies, and 564 non-H share private enterprises from the Chinese Mainland were listed on the Hong Kong Stock Exchange. These companies had a total market capitalization of HKD 14.3 trillion (or around USD 1,850 trillion), or around 62 percent of the total capitalization of the Hong Kong Stock Exchange (Hong Kong Stock Exchange, 2015). While international and Chinese-joint venture investment banks have managed the lion's share of Chinese IPOs in Hong Kong in recent years, in the early days, Hong Kong-based Peregrine (which failed during the Asian Financial Crisis of 1997-99) was the leader in taking Chinese companies to international capital markets.

Hong Kong has been the location of several other 'firsts' when it comes to the internationalization of China's financial sector. Hong Kong became the first offshore centre to launch RMB business in 2004 and has become the main global centre for RMB trade settlement, financing, and asset management. The Shanghai-Hong Kong Stock Connect, launched in 2014, offered the first channel for foreign investors to access the Shanghai stock market, China's largest. These examples show that Hong Kong plays an important role as a laboratory for the internationalization of China's financial markets.

Creating infrastructure and utilities in China

Hong Kong companies have been pioneers in investing in infrastructure in China, particularly in the Pearl River Delta region of Guangdong Province. This has been true in land transportation, sea transportation, utilities, and energy. In the early days of China's reforms, most foreign investors shied away from investing in infrastructure in China. Without a clear legal framework and track record in place, many potential foreign investors feared that their investments in China would be subject to changes in rules or regulations that would affect the viability of their investments. Hong Kong companies, on the other hand, were willing to take the risks and find solutions to these issues with their Chinese counterparts.

Hong Kong enterprises made early investments in land transportation in China, particularly in the Pearl River Delta region (author's interviews; Yeung, 1994, p.149-50). Hong Kong companies Hopewell Holdings, New World Infrastructure, Cheung Kong, Tai He Group, and Hui Ji Group helped build the roads and bridges that opened up much of Guangdong Province to investment. Hong Kong investment in roads in China has brought not only capital, but also new concepts, such as toll highways. While Hong Kong infrastructure investment has benefitted several parts of China, it had a particularly important influence on the Pearl River Delta region (PRD). Infrastructure investment from Hong Kong in the 1990s allowed the PRD to become the leader in the Chinese Mainland in terms of density of expressways, a feature that was instrumental in linking the Pearl River Delta factories to the ports of Hong Kong and Shenzhen, and therefore the rest of the world.

Hong Kong firms have played a key role in the development of ports in China (Comtois and Slack, 2000, p.16.). The port of Yantian in Shenzhen was jointly developed by Shenzhen Dongpeng Holdings and Hong Kong-based Hutchison Port Holdings (HPH). HPH, the world's leading port investor and operator, has been a major investor and operator in the ports of Shanghai, Ningbo, Huizhou, Xiamen, Zhuhai, Foshan, and Jiangmen. Modern Terminals, once part of the Hong Kong-based Swire Group and now a subsidiary of Hong Kong-based Wharf Holdings, invested in port facilities in Da Chan Bay, Shekou, and Chiwan in Guangdong, as well as Taicang (Jiangsu Province). New World Infrastructure invested in container terminals at the ports in Xiamen and Tianjin. In addition to investment, Hong Kong firms provide management and expertise in several of the most important ports in China, and worked with Chinese Customs and other agencies to streamline procedures and paperwork. This combination allowed the Chinese ports to operate at world standards well before they would have been able to do so otherwise (author's interviews). The fact that Hong Kong companies are still major investors and operators in several of China's most important ports shows that they still are making substantial contributions.

Hong Kong companies have pioneered other infrastructure investments in China as well. Hong Kong's MTR Corporation, the first non-Mainland company to invest in and operate a metro line in China is active in Beijing, Shenzhen, and Hangzhou (MTR Corporation, 2014). The Airport Authority of Hong Kong (AAHK), the first non-Mainland entity to invest in an airport in the Chinese Mainland acquired a 35 percent stake in Hangzhou's Xioashan International Airport in 2006, and set up joint ventures to manage the airport in Zhuhai (in 2006) and terminal and retail operations at Shanghai's Hongqiao Airport (in 2009) (AAHK, 2014). The MTR and AAHK investments, the first of their kind in China, set the tone for subsequent investments by other foreign entities in these sectors.

Hong Kong companies have also invested in public utilities and energy in the Chinese Mainland. New World Infrastructure has investments in power plants in Guangdong and Sichuan, as well as in water plants and / or treatment facilities in Zhongshan, Siping (Jilin Province), Baoding (Hebei), Zhangzhou (Henan), Panjin, (Liaoning), Changdu (Liaoning), Dalian (Lioaning), Shanghai, Sanya (Hainan), Chongqing, Tianjin, Wuhan, and Chengdu (NWS Holdings, 2015). Cheung Kong Infrastructure has invested in power plants in Zhuhai, water facilities in Hunan, and gas fields in the South China Sea (Cheung Kong Infrastructure, 2015). Hopewell is a major investor in power plants in Guangdong Province (Hopewell Holdings, 2015). China Light and Power has invested in coal power facilities in Guangxi, Beijing, Tianjin, and Shandong; nuclear power in Guangdong Province; wind power in Lioaning, Yunnan, Sichuan, Shandong, Shanghai, Guizhou, Hebei, Inner Mongolia, Heilongjiang, Xinjiang, Gansu, Jilin, and Guangdong; hydroelectric facilities in Sichuan, Yunnan, and Guangdong; and solar power facilities in Gansu, Jiangsu, and Yunnan (CLP, 2015). In many cases, Hong Kong companies found solutions in an ambiguous environment that allowed them to be early investors in utilities in China, often working with Chinese officials to develop the rules and regulations governing investment into the sector and paving the way for other foreign investors to enter as well.

Developing China's cities

Hong Kong developers have been pioneers in development in several of China's leading cities. In the 1990s, developments like Shui On Plaza in Shanghai and Kerry's China World Center in Beijing helped make Chinese cities user-friendly for international companies and business. Shui On's Xintiandi and Taipingqiao developments in Shanghai helped set the standard for city centre development in China. Other Hong Kong developers like Sun Hung Kai Properties, Hutchison, Wharf, Hang Lung, and Henderson have been leaders among foreign developers in China. As of October 2015, the Kerry Group had completed projects or projects underway in more than 20 Mainland cities, the Wharf Group in 15 cities, Henderson Land 16 cities, and Hang Lung in 8 cities. Shui On became known for historically sensitive city-centre development; Hang Lung for retail complexes; Kerry for mixed-use city-centre developments, and Sun Hung Kai for large-scale office and retail complexes; etc. Hong Kong developers have been particularly prominent in Shanghai, where the busiest part of Huai Hai Road, one of Shanghai's leading commercial streets, is called 'Hong Kong Street' after the investments by Hong Kong developers.

Hong Kong companies have also been active in developing hotels in the Chinese Mainland, including the first international calibre hotel in many Chinese cities. Hong Kong joint ventures developed the White Swan Hotel, which opened in 1983, and the China Hotel, which opened in 1984, which were for many years the leading hotels for foreign business people in Guangzhou. The China World and nearby Traders Hotels (developed by Hong Kong-based Kerry Group), have been leading hotels for foreign business people visiting Beijing for many years. The early investments by Hong Kong developers have facilitated other companies investing in China. By late 2015, the Kerry Group had invested in 54 hotels across the Chinese Mainland under the Shangri-La, Traders, and other brands. Other Hong Kong hotel groups with substantial Mainland activities include Langham (12 hotels in China as of October 2015), New World (9 hotels), the Wharf Group (8 hotels), Regal (8 hotels), and Marco Polo (7 hotels). Other groups like the Mandarin Oriental Group (a Jardine company), Swire Hotels, and Hong Kong and Shanghai Hotels (Peninsula Brand) had fewer but high-profile properties in China.

Hong Kong companies were early foreign investors into the property and hotel sectors in China. In several cases, they introduced new quality standards and international best practice into China, features that several Chinese developers quickly emulated. They worked with local officials to create a regime that would make foreign investment in these sectors feasible. They also paved the way for developers from other countries to invest in China, magnifying their overall impact. Thus while by 2015 the Hong Kong developers active in the Chinese Mainland were small compared to the leading Mainland developers, they still occupied prominent positions in many cities around China.

Technology and management transfer

In the early days of China's reforms, Hong Kong was instrumental in the transfer of technology and management capabilities to the Pearl River Delta region and other parts of China. This transfer came about largely through the direct transfer accompanying investments by Hong Kong firms, the copying of Hong Kong sourced technology and management practices by facilities in the Chinese Mainland, and by Hong Kong acting as a technology and management intermediary between China and the rest of the world.

A substantial amount of technology and management transfer has been coupled with the investments of Hong Kong firms (Wang, 1994, p.172-3). After 30 years of a closed economy, China had limited capacity to create or absorb needed technologies or management expertise. Foreign technology and management capabilities were needed if China were to start to meet domestic demand, as well as to produce for export markets. In the early years of the reform process, much of the technology that was transferred was embodied in capital equipment imported by Hong Kong investors, while management capabilities were embodied in Hong Kong managers. The Hong Kong companies brought modern product design, production equipment, production management, quality control, packaging expertise, and marketing knowledge (author's interviews, Cheng and Zheng, 2001; Wong, 2003). Local companies soon copied the Hong Kong company practices. This form of transfer continued into the late 1990s, by which time many companies in China had developed their own capabilities and the ability to absorb or copy foreign technology.

Since the mid-1990s, the role of Hong Kong in technology and management transfer to China has changed. In technology, Hong Kong companies have become intermediaries, sourcing technology globally and introducing it into China. The role in management has changed as well. Better education and greater experience in the Mainland has improved local management capabilities, leading to a situation in Hong Kong-invested enterprises in which Hong Kong people fill senior management, marketing, finance, and international roles and Mainland managers fill operational roles. The same pattern can also be seen in many major multinational firms, with Hong Kong people often in senior and international roles for China activities. It should also be noted that many of the Mainland managers developed by Hong Kong firms subsequently became entrepreneurs that have helped develop the private economy in China (author's interviews).

Hong Kong's contribution

The contribution of Hong Kong and Hong Kong companies to the development of the economy of the Chinese Mainland is difficult to overestimate. According to Chinese statistics, Hong Kong has been the dominant source of foreign direct investment into China. Even if some of the capital claimed to have come from Hong Kong originated elsewhere, this still shows Hong Kong's role of linking the Chinese Mainland to the rest of the world. In industry after industry and in policy area after policy area Hong Kong companies or Hong Kong models were extremely influential in China's development.

One simple example of the value of Hong Kong to China's development involves the comparison of two pairs of cities in the Pearl River Delta region, Shenzhen and Dongguan on the one hand, and Zhongshan and Zhuhai on the other. Shenzhen, which is just north of Hong Kong on the east side of the Pearl River Delta was home of one of China's first Special Economic Zones in 1980. Zhuhai, which is just north of Macau on the west side of the Pearl River Delta was also home of one of the first SEZs. In 1980, the combined GDPs of Shenzhen and Dongguan, the municipality just north of Shenzhen (USD 650 million), was significantly less than the combined GDPs of Zhuhai and Zhongshan, the municipality just north of Zhuhai (USD 760 million). By 1990, the combined GDP of Shenzhen and Dongguan was USD4.2 billion, compared to USD1.8 billion of Zhuhai and Zhongshan. By 2002, the numbers were USD 35.4 billion (SZ+DG) and USD 9.9 billion (ZH+ZH); by 2008 USD 165.4 billion and USD 34.3 billion; and by 2013, the GDP of Shenzhen + Dongguan was USD 322.6 billion while that of Zhuhai + Zhongshan was USD 69.4 billion, a difference of over USD 250 billion.

The main reason for the GDP difference was the export performance of the Shenzhen + Dongguan combination, which in turn was due mostly to the difference in foreign investment between the two city pairs, which in turn was due largely to the fact that the vast majority of foreign investment into the Pearl River Delta went into locations that were a quick car ride from Hong Kong. It turns out that the Hong Kong company owners and managers, many managers of multinational companies with a Hong Kong base, service providers from Hong Kong, and international buyers who fly into Hong Kong and want to see the factories in which the goods they purchase are produced take the car, not the ferry, and therefore prefer the eastern part of the delta to the western side. Thus in a very real way the present and past advantages of easier land access to Hong Kong resulted in a USD 253.2 billion difference in GDP between two cities with easy land access to Hong Kong versus two cities less than two hours from Hong Kong by ferry.[8]

What is clear is that Hong Kong companies have been pioneers in many aspects of China's development and particularly its interaction with the rest of the world. This has been true in the manufacturing, trading, transportation, infrastructure, real estate, hospitality, and service sectors. While the Hong Kong influence is far less today than it was in the early days of China's opening, recent events show that Hong Kong is still a pioneer when it comes to China's opening.

Conclusion

Corporate case studies provide a range of insights into the roles played by foreign companies in China. Hong Kong companies have been pioneers in many if not most aspects of China's economic opening. At each stage of development and across a wide range of industries and activities, new opening in China has meant new opportunities, but these opportunities have never been without risk. For a range of reasons, including proximity, family ties, ability to form relationships, cultural ties, and specific business experience, Hong Kong companies have been willing to make investments and take risks in advance of other 'foreign' companies. Whether in light manufacturing, infrastructure, transportation, or real estate, Hong Kong companies have been able to serve and leverage the Chinese economy earlier than firms from other economies. This has benefited China and has allowed Hong Kong companies a much broader reach and scope than if they had stayed at home. The result has been an economic integration that has helped modernize and internationalize China's economy.

Notes

[1] This section draws upon Enright et al., (1997), Enright et al. (2005), Enright et al. (2003), Enright, Scott & Associates (2010); and numerous interviews by the author.

[2] See Chapter 2 in Michael J. Enright, *Developing China: The Remarkable Impact of Foreign Direct Investment* (Routledge 2017).

[3] Research sponsored by the Federation of Hong Kong Industries has reached a similar estimate (Wong, 2003).

[4] Based on statistics from Airports Council International.

[5] Hong Kong Census and Statistics Department.

[6] A 'Red Chip' company is a Chinese company incorporated outside of the Chinese Mainland, listed on a foreign stock exchange (usually Hong Kong), and controlled by Mainland Government entities.

[7] An 'H share' company is incorporated in the Chinese Mainland, listed on a foreign stock exchange (usually Hong Kong), and controlled by Mainland Government entities or individuals.

[8] For earlier versions of this argument see Enright et al. (2003, 2005).

References

AAHK, 2014, *Annual Report 2014*, Airport Authority of Hong Kong.

Cheng, J.Y.S. and P. Zheng, 2001, 'Hi-Tech Industries in Hong Kong and the Pearl River Delta: Development Trends in Industrial Cooperation', *Asian Survey*, 41(4), p.584-610.

Cheung Kong Infrastructure, 2015, *Our Business*.

CLP, 2015, *Our Operations: Power Generation*.

Comtois, C. and B. Slack, 2000, 'Hong Kong: Adding Value to China – Transport Hub and Urban Super-Region', *China Perspectives*, 29, May-June.

Enright, M.J., E.E. Scott, and K.M. Chang, 2005, *Regional Powerhouse: The Greater Pearl River Delta and the Rise of China*, Singapore, Wiley.

Enright, M.J., E.E. Scott, K.M. Chang, and W. Zhu, 2003, *Hong Kong and the Pearl River Delta: The Economic Interaction*, Hong Kong, 2022 Foundation.

Enright, M.J., E.E. Scott, and D. Dodwell, 1997, *The Hong Kong Advantage*, Hong Kong, Oxford University Press.

Enright, Scott & Associates, 2010, *Hong Kong Manufacturing SMEs: Preparing For the Future*, Hong Kong, Federation of Hong Kong Industries.

HKCSD, 2002, Hong Kong Special Administrative Region Government, Census and Statistics Department.

HKTDC, 2001, *The Two Cities – Shanghai and Hong Kong,* Hong Kong Trade Development Council, March.

Hong Kong Commercial Daily, 2002, 'Lu Ruihua Expects Guangdong's Exports to Increase 10% this Year', *Hong Kong Commercial Daily*, 6 June.

Hong Kong Stock Exchange, 2015, *HKEx Monthly Market Highlights*, 30 September.

Hopewell Holdings, 2015, *Corporate Profile*.

Lam, E., 2005, 'Moving Forward with You', *HACTL*, 13 April.

Leung, C.K. 1993, 'Personal Contacts, Subcontracting Linkages and Development in the Hong Kong – Zhujiang Delta Region', *Annals of the Association of American Geographers*, 83(2), p.272-302.

Li, J., X. Yan, and C. Zhou, 2002, '[An Investigation into the Current Situations and Development Trends of MNC Investment in the Pearl River Delta]', *Guangdong Development Magazine*, 1, (in Chinese).

MTR Corporation, 2014, *Annual Report 2014*.

NWS Holdings, 2015, *Business: Infrastructure*.

Ta Kung Pao, 2002a, '[Hong Kong Businesses Prepare Domestic Sales]', *Ta Kung Pao*, 22 January, (in Chinese).

Ta Kung Pao, 2002b, '[Trade Between Hong Kong and Guangdong Reaches USD 38.7 Billion]', *Ta Kung Pao*, 10 April, (in Chinese).

Wang, J., 1994, 'Expansion of the Southern China Growth Triangle', in M. Thant, M. Tang, and H. Kakazu, eds, *Growth Triangles in Asia: A New Approach to Regional Cooperation*, Hong Kong, Oxford University Press, p.151-75.

Wong, R., 2003, *Made in PRD: The Changing Face of HK Manufacturers*, Federation of Hong Kong Industries.

Yeung Y., 1994, 'Infrastructure Development in the Southern China Growth Triangle', in M. Thant, M. Tang, and H. Kakazu, eds, *Growth Triangles in Asia: A New Approach to Regional Development*, p.114-50.

Zhongshan University, 2002, [*A Study of the Economic Relationship Between Hong Kong and the Pearl River Delta*], The Centre for Urban and Regional Studies, Zhongshan University, (in Chinese).

For more information

ENRIGHT, SCOTT & ASSOCIATES
Strategy Consultants

Michael Enright, Director, Enright, Scott & Associates Limited
michaelenright@enrightscott.com / +852 3101 8650
www.enrightscott.com

promoting sustainable global trade
hinrich foundation

Stephen Olson, Research Fellow, Hinrich Foundation
stephen.olson@hinrichfoundation.com / +852 9889 5510
www.hinrichfoundation.com

About the research

This paper is an excerpt from a larger project initiated by the Hinrich Foundation and undertaken by Enright, Scott & Associates on the impact of foreign investment and foreign enterprises as a whole on China's economy.

The results of the larger project were published in Michael J. Enright, Developing China: The Remarkable Impact of Foreign Direct Investment (Routledge 2017).

Learn more about the book at: www.hinrichfoundation.com/trade-research/fdi-in-china/