# FOREIGN DIRECT INVESTMENT

## Bringing the Benefits of Globalization Back Home

**June 2008**

Partnership for New York City

## Executive Summary

New York's economic success is increasingly dependent on business operations established here and controlled by foreign-owned companies, known as Foreign Direct Investment ("FDI"). A study commissioned by the Partnership for New York City has determined that FDI is responsible for about ten percent of the total economic output of New York City. This amounted to about $58 billion in 2006 and that number has certainly increased in the past two years. The study, by international consultants at London-based DTZ, found that FDI is responsible for creating one in twenty jobs in the New York City economy.

Nowhere in America are the past and future benefits of globalization more clearly manifest than in New York City. And nowhere in America is there a better microcosm of the opportunities that are still to be realized from foreign investment than in the prospects for revitalization of the Upstate New York economy.

New York City has done well in attracting foreign capital, but still ranks far behind London and other competitors. Going forward, New York must compete for investment not simply from traditional sources like Germany, Japan, France and the United Kingdom, but also from the emerging economies of China and India.

On the national political stage, there has been active resistance to foreign investment in U.S. business. Policies that restrict foreign ownership are increasingly — and dangerously — in vogue in Washington D.C. As a result, nearly half the foreign investors now operating in the U.S. believe they will get better value by directing their resources into other countries. New York City and State need to take the lead in communicating to federal policy makers and the American public that Foreign Direct Investment is a powerful antidote to the loss of jobs from globalization. FDI brings the benefits of a global economy back home.

### Partnership for New York City

With a mission to maintain the city's position as a global center of commerce and innovation, the Partnership for New York City is an organization of the leaders of New York City's top corporate, investment, and entrepreneurial firms. They work in partnership with city and state government officials, labor groups, and the nonprofit sector to enhance the economy and culture of the city. The Partnership focuses on research, policy formulation, and issue advocacy at the city, state, and federal levels by leveraging its network of CEO and Corporate partners. Through its affiliate, the New York City Investment Fund, the Partnership directly invests in economic development projects in all five boroughs of the city.

# Introduction

The U.S. has for years been the world's most significant investor overseas, reaping significant returns from moving capital and business operations into foreign markets. But the tables are turning. Today, foreign investors and foreign-owned corporations play a growing role in the U.S. domestic economy. The reaction around the country has been mixed.

For the most part, New Yorkers have encouraged foreign investment and embraced the global marketplace. Dating back to development of the World Trade Center in Lower Manhattan in the 1970's, New York City and State have sought to position themselves to take advantage of globalization. As a result, foreign investment in real estate and business operations, as well as tourism from foreign countries, have contributed heavily to the economic expansion that New York City has enjoyed over the past thirty years.

For the first time, this report puts numbers to the contribution that job-generating foreign investment (known as Foreign Direct Investment or FDI) makes to New York City's economy, and they are impressive. In 2006, FDI accounted for about $58 billion, or more than 10 per cent of the $570 billion Gross City Product.[1] This data was produced using an econometric model developed by DTZ, a leading global real estate advisory and consultancy firm. There is a detailed note on methodology at the end of the report.

New York's receptivity to foreign investment contrasts with much of the rest of the country, where the forces of globalization are blamed for job loss and economic decline.[2] As the 2008 U.S. Presidential campaign has shown, national political trends are increasingly protectionist. The danger is that campaign rhetoric will become administration policy, increasing restrictions on immigration, foreign investment and international trade. The consequences for New York and other major metropolitan areas around the country are potentially devastating, making it even more difficult to compete with other world cities in attracting global business, investment and world class talent.

The competitive challenge that protectionist U.S. policies impose on New York was identified in a report prepared by McKinsey & Co. and issued by Mayor Michael Bloomberg and Senator Charles Schumer in January, 2007.[3] Subsequently, New York's government and business leaders have led public discussion of the benefits and opportunities presented by globalization. New York's experience is evidence of the value that other U.S. cities and states can gain from foreign investment and suggests the huge opportunities that would be lost by closing off the U.S. to such investment.

The universe of foreign investment in U.S. companies is a broad one. It includes portfolio investment (usually defined as a foreign holding of less than 10% in the U.S. entity), minority investment (holdings of between 10 – 50% of equity where the investor can influence the management of the U.S. entity) and majority investment, where majority or full control resides outside the United States. This paper considers Foreign Direct Investment to include only investment where a foreign owner has majority control and creates jobs in the U.S. For example, HSBC Bank USA is a wholly owned subsidiary of HSBC Holdings PLC, London, England, and would be included as FDI. The same would be true of Toyota Motor North America, which is 100% owned by Toyota Motor Corporation, Japan.

1 Table 2 – note that this is a conservative projection of figures based on trends from 2002 to 2004

2 *This Global Show Must Go On* NY Times June 9, 2008

3 *Sustaining New York's and the US' Global Financial Services Leadership*, McKinsey January 2007

Real estate investment with majority ownership by foreign companies would be included in the FDI category only if a foreign company uses the asset to produce goods or sell services. For example, The Plaza Hotel is co-owned by Israeli-based Elad Properties and Saudi-based Kingdom Holdings and is managed by Canadian-based Fairmont Hotels & Resorts. The jobs, wages and profits associated with the hotel would appear as New York City and State FDI. On the other hand, if a foreign company purchased an office block but did not create new jobs, wages or profits as a result of this investment, only a small fraction of the real estate financing attributable to jobs associated with managing the investment would be included in the FDI calculation.

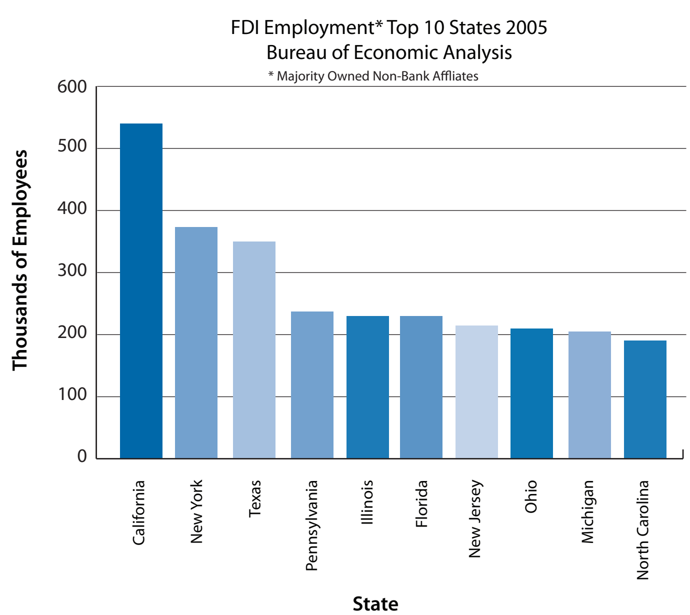
In recent months, Sovereign Wealth Funds (SWFs) have attracted significant press attention for their investments in major New York headquartered institutions. SWFs are state-owned investment funds managing pools of money that governments seek to invest for profit. This paper includes a brief discussion of the importance of these funds, even though all of the investments to date have been portfolio investments, falling beneath the 10% threshold of ownership and not, therefore, included in FDI totals.

## The National Picture

In 2005, foreign-owned companies employed nearly 5.1 million Americans, or 4.4% of the private-sector labor force.[4] New York was second only to California as the largest beneficiary of these jobs. Interestingly, Ohio, Michigan and Pennsylvania (often cited as the victims of outsourcing and offshoring) have also benefited in substantial ways from FDI.

In addition to creating jobs, foreign direct investment also has other beneficial effects on the U.S. economy. For example, firms that operate in the global marketplace have a well established productivity advantage over those that do not.[5] This is usually explained by the efficiency of the operations of foreign companies, particularly multinational companies. Ultimately, domestic firms become the beneficiaries of this increased productivity when employees move between highly productive foreign multinationals and domestic companies, bringing best practices with them.

FDI also provides opportunities for economic regeneration, such as Haier's well-documented investment in South Carolina in 2000, or Toyota's engine manufacturing plant in Alabama,[6] providing tax revenue to the local community as well as jobs. In New York, Bombardier helped spur re-employment in the North Country and Kawasaki brought badly needed jobs to the Hudson Valley. The Port Authority of New York & New Jersey has stepped forward and announced plans to rent space




4 *What Tata Tells Us* Wall Street Journal Mar 27, 2008

5 *Multinationals, foreign ownership and US productivity leadership: Evidence from the UK* Criscuolo & Martin, Royal Economic Society Annual Conference 2003

6 *China "problem" seems not so in South Carolina* MSNBC Jan 26, 2008

in the Freedom Tower at the World Trade Center to the Beijing Vantone Group. The space will accommodate a China Center that provides business services and temporary space to Chinese companies that are establishing a Western operation. This will foster immediate business relationships between New York and Chinese companies, but also incubate growing Chinese companies that can be a future source of employment across the state and region.

## How Significant is the Impact of FDI on the New York State and City economies?

In 2004,[7] FDI accounted for over 7% of the New York State economy or $66 billion and was responsible for over 455,000 jobs statewide.[8] FDI created nearly one in every ten dollars of new economic activity in the State between 2002 and 2004.[9]

The figures for New York City are even stronger. Nearly 15% of growth in New York's economy or one in every seven dollars can be attributed to FDI in the period 2002 – 2004[10] and FDI accounted for nearly 10% of the City's economy or $48 billion in 2004.[11] DTZ calculates this figure rose to $58 billion in 2006.[12]

More than one in every 20 jobs in the city,[13] or some 193,000 workers, were FDI employees in 2004. Data is currently being collected by the Bureau of Economic Analysis for the period 2004 – 2007 and will be available in 2009. However, all the evidence suggests that the number of foreign jobs in New York City will have continued to increase during that period.

To date, New York City has attracted the lion's share of FDI within the State. This mirrors a decades-long trend of downstate economic growth compared to upstate stagnation. In 2002, New York City accounted for some two thirds of FDI in New York State (67%). By 2004, this figure had risen to nearly three quarters (72%) of FDI in the State. In a sense, New York is a microcosm of the country, illustrating the value that FDI is creating in those locations that are attractive and open to the global marketplace.

One way to view these statistics is to categorize the City as a globalization "winner" in contrast to the upstate economy. However, in a 2007 report,

| New York Gross State Product and Gross City Product ($ Billions) | | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | | 2004 | | |
| | FDI | All | Share | FDI | All | Share |
| Total Gross State Product | 58 | 822 | 7.1% | 66 | 908 | 7.3% |
| Total Gross City Product | 39 | 428 | 9.2% | 48 | 489 | 9.8% |

Table 1: Bureau of Economic Analysis, City of New York, BvDEP and DTZ

7 This study relies on Bureau of Economic Analysis (BEA) research undertaken in 2002, supplemented by State and metropolitan region accounts for 2002 and 2004.

8 Table 5 (Tables 3–8 begin on page 11)

9 Table 3

10 Table 4

11 Table 1

12 Table 2

13 Table 5

*Delivering on the Promise of New York State*,[14] A. T. Kearney consultants argued that the back-office operations of foreign-owned companies with headquarters in New York City represent a growth opportunity for lower-cost upstate regions. The report suggested that New York's Empire State Development Corporation should put its upstate economic focus on attracting the contact centers and other activities of major foreign-owned companies (as well as domestic corporations) located in New York City. It cited successes achieved for the upstate economy in Buffalo, Rochester and Syracuse with foreign employers including HSBC and AXA.

The Empire State Development Corporation (ESD) is New York State's principal agency for economic development, although assessments of its past performance in this role have been decidedly mixed. The A.T. Kearney report argued for a number of substantive changes in the agency's focus, organization and strategy.[15] Some of its recommendations appear to be on the way towards implementation, including building better connectivity between New York City and the upstate economy, which should assist in sharing the city's FDI advantage with Central and Western New York State.

Moving forward, ESD will need to consider how to allocate resources between marketing focused on mature inward investors to New York such as the U.K, Germany, France and Japan and the opportunities offered by the phenomenal growth of the Chinese and Indian economies.

14 *Delivering on the Promise of New York State, A Strategy for Economic Growth & Revitalization*, A. T. Kearney 2007

15 Ibid

## Which Sectors are attracting Foreign Direct Investment and how does it affect productivity?

Understanding the sectors that are already attracting FDI in New York is useful in identifying core strengths that the State can underscore when targeting foreign companies. Nearly half of all FDI within New York State sits in the finance and insurance sectors,[16] reflecting New York's overall dominance in these sectors and serving to bolster and enhance the city's reputation as a global financial capital.

On the other hand, manufacturing represents a disproportionately large part of FDI compared to its share of the overall economy, which may be attributed to the ability of overseas companies to produce goods more cheaply than U.S. companies, even within the U.S.[17]

The information sector (which includes publishing, broadcasting and telecom as well as information technology) is also significant, and offers opportunities for future growth given its increasing importance in an innovation-driven economy.

Sector shares remained relatively stable between 2002 and 2004, although there were slight increases in information and professional services, and nearly a full percentage point increase in manufacturing.

That foreign-owned firms are more productive than domestic firms is not limited to the manufacturing sector. In New York, this phenomenon is particularly strong in the real estate sector.[18] Productivity in this context means the value added to goods and services by the employee. In 2002, the value added overall per FDI worker was around 60% higher than the average worker in New York

16 Table 8

17 *Comparing wages, skills and productivity between domestically and foreign-owned manufacturing establishments in the United States* Doms & Jensen, University of Chicago 1998

18 Table 7

State, and by 2004 this premium had risen to 71%. This suggests that working for an FDI company gives New York workers the opportunity to benefit from exposure to the productive processes of foreign companies, to gain new skills and knowledge, and to carry these with them throughout their careers.

## How Does New York City compare to other FDI-friendly cities around the world?

While FDI of $58 billion represents a healthy 10% of the New York City economy, it is far less than the $104 billion, or more than a quarter of the economy that FDI represents in London.[19]

When it comes to FDI, New York is behind the competition. Data on the full picture of inward investment by city is hard to come by, but OCO Monitor, which tracks investments in new facilities or the expansion of existing facilities, known as "greenfield" investments, provides one significant piece of the puzzle. These investments are usually the primary goal of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. In the period 2003 – 2006, New York City ranked 17th out of the top 50 cities in attracting greenfield FDI, with less than a third of the number of projects captured by London or Singapore (ranked 2nd and 3rd respectively) and some distance below Mumbai (11th).[20]

New York's relatively low position is partly explained by the differing size of the national economies in which each city operates. Since the U.S. represents approximately one third of the world's economy, the pool of foreign investors available for New York to draw upon is smaller than the universe from which London draws. It is notable that the U.S. is still the number one investor in both London and the U.K. In addition, the U.S. receives significantly more foreign investment through merger and acquisition activity than through greenfield investment.[21]

There are, however, multiple indicators that the U.S. position as the world's largest economy is changing. In March 2008, Reuters reported that the U.S. had lost its number one spot to the Euro zone, based on currency valuation.[22] Estimates vary about when China's economy will outstrip the U.S., but most economists agree that it is likely to occur in the first half of this century. And Goldman Sachs recently suggested that India's economy would be larger that that of the U.S. by 2043.[23]

If further evidence of the competition facing the U.S. were needed, A.T. Kearney's Foreign Direct Investment Confidence Index, which tracks the

| New York Gross City Product ($ Billions) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2002 | | 2004 | | 2006 (Estimate) | | |
| | FDI | All | FDI | All | FDI | | All |
| New York Gross City Product | 39 | 428 | 48 | 489 | High | Low | 570 |
| | | | | | 58 | 56 | |

Table 2: City of New York, Bureau of Economic Analysis and DTZ

19 *£52 Billion: The value of Foreign Direct Investment to London* Think London & DTZ

20 *Top 50 Cities Ranked by Performance in Attracting FDI (2003-2006)* OCO Monitor™

21 *What Tata Tells Us* Wall Street Journal Mar 27, 2008

22 *Weak Dollar Costs U.S. Economy its No.1 Spot* Reuters Mar 14, 2008

23 *India's Rising Growth Potential* Goldman Sachs Jan 22, 2007

impact of likely political, economic and regulatory changes on the FDI intentions of top companies around the world, placed China and India ahead of the U.S. in 2007. It also finds that global investors see risks in the United States, including looming protectionism, and noted that nearly 50% of the investors who planned to decrease or hold constant their level of U.S. investment were driven by better overseas investment options, concerns over a major dollar devaluation and a slowing of the U.S. economy.[24]

This shift in global influence is also noticeable at the city level in Fortune's Global 500 list, which Tokyo leads with 50 companies, with Paris second at 26, London and New York tie for 3rd place with 22 global headquarters each and Beijing is in 4th place with 18 global headquarters.[25]

The decline of U.S. economic dominance[26] makes the attraction of foreign investment even more important to the future of the New York economy and, by extension, the economy of the country.

## Inward Investment from Sovereign Wealth Funds

America's first-in-world status as an investor in other countries has not done much to temper American hostility to foreign investment,[27] most noticeably in the reactions to non-traditional investor nations and to Sovereign Wealth Funds (SWFs).

In 2007 and 2008, SWFs made several multi-billion dollar investments in U.S. corporations. These have included essential cash infusions to help shore up the balance sheets of financial services firms that got caught in the subprime credit crisis. Large, rapid infusions of capital from investments by sovereign funds from Southeast Asia and the Middle East helped most of these firms meet their capital requirements without further straining the global banking and credit systems.

Although Federal Reserve Chairman Ben Bernanke has described SWF investments as constructive[28] and some commentators have argued that these

| NY Headquartered Firms with SWF investments | Total Infusion ($Billions) | Breakdown by Investor | Investor |
|---|---|---|---|
| Citigroup | 30.4 | 6.9 | Government of Singapore Investment Corp |
| | | 5.6 | Kuwait Investment Authority / Alwaleed bin Talal, Capital Research/ Capital World/ Sandy Weill / Public Investors |
| | | 7.5 | Abu Dhabi Investment Authority |
| Merrill Lynch | 12.2 | 6.6 | Korea Investment Corp / Kuwait Investment Authority / Mizuho Financial Group |
| | | 4.4 | Temasek Holdings |
| Morgan Stanley | 5 | 5 | China Investment Corp |
| Blackstone | 3 | 3 | China Investment Corp |
| **Totals** | **50.6** | | |

Source: Bloomberg.com April 2, 2008

24 *New Concerns in an Uncertain World* The 2007 A. T. Kearney Foreign Direct Investment Confidence Index

25 Fortune Global 500 July 23, 2007

26 *Waving Goodbye to Hegemony* Parag Khanna NY Times Jan 27, 2008

27 *A New Deal for Globalization* Scheve, Slaughter Foreign Affairs, July / August 2007

28 Bernanke: *Sovereign Wealth Funds in U.S. Constructive* Reuters Feb 27, 2008

investments are also investments in global economic and political stability,[29] concerns have been raised by a number of lawmakers around the transparency and accountability of these funds. There have also been concerns about allowing financial institutions controlled by foreign governments to invest in private U.S. corporations, with opponents warning of potentially devious political motives.

All the evidence suggests, however, that there is sufficient oversight built in to the system. The Committee on Foreign Investment in the U.S. (CFIUS), which reviews foreign investment deals to ensure they won't pose a threat to national security, has operated efficiently and successfully since its creation. Concerns that SWFs were operating "beneath the radar" of CFIUS were addressed when the Treasury clarified that it will likely review rules for foreign investments in U.S. companies of less than 10%, depending on the level of control exerted by the foreign entity.[30] This is a welcome development, as it balances the legitimate concerns regarding certain foreign investments with a degree of clarity for the investors about the type and extent of investigation that they might face from CFIUS.

The pragmatic view of the role that SWFs have played in the past few months in the U.S. economy was best expressed by Barney Frank (D-MA) who chairs the House Financial Services Committee: "The shift in power does not come from Singapore or Abu Dhabi investing in Wall Street, the shift comes from our economy screwing up. And the way we deal with this is not to say we aren't going to accept foreign investments but to fix what's wrong with our economy."[31]

For lawmakers, the larger question at stake is how far and how fast to welcome future SWF investment. Canada, Germany, France, Japan, South Korea, Australia, Hungary and Greece are proposing or enacting restrictions on investment by state-owned firms from other countries, and the U.S. looks set to join their ranks.[32] The funds themselves have indicated that they will avoid countries with too much political pressure or where they are regarded as a threat.[33] This protectionist attitude could negatively impact New York City, which stands to benefit from the growth of SWFs worldwide through the asset management practices of investment banks, consultancies, and legal and tax advisors. The U.K. by contrast is actively seeking to attract more investment by SWFs, looking to bolster London's position as a location in which funds are managed.[34]

As the world's capital of capital, New York should take a leading and constructive role in the debate around SWF best practices, both in terms of the transparency of the SWF funds, and the clarity of the rules lawmakers put in place as a host to this type of investment.

## Conclusions

New York's international ties and the strength it draws from global business are a part of its DNA as a world city. In a report issued in 1983, the Partnership for New York City recognized the importance of these links. It laid out a blueprint for encouraging both the export of ideas and services from New York to the global economy and the import of foreign capital and talent to fuel continued economic growth at home.[35] New York City's past success is due in no small part to the contributions of foreign companies and investors referenced in this report. Its future depends on broadening relationships with emerging economies and encouraging investment from them.

29 *Sovereign Wealth is a Force for Stability* Financial Times Feb 26, 2008

30 *U.S. May Clarify Scrutiny of Foreign Investments* Wall Street Journal Apr 22, 2008

31 *A Growing Foreign Stake in U.S. Banks* Washington Post Jan 16, 2008

32 *Rise of Nationalism Frays Global Ties* Wall Street Journal Apr 28, 2008

33 *If Not Welcome, China's Fund Says It Will Walk* New York Times June 13, 2008

34 *UK to attract Sovereign Wealth Funds* UK Trade and Investment website Apr 4, 2008

35 *The Partnership Blueprint: Strengthening New York as a World City* 1983

Over the next two to three decades, the opportunity exists for New York to provide the rest of the nation with a model of how to develop foreign direct investment as a source of economic growth, jobs and global linkages.

The Partnership continues to be a leading advocate for city, state and national policies that will improve domestic output, including investment in education,[36] strengthening our talent pool,[37] and encouraging innovation.[38] The Partnership also recognizes a changing global landscape, as the Western world is replaced by Asia as the center of economic power.

The following five points suggest how New York and the U.S. can maximize the benefits of foreign direct investment for domestic economic growth:

- **Spread the Success:** The debate over globalization has been framed in terms of winners and losers, with innovation-driven cities seeing job growth from FDI while former manufacturing centers have lost ground. Strategic economic development and procurement policies on the part of the state could attract back office, data and support operations of growing foreign multinationals to Upstate regions where relatively low costs and deep talent pool are competitive with anywhere in the world.
- **Market New York and the Nation as Open for Business:** Nearly 50% of existing foreign investors in the U.S. feel that they will get better value (and less political resistance) elsewhere. Urgent action is needed to persuade them otherwise. Senator Charles Schumer and Mayor Michael Bloomberg have been early spokesmen in support of FDI investments, responding to misplaced fears about national security and job displacement. Armed with facts, more leaders need to speak out and help foreign investors navigate the political and regulatory hurdles that discourage putting operations in the U.S.
- **Focus Resources:** The traditional investor nations of the U.K., Germany, France and Japan will continue to be important in the near term. But both the Empire State Development Corporation and the New York City Economic Development Corporation should position themselves now to attract FDI from key emerging economies including (but not limited to) China and India.
- **Be Proactive:** Sovereign Wealth Funds have already helped a number of New York institutions weather a particularly difficult economic environment. And this kind of investment is only set to grow. New York should now look to the asset management and broader investment opportunities that these funds present.
- **Promote the Positives of Globalization on the National Stage:** New York City's business and political community clearly understand that foreign direct investments are important and useful to the growth of our local and national economies. This message needs to be communicated effectively on the national stage, particularly in light of an incoming President and a new administration.

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36 *Mayor Michael R Bloomberg and Chancellor Joel I Klein announce $30 million commitment by the Partnership for New York City to fund Leadership Academy* Press Release, Office of the Mayor, City of New York, June 10, 2003

37 *Winning the Global Race for Talent: How U.S. Visa & Immigration Policies Threaten the New York Economy & Cost American Jobs – And How We Can Fix It* Partnership policy paper March 2008

38 *NYC Seed to help Web start-ups grow* Crain's New York Business June 3,2008

# About DTZ

DTZ is a leading global real estate advisory and consultancy firm. More than 11,000 staff advise and act for leading multi-national companies, major financial institutions, governments, developers and investors in 40 countries around the world. With 200 offices in 163 cities, DTZ provides integrated services in corporate consulting, agency, brokerage, valuation, corporate finance, property management and research. In the Americas, DTZ delivers a full range of integrated services through its network of 600 staff in 28 major markets throughout Canada, the United States and Mexico. DTZ Holdings plc, which is the largest shareholder in the DTZ operations, is a publicly quoted company, listed on the London Stock Exchange since 1987.

# Definitions & Methodology

## Definition: Foreign Direct Investment

In this study, Foreign Direct Investment (FDI) is defined as the operations of companies and organizations where full or majority control resides outside the United States.

## Methodology

The study relies on Bureau of Economic Analysis (BEA) research undertaken in 2002, supplemented by State and metropolitan region accounts for 2002 and 2004. Further BEA annual surveys on the operations of United States affiliates (operations under foreign ownership) were used to update the base year of 2002 to 2004. The BEA benchmarking exercise was last undertaken in 2002. The next update is currently being undertaken (Winter, 2007) and the results are unlikely to be available before 2009. State and metropolitan region economic accounts for 2002 and 2004 were used.

- Where data were limited from official government sources, individual company information was drawn upon from Bureau van Dijk Electronic Publishing (BvDEP). BvDEP is one of Europe's leading electronic publishers of business information specializing in company information. BvDEP has extensive information on company ownership structures providing information on both direct and indirect shareholders and tracks back to the ultimate owner.

For example, BvDEP data shows HSBC Bank USA Inc. as a subsidiary of HSBC North America Inc., which operates as a holding company (100% ownership). In turn, HSBC North America Inc. is a wholly owned subsidiary of HSBC Holdings B V, Amsterdam, Netherlands, which in turn is a subsidiary of HSBC Holdings PLC, London, England. The latest information for HSBC Bank USA Inc. shows just over 2,000 employees in New York City.

## Satellite Account

A Satellite Account is an internationally accepted approach used to extend existing economic accounts and figures to provide more detail for areas of particular interest. In this research the area of interest is foreign-owned businesses and the data will be a 'satellite' to existing economic, investment and employment figures for New York City, and New York State. The United States Bureau of Economic Analysis (BEA) already uses the Satellite Account approach for areas including R&D, tourism and transportation.

It can be viewed simply as a set of City or State economic accounts with the foreign and domestic owned firms presented as sectors in the same way that standard economic accounts present information for manufacturing and services. They may also be viewed as a satellite to the standard economic accounts as they can be presented alongside existing economic accounts and labor market data for New York.

BEA publishes a full set of Gross Domestic Product (GDP) and Gross State Product (GSP) accounts. The published data can be arranged in a relatively user-friendly format to show industrial sectors and their economic importance and contribution to growth of the State economy.

Gross City Product estimates are published by the City of New York. Greater reliance was placed on the BvDEP individual company information but a reasonable estimate of the share of FDI in the city economy was produced and compared with the outcome to ensure consistency.

## Tables

### Tables 3 and 4: The Contribution of FDI to Growth in New York's Economy

Table 1 (see page 4), showing Gross State and City Product can be restated to show the growth in GSP and GCP (see tables below). GSP increased by just under $8 billion between 2002 and 2004 due to FDI activity while the New York State economy expanded by $87 billion. This suggests FDI activities accounted for around 9% of overall growth in the economy.

Based on the data below, the contribution of FDI to growth would be nearly 10% each year. According to the latest BEA data, in real terms (adjusting for inflation) the New York State economy expanded by 4.1% in 2004, 3.4% in 2005 and 3.4% again in 2006. This means that FDI activity would be worth around 0.3 – 0.4 percentage points of growth each year, or nearly one in every ten dollars of new economic activity in New York State.

FDI contribution to growth for New York City is shown below. The contribution of FDI to New York City growth would be around 11% each year (14.8% growth compounded over two years). Data from the City of New York (Monthly Report on Current Economic Conditions, November 2007) show the New York City economy growing between 3 – 4 % in real terms. This means that FDI activity would be worth around 0.4 – 0.6 percentage points of growth each year in the New York City economy, or more than one in every seven dollars of new economic activity in New York City.

| New York Gross State Product ($ Billions)* | FDI | | | All | | |
|---|---|---|---|---|---|---|
| | 2002 | 2004 | Change | 2002 | 2004 | Change |
| | 58 | 66 | 8 | 821 | 908 | 87 |
| FDI contribution to GSP growth | 9.2% | | | | | |

Table 3: Bureau of Economic Analysis and DTZ * Rounded to nearest billion

| New York Gross City Product ($ Billions)* | FDI | | | All | | |
|---|---|---|---|---|---|---|
| | 2002 | 2004 | Change | 2002 | 2004 | Change |
| | 39 | 48 | 9 | 428 | 489 | 61 |
| FDI contribution to GCP growth | 14.8% | | | | | |

Table 4: Bureau of Economic Analysis, City of New York and DTZ

## Tables 5, 6, 7, 8: Jobs, Productivity and Sector Shares for New York

FDI accounted for just over 450,000 jobs across New York State, around 4%, or one in every 25 of all jobs (see table below).

FDI accounted for nearly 200,000 jobs in New York City, just over one in twenty of all city jobs. New York City jobs are generally of higher value compared to the whole of New York State and this trend is echoed among foreign owned companies. New York City accounted for 43% of all FDI jobs across New York State in 2002 and 42% in 2004.

| New York State Employment (000's) | | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | | 2004* | | |
| Industrial Sector | FDI | All | Share | FDI | All | Share |
| Manufacturing | 64 | 680 | 9.4% | 62 | 622 | 9.9% |
| Construction | 8 | 449 | 1.8% | 8 | 449 | 1.9% |
| Information | 39 | 326 | 12.0% | 37 | 297 | 12.3% |
| Finance and insurance | 89 | 698 | 12.8% | 91 | 695 | 13.1% |
| Real estate and rental and leasing | 5 | 361 | 1.3% | 5 | 362 | 1.5% |
| Professional and technical services | 27 | 783 | 3.4% | 29 | 786 | 3.7% |
| Other sectors | 231 | 7,118 | 3.2% | 223 | 7,435 | 3.0% |
| Total employment* | 463 | 10,415 | 4.4% | 455 | 10,647 | 4.3% |

Table 5: Bureau of Economic Analysis and DTZ * 2004 Total employment data adjusted for consistency with 2002 data, 2004 sectors constrained to total

| New York City Employment (000's) | | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | | 2004 | | |
| | FDI | All | Share | FDI | All | Share |
| Total employment | 198 | 3,584 | 5.5% | 193 | 3,549 | 5.4% |

Table 6: Bureau of Economic Analysis, City of New York and DTZ

Productivity in certain sectors is extremely high in New York. (see Table 7). For example, in real estate, foreign multinational companies are over 200% more productive than domestic U.S. companies. Similarly foreign-owned finance and professional service companies exhibit significantly higher productivity. These are such companies such as KPMG and HSBC and international realtors and hedge fund managers operating out of New York City. They are not necessarily employing a large number of people, but the wages earned and profits made (output) by these individuals are extremely high. As a result, a relatively small proportion of the state's workforce, some 193,000 workers, were able to generate $48 billion in output in 2004.

**New York State Productivity (GSP per Employee*)**

| Industrial Sector | 2002 | | | 2004* | | |
|---|---|---|---|---|---|---|
| | FDI | All | Gap | FDI | All | Gap |
| Manufacturing | 69,700 | 88,100 | -21% | 80,400 | 96,600 | -17% |
| Construction | 80,100 | 60,900 | 32% | 87,300 | 64,800 | 35% |
| Information | 178,800 | 182,800 | -2% | 211,300 | 219,300 | -4% |
| Finance and insurance | 279,900 | 178,500 | 57% | 285,300 | 190,600 | 50% |
| Real estate and rental and leasing | 940,600 | 322,800 | 191% | 1,139,000 | 374,800 | 204% |
| Professional and technical services | 141,100 | 85,400 | 65% | 155,800 | 97,400 | 60% |
| Other sectors | 55,500 | 51,500 | 8% | 74,600 | 55,100 | 35% |
| Total productivity | 126,000 | 78,900 | 60% | 145,700 | 85,300 | 71% |

Table 7: Bureau of Economic Analysis and DTZ * Rounded to nearest $100

**New York Gross State Product ($ Millions)**

| Industrial Sector | 2002 | | | 2004* | | |
|---|---|---|---|---|---|---|
| | FDI | All | Share | FDI | All | Share |
| Manufacturing | 4,461 | 59,922 | 7.4% | 4,985 | 60,062 | 8.3% |
| Construction | 641 | 27,342 | 2.3% | 698 | 29,086 | 2.4% |
| Information | 6,972 | 59,595 | 11.7% | 7,818 | 65,135 | 12.0% |
| Finance and insurance | 24,913 | 124,566 | 20.0% | 25,959 | 132,445 | 19.6% |
| Real estate and rental and leasing | 4,703 | 116,530 | 4.0% | 5,695 | 135,673 | 4.2% |
| Professional and technical services | 3,810 | 66,885 | 5.7% | 4,518 | 76,559 | 5.9% |
| Other sectors | 12,832 | 366,738 | 3.5% | 16,633 | 409,347 | 4.1% |
| Total GSP | 58,332 | 821,578 | 7.1% | 66,306 | 908,307 | 7.3% |

Table 8: Bureau of Economic Analysis and DTZ

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