End of an era for Pearl River Delta

Tough policies and economic realities sound the death knell for Guangzhou industry

Denise Tsang
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Along the 122.8km Guangzhou Shenzhen Expressway, glass-and-chrome commercial skyscrapers are fast replacing drab low-rise factory buildings, signalling a death knell for the Pearl River Delta's 20-year industrial boom.

A stampede of factories going bust or packing up and moving to the interior of the country looks set to fuel the development of commercial property, manufacturers said.

Simon Shi Kai-biu, the president of the Hong Kong Small and Medium Business Association, said hundreds of the association's 1,000 members with factories around the delta were putting their factories up for sale.

"About 30 have sold properties recently to Hong Kong developers and hundreds are in talks to sell," he said. "They need cash to move their operations elsewhere, or they wish to cash in on the bricks-and-mortar value before going out of business entirely."

The demise of factories and the migration of industrial activity from the delta is likely to accelerate with the combined effect of unfavourable central government policies, a stronger yuan, escalating raw materials prices, and stringent pollution control requirements.

Guangdong is increasing efforts to transform from a factory floor into a more sustainable and service-based economy with an emphasis on higher value, environmentally friendly and innovative industries.

During the past year, the cancellation and reduction of tax refunds for low-end processed exports and more stringent environmental protection rules were introduced to push through the ambitious transformation.

Industry bodies expect a new round of tax rebate cuts and cancellations to hit more products after the Lunar New Year, following two rounds affecting about 3,300 product types since June last year.
The policies have squeezed thousands of labour-intensive and highly polluting industries such as leather tanning, shoe making, and textile and garment production out of business.

Recent snowstorms that have inundated about 20 central and southern provinces worsened the plight of manufacturers as power lines were cut and transport systems were paralysed.

As a result, many steel, cement and motor vehicle plants were forced to suspend operations.

"I won't be surprised to see 10,000 factories in Guangdong fold around the Lunar New Year," Mr Shi said, noting that about 90,000 processing trade factories in the delta were owned by Hong Kong companies.

The most "unfortunate event", Mr Shi said, was the new labour law, promulgated on January 1, requiring employers to include welfare benefits such as annual leave and medical coverage in the employment contracts of all workers.

Eddie Lam Kwong-tak, the chief executive of Onlen Fairyland (HK), a shoemaker with 22 plants employing 40,000 people in Fujian, Guangdong and Shanghai, said the labour law was a major headache for a labour-intensive company.

He said the law added 10 yuan to the cost of each pair of shoes, assuming other costs remained the same.

"I haven't seen a more challenging issue before", in 30 years of shoe making, Mr Lam said. "The negative economic impact the law brings will be like a tsunami."

He added Guangdong could see its labour shortage problem intensify after the Lunar New Year break as labour disputes and job opportunities in the north and west of the country could discourage people from returning to their jobs in the south.

"Many may not return to Guangdong after getting stuck at Guangzhou rail station and making strenuous efforts to go home," he said.

Manufacturers should forget the heyday of fat profit margins and look for a way out by expanding and exploring the domestic consumer market, and competing with domestic rivals on research and development to add value to their products, said Hong Kong Chamber of Small and Medium Business president Dennis Ng Wang-pun.

"Be practical; the road to the future lies in moving higher up the value chain and towards innovation development," Mr Ng said. "Forget those days when competition was basically on cost."

Manufacturers could also consider moving their factories to interior provinces such as Hunan, Guizhou and Jiangxi, he said.

However, some expressed concern about the viability of relocation. Some
cities, such as Chenzhou in Hunan, were so battered by the recent snowstorms that electricity was down for days and highways were blocked, highlighting their weaknesses as "inaccessible islands".

Despite the availability of tax and investment incentives for Guangdong manufacturers, Guizhou, Hunan and Jiangxi would have to rebuild not only their utility and transport infrastructure but also improve physical accessibility, some manufacturers said.

The managing director of electro-plating firm Rambo Chemicals (HK), Jimmy Kwok Chun-Wah, said tight electricity supplies would probably prevail for at least six months while the power infrastructure was rebuilt.

"Although the use of diesel-fired generators has been banned in Guangdong, I am afraid manufacturers will be forced to retrieve the generators for power," he said.

And with a recession looming in the United States, the mainland's largest export market, there appears to be no end to the challenges facing delta-based manufacturers.