Pearl River Delta West: New Bridge Signals New Opportunities
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Executive Summary

After the opening of the Hong Kong-Zhuhai-Macau Bridge (HZMB), Hong Kong will not only have direct land transport link with Zhuhai, but will find its land distance with Zhongshan and Jiangmen in the vicinity of Zhuhai greatly shortened. Even Yangjiang located further west will be within the HZMB's three-hour economic circle. The improvement of Hong Kong's land transport link with western Pearl River Delta (PRD) will give greater flexibility to the movement of people and goods, and strengthen their mutual complementarity in terms of factors of production such as capital and human resources, even market and trade. In order to assist Hong Kong companies in making early plans for development, HKTDC Research conducted preliminary studies in Zhuhai, Zhongshan and Jiangmen which have more direct links with the bridge as well as Yangjiang which lies further west but is still within the HZMB's three-hour economic circle to explore business opportunities worthy of attention in western PRD thanks to easier accessibility.

With regards to tourism, according to figures published by the Census and Statistics Department of Hong Kong, the number of Hong Kong residents travelling to places in Guangdong other than Shenzhen increased by an average 3.5% a year during 2009-2013. From the experience of high-speed railways, the opening of the HZMB is set to give a further boost to tourism in western PRD and the more remote parts of western Guangdong.

The opening of the bridge to traffic will make the planning of itineraries more flexible, making it possible to design more tour packages, such as one-day and one-and-half-day tours, even tours to more remote destinations. It is reckoned that more convenient bus routes with fares cheaper than ferries that may become available following the opening of the bridge may fuel the interest of independent travellers. There are many tourist resources in western PRD. With the improved transport link that comes with the opening of the bridge, it is an appropriate time to further develop or re-organise new tourist routes. Thus, investment opportunities for potential tourist facilities are worthy of attention.

In terms of manufacturing activities, the HZMB will facilitate the entry and exit of investors and managerial personnel as well as the flow of goods and raw materials and lead to the establishment of new production networks. For Hong Kong
companies needing to expand or shift their production bases, this means a greater choice of destinations. In recent years, some cities in western PRD have been actively promoting industrial relocation in a move to take over some of the factories expanded or relocated from the more developed PRD areas. Supply of industrial land in some western PRD cities is more abundant compared to the more developed areas in the PRD.

Although land resources in western PRD are relatively abundant, it does not mean that the extensive development model is adopted in the region. When attracting businesses and investments, the local authorities will only choose the right projects. Apart from placing emphasis on environmental protection and industrial upgrade, different cities have different requirements for projects entering their industrial parks, such as investment intensity and tax revenue generated. For example, in Yangjiang, the general requirements for entering its industrial parks are: investment intensity is on average Rmb1.5 million per mu (1 mu = 667 m²) while tax revenue generated is targeted to reach Rmb150,000 per mu.

The geographical links that come with the completion of the HZMB will also have a direct impact on the logistics industry besides increasing the choices for entry-exit routes in western PRD and improving efficiency, thus giving western PRD greater significance in regional cooperation and resource allocation as a transit and regional distribution centre for imported goods. The continuous development of industry, foreign trade and domestic trade in the western PRD is fuelling the development and growth of the logistics industry in the area. According to local logistics players, more local manufacturing enterprises are beginning to realise the advantages of using third-party logistics support. Many cities in western PRD are striving to become the regional logistics hub. In particular, they are going to capitalise on the better connectivity offered by the direct link between the HZMB and Hong Kong’s international air transport, to turn their local logistics parks into import-export convergence and dispatch points in the mainland. Turning the local bonded logistics parks into processing and distribution centres for imported goods, especially for consumer products, may also be one of the major development trends.

Due to rising labour costs, manufacturers whether of Hong Kong or mainland are actively transforming and upgrading in order to maintain competitiveness. In this upgrade process, it may create demand for professional services other than
manufacturing. Enterprises in Zhongshan, Jiangmen, Yangjiang and other places have good impression on Hong Kong producer services. For example, a local company noted that the advantage of Hong Kong’s industrial design lies not only in attractive appearance, but also the structure which takes into account time efficiency in production. Some brand companies located in Zhongshan, Jiangmen or even Yangjiang are also planning to gradually explore expansion in overseas markets or further expand overseas markets from the original focus on the domestic market. When mainland enterprises enter the international market, Hong Kong’s design services with its understanding of the world market provide them with the relevant consultancy services.

The mainland’s better living environment is one of the main factors attracting Hong Kong people to live there. According to surveys of elderly Hong Kong people living in the mainland, the proportion of living in Zhongshan rose significantly by 6.4 percentage points to 9.9% in 2011, while Zhuhai and Jiangmen also accounted for 2.9% and 2.5% respectively. When the HZMB opens to traffic, more Hong Kong people may become interested in buying property in Zhongshan. A local property developer said it is keen to introduce more consumer services from Hong Kong when recruiting tenants for its shopping mall. This may be a development opportunity for Hong Kong businesses or expertise wishing to tap the Zhongshan market.
1. Background

The Hong Kong-Zhuhai-Macau Bridge (HZMB) is the first mega-size sea crossing linking Hong Kong, Zhuhai and Macau. It starts from an artificial island off the Hong Kong International Airport and runs westwards to the Zhuhai-Macau boundary crossing facilities on another artificial island. The total length from the Zhuhai-Macau boundary crossing facilities to the Hong Kong boundary crossing facilities is 41.6 km and travelling time is about 45 minutes.

The HZMB will greatly shorten the distance between Hong Kong and the western Pearl River Delta (western PRD). After reaching Zhuhai by bridge, one can proceed to western Guangdong cities like Jiangmen and Yangjiang via the coastal expressway. Rough estimates show that it takes about an hour and an hour and half to go from Zhuhai to Zhongshan and Jiangmen respectively at present. After the opening of the bridge, Hong Kong will not only have direct land transport link with Zhuhai, but will find its land distance with Zhongshan and Jiangmen in the vicinity of Zhuhai greatly shortened. Even Yangjiang located further west will be within the HZMB’s three-hour economic circle. The improvement of Hong Kong’s land transport link with western PRD will give greater flexibility to the movement of people and goods, easing some of the constraints such as ferry schedule and loading limit.
The HZMB will contribute to Hong Kong's economic and people-to-people links with western PRD and strengthen their mutual complementarity in terms of factors of production such as capital and human resources, even market and trade. For example, Hong Kong-based professional services providers may, through the better connectivity afforded by the bridge, be able to provide services more efficiently to western PRD. The bridge will also generate new opportunities for logistic services between Hong Kong and the west bank of the Pearl River. Other sectors, such as industrial relocation and tourism, may also benefit from the opening of the bridge.

In order to assist Hong Kong companies in making early plans for development, HKTDC Research conducted preliminary studies in Zhuhai, Zhongshan and Jiangmen which have more direct links with the bridge as well as Yangjiang which lies further west but is still within the HZMB's three-hour economic circle to explore business opportunities worthy of attention in western PRD thanks to easier accessibility.
1.1 Progress of Bridge Construction

According to reports released in mid-October 2014, more than 50% of the main part of the project has been completed and good progress is made in the building of the bridge itself. The HZMB Authority is still confident of completing the project before the end of 2016 even though the date of its opening to traffic will depend on the progress of the construction of the boundary crossing facilities and the link roads. There are reports of a possible delay in the completion of the artificial island for the Hong Kong boundary crossing facilities, but even so Hong Kong businesses should make early preparations for the impact and opportunities that will come with the opening of the bridge.

According to information published by the HZMB Authority and the relevant departments in Hong Kong, rough estimates made in 2009 suggested that the initial daily traffic volume for the bridge will be about 9,200-14,000 vehicles, increasing to a designed traffic flow of 35,700-49,200 vehicles by 2035. Daily passenger flow will increase from about 56,000 people in the initial stage to a designed capacity of 230,000 people by 2035. Compared with 2013 when the number of passengers entering or leaving the territory through Hong Kong's ferry terminals averaged about 25,000 people a day, this suggests that passenger flow between Hong Kong and western PRD will have a big potential growth. As for toll rate, initial estimates made in 2009 showed that it would be about Rmb100-200 for sedan cars and Rmb200-300 for trucks. However, the competent authorities of the three parties concerned are conducting studies on more detailed and up-to-date estimates for tolls and traffic and passenger flow, and toll charges may affect estimates for the traffic and passenger flow of the bridge.
1.2 Economic Development in Western PRD

Since China's reform and opening up, the PRD has established links with global supply chains through Hong Kong and become an international manufacturing centre. However, Hong Kong's investment and export-oriented production activities mainly focused on eastern PRD in the past, which not only fuelled the rapid growth of Shenzhen and Dongguan but also widened the economic development gap between the eastern and western PRD regions.

The Guangdong provincial government has actively put forward policy proposals to bridge the regional economic development gaps in recent years. These include the "double transfer" measure (specifically this refers to the relocation of labour-intensive industries from the PRD to the eastern, western and northern parts of the province, and the shift of manpower in these less developed regions (from primary) to secondary and tertiary industries) and the establishment of industrial relocation parks in these regions so that industries struggling with land and other constraints in the developed areas can expand there. One of the targets of the Outline of the Plan for the Reform and Development of the PRD (2008-2020) announced by Guangdong in 2008 was to raise the level of development in western PRD, increase its capacity for industrial and population agglomeration, and enhance its factor agglomeration and producer services.

### Percentage shares of different cities in Guangdong's GDP

<table>
<thead>
<tr>
<th>City</th>
<th>2009</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou</td>
<td>23.1</td>
<td>24.8</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>20.8</td>
<td>23.3</td>
</tr>
<tr>
<td>Dongguan</td>
<td>9.5</td>
<td>8.8</td>
</tr>
<tr>
<td>Zhuhai</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Zhongshan</td>
<td>4.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Jiangmen</td>
<td>3.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Yangjiang</td>
<td>1.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: Guangdong Statistical Yearbook; statistics bureaus of various cities.

Seen from the proportions of each of these cities in Guangdong's gross domestic product (GDP), Guangzhou and Shenzhen together account for nearly half of this total. The proportions of cities in western PRD, such as Zhongshan, Jiangmen and Yangjiang, in the region's GDP are relatively low. However, what merits attention is
that cities like Zhongshan, Jiangmen and Yangjiang have registered faster rates of economic and industrial value-added growth than the provincial average in recent years.

### Economic indicators

<table>
<thead>
<tr>
<th>2009-2013</th>
<th>GDP (real annual growth rate %)</th>
<th>Industrial value-added (real annual growth rate %)</th>
<th>Export (average annual growth rate %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangdong</td>
<td>9.8</td>
<td>11.1</td>
<td>15.4</td>
</tr>
<tr>
<td>Zhuhai</td>
<td>9.7</td>
<td>10.5</td>
<td>10.6</td>
</tr>
<tr>
<td>Zhongshan</td>
<td>11.6</td>
<td>14.2</td>
<td>10.5</td>
</tr>
<tr>
<td>Jiangmen</td>
<td>11.0</td>
<td>16.3</td>
<td>15.2</td>
</tr>
<tr>
<td>Yangjiang</td>
<td>14.4</td>
<td>28.1</td>
<td>14.2</td>
</tr>
</tbody>
</table>

Source: Guangdong Statistical Yearbook; statistics bureaus of various cities.

Although the GDP of western PRD is relatively small, cities in the region are actively making use of their competencies to develop their economy. What merits attention is the importance attached by these cities to the balance between economic development and environmental protection and to industrial upgrades. For this reason, they would sometimes put forward specific requirements, especially environmental compliance requirements, when promoting investment. Some industrial parks are also beginning to attach importance to the coordination and development of specialised producer services, such as logistics and designing, thus generating opportunities for the development of these industries.
2. Bridge Brings New Opportunities to Different Sectors

As the *12th Five-Year Plan for the Development of Zhuhai-Hong Kong-Macau Cooperation* pointed out, the promotion of economic integration and coordinated regional development is an irreversible trend. The PRD, Hong Kong and Macau must strengthen regional cooperation, optimise the allocation of resources, and promote regional division of labour in order to increase their overall competitiveness. The HZMB will not only shorten the distance between Hong Kong and western PRD but will also make transportation between the two places more flexible and convenient, thus further boosting economic interaction and increasing the flow of personnel, capital, goods and other factors of production in the region.

In terms of manufacturing activities, the HZMB will facilitate the entry and exit of investors and managerial personnel as well as the flow of goods and raw materials and lead to the establishment of new production networks. For Hong Kong companies needing to expand or shift their production bases, this means a greater choice of destinations. The geographical links that come with the completion of the HZMB will also have a direct impact on the logistics industry besides increasing the choices for entry-exit routes in western PRD and improving efficiency, thus giving western PRD greater significance in regional cooperation and resource allocation as a transit and regional distribution centre for imported goods.

The expansion and upgrade of manufacturing industries in Western PRD will also increase the demand for professional services. The HZMB will make it possible for Hong Kong service providers (especially Hong Kong-based small and medium-sized enterprises) to reach production enterprises in western PRD with more flexible means of transport. The opening of the bridge may also generate more opportunities for other industries and sectors, such as tourism, retailing and real estate.

Zhuhai, Zhongshan and Jiangmen which have more direct links with the HZMB and Yangjiang which is further away in western Guangdong but still within the three-hour economic circle each has its own positioning and leading edge. The opportunities that the bridge will bring to Hong Kong businesses in different cities may vary. This report will study the potential opportunities in Zhuhai, Zhongshan, Jiangmen and Yangjiang under the bridge economy.
2.1 Tourism

More Hong Kong tourists head beyond Shenzhen

According to figures published by the Census and Statistics Department of Hong Kong, Hong Kong residents made 43.8 million trips to the mainland in 2013, of whom 93% were destined for Guangdong. Among those travelling to Guangdong, nearly half went to Shenzhen. However, there is a trend of fewer people visiting Shenzhen in recent years, with the number falling by 5% annually between 2009 and 2013. Meanwhile, the number of Hong Kong residents travelling to places in Guangdong other than Shenzhen has been on the rise over the same period, with the annual growth rate reaching 3.5%. These figures indicate that Hong Kong residents are showing a steady increase in interest in other destinations in Guangdong (including western PRD). According to some Hong Kong tour operators, short trips to western PRD (2-3 days) have always been popular among Hong Kong tourists.

Personal travels by Hong Kong residents to Guangdong (person-trips)

Source: Census and Statistics Department of Hong Kong
Bridge opening provides further boost to tourism

From the experience of high-speed railways, the opening of the HZMB is set to give a further boost to tourism in western PRD and the more remote parts of western Guangdong. For example, after the opening of the Wuhan-Guangzhou High-Speed Railway in December 2009, Shaoguan (which is home to the scene spot of Danxia Mountain) along this railway line attracted 15.82 million tourists (+29%) in 2010, with the number of overnight visitors growing by 265.4% to 215,000. Although enthusiasm has subsequently subsided somewhat, with the number of overnight visitors dropping in 2011 and 2012, the upward trend resumed in 2013, rising by 14.6% to 108,000, showing a significant increase of 83% compared with 59,000 person-trips before the opening of the high-speed railway in 2009.

Inbound overnight visitors of Shaoguan

The opening of the Xiamen-Shenzhen High-Speed Railway in December 2013 is another case in point. According to reports, high-speed train tour packages to cities such as Xiamen, Chaozhou and Shantou are well-received by Hong Kong tourists. During the Easter holidays in 2014, bookings for these tour packages tripled compared with the same period of last year. Hong Kong tour operators interviewed indicated that the opening of high-speed railways has stimulated Hong Kong people’s interest in visiting the mainland. Although the initial hype usually subsides...
after a while, cities along these railway lines are still attracting more tourists than before the opening of rapid transit partly because easy accessibility has greatly shortened the travelling time. For example, while it took 4-5 hours to travel by bus from Shenzhen to Shaoguan, it only takes about two hours by high-speed train.

**More flexible itineraries**

According to Hong Kong tour operators, short-haul tours to western PRD (2-3 days) have always been popular. Most of these tours are by hydrofoil at present, passing through either Zhuhai or Macau. Hong Kong tourists join these tours mostly for leisure and thus have high demands for accommodation and food. Some of the tourist attractions in this region, such as the distinctive fortified dwellings in Kaiping, Jiangmen are very popular. The opening of the HZMB will make visits to these tourist spots more convenient. Of course it will still depend on the opening hours of the boundary crossing facilities, but there is no doubt that the bridge will give tourists much greater flexibility.

The opening of the bridge to traffic will make the planning of itineraries more flexible. For example, at present there are fairly regular ferry services to Zhuhai, but not so to the western PRD ports. Ferry schedules restrict the number of tourists. With the new bridge, the industry can overcome the constraint of ferry schedules. Travels between Hong Kong and western PRD will be more convenient after the opening of the bridge, making it possible to design more tour packages, such as one-day and one-and-half-day tours, even tours to more remote destinations like Yangjiang and Guangxi. Basically tour operators will consider destinations within three hours’ drive of Hong Kong.

**Bridge likely to bring more travellers**

Although bridge toll has not yet been finalised, it is reckoned that the average charge for passengers will be cheaper for coaches than for ferries. The opening of the bridge is expected to boost the number of independent travellers. According to some Hong Kong tour operators, relatively few Hong Kong independent travellers are heading for places in the more remote parts of western PRD and prefer visiting nearby cities like Zhuhai and Zhongshan. Although western PRD has lower living standards and should be attractive to tourists with its relatively inexpensive hotels, poor accessibility discourages tourists. It is reckoned that more convenient bus
routes with fares cheaper than ferries that may become available following the opening of the bridge may fuel the interest of independent travellers. Western PRD may also give companies another possible destination for hosting regional business conferences, especially conferences lasting one or two days.

**Opportunities for investment in tourist facilities**

There are many tourist resources in western PRD. With the improved transport link that comes with the opening of the bridge, it is an appropriate time to further develop or re-organise new tourist routes. In terms of tourist resources, Yangjiang is a seaside resort with great potential. The city plans to develop seaside and hot spring resorts and national geological parks. The "Hailing Island-Dajiao Bay Maritime Silk Road" project will become a national 5A-class tourist destination, with beach resorts and the Nanhai One Museum as its main attractions. Hailing Island now has three 3-star hotels and one five-star (still being rated) hotel. What it needs most now is the development and management of relevant tourist facilities. According to the local department of tourism, Hailing Island has only opened up about a third of its beaches, most of which are public beaches. The local government is hoping to see greater diversification, including more upmarket hotels and facilities and upgrading the local tourist hotels. Thus, investment opportunities for potential tourist facilities are worthy of attention. Yangjiang has seen an increase in the number of overnight visitors from Hong Kong and Macau in the past few years, rising from 31,500 person-trips in 2009 to 43,900 person-trips in 2012.

The Zhuhai Hengqin New Area has also developed the eastern, southern and western sides of the Dahengqin Mountain into resort areas. Among these, Phase I of the Hengqin Chimelong International Ocean Resort has attracted over 6 million tourists and spurred the development of tourism in Zhuhai since its opening in early 2014. Phase II of the project is slated for completion and commencement of operation in early 2015, by which time the resort will have some 5,000 rooms for guests. Work on the new park of Chimelong will also commence in the first half of 2015.

**Need to strengthen tourist facilities**

Western PRD needs to beef up local tourist facilities to meet the needs of tourism development. Hong Kong tour operators are particularly concerned about parking
facilities in various tourist attractions. Medical facilities are another factor that tour operators take into consideration when planning new itineraries. Convenient customs clearance procedures and parking facilities are also worthy of attention. The opening of the HZMB is expected to boost the planning of more long-haul itineraries, such as tours to Yangjiang. However, the destinations must have better tourism development plans and supporting facilities, such as more upmarket hotels, more tourist attractions, and better transport and publicity. Some of the more sedate tourist spots may consider including more diversified or interactive elements. The development of more tourist attractions will help tour operators design and launch multi-destination packages using the HZMB.

**Possibility of complementarity between Zhuhai and Macau airports**

In addition to more tourist routes, the bridge link may also boost the development of the Zhuhai Airport as a transit point between Hong Kong and other mainland cities and divert some of the tourists and tour groups currently setting off from the Shenzhen Airport. However, this will depend on whether the Zhuhai Airport can strengthen its feeder network and whether its prices are competitive. On the other hand, some tour operators also pointed out that the use of the Macau Airport to supplement international routes is also worthy of attention.
2.2 Western PRD as Industrial Relocation Base

Most Hong Kong companies opt to relocate or expand nearby

The manufacturing activities of most Hong Kong companies concentrate in the PRD region, especially in areas on the east bank of the Pearl River such as Shenzhen and Dongguan. According to findings of the questionnaire survey conducted by the Hong Kong Trade Development Council Research Department in early 2013, among the surveyed Hong Kong companies which had set up factories on the mainland, 67.6% of them had their factories in the PRD. Meanwhile, 25.4% of the surveyed companies had set up factories in areas in Guangdong province other than the PRD. Among surveyed companies which planned to set up new factories in the next three years, the PRD was still the production base favoured by the largest number of respondents (36.2%), followed by other areas in Guangdong outside the PRD (19.8%).

Many Hong Kong companies are concerned about the issue of supporting facilities for production and the fact that management could be more difficult if they relocated to places farther away from Hong Kong. However, in the more developed areas in the PRD, land utilisation rate is already quite high, which has made it difficult to further increase land development. Reportedly, currently it is quite difficult to find land for factory expansion in the more developed areas in the PRD, where some areas have changed their land-use from secondary industry to tertiary industry. Therefore, in the PRD region, not only labour cost has risen, land cost and supply have also become the bottlenecks in industrial development.

According to a survey report released by the Chinese Manufacturers’ Association of Hong Kong in June 2014, 32% of production enterprises have considered relocating their production activities to other areas. Among them, many (about 44%) opt for more remote areas in Guangdong province. This shows that Hong Kong companies are becoming more willing to consider more remote areas in Guangdong province as the location for expanding or relocating their factories. After the opening of the HZMB, connections between Hong Kong and western PRD will be even closer and more flexible, which will make management of production bases in western PRD more efficient. This will include the commuting of management staff, as well as supply and replenishment of imported parts and components required for production. In future, when Hong Kong companies look for
locations within Guangdong province for their factory expansion or relocation, they may turn their eyes to areas on the west bank of the Pearl River that are relatively close to the HZMB.

**Western PRD cities promote industrial relocation**

As a matter of fact, in recent years, some cities in western PRD have been actively promoting industrial relocation in a move to take over some of the factories expanded or relocated from the more developed PRD areas. For example, in Yangjiang, four provincial-level industrial relocation parks and two city-level industrial relocation parks have been set up (including the takeover of the electroplating and leather industries by the Yangjiang Eco Industrial Transfer Park). Up to 2013, the four provincial-level industrial transfer parks had attracted more than 440 enterprises to move in. Total output of the larger enterprises during that year reached Rmb61.6 billion, with an annual growth of 34.5%. Meanwhile, Jiangmen has also established industrial transfer parks under the “three parks” model, namely in Kaiping, Enping and Taishan. In 2013, there were a total of 95 enterprises which were being established or newly established in the Jiangmen industrial transfer parks. Their industrial value-added for the year amounted to Rmb2.6 billion, and although they were at a nascent stage, their growth reached 50.9%. It is projected that when all the parks are completed and have commissioned production fully, total industrial output can reach Rmb36 billion.

![A factory in Cuishanhu Industrial Transfer Park in Kaiping, Jiangmen undergoing extension.](image)

![Jiangmen New and High-Tech Industrial Park.](image)

**More industrial land supply in western PRD cities**

Supply of industrial land in some western PRD cities is more abundant compared to the more developed areas in the PRD. According to analyses, the land
development intensity in cities like Guangzhou, Shenzhen, Foshan and Dongguan has already exceeded 40%. To seek further expansion, companies have to resort to redevelopment on their original site or relocation of their old factories. Take Cuishanhu Industrial Transfer Park in Kaiping, Jiangmen for example. Some of the enterprises in the park are offshoots of parent companies in Shunde, Guangzhou and Dongguan, while others have relocated here altogether because the land on which their original factories were built has to serve other development purposes, such as commercial purpose, or the land had been subjected to restriction on further development. However, in western PRD, such as Jiangmen, the land development intensity is only about 11%, while the land development intensity in Yangjiang is less than 10%.

According to figures released by Yangjiang, the total area of designated industrial parks in the city is over 75,000 *mu* (50 sq km), with the constructed area of industrial parks reaching about 30,000 *mu* (20 sq km). Among these, the planned area of Zhuhai (Yangjiang) Wanxiang Industrial Transfer Park in Yangjiang is 6.8 sq km, with land already developed covering about 3 sq km. In other words, half of the land is still available for development and the area ready for development in the short term is 1.2 sq km. The total planned area of Yangjiang Jiangcheng Yinling Technology Industrial Park is 44 sq km. Of the 11 sq km planned for the first phase, 6 sq km has been developed and there is still space available for further development. Of the industrial transfer parks in Jiangmen, Enping has attracted the entry of more than 30 enterprises in the machinery industry from Foshan. While geographic proximity is one consideration, the availability of large plots of land in Jiangmen is another important factor. According to Jiangmen Kaiping’s Cuishanhu Industrial Transfer Park, the total planned area of the park is 60,000 *mu* (40 sq km) and by now 9,000 *mu* (6 sq km) has already been developed. It is planned that development will expand eastward and westward and that 6,000 *mu* (4 sq km) of land will be requisitioned in the next two years.

**Emphasis on environmental protection and industrial upgrade**

Although land resources in western PRD are relatively abundant, it does not mean that the extensive development model is adopted in the region. When attracting businesses and investments, the local authorities will only choose the right projects. Apart from placing emphasis on environmental protection and industrial upgrade, the authorities also exercise rather tight control over land development. Against this
background, some industrial parks would act flexibly such as treating individual projects as industry cluster projects and allowing them to enjoy the concessions granted by the park. Yangjiang even offers incentives to projects which can effectively utilise land, such as the building of factories up to three storeys high. Different cities have different requirements for projects entering their industrial parks, such as investment intensity and tax revenue generated. For example, in Yangjiang, the general requirements for entering its industrial parks are: investment intensity is on average Rmb1.5 million per mu \( (1 \text{ mu} = 667 \text{ m}^2) \) while tax revenue generated is targeted to reach Rmb150,000 per mu. The minimum price of land assignment in Yangjiang's industrial parks is Rmb120,000-192,000 per mu. For the Jiangmen New and High-tech Industrial Park, investment intensity is Rmb2.5 million per mu and revenue generated is targeted at Rmb250,000 per mu. In Jiangmen's industrial parks, the minimum price of land assignment ranges from Rmb183,000 to Rmb400,000 per mu.

Industrial relocation parks place great emphasis on environmental protection. Although some parks have built sewage treatment plants, individual factories must also meet environmental standards. According to the Jiangmen Industrial Transfer Park, since its establishment up to now, more than 200 projects have been rejected, most of which involved environmental protection issues. In most industrial relocation parks, basic supporting facilities are complete. For instance, in Jiangmen Kaiping's Cuishanhu Industrial Transfer Park, positioned as a new industrial town, infrastructures and constructions are superior, roads and green belts are also excellent. Some parks also offer standard factories for rent.

**Supporting industries**

With regard to supporting industries in cities where the industrial parks are located, different types of support are available to different industries. Individual industrial transfer parks may have their key industries. For instance, in Jiangmen Kaiping's Cuishanhu New Area, electronic information, hardware, machinery, textile and chemical fibre are leading industries. In Yangjiang's Zhuhai (Yangjiang) Industrial Transfer Park, metal products and machinery equipment are key industries. Also in Yangjiang, since the hardware, knives and scissors industry in Yangjiang is very mature, supplies of supporting materials are abundant in the area. The city even plans to develop upstream steel industry in a move to build a complete industry chain. Nickel alloy is one of its key industries. It is planned that the wharves in
Yangjiang can be used to import mineral ores as raw materials and the industry will extend upstream along the industry chain (including cold rolled/hot rolled steel), producing stainless steel for use by downstream industries. Yangjiang also plans to further develop marine products processing.

Actually, the supply of a vast range of different parts and components is also available in Jiangmen, although it may not be able to satisfy all demands completely and some of the parts and components will still have to be imported or purchased from other areas in the PRD. With the opening of the Jiangmen-Shunde Bridge scheduled for June 2015, connections between companies in Shunde and Jiangmen will be greatly strengthened. To some production enterprises which have expanded from other areas in PRD to western PRD, since their main factory is probably still in Shenzhen or Dongguan, currently the materials needed for production are being transported to western PRD from Shenzhen. But various industrial relocation parks have already included amenities such as commercial and residential buildings, parks, as well as medical, shopping and entertainment facilities in their development for enterprises and their workers.

Transportation

Where transportation is concerned, enterprises in Yangjiang pointed out that at present goods for export are transported to Yantian by road which takes about four to five hours. The freight charge for each container is around Rmb3,600 and some of the containers are transported to Hong Kong via Shenzhen. As for imported materials, some hardware factories in Yangjiang have them imported to Jiangmen by water. Since business takes the form of processing trade, the imported materials would be stored in Jiangmen’s bonded warehouses and retrieved when needed.
Other companies remarked that in the future when the Hong Kong-Zhuhai-Macau Bridge opens to traffic, it will provide one more option for the route import or export can take. For instance, from the Jiangmen New and High-tech Industrial Park to Zhuhai, it only takes about 40 minutes by the Jiangmen-Zhuhai Expressway, in future when this expressway links to the HZMB, even more transportation time can be saved.

**Labour supply**

With regard to labour supply, according to one factory in Yangjiang, recruitment is smooth, with about 80% of the workers being local Yangjiang people. Although the factory provides staff quarters, the majority of the locals would still live at home while migrant workers prefer to rent their own housing. The average wage of an ordinary worker is around Rmb2,000-3,000 a month, but may reach Rmb4,000 on a piece-wage basis. The competent authority in Yangjiang estimates that about 600,000 local residents have left the city to work elsewhere. In other words, as the investment and working environment of the city improves, a great number of workers may return. According to a tyre factory with high degree of automation in Kaiping, the average wage of its workers is Rmb2,400. The workers, apart from locals in Kaiping, also come from places including Enping and Taishan. Labour supply is rather stable. In 2013, the permanent resident population of Jiangmen and Yangjiang stood at 4.49 million and 2.49 million respectively. According to figures furnished by the local authority, currently the minimum wage in Jiangmen is Rmb1,130 per month, with the monthly wage of an ordinary worker ranging between Rmb1,200 and Rmb2,500. In Yangjiang, the current minimum wage is Rmb1,010 per month, with the monthly wage of an ordinary worker ranging from Rmb1,500 to Rmb2,500.
2.3 Development of the Logistics Industry

Logistics demand on the rise

The continuous development of industry, foreign trade and domestic trade in the western PRD is fuelling the development and growth of the logistics industry in the area. According to related enterprises in Yangjiang and Jiangmen, many logistics companies there are small operations while few are really sizable third-party logistics companies. However, amid continuous upgrades of the local manufacturing industry and investment from more foreign and domestic enterprises, demand for higher standard of logistics service is expected to accelerate.

At the same time, more local manufacturing enterprises are beginning to realise the advantages of using third-party logistics support, such as reducing the inventory and freeing companies from constructing warehouses. This will also boost the local demand for more third-party logistics service and higher service standards. The cities’ investment intensity requirements will probably encourage the wider use of third-party logistics service by manufacturing enterprises in a bid to reduce demand for warehouse space.

<table>
<thead>
<tr>
<th></th>
<th>Export 2013 (US$ billion)</th>
<th>2009-2013 Average annual growth, %</th>
<th>Import 2013 (US$ billion)</th>
<th>2009-2013 Average annual growth, %</th>
<th>Total retail sales 2013 (Rmb billion)</th>
<th>2009-2013 Average annual growth, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhuhai</td>
<td>26.61</td>
<td>10.6</td>
<td>27.56</td>
<td>8.8</td>
<td>72.05</td>
<td>15.5</td>
</tr>
<tr>
<td>Zhongshan</td>
<td>26.48</td>
<td>10.5</td>
<td>9.15</td>
<td>8.0</td>
<td>89.06</td>
<td>12.8</td>
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<tr>
<td>Jiangmen</td>
<td>14.00</td>
<td>15.2</td>
<td>5.73</td>
<td>16.7</td>
<td>90.37</td>
<td>12.6</td>
</tr>
<tr>
<td>Yangjiang</td>
<td>2.09</td>
<td>14.2</td>
<td>0.29</td>
<td>12.7</td>
<td>52.50</td>
<td>14.5</td>
</tr>
</tbody>
</table>

Source: Guangdong Statistical Yearbook; statistics bureaus of various cities

<table>
<thead>
<tr>
<th></th>
<th>Total Freight Volume 2013 (million tons)</th>
<th>2009-2013 Average annual growth, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhuhai</td>
<td>84.57</td>
<td>6.1</td>
</tr>
<tr>
<td>Zhongshan</td>
<td>167.19</td>
<td>23.6</td>
</tr>
<tr>
<td>Jiangmen</td>
<td>99.99</td>
<td>10.6</td>
</tr>
<tr>
<td>Yangjiang</td>
<td>76.72</td>
<td>52.4</td>
</tr>
</tbody>
</table>

Source: Guangdong Statistical Yearbook
Third-party logistics service: gaining in popularity

According to the competent department of Jiangmen, there are about 3,000 logistics service providers in the city, among which only 20 to 30 are third-party logistics companies each with an annual turnover of about tens of millions of yuan. Most of the larger manufacturing enterprises that invest in Jiangmen continue to use Hong Kong or foreign-owned logistics companies from other cities, which have also set up their own operations in Jiangmen. As the large manufacturing enterprises generally have stricter demands for logistics service, Jiangmen’s local logistics companies may not be able to meet such needs and would have to go through certain observation period during the collaboration. The city’s larger manufacturing enterprises are increasingly using more third-party logistics companies to achieve zero inventory. Yet they may still need to leverage the different edges of a number of the local logistics companies at the same time.

The larger manufacturing enterprises in Zhongshan have become more receptive to using third-party logistics service. This trend is now influencing the smaller companies, which are gradually more aware of the higher costs of owning their own transport fleet and managing their warehouse overheads. According to a logistics company at a bonded logistics centre in Zhongshan, about 60% of the city’s larger enterprises are using third-party logistics service, while the uptake is only 30-40% among the smaller manufacturing enterprises. Nevertheless, many of the small- to medium-sized manufacturing enterprises are also suppliers of the large enterprises. They are also influenced by the larger enterprises in beginning to consider using third-party logistics service, which has positively impacted the development and enhancement of the local logistics enterprises. The local clients, apart from the cost considerations, also place great emphasis on the connectivity of the information system. As such, in the wake of more foreign companies operating in the city, the demand for higher standard of logistics service will accelerate.

In Yangjiang, the logistics industry is still in its early stage of development with few sizable players. However, boosted by the city’s industrial development including the establishment of industrial relocation parks, the local logistics market has seen considerable rapid growth. The manufacturing industry there is increasingly outsourcing its logistics activities in order to become more specialised in its core business. At the same time, value-added logistics service is also developing in the form of packaging support, assistance to small- to medium-sized enterprises in
centralised purchasing, and even in carrying out commodity inspection in places like Shenzhen. Aquatic products are one of Yangjiang’s major industries. Right now these products are transported by refrigerated trucks to Shenzhen prior to export. Yangjiang’s refrigerated warehouses are insufficient and relatively scattered. As the deep processing of marine products continues to develop in Yangjiang, the demand for refrigerated storage and transportation is set to increase further.

Higher value-added goods more likely to use new bridge

According to logistics industry sources in Jiangmen, upon the opening of the HZMB, the local logistics industry may choose to divert some of the goods from Shenzhen customs to Jiangmen customs, before transporting them to Hong Kong via the HZMB. This will be particularly true for some export electronic products, as the land route would be more efficient, convenient and more suitable to high-value products such as electronic goods. This route will also meet the current demand situation where export order size is relatively small while the delivery lead time is getting shorter. At present, it takes an evening for a container to be transported from Jiangmen to Hong Kong via sea route. For example, a container that enters the Xinhui Port at 6 pm will arrive Shekou the next morning. The operation of the HZMB will surely facilitate the export by air from Hong Kong of goods that require a faster delivery time.

Meanwhile, exports of new- and high-tech products from Zhongshan and Jiangmen have shown signs of growth in recent years. Take Zhongshan for instance. In 2013, machinery and electronic products accounted for 70% of its export value, compared to 66% in 2009; while the export value of new- and high-tech products accounted for 22% of the city’s total export value. In the first half of 2014, Jiangmen’s exports of machinery and electronic products grew 7.1% and accounted for 58% of Jiangmen’s export value. Exports of Jiangmen’s new and high-tech products also rose 19.4% during the same period, accounting for 9.2% of the city’s total export value. Presently, more and more air freight transits for export products are available in Jiangmen. It is therefore anticipated that the HZMB’s operation will greatly benefit air freight export, especially with most of Hong Kong’s international flights readily offering transit services. However, the impact will still be subject to how the HZMB’s toll system would affect the overall transportation costs eventually.
Currently, the aggregate economic size of western PRD cities such as Zhuhai, Zhongshan, Jiangmen and Yangjiang is smaller than that of eastern PRD. In terms of industry cluster and market size, western PRD cities have yet to support the formation of a manufacturing or sales logistics system that commands massive import and export capacity. However, as more and more manufacturing enterprises are expanding or transferring their business to these areas, demand for logistics service will see significant growth in future.

**Cities vying to become regional logistics hub**

It is noteworthy that many cities in western PRD are striving to become the regional logistics hub. In particular, they are going to capitalise on the better connectivity offered by the direct link between the HZMB and Hong Kong’s international air transport, to turn their local logistics parks into import-export convergence and dispatch points in the mainland. The cities are also turning the bonded logistics warehouses into regional processing and distribution centres. All these developments are worth watching. Against the backdrop of rising import demands in China, it may become one of the major development trends for local bonded logistics parks to be turned into processing and distribution centres for imported goods, especially for consumer products.

**China’s import of consumer goods**

![Graph showing China’s import of consumer goods](image)

Average annual growth of 38%, 2009-2013

*Source: China Customs Statistics (data collated by HKTDC Research)*
Hong Kong’s warehouse supply is very tight, and its warehouse rentals can be several folds that of western PRD. A logistics enterprise in Zhuhai suggests that the city’s warehouse land cost is significantly lower than that of Hong Kong and even eastern PRD. It is estimated that Hong Kong’s warehouse rentals are 10 times that of Zhuhai’s, while the overhead for operating in Shenzhen’s Futian Free Trade Zone is continuously rising and gearing towards commercial development. Hong Kong’s Dah Chong Hong has set up its logistics park in Jiangmen’s Xinhui years ago, using the bonded warehouse there to store, process and repackage import products, before distributing them to the mainland or via Hong Kong to other Southeast Asian markets according to market demand, or packaging the mainland products for export. When the HZMB opens to traffic, it will further facilitate the transport connection between Hong Kong and western PRD. How to leverage the advantages of these two places and further develop their function as regional distribution centres, including the western PRD’s warehousing functions as Hong Kong’s back-end logistics industry base, are opportunities worthy of further exploration.

**New bridge drives Zhuhai’s logistics planning**

Zhuhai, Jiangmen and Zhongshan are now planning to develop logistics parks, aiming not only to enhance their logistics service but also to turn them into the regional logistics and distribution centres. Take the example of Zhuhai that directly connects with the HZMB. The city is now building a 13.6-km connection line to link up the boundary crossing facilities with highways in the western part of Guangdong. According to Zhuhai authorities, the Zhuhai boundary crossing facilities are being designed and constructed based on the following estimates of daily traffic between Zhuhai and Hong Kong by 2035: 150,000 visitors, 18,000 small cars and 17,000 container trucks.

Coinciding with the HZMB construction, Zhuhai has also planned its own logistics development that includes construction of the Hongwan port area, while the Jiuzhou Container Port will be relocated to Hongwan port in the near future. A Zhuhai-Hong Kong-Macau cooperative logistics park is currently under planning for construction at the Zhuhai Hongwan port area. It will actually be located at the Zhuhai Free Trade Zone, complete with joint inspection and customs declaration functions. The Hongwan port and Zhuhai Free Trade Zone will be located at the HZMB’s connection link.
Based on the current construction design, the Zhuhai boundary crossing facilities at the HZMB will be built on a small man-made island that lacks enough customs inspection space for the massive truck volume. As such, a customs inspection centre will be built at Hongwan port where the trucks will first be given an electronic seal (e-seal) for entry into the Zhuhai boundary crossing. They will then be officially inspected upon arrival at the customs inspection centre at Hongwan port. The export goods will also be processed first at the customs inspection centre at the Zhuhai-Hong Kong-Macau cooperative logistics park, for the goods to be e-sealed before proceeding to the HZMB exit. In the future, Hongwan port will be developed into a container port complete with the joint advantages of river and sea transport, for the whole port area to be developed into a logistics zone.

According to plans, the Zhuhai-Hong Kong-Macau cooperative logistics park will be positioned as a transit point for import and export goods that will radiate to western Guangdong and beyond. For instance, fresh produce to be exported to Hong Kong can first be shipped to this logistics park for processing and packaging as needed. Imported goods can also use the free trade zone’s warehousing function for processing and packaging before distribution to the mainland market.
The Zhuhai Free Trade Zone offers bonded warehousing services. After 15 years’ development, the zone has gradually evolved from secondary industry to tertiary industry operations, with particular focus on modernised logistics/warehousing, cross-border e-commerce, research and development to imported goods display, etc. Part of the land originally set for use by secondary industry has now been turned into service industry use. The Zhuhai Free Trade Zone is now undergoing its second phase development, inclusive of the Zhuhai-Hong Kong-Macau cooperative logistics park. Usable land at the Free Trade Zone and non-Free Trade Zone is more than what is available now. The plan also includes the construction of a large-scale fresh and live agricultural by-products processing zone. This zone will centralise the agricultural by-products from western PRD as well as fishery products from Zhuhai for processing and packaging, before they are directly exported to Hong Kong. As such, the cold chain logistics industry in the area will be developed in keeping with this trend.

The Zhuhai Free Trade Zone is also developed with consideration of its connectivity with the HZMB. One of the zone’s functions is the provision of related logistics back-end distribution service for Hong Kong and Macau – making use of the Free Trade Zone’s warehousing functions for goods import, especially in managing the inventory of high-end products. This will be followed by repackaging and distributing the goods to different areas including the mainland, subject to market needs; or for re-exporting. Zhuhai is now planning to develop the Hongwan port’s transit and distribution functions. For example, Hong Kong’s cargo trucks can be driven to this zone for “drop and pull”, before being affixed to the relevant tractors for transporting the cargoes to places as far away as Guangxi province and even the southwestern part of China. Global Logistic Properties has already moved to the second phase of the Zhuhai Free Trade Zone to develop its warehousing business, positioning itself as the transit warehouse for Hong Kong, Macau and the mainland. The first phase development includes an 80,000-sqm warehouse to be fully operational in the first half of 2015.

**Jiangmen promotes logistics development**

Jiangmen is also setting its sights on logistics service development with logistics parks under planning. For long term positioning, Jiangmen plans to become a logistics hub or a transit hub serving the whole of western Guangdong, including turning itself into a transit and distribution hub for imported goods.
Hong Logistics Park located at Jiangmen’s Xinhui, apart from using the local bonded warehouse to store, process and distribute imported goods, also plans to turn the facility into a convergence hub for export goods from western Guangdong. This will serve to centralise goods from western Guangdong for packaging and processing service as needed, before they are cleared for customs and shipped to Hong Kong for re-export.

Jiangmen plans to build four logistics bases, namely in Yingzhouhu, the public piers at the new- and high-tech zone (under construction), Daguang Bay (under planning) and Heshan international logistics park (under planning). These will be interconnected by a variety of transport modes such as highway, river, sea and railway. Among the massive plan, the Daguang Bay project was been approved in principle in late 2013 by the Guangdong Provincial Government under the Overall Plan for the Development of Guangdong Jiangmen Daguang Bay Economic Zone (2013-2030). It is a large-scale project involving the development of coastal advanced industries, emerging marine industries as well as producer services. Among these, modernised logistics are one of the key producer services being promoted. Modern logistics encompass the development of port logistics, bonded logistics and cold chain logistics. All these are aimed at creating a logistics hub that reaches out to serve western Guangdong and even southwest China. On the other hand, some of the industrial parks also offer dedicated logistics zones. For example, the Jiangmen Kaiping Cuishanhu Industrial Transfer Park is currently recruiting logistics companies to take up space in its dedicated logistics base. Funded by the Park, the 130-mu logistics base will be developed in three phases, of which the first phase takes up 40 mu with two warehouses and offices of courier companies.
Growing level of informatisation in logistics

Jiangmen’s logistics circle reckons that there is still much room for improvement in the local logistics industry in terms of efficiency and level of informatisation. In light of this, industry players in western PRD are actively seeking to raise the industry’s level of informatisation. According to the competent authorities of Jiangmen, the city government has set aside dedicated funding to boost the development of advanced logistics services, which includes RFID applications and other informatisation systems. The local enterprises can use these funds to collaborate with information systems suppliers to raise the industry’s overall service efficiency. The Jiangmen government will also implement informatisation measures for small- and medium-sized enterprises, by subsidising the information system design for the enterprises’ use. It will also set up a public information service platform to help enterprises disseminate their supply and demand information. Some fast-growing logistics enterprises in Yangjiang, particularly the courier companies that work with e-commerce companies or specialised courier companies (handling pharmaceuticals, electronic products and product samples, etc), are gearing towards developing their systems with greater efficiency. Such informatisation development among western PRD logistics players presents new opportunities to Hong Kong’s related service providers.

In addition, in light of the rapid growth in cross-border e-commerce, Guangdong Customs has reportedly decided to build a distribution centre at Jiangmen’s new- and high-tech zone. This facility will handle some of the cargoes diverted from the Baiyun Airport, including cross-border e-commerce goods, especially those bound for southwest China. The opportunities generated by cross-border e-commerce development for the logistics industry of western PRD are not to be overlooked.
2.4 Demand for Professional Services

Push for industrial restructuring and upgrade

In recent years, Guangdong province and PRD in particular, has vigorously promoted industrial restructuring and upgrade. Under the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020), one of the key policies for the manufacturing sector, other than accelerating the development of advanced manufacturing and high-tech industries, is to transform and upgrade traditional industries. These include building brands, improving product quality, adopting advanced technology and modern management, increasing R&D investment and strengthening process design.

Due to rising labour costs, both Hong Kong and mainland manufacturers are actively transforming and upgrading in order to maintain competitiveness. In this upgrade process, it may create demand for professional services outside the manufacturer. HKTDC’s survey on manufacturers shows that Hong Kong manufacturers have been actively upgrading in the past few years, and among the different strategies, the effectiveness in improving product quality, product design and brand development is the most significant. Meanwhile, the survey report released by the Chinese Manufacturers' Association of Hong Kong in 2014 on its members also shows that most of the manufacturers are enhancing their competitiveness by developing more products (59.3%) and creating their own brand (38%). From these findings, and taking account of the development strategies of Hong Kong producers, it is expected that the demand for product or industrial design, branding and other professional services will also increase.

**Effectiveness of business transformation and upgrading in the PRD**

<table>
<thead>
<tr>
<th>Professional Services</th>
<th>Effectiveness Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop better-quality products</td>
<td>3.16</td>
</tr>
<tr>
<td>Improve product design and pursuing innovation</td>
<td>3.16</td>
</tr>
<tr>
<td>Develop own brands</td>
<td>2.95</td>
</tr>
<tr>
<td>Introduce automation in production processes</td>
<td>2.92</td>
</tr>
<tr>
<td>Enhance inventory control to improve efficiency</td>
<td>2.89</td>
</tr>
<tr>
<td>Introduce environmentally friendly production systems</td>
<td>2.81</td>
</tr>
<tr>
<td>Develop related products in other sectors</td>
<td>2.75</td>
</tr>
<tr>
<td>Develop hi-tech products</td>
<td>2.74</td>
</tr>
</tbody>
</table>

Note: Scale of 1-5, 1 indicates the least effective and 5 indicates the most effective
Source: HKTDC Offshore Trade Survey 2012 (conducted in Q1 2013)
As for mainland enterprises, they also adopt a similar strategy in the transformation and upgrading, including brand development and improving product design. According to a HKTDG survey on mainland enterprises in Guangdong in 2013, transformation and upgrading as given, the vast majority of the respondents indicated that they have increased or are considering to increase investment to enhance competitiveness. Development and promotion of own brands, as well as upgrading product design and R&D capability, are the most important areas for mainland investment.

### Area where Guangdong enterprises will increase investment

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop and promote own brands</td>
<td>52.1%</td>
<td>(50.0%)</td>
</tr>
<tr>
<td>Upgrade product design and R&amp;D capability</td>
<td>45.0%</td>
<td>(61.5%)</td>
</tr>
<tr>
<td>Strengthen product quality control and management</td>
<td>32.7%</td>
<td>(38.5%)</td>
</tr>
<tr>
<td>Upgrade production technology level</td>
<td>29.4%</td>
<td>(50.0%)</td>
</tr>
<tr>
<td>Invest in the use of IoT to enhance logistics management</td>
<td>25.1%</td>
<td>(30.8%)</td>
</tr>
<tr>
<td>Raise production automation level</td>
<td>24.2%</td>
<td>(34.6%)</td>
</tr>
<tr>
<td>Invest in meeting green production/environmental requirements</td>
<td>21.3%</td>
<td>(23.1%)</td>
</tr>
<tr>
<td>Others</td>
<td>5.7%</td>
<td>(0%)</td>
</tr>
</tbody>
</table>

Remarks: Figures in brackets refer to the responses of enterprises in western PRD
Source: China’s “Going Out” Policy: Guangdong’s demand for professional services, HKTDC Research

### Guangdong firms seeking support from external service providers

According to the survey, many respondents have already begun to adjust their business and operational strategies and have made corresponding investments. The main strategy of these enterprises was to nurture the development of the domestic markets (48%), while 31% and 29% of the surveyed companies indicated an intention to further develop their trade in the overseas mature markets and the overseas emerging markets respectively. In order to implement their investment and business adjustment plans, most enterprises surveyed indicated a need to
seek support from external service providers. The most sought-after services were those related to product development and design (53.5%), with brand design and promotion (52.5%) coming close second. Overall, around 60-70% of the enterprises surveyed indicated a wish to obtain such services from Hong Kong or from overseas.

### Will consider or already using services from other companies

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Will use services from other companies</th>
<th>Will use Hong Kong or overseas services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development and design</td>
<td>53.5% (51.9%)</td>
<td>70.7% (71.4%)</td>
</tr>
<tr>
<td>Brand designing and promotion strategies</td>
<td>52.5% (63.0%)</td>
<td>63.2% (70.6%)</td>
</tr>
<tr>
<td>Marketing strategies for developing new business or new markets</td>
<td>46.5% (51.9%)</td>
<td>55.4% (64.3%)</td>
</tr>
<tr>
<td>Business consultancy, corporate management and training</td>
<td>40.6% (48.1%)</td>
<td>63.6% (92.3%)</td>
</tr>
<tr>
<td>Professional services in legal, accounting and due diligence</td>
<td>39.6% (59.3%)</td>
<td>74.4% (93.8%)</td>
</tr>
<tr>
<td>Professional services in banking, financing and project valuation</td>
<td>39.2% (51.9%)</td>
<td>68.2% (100.0%)</td>
</tr>
<tr>
<td>Energy conservation, emission reduction and environmental protection technologies</td>
<td>32.7% (44.4%)</td>
<td>53.5% (50.0%)</td>
</tr>
<tr>
<td>Quality management/inspection and testing/production technology</td>
<td>31.8% (40.7%)</td>
<td>59.4% (54.5%)</td>
</tr>
<tr>
<td>Warehousing and logistics management of material and products</td>
<td>27.2% (37.0%)</td>
<td>62.7% (70.0%)</td>
</tr>
</tbody>
</table>

Remarks: Figures in brackets refer to the responses of enterprises in western PRD Source: China’s “Going Out” Policy: Guangdong’s demand for professional services, HKTDC Research

The above survey finds that Guangdong enterprises (including western PRD companies) are actively seeking general upgrading, adopting strategies with emphasis in improving product design and brand development, etc. In the process, many Guangdong enterprises intend to look for cooperation with professional service providers from external source. Yangjiang, for example, its Economy and Information Technology Bureau had arranged collaboration of local businesses with design institutes in Guangzhou, Foshan, Shunde and Dongguan. These ventures were of good effectiveness, according to participating businesses.
Guangdong firms have good impression on Hong Kong design

In seeking professional services from external source, a large proportion of the respondents have indicated interest in using service providers from Hong Kong or overseas, which is to bring more market space to related professional services in Hong Kong. In developing the mainland market, many Hong Kong professional service providers, from their base in Hong Kong, arrange for staff to work in the mainland or contact with the mainland business partners according to needs. When the bridge opens to traffic, it will greatly enhance the connectivity between Hong Kong and western PRD, making it easier for contacting mainland customers and managing positions established in western PRD.

Enterprises in Zhongshan, Jiangmen, Yangjiang and other places have good impression on Hong Kong producer services. For example, one respondent in Zhongshan noted that local manufacturers face increased costs, compelling them to go for automation. It also exerts growing pressure for businesses in transformation and upgrading as well as improving internal management. On the export side, a variety of certifications, regardless of product or plant, are required. The company reckoned that certification agents of Hong Kong are more strict and conscientious than their mainland peers and the certification practices and requirements are helpful in enhancing the company itself.

From interviews with enterprises in Yangjiang, Zhongshan, Jiangmen and other cities, it is found that these businesses have high regard for professional design of Hong Kong, such as industrial design. A major cutting tool manufacturer in Yangjiang said that they also make use of Hong Kong design, reckoning that there is some competitiveness. The manufacturer was of the opinion that products of the mainland industrial design students can look beautiful, but the structure is complex and production process is more difficult (such as the mould is complex), while the advantages of Hong Kong's industrial design is not only attractive appearance, but also the structure which takes into account time efficiency in production.

The strengths of industrial design in Hong Kong lie in more contact with the world of different design styles, enabling it to grasp the design trend. On the other hand, not just the use of foreign production technology, Hong Kong's design profession also understands the mainland's production technology and is able to combine the international design trends with the mainland production environment. Precisely
because of the slower industrial development of western PRD than the east, it leaves more room for development.

“Going out” and brand strategy bring service needs

In addition, some brand companies located in Zhongshan, Jiangmen or even Yangjiang are also planning to gradually explore expansion in overseas markets or further expand overseas markets from the original focus on the domestic market. One electrical appliances manufacturer in Zhongshan, for example, said in an interview that the proportion of its exports in total sales is gradually increasing. When mainland enterprises enter the international market, Hong Kong’s design services with its understanding of the world market provide them with consultancy services related to industrial design not only to improve the range of design, but also safety standards, local culture of overseas customers as well as patents and other technical issues.

Using external service providers to assist in brand building is one of the development strategies of Guangdong enterprises. Meanwhile, brand development and marketing are also the strength of Hong Kong. For example, interviews with enterprises in Zhongshan also found that local businesses have made use of Hong Kong designers and advertising companies to assist in the development of the brand image and for corporate advertising, respectively. It goes further that some Zhongshan brands, through sponsorship of Hong Kong TV shows, launch branding promotion that targets consumers in southern China.

Zhongshan has some achievements in the development of traditional industries, including lighting, clothing, household electrical appliances and furniture. In brand development, the city is also very active, which reportedly has 45 well-known trademarks in China. Meanwhile, Jiangmen and Zhuhai also have 13 and 10 famous national trademarks, respectively. As for the provincial well-known brand products or provincial famous trademarks, these cities boast even more. Under the general direction of industrial upgrading, the demand for professional services in brand design and marketing is also expected to rise further. Hong Kong’s design profession can help these brands to develop regional brands into national brands, as well as towards the specific direction of international brands, or build up proper
positioning strategy for their products/services in the mainland and overseas markets.

**The need for different types of training**

The development of western PRD will create more demand for different types of training. Yangjiang, for example, proposed to enhance the building of the local talent team, especially in the training of senior tourism management in the overall tourism development planning. According to the city’s tourism department, more than 600 people have attended tourism training sponsored by government units since 2014. Experts in the relevant fields were invited to teach these courses which were mainly for management-level personnel. Zhongshan Xiaolan Chamber of Commerce also pointed out that the local chambers of commerce held a lot of training every year, which are actively participated by companies to improve the management quality. According to a catering establishment which positions itself in the high end in Zhongshan, local talent is a challenge and now with the cooperation of local vocational schools, they are training students to take up the position of junior employees. Different types of training will also be provided to other employees of different levels, some of whom will be sent to Guangzhou, or have the trainers (including those from Hong Kong) come over to teach, particularly in management processes and service training.

In addition, the manufacturing enterprises in western PRD are adopting the strategy of automation development, the process of which involves a lot of different professions. A possible demand for professional consultancy services by local business is how to do better, faster and enhance the efficiency of the entire process. According to the HKTDC survey, among Guangdong enterprises which will seek out support services, 63.6% said they would consider using Hong Kong or overseas service providers providing services like "business consultancy, corporate management and training". Therefore, the potential demand for professional advisers and training services is also worth noting.

**Establishment of producer service zones in industrial parks**

As mentioned above, Zhongshan, Jiangmen, Zhuhai, Yangjiang and other cities have set up different industrial parks or new- and high-tech zones, a development of which is that these parks focused more on ancillary development of producer
services. Within many industrial parks there are special zones earmarked for producer services, introducing related service providers such as industrial design into the parks. Jiangcheng Yinling Technology Industrial Park in Yangjiang, for example, has an incubation centre, housing producer services such as logistics as well as commercial facilities. Incubation centres of some industrial parks even provide preferential rent to attract more service providers.

Taking industrial design very seriously, Jiangmen plans to set up technology parks and encourage industrial design services in the city’s new- and high-tech zone, providing non-manufacturing space to related businesses in the incubator centre. Pengjiang district in Jiangmen is also building an industrial design centre with special characteristics. The HZMB is set to greatly facilitate Hong Kong service sectors providing services to Jiangmen. However, when these services intend to establish a local base by integrating the local elements with the advantages of Hong Kong to develop regional markets, they may take note of the privileges offered by these parks in the form of incubation centres.
2.5 Property and Consumer Markets Development

Some Hong Kong residents moving to PRD

A certain proportion of Hong Kong residents, especially retirees, choose to relocate to the PRD region. According to surveys conducted by the Census and Statistics Department of Hong Kong, a total of 115,500 Hong Kong residents over 60 years old resided in the mainland during 2011, of which 72% were retirees. Among them, 63.8% lived in Guangdong province. The proportion was lower than that of 2008, while the proportion living in Fujian and Shanghai had increased significantly, probably due in part to the ancestral home, since family reunion has been the main reason for residence in the mainland.

On the other hand, the living environment of the mainland continues to improve is one of the factors that attract Hong Kong residents to live in the mainland. According to another earlier survey of the Hong Kong Census and Statistics Department, other than work reasons, a major consideration for Hong Kong people living in the mainland is that it provides better living environment. It is worth noting that according to the survey about Hong Kong elderly living in the mainland, although the proportion of residence in Guangdong declined, and within Guangdong province, among the major cities of residence, Guangzhou and Shenzhen also fell, the proportion of living in Zhongshan rose significantly by 6.4 percentage points to 9.9% in 2011. Zhuhai and Jiangmen also accounted for 2.9% and 2.5%, respectively.

1 Characteristics of Hong Kong Older Persons Residing in the Mainland of China (September 2011), Census and Statistics Department of Hong Kong. As defined by the survey, residence refers to Hong Kong residents staying at least one month in the mainland within six months before the survey.

2 Hong Kong Residents’ Experience of and Aspiration for Taking Up Residence in the Mainland of China (April 2009), Census and Statistics Department of Hong Kong.
In fact, not only retirees buy property or live in Guangdong province. Some other Hong Kong residents also buy property in the PRD as vacation home, and some might stay a longer time for reasons of work. According to a survey conducted by Hong Kong’s Census and Statistics Department, among Hong Kong residents working in the mainland, 52.3% stay in the mainland over five days on average, while 9.8% of them residing in self-owned/ self-rented property³.

**Zhongshan attractive to Hong Kong people**

Zhongshan’s Agile Group estimated that about 20,000-30,000 residents of its estate are from Hong Kong. Unofficial estimates show that about 50,000 Hong Kong people live in Zhongshan. In Zhongshan Agile’s La Cité Greenville, for example, among the 14,000 property owners, about 30-40% are from Hong Kong. Many of them are of age group over 35 years and close to retirement. Some are of long-term residence, including retirees or working in the mainland (including running factories in the vicinity). There are also many families staying in Zhongshan for a weekend, then back to Hong Kong in the evening. Excellent spacious living environment and convenient transportation are the main attraction in buying property in the city. Zhongshan’s advantage lies not only in its geographic proximity to Hong Kong and Macau, but also better living conditions and relatively cheap

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³ *Hong Kong Residents Working in the Mainland of China* (October 2001), Census and Statistics Department of Hong Kong.
property prices. Current property prices of Zhongshan are at the level of Rmb5,800-Rmb6,000 per square metre on average, and prices are relatively stable.

When the HZMB opens to traffic, more convenient transportation between Hong Kong and western PRD will stimulate interest of more Hong Kong people in buying property in Zhongshan. It is estimated that, in addition to the HZMB, the planned Zhongshan-Shenzhen passageway will also bring another important development opportunity. Future tenants may not only be pensioners or on vacation, but may move towards higher-end customer base, thus derived demand for related high-end services such as golf and fitness clubs.

**Plans to introduce more retail and recreational services**

Since many Hong Kong people live in Zhongshan for short-term or long-term, property developers are keen to offer a cultural environment that resembles Hong Kong’s in the real estate projects, making it easier for Hong Kong people to adapt. Therefore, in recruiting tenants in the mall, they also hope to bring more Hong Kong-style culture, such as Hong Kong-style tea cafe, and also to have service culture close to that of Hong Kong. With prevalent consumer demand in this area, developers wish to introduce more consumer services from Hong Kong. Meanwhile, dining, education and training centres in Zhongshan are also partly invested by Hong Kong funds. As many retirees choose to live in Zhongshan, demand for related services and entertainment may rise further.

In the overall retail market, Zhongshan and Zhuhai are two major markets in western PRD that are closest to the HZMB. The two cities were selected among the top 30 Chinese cities for domestic sales by HKTDC in 2012, and both have a certain market size and spending power. Zhuhai, as a tourist city, attracted more than 15 million overnight visitors in 2013, contributing to the local retail sector. In Zhongshan, however, local residents are the major contributors. According to a department store in Zhongshan which positions itself as high-end, although online sales in recent years, coupled with the anti-corruption campaign this year, have significant impact on luxury goods, sales of the department store still managed to stay flat, showing support of high-end local private consumption, including the great demand for imported food. In addition, several fast fashion brands such as Uniqlo, H & M and Zara have also entered the Zhongshan market.
Data on income and consumption (2013)

<table>
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<th>Permanent resident population (million people)</th>
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<th>Total retail sales (Rmb billion)</th>
<th>Overnight visitors (million people)</th>
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Sources: Statistical communiqués released by various cities

Commercial district in Zhongshan.

In recent years, new shopping centres have sprung up in Zhongshan. As to real estate development strategy, supporting services within different areas of the city are also different. For instance, large commercial complexes in downtown areas usually house the larger and new shopping malls offering a wide variety of retail formats and service types. Whereas supporting consumer services in the residential community are relatively simple. According to a developer in Zhongshan, some businesspeople from Hong Kong operate Hong Kong-style tea cafe/bakery in the community as individually-owned businesses (some are landlords themselves). After the bridge opens, more businesses operated by Hong Kong people are expected to be brought in. From the business point of view, the operators of shopping malls would certainly like to introduce more diversified shops and services in order to reduce competition of the same type. In the operation of department store, dislocation business strategy is quite important, and therefore the need to introduce more new brands/new designs, including dining (different
specialties) and entertainment (including for children), are also very important factors in operating modern shopping malls.

According to a representative of a high-end catering group in Zhongshan, customers are quite demanding about food quality. As to food type, consumers are increasingly health conscious. Combinations of Chinese and Western cuisine, with increasingly more imported ingredients which are mainly through Hong Kong importers / agents, are sought after. As to the overall catering market, most operators position themselves in the mid-range. The trend in recent years has been to diversify, featuring more distinctive restaurants of Italy, France, as well as local snacks eateries. According to the Zhongshan group, they like to hire chefs from Hong Kong, expecting them to have better work attitude. They reckoned that western food chefs, in particular, are more professional and meticulous. This may be a development opportunity for Hong Kong businesses or expertise wishing to tap the Zhongshan market.

At the retail level, there may be opportunities for Hong Kong design sector. A department store in Zhongshan, for example, is planning to go for personalised service in order to compete with online shopping, and is ready to develop custom furniture business, including interior design. The company plans to collaborate with design companies in servicing customers through a platform. It reckons Zhongshan has great market potential in this area because local consumption levels and demand for higher-end design are on the rise. As the new bridge is set to bring better connectivity, Hong Kong businesses making use of the retail channels to provide specialised services is also a development worth noting.