

# Made in PRD

## The Changing Face of Hong Kong Manufacturers

### Part I Report - Executive Summary

Since the 1980s, the majority of Hong Kong manufacturers have relocated their production lines to the Pearl River Delta (PRD) region.<sup>1</sup> This move has allowed them to reduce their production costs, and Hong Kong's manufacturing industry to grow rapidly and maintain its competitive edge in the global market.

The relocation process has also helped the service and financial sectors to develop and prosper in Hong Kong. Although it is widely recognised that the rapid growth of these sectors can be attributed to the increase in demand for support services by local manufacturing companies with expanded PRD operations, there has not yet been a systematic study to gauge the economic relationship between the two regions.

*Made in PRD - The Changing Face of Hong Kong Manufacturers* is a Federation of Hong Kong Industries project that studies the scale and nature of the manufacturing activities of Hong Kong registered manufacturing and trading companies in the PRD region. It also sets out to identify which technological, institutional and logistical infrastructures are required to better support the offshore production of Hong Kong manufacturers and to assess the opportunities and challenges facing them.

*Made in PRD* comprises of two parts. Part I is now complete and is the basis of this report. The findings have been concluded from questionnaires that were sent out in April 2002 to all (122,809) firms registered in Hong Kong classified as either manufacturing or trading companies by the Census and Statistics Department. These companies including companies of overseas ownership are referred to as **HKM&T firms** in this report. About 16 per cent are manufacturing firms and 84 per cent are import/export firms.

Part II of the study will conclude with the production of the final report in the first half of 2003.

### ■ Key Findings

**Guangdong** was the most important production base for Hong Kong's manufacturing operations, most of which are concentrated in the PRD. The findings of this survey indicate that the majority of factory facilities set up by HKM&T firms are in Dongguan, Shenzhen and Guangzhou.

**52 per cent** (or 63,000) of the 122,809 HKM&T firms were estimated to be engaged in economic activities in the Mainland.<sup>2</sup>

**An estimated 43 per cent** of the HKM&T firms that were economically active in the Mainland had invested in factory facilities, 51 per cent maintained management and operation control of factory facilities, and 45 per cent engaged in sub-contracting processing arrangements with factories in the Mainland.

**As of December 2001**, it was estimated that Hong Kong manufacturing activities were supported by a total of 59,000 factories and 11 million workers in the Mainland. Of these factories, 53,000 factories and 10 million workers were in Guangdong.

**Hong Kong's manufacturing** operations were also located outside of Guangdong. The Yangtze River Delta was the base for an estimated 2,600 factories producing goods for HKM&T firms, while the number in other provinces was estimated to be around 3,000.

**HKM&T firms** had invested in an estimated 25,000 factories in the Mainland as foreign funded enterprises (FfEs), some 21,000 of these factories were located in Guangdong. The remaining 34,000 factories served Hong Kong's manufacturing operations using other contractual forms (OCFs)<sup>3</sup>, some 32,000 OCFs factories were located in Guangdong.

<sup>1</sup> The term PRD usually refers to the region that includes Guangzhou, Shenzhen, Dongguan, Huizhou, Zhongshan, Zuhai, Foshan, Jiangmen, Zhaoqing (urban district, Gaoyao City and Sihui City). The Gross Domestic Product (GDP) of and Foreign Capital Actually Used in the PRD accounted for 80 per cent and 90 per cent of the total values of Guangdong Province respectively in 2001.

<sup>2</sup> Since this study only focuses on manufacturing operations of Hong Kong registered firms in the Mainland, a HKM&T firm is economically active in China if it has either (i) invested in factory facilities in the Mainland, (ii) has management and operation control of factory facilities; or (iii) made sub-contracted processing arrangement(s) with foreign invested or local enterprises.

<sup>3</sup> OCFs: Some HKM&T firms establish other contractual forms (OCFs) relationships with Mainland factories such as three forms of processing and compensatory trade.

**An estimated 5.26 million workers** worked in the Mainland for FFEs invested in by HKM&T firms, of these around 4.75 million workers were employed in Guangdong.

**HKM&T firms** that engaged in OCFs manufacturing operations in the Mainland employed 5.96 million workers, of these around 5.59 million workers were in Guangdong.

**The 63,000** economically active HKM&T firms in the Mainland in 2001 employed a total of 477,000 workers in Hong Kong. 46,000 of these firms had either invested in factory facilities or managed and operated factory facilities; these employed a total of 389,000 workers in 2001.

**It was estimated** that 88,000 Hong Kong based staff spent more than half of their annual working days in the Mainland, of these 83,000 worked in Guangdong.

**An estimated 3.8 per cent** of HKM&T firms had established their first factory in Guangdong by 1976. The number of firms setting up their first factory in Guangdong peaked in 1992 when some 12.3 per cent of today's total established a first factory.

**Between 1998-2001**, some 11.6 per cent of today's manufacturers set up a first factory in Guangdong, the peak year for investment over this period was 2001.

**The gross output value** of factories working for HKM&T firms that were economically active in the Mainland was estimated to be HK\$800 billion as of December 2001, HK\$680 billion was in Guangdong.

**The cumulative investment** in factories made by HKM&T firms in the Mainland was HK\$370 billion as of December 2001; HK\$350 billion was in Guangdong.

**On average**, 71 per cent of the total output produced by Mainland factories manufacturing for HKM&T firms was exported, 19 per cent was transferred to other facilities for processing and 10 per cent of total output was sold domestically.

**An estimated 87 per cent** of the HKM&T firms exported their products made in Mainland factories via Hong Kong. In terms of value of exports, 38.8 per cent of these firms exported 90-100 per cent of their Mainland factories output using Hong Kong Port.

**On average**, 49.7 per cent of the raw materials used in Mainland factories with connections to HKM&T firms were imported, 16.7 per cent were transferred from other factories in the Mainland, and the remaining 33.6 per cent were sourced from other domestic suppliers.

**An estimated 78 per cent** of HKM&T firms imported raw materials to be used in their Mainland factories through Hong Kong. Some firms (14.8 per cent) transported 90 to 100 per cent of imported raw materials through Hong Kong Port.

## **Concluding remarks**

**HKM&T firms play a dominant role in the industrial development of PRD and continue to provide the capital and expertise to further develop one of the world's largest powerhouses of light manufacturing industries.**



**Federation of  
Hong Kong Industries**

