

Trends and Opportunities in the Greater Pearl River Delta Region

The growth, development, and interactions within the Greater Pearl River Delta region are resulting in a number of positive trends. In financial services, an increasingly integrated Greater Pearl River Delta region is likely to become one of the best-served areas in China. With the liberalisation of China's economy, listings of Chinese companies on international bourses are proliferating, expanding Hong Kong's financial sector in the process. In 2005, Hong Kong continued to be the leading destination for firms from the Chinese Mainland to raise capital, with the top five listings on the Hong Kong Stock Exchange from the Chinese Mainland raising a total of US\$16.48 billion. Hong Kong banks and overseas banks already set up in Hong Kong have been expanding incrementally out into the Pearl River Delta region in activities including RMB banking and back-office operations, especially to Shenzhen which is making efforts to stay at the forefront of China's opening. Movement into Shenzhen and other Pearl River Delta cities will be facilitated by the opening of China's financial sector, which under China's WTO commitments is due by year-end 2006.

In business services, we should see in the Greater Pearl River Delta region a dramatic opening of the services sector, new market opportunities for foreign companies, and the development of local service firms. For the Pearl River Delta region, the greater opening should allow places like Guangzhou and Shenzhen to attract service activities from multinational and Hong Kong companies that have not been feasible before. As in other sectors, this will help stimulate improvement in the quantity and quality of locally provided services. For Hong Kong, the greater openness will provide a much greater scope for Hong Kong to expand its position as a service centre for China, enormously improve its ability to be a high-end service centre

for the Greater Pearl River Delta region, and in the process also expand its role as an Asia-Pacific centre.

The Greater Pearl River Delta region is also poised to expand its position in light manufacturing. The region will continue to benefit from relatively low assembly manufacturing wages, high quality infrastructure, improving capabilities, access to international markets through Hong Kong, and the presence of a wide range of supplier and supporting industries. China's accession to WTO and CEPA will further enhance the Pearl River Delta's position. The region has access to labour from all over China. The eastern part of the Pearl River Delta region and Hong Kong have infrastructure that is better than elsewhere in China. Planned investments in the region, including the Hong Kong-Zhuhai-Macao Bridge, should make transportation around the Pearl River Delta region far better than is the case today. Construction of the Hong Kong-Zhuhai-Macao Bridge is expected to begin by 2007 and to finish by 2015. This US\$4 billion, 35 kilometre highway bridge will reduce driving time between Hong Kong Island and Macao to around 45 minutes.

In Shenzhen and Hong Kong, the Greater Pearl River Delta region has ports that are more efficient than elsewhere in China and less subject to silting and other difficulties than new ports in Shanghai and elsewhere in China. New investments in the region's ports are likely to continue to enhance the Greater Pearl River Delta region's relative position. The Greater Pearl River Delta region has more international air cargo and air transport capacity than anywhere else in China. The combination of Hong Kong's international routes and the domestic networks at Guangzhou and Shenzhen is likely to continue to be an advantage well into the future. The DHL Central Asia SuperHub at the Hong Kong International Airport to be completed by year-end 2007 and the Federal Express Asia-Pacific Hub in Guangzhou New Baiyun International Airport to be completed by 2008 should further enhance the region's position.

The development of heavy industry in South China is also gathering speed, as shown by recent investments in the auto and auto parts, steel, and petrochemical sectors. The Pearl River Delta region is the first region in China to be chosen for what is essentially the export processing of automobiles. Honda, whose second auto plant in Guangzhou will be geared towards export markets, obviously believes that China in general and Guangzhou in particular, will be able to build to world quality and cost standards. In January 2004, JFE Steel Corp., a Japanese steel group, entered into a Nansha-based joint venture to produce steel for the auto and appliance industries. The chemicals sector is seeing very substantial development in Guangzhou (where a US\$5 billion oil refinery and petrochemical complex is planned by Sinopec and Kuwait Petroleum Corporation at Nansha), Huizhou (where CNOOC and Shell have invested in a US\$4.3 billion petrochemical complex), and Zhuhai (where BP has made major investments in world-scale purified terephthalic acid (PTA) facilities).

These developments are being facilitated and amplified by massive infrastructure and urbanisation initiatives in the Greater Pearl River Delta region. Highway, rail, and subway systems are being dramatically expanded. Substantial urban development projects are reshaping Guangzhou, Shenzhen, Dongguan, and Foshan, among others. Macao is seeing major investments in infrastructure and leisure and resort facilities. Connectivity around the region is being enhanced by projects that will substantially increase the capacity for Hong Kong-Shenzhen boundary crossings, such as the Hong Kong-Shenzhen Western Corridor, as well as the Hong Kong-Zhuhai-Macao Bridge project. All of these are likely to supercharge the region's development.