

Overview

The Pearl River Delta Economic Zone

The Pearl River Delta Economic Zone, which consists of Guangzhou, Shenzhen, Dongguan, Foshan, Zhongshan, Zhuhai, Jiangmen, and parts of Huizhou and Zhaoqing, has been the most economically dynamic region of the Chinese Mainland since the launch of China's reform programme in 1979. In that year, the Central Government of the People's Republic of China announced that Guangdong Province would be allowed to follow less restrictive economic policies and would be permitted to set up three Special Economic Zones (SEZs), including two in the Pearl River Delta, Shenzhen and Zhuhai. Preferential policies in the SEZs included a number of features designed to attract foreign investment, such as a 15 percent enterprise income tax rate, tax holidays of up to five years, and the ability to repatriate corporate profits and to repatriate capital investments after a contracted period. They also included duty free treatment of imports of raw materials and intermediate goods destined for exported products, as well as exemption from export taxes.

Guangdong's early experience with reform allowed a market-oriented culture to develop earlier than in other places in the Chinese Mainland. Starting in 1979, Guangdong Province and the SEZs were given greater political and economic autonomy than other jurisdictions in the Chinese Mainland. Areas of greater autonomy included finance and fiscal matters, foreign trade and investment, commerce and distribution, allocation of materials and resources, labour, and prices. In 1988, Guangdong was granted expanded powers to set its own economic direction, and was designated a 'comprehensive economic reform area'. This gave rise to the creation of the Shenzhen Stock Exchange, as well as development of a land lease system and some

privatisation of housing. Shenzhen became a leader in terms of foreign exchange markets, operation of foreign banks, land reforms, and stock market development.

The economic development of the Pearl River Delta Economic Zone took off after the reform programme was instituted. The region's GDP grew from just over US\$8 billion in 1980 to more than US\$89 billion in 2000 and US\$221.2 billion in 2005.⁴ During that period, the average real rate of GDP growth in the Pearl River Delta Economic Zone exceeded 16 percent, well above the People's Republic of China national figure of 9.8 percent. Since the onset of China's reform programme, the Pearl River Delta Economic Zone has been the fastest growing portion of the fastest growing province in the fastest growing large economy in the world. In the process, a region that was once largely agricultural has emerged as a manufacturing platform of global importance. It is a world leader in the production of electronic goods, electrical products, electrical and electronic components, watches and clocks, toys, garments and textiles, plastic products, and a range of other goods.

For the first ten years of China's economic reform process, the internationalisation of the Chinese economy was largely a Pearl River Delta phenomenon, with the export-oriented production of foreign-invested entities based in Shenzhen, Dongguan, and Guangzhou leading the way. In recent years, the development environment for indigenous private-owned enterprises has improved dramatically in the Pearl River Delta Economic Zone and local firms are now playing an ever-growing role in the region's economy. In this regard, Shenzhen, Dongguan, Foshan, and other parts of the Pearl River Delta Economic Zone have been at the forefront of private sector development in China.

⁴ *The 2005 GDP of the Pearl River Delta Economic Zone is slightly overstated as it includes the whole of Huizhou and Zhaoqing including parts that fall outside the definition of the Pearl River Delta Economic Zone. 2005 data are preliminary.*

As the most dynamic region in the Chinese Mainland, the Pearl River Delta Economic Zone is increasingly important as a market. Given the massive scale of its export sector, the region has become an important industrial market for all sorts of inputs, materials, and capital goods. It also is a major market for transportation and trade-related services. Rapid urbanisation and burgeoning city populations have created demand for infrastructure, building materials, transportation services, housing, and other goods and services associated with urban development. The Pearl River Delta Economic Zone is also a highly attractive consumer market. According to the 2005 Interim Census, the Zone had a population of nearly 45.5 million people⁵, while some analysts place the population substantially higher, at around 60 million. Per capita income has been growing substantially in recent years, as have consumer expenditures. Cities such as Shenzhen and Guangzhou are among the most affluent in the Chinese Mainland. Close links to Hong Kong mean that Pearl River Delta region consumers adopt international tastes earlier than most places in China, making the region one of the trend setters in China.

Although the Pearl River Delta Economic Zone encompasses only 0.4 percent of the land area and only 3.5 percent of the 2005 Interim Census population of the Chinese Mainland, it accounted for 9.9 percent of GDP and 28.9 percent of total trade in 2005. In 2005, it accounted for 19.2 percent of foreign direct investment in the Chinese Mainland. These figures show the remarkable level of economic development that the Pearl River Delta Economic Zone has achieved and the international orientation of the region's economy. This orientation has attracted numerous investors from all over the world who use the Greater Pearl River Delta region as a platform for serving global and Chinese markets, in many cases making and managing these investments from Hong Kong.

⁵ This year-end 2005 Interim Census population of the Pearl River Delta Economic Zone includes the whole of Huizhou and Zhaoqing including parts that fall outside the definition of the Pearl River Delta Economic Zone.

The Importance of the Pearl River Delta Economic Zone in Guangdong and China*

	PRD% of Guangdong Province	PRD% of Chinese Mainland
Land area	23.1%	0.4%
Registered population (2005)	35.0%	2.1%
Interim Census Population (2005)	49.5%	3.5%
Census population (2000)	47.8%	3.2%
GDP (2005)	83.5%	9.9%
Total trade (2005)	96.0%	28.9%
Exports (2005)	96.8%	27.8%
Imports (2005)	95.4%	29.8%
Foreign direct investment (2005)	93.7%	19.2%

* Note: Data for the year 2005 are preliminary. Interim Census Population 2005 is year-end figure.

Sources: Based on data from the Guangdong Statistical Yearbook 2001 and the statistics bureaux of China, Guangdong, Jiangsu, and jurisdictions in Guangdong Province.

Hong Kong's Links with the Pearl River Delta Economic Zone

The Pearl River Delta Economic Zone has benefitted from proximity to Hong Kong, which has provided capital, management, technology, market knowledge, and access to international markets. Hong Kong has been the source of approximately two-thirds of the cumulative foreign direct investment in the region since 1979. In addition to the tens of thousands of small and medium-sized Hong Kong firms active in the Pearl River Delta region are several large players, such as Hutchison in port services, VTech in electronics, Hopewell in

highways, Jardines in retailing, HSBC and Bank of East Asia in banking, China Light & Power in power generation, and several Hong Kong developers in property and hotels.

This development has proved to be enormously beneficial for Hong Kong as well. The decentralisation of the manufacturing activities of Hong Kong companies to the Pearl River Delta Economic Zone has resulted in an enormous expansion of their output and importance in global terms. In 1981, Hong Kong companies employed approximately 870,000 manufacturing workers in Hong Kong and few elsewhere. By 2002, Hong Kong companies employed fewer than 200,000 manufacturing workers in Hong Kong, but between 10 million and 11 million in the Pearl River Delta region.⁶ Links with the Pearl River Delta Economic Zone have allowed Hong Kong to build a transportation and logistics juggernaut that boasts the world's second busiest container port and the world's busiest airport for international cargo. The linkages also have supported Hong Kong's development into a management, coordination, information, business service, and financial centre of global importance. As the Pearl River Delta's economy has grown in recent years, so has Hong Kong's. Hong Kong's per capita income in US dollar terms in 2000 was five times its level of 1980, when the opening of the Pearl River Delta Economic Zone started to take effect.

Today, Hong Kong also serves a distinct role as a place for non-Hong Kong firms to access the strength of the Greater Pearl River Delta region. Thousands of Taiwanese firms use Hong Kong to carry out finance, logistics, and management functions for their Pearl River Delta factories. A survey conducted by the Hong Kong Trade Development Council in 2002 indicated that 87 percent of the Japanese firms operating in the Pearl River Delta Economic Zone claimed these operations have strong links with Hong Kong. In fact, 'proximity to

⁶ Michael J. Enright, Edith E. Scott, and David Dodwell, *The Hong Kong Advantage*. Hong Kong: Oxford University Press, 1997 and Michael J. Enright, Edith E. Scott, and Ka-mun Chang, *Regional Powerhouse: The Greater Pearl River Delta and the Rise of China*. Singapore: John Wiley & Sons, 2005, p. 70.

Hong Kong' was the number one reason given for choosing the Pearl River Delta region in the first place. Many western firms also use Hong Kong as a base for their Greater Pearl River Delta region activities, with senior managers often residing in Hong Kong. Hong Kong also is the principal location for the buying offices for companies doing business with the Greater Pearl River Delta region. Increasingly, savvy companies are developing Hong Kong-Pearl River Delta strategies with their management, finance, communication, and coordination activities based in Hong Kong and their manufacturing activities in one or more of the jurisdictions of the Pearl River Delta Economic Zone. Given their extensive experience in the region, Hong Kong companies have become ideal partners for multinationals interested in profiting from a Hong Kong-Pearl River Delta strategy.