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Bank supports exodus of manufacturers to southern China

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HONGKONG must continue transferring labour-intensive manufacturing industries to southern China to maintain its global competitive advantage, according to the Hang Seng Bank.

The bank's economic research department says in its latest monthly report, *The Changing Structure of Manufacturing Industry*, that despite dramatic increases in production costs in recent years, the territory has maintained its competitive strength in manufacturing.

It has done so partly by being able to transfer those more labour-intensive industries across the border into southern China, but also by increasing automation in the remaining basic industries.

Economic growth in the territory has also been faster than it otherwise might have been because of the increased demand for Hongkong services from the larger manufacturing plants established across the border.

"In the years ahead, to lower production costs and thus maintain competitiveness in the world market, a substantial portion of labour-intensive production will continue to be relocated in China," the bank says.

"Manufacturing activities remaining in the territory will also increasingly be based on skilled labour and mechanised production with a higher level of technology.

"A new industrial structure is therefore emerging which is more in tune with the current labour structure and the environmental consciousness of society," it says.

"Together with the highly efficient financial and communication infrastructure, it appears that the manufacturing sector will continue to remain an important part of the economy."

It believes that this is the optimal strategy available to Hongkong given its unique working relationship with China and the scarcity of land and other constraints on its own manufacturing development.

The bank says that many industrialising economies in the region, including Taiwan, South Korea and Singapore have concentrated on government designated manufacturing industries to support their manufacturing sectors.

Other industries have been allowed to move offshore as production costs have risen and this has resulted in them severing anything but financial connections with the countries in which they began.

Hongkong has, on the other hand, been able to transfer industries across the border into lower-cost China without necessarily giving up the flow on benefits that these industries provide to any economy.

The relative decline of manufacturing industry in Hongkong is reflected in the decline in the sector's contribution to the territory's over all gross domestic product (GDP).

According to the Hang Seng Bank's own figures, manufacturing's share of GDP declined to 21.8 per cent in 1987 from 27.6 per cent in 1979, and it is likely to have declined still further since then.

Over the same period, however, the share of manufacturing in Taiwan's economy rose to 39.4 per cent from 33.7 per cent; in Singapore it rose to 28.8 per cent from 28 per cent and in South Korea to 32.2 per cent from 28.8 per cent.

But the increases in the overall share in these countries disguise the restructuring in the economies, achieved by government measures to ensure that manufacturing remains a core component of their economies.

"In the case of Hongkong, however, moving labour-intensive production to China has not severed the linkage between manufacturing and other sectors," the report says.

"This is because only the production process is being relocated, all other activities like finance and transport are still being conducted in the territory.

"In fact, with production being performed on a larger scale in the mainland, the demand for these services has also expanded markedly in recent years."

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