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MANUFACTURING

FACTORIES IN BAY AREA 'STAYING PUT'

Manufacturers hammered by headwinds but most do not plan to move out of China, survey finds

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Manufacturers across China's main economic and export engine, the Greater Bay Area, have had to rein in their business plans this year, with small and medium-sized firms in a particularly difficult position, according to an annual survey.

Information on the ground earlier this year indicated companies in the region had a weak appetite for long-term investments, such as production expansion.

And many were shelving or decelerating plans to move capacity outside China or invest in technological upgrades, according to Standard Chartered's annual survey of manufacturers operating in the bay area.

The survey results, released yesterday, reflected interviews with more than 200 manufacturers in April and May about their operations and business outlook. Most of the firms are headquartered in Hong Kong, Taiwan and the mainland, with factories in the bay area covered by the development plan.

Back in the second quarter of the year, most manufacturers in the bay area did not have concrete plans to relocate operations out of the mainland, the survey showed.

"The survey results could have been worse, considering that this year's survey was conducted in the two months [April and May] that the Covid resurgence peaked and growth troughed in China," it said.

"We believe some of the results could be less favourable if the survey were conducted today, given how many of the external and domestic headwinds have lingered since."

The Greater Bay Area is Beijing's scheme to link Hong Kong and Macau with nine mainland cities into an integrated economic and business hub.

The hub reflects rapid changes in China's manufacturing industry, and it serves as a litmus test for the public's willingness to invest and consume.

Among the manufacturers surveyed, 6.7 per cent said they had already moved some of their operations overseas, while about 11 per cent said their moves were already more or less half-completed.

Meanwhile, 33.7 per cent said they were merely considering relocation plans. The rest, just under half, said they were not considering relocating their factories away from the bay area.

When it came to factors that were driving the companies towards more actively considering moving capacity outside China, about 11 per cent of the respondents said the coronavirus was a very strong driver, while 9 per cent cited US-China tensions, 5 per cent pointed to the Russia-Ukraine conflict and 4 per cent identified labour and wage challenges.

Vietnam and Cambodia were the top two preferred destinations, with 33 per cent and 21 per cent of the surveyed companies naming them, respectively.

Some 47 per cent of the respondents picked production diversification as a key non-wage benefit to be gained from relocation, a modest drop from 58 per cent in 2021 and 56 per cent in 2020.

This was followed by improved labour supplies (32 per cent), proximity to new buyers and customers (28 per cent), attractive tax incentives (28 per cent), better economic outlook (26 per cent) and benefits related to free-trade agreements (22 per cent).

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> JEFF WANG, FACTORY OWNER

Jeff Wang, who has run a footwear export factory in Dongguan for years, concurred with the survey results, saying most small and medium-sized enterprises in the region, especially in the traditional manufacturing sector, were facing a dearth of both orders and funds.

"Most small firms here are trying to survive by cutting operating costs to the lowest level," Wang said.

"I heard that not a manufacturer this year was moving factories or investing in automation of production lines."

The low-end manufacturing supply chain had increasingly tighter profit margins, making it difficult to operate, Wang added.