New Bridge and Pearl River Delta West (4): Development of Logistics Industry

After the opening of the Hong Kong-Zhuhai-Macau Bridge (HZMB), Hong Kong will not only have direct land transport link with Zhuhai, but will find its land distance with Zhongshan and Jiangmen in the vicinity of Zhuhai greatly shortened. The HZMB will contribute to Hong Kong’s economic and people-to-people links with western PRD. In order to assist Hong Kong companies in making early plans for development, HKTDC Research conducted preliminary studies in Zhuhai, Zhongshan and Jiangmen as well as Yangjiang which lies further west but is still within the HZMB’s three-hour economic circle to explore business opportunities worthy of attention in western PRD thanks to easier accessibility.

Logistics demand on the rise

The continuous development of industry, foreign trade and domestic trade in the western PRD is fuelling the development and growth of the logistics industry in the area. According to related enterprises in Yangjiang and Jiangmen, many logistics companies there are small operations while few are really sizable third-party logistics companies. However, amid continuous upgrades of the local manufacturing industry and investment from more foreign and domestic enterprises, demand for higher standard of logistics service is expected to accelerate.

At the same time, more local manufacturing enterprises are beginning to realise the advantages of using third-party logistics support, such as reducing the inventory and freeing companies from constructing warehouses. This will also boost the local demand for more third-party logistics service and higher service standards. The cities’ investment intensity requirements will probably encourage the wider use of third-party logistics service by manufacturing enterprises in a bid to reduce demand for warehouse space.

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<th>Export 2013 (US$ billion)</th>
<th>Export 2009-2013 (Average annual growth, %)</th>
<th>Import 2013 (US$ billion)</th>
<th>Import 2009-2013 (Average annual growth, %)</th>
<th>Total retail sales 2013 (Rmb billion)</th>
<th>Total retail sales 2009-2013 (Average annual growth, %)</th>
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Source: Guangdong Statistical Yearbook; statistics bureaus of various cities

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Hong Kong Trade Development Council
Third-party logistics service: gaining in popularity

According to the competent department of Jiangmen, there are about 3,000 logistics service providers in the city, among which only 20 to 30 are third-party logistics companies each with an annual turnover of about tens of millions of yuan. Most of the larger manufacturing enterprises that invest in Jiangmen continue to use Hong Kong or foreign-owned logistics companies from other cities, which have also set up their own operations in Jiangmen. As the large manufacturing enterprises generally have stricter demands for logistics service, Jiangmen’s local logistics companies may not be able to meet such needs and would have to go through certain observation period during the collaboration. The city’s larger manufacturing enterprises are increasingly using more third-party logistics companies to achieve zero inventory. Yet they may still need to leverage the different edges of a number of the local logistics companies at the same time.

The larger manufacturing enterprises in Zhongshan have become more receptive to using third-party logistics service. This trend is now influencing the smaller companies, which are gradually more aware of the higher costs of owning their own transport fleet and managing their warehouse overheads. According to a logistics company at a bonded logistics centre in Zhongshan, about 60% of the city’s larger enterprises are using third-party logistics service, while the uptake is only 30-40% among the smaller manufacturing enterprises. Nevertheless, many of the small- to medium-sized manufacturing enterprises are also suppliers of the large enterprises. They are also influenced by the larger enterprises in beginning to consider using third-party logistics service, which has positively impacted the development and enhancement of the local logistics enterprises. The local clients, apart from the cost considerations, also place great emphasis on the connectivity of the information system. As such, in the wake of more foreign companies operating in the city, the demand for higher standard of logistics service will accelerate.

In Yangjiang, the logistics industry is still in its early stage of development with few sizable players. However, boosted by the city’s industrial development including the establishment of industrial relocation parks, the local logistics market has seen considerable rapid growth. The manufacturing industry there is increasingly outsourcing its logistics activities in order to become more specialised in its core business. At the same time, value-added logistics service is also developing in the form of packaging support, assistance to small- to medium-sized enterprises in centralised purchasing, and even in carrying out commodity inspection in places like Shenzhen. Aquatic products are one of Yangjiang’s major industries. Right now these products are transported by refrigerated trucks to Shenzhen prior to export. Yangjiang’s refrigerated warehouses are insufficient and relatively scattered. As the deep processing of marine products continues...
to develop in Yangjiang, the demand for refrigerated storage and transportation is set to increase further.

**Higher value-added goods more likely to use new bridge**

According to logistics industry sources in Jiangmen, upon the opening of the HZMB, the local logistics industry may choose to divert some of the goods from Shenzhen customs to Jiangmen customs, before transporting them to Hong Kong via the HZMB. This will be particularly true for some export electronic products, as the land route would be more efficient, convenient and more suitable to high-value products such as electronic goods. This route will also meet the current demand situation where export order size is relatively small while the delivery lead time is getting shorter. At present, it takes an evening for a container to be transported from Jiangmen to Hong Kong via sea route. For example, a container that enters the Xinhui Port at 6 pm will arrive Shekou the next morning. The operation of the HZMB will surely facilitate the export by air from Hong Kong of goods that require a faster delivery time.

Meanwhile, exports of new- and high-tech products from Zhongshan and Jiangmen have shown signs of growth in recent years. Take Zhongshan for instance. In 2013, machinery and electronic products accounted for 70% of its export value, compared to 66% in 2009; while the export value of new- and high-tech products accounted for 22% of the city’s total export value. In the first half of 2014, Jiangmen’s exports of machinery and electronic products grew 7.1% and accounted for 58% of Jiangmen’s export value. Exports of Jiangmen’s new and high-tech products also rose 19.4% during the same period, accounting for 9.2% of the city’s total export value. Presently, more and more air freight transits for export products are available in Jiangmen. It is therefore anticipated that the HZMB’s operation will greatly benefit air freight export, especially with most of Hong Kong’s international flights readily offering transit services. However, the impact will still be subject to how the HZMB’s toll system would affect the overall transportation costs eventually.

Currently, the aggregate economic size of western PRD cities such as Zhuhai, Zhongshan, Jiangmen and Yangjiang is smaller than that of eastern PRD. In terms of industry cluster and market size, western PRD cities have yet to support the formation of a manufacturing or sales logistics system that commands massive import and export capacity. However, as more and more manufacturing enterprises are expanding or transferring their business to these areas, demand for logistics service will see significant growth in future.

**Cities vying to become regional logistics hub**

It is noteworthy that many cities in western PRD are striving to become the regional logistics hub. In particular, they are going to capitalise on the better connectivity offered by the direct link between the HZMB and Hong Kong’s international air transport, to turn their local logistics parks into import-export convergence and dispatch points in the mainland. The cities are also turning the bonded logistics warehouses into regional processing and distribution centres. All these developments are worth watching. Against the backdrop of rising import demands in China, it may become one of the major development trends for local bonded logistics parks to be turned into processing and distribution centres for imported goods, especially for consumer products.
Hong Kong’s warehouse supply is very tight, and its warehouse rentals can be several folds that of western PRD. A logistics enterprise in Zhuhai suggests that the city’s warehouse land cost is significantly lower than that of Hong Kong and even eastern PRD. It is estimated that Hong Kong’s warehouse rentals are 10 times that of Zhuhai’s, while the overhead for operating in Shenzhen’s Futian Free Trade Zone is continuously rising and gearing towards commercial development. Hong Kong’s Dah Chong Hong has set up its logistics park in Jiangmen’s Xinhui years ago, using the bonded warehouse there to store, process and repackage import products, before distributing them to the mainland or via Hong Kong to other Southeast Asian markets according to market demand, or packaging the mainland products for export. When the HZMB opens to traffic, it will further facilitate the transport connection between Hong Kong and western PRD. How to leverage the advantages of these two places and further develop their function as regional distribution centres, including the western PRD’s warehousing functions as Hong Kong’s back-end logistics industry base, are opportunities worthy of further exploration.

New bridge drives Zhuhai’s logistics planning

Zhuhai, Jiangmen and Zhongshan are now planning to develop logistics parks, aiming not only to enhance their logistics service but also to turn them into the regional logistics and distribution centres. Take the example of Zhuhai that directly connects with the HZMB. The city is now building a 13.6-km connection line to link up the boundary crossing facilities with highways in the western part of Guangdong. According to Zhuhai authorities, the Zhuhai boundary crossing facilities are being designed and constructed based on the following estimates of daily traffic between Zhuhai and Hong Kong by 2035: 150,000 visitors, 18,000 small cars and 17,000 container trucks.
Coinciding with the HZMB construction, Zhuhai has also planned its own logistics development that includes construction of the Hongwan port area, while the Jiuzhou Container Port will be relocated to Hongwan port in the near future. A Zhuhai-Hong Kong-Macau cooperative logistics park is currently under planning for construction at the Zhuhai Hongwan port area. It will actually be located at the Zhuhai Free Trade Zone, complete with joint inspection and customs declaration functions. The Hongwan port and Zhuhai Free Trade Zone will be located at the HZMB’s connection link.

Based on the current construction design, the Zhuhai boundary crossing facilities at the HZMB will be built on a small man-made island that lacks enough customs inspection space for the massive truck volume. As such, a customs inspection centre will be built at Hongwan port where the trucks will first be given an electronic seal (e-seal) for entry into the Zhuhai boundary crossing. They will then be officially inspected upon arrival at the customs inspection centre at Hongwan port. The export goods will also be processed first at the customs inspection centre at the Zhuhai-Hong Kong-Macau cooperative logistics park, for the goods to be e-sealed before proceeding to the HZMB exit. In the future, Hongwan port will be developed into a container port complete with the joint advantages of river and sea transport, for the whole port area to be developed into a logistics zone.

According to plans, the Zhuhai-Hong Kong-Macau cooperative logistics park will be positioned as a transit point for import and export goods that will radiate to western Guangdong and beyond. For instance, fresh produce to be exported to Hong Kong can first be shipped to this logistics park for processing and packaging as needed. Imported goods can also use the free trade zone’s warehousing function for processing and packaging before distribution to the mainland market.

The Zhuhai Free Trade Zone offers bonded warehousing services. After 15 years’ development, the zone has gradually evolved from secondary industry to tertiary industry operations, with particular focus on modernised logistics/warehousing, cross-border e-commerce, research and development to imported goods display, etc. Part of the land originally set for use by secondary industry has now been turned into service industry use. The Zhuhai Free Trade Zone is now undergoing its second phase
development, inclusive of the Zhuhai-Hong Kong-Macau cooperative logistics park. Usable land at the Free Trade Zone and non-Free Trade Zone is more than what is available now. The plan also includes the construction of a large-scale fresh and live agricultural by-products processing zone. This zone will centralise the agricultural by-products from western PRD as well as fishery products from Zhuhai for processing and packaging, before they are directly exported to Hong Kong. As such, the cold chain logistics industry in the area will be developed in keeping with this trend.

The Zhuhai Free Trade Zone is also developed with consideration of its connectivity with the HZMB. One of the zone’s functions is the provision of related logistics back-end distribution service for Hong Kong and Macau – making use of the Free Trade Zone’s warehousing functions for goods import, especially in managing the inventory of high-end products. This will be followed by repackaging and distributing the goods to different areas including the mainland, subject to market needs; or for re-export. Zhuhai is now planning to develop the Hongwan port’s transit and distribution functions. For example, Hong Kong’s cargo trucks can be driven to this zone for “drop and pull”, before being affixed to the relevant tractors for transporting the cargoes to places as far away as Guangxi province and even the southwestern part of China. Global Logistic Properties has already moved to the second phase of the Zhuhai Free Trade Zone to develop its warehousing business, positioning itself as the transit warehouse for Hong Kong, Macau and the mainland. The first phase development includes an 80,000-sqm warehouse to be fully operational in the first half of 2015.

Jiangmen promotes logistics development

Jiangmen is also setting its sights on logistics service development with logistics parks under planning. For long term positioning, Jiangmen plans to become a logistics hub or a transit hub serving the whole of western Guangdong, including turning itself into a transit and distribution hub for imported goods. The Dah Chong Hong Logistics Park located at Jiangmen’s Xinhui, apart from using the local bonded warehouse to store, process and distribute imported goods, also plans to turn the facility into a convergence hub for export goods from western Guangdong. This will serve to centralise goods from western Guangdong for packaging and processing service as needed, before they are cleared for customs and shipped to Hong Kong for re-export.

Jiangmen plans to build four logistics bases, namely in Yingzhouhu, the public piers at the new- and high-tech zone (under construction), Daguang Bay (under planning) and Heshan international logistics park (under planning). These will be interconnected by a variety of transport modes such as highway, river, sea and railway. Among the massive plan, the Daguang Bay project was been approved in principle in late 2013 by the Guangdong Provincial Government under the Overall Plan for the Development of

Dah Chong Hong Logistics Park in Xinhui, Jiangmen.  
Product display gallery at Zhuhai Free Trade Zone.

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Guangdong Jiangmen Daguang Bay Economic Zone (2013-2030). It is a large-scale project involving the development of coastal advanced industries, emerging marine industries as well as producer services. Among these, modernised logistics are one of the key producer services being promoted. Modern logistics encompass the development of port logistics, bonded logistics and cold chain logistics. All these are aimed at creating a logistics hub that reaches out to serve western Guangdong and even southwest China. On the other hand, some of the industrial parks also offer dedicated logistics zones. For example, the Jiangmen Kaiping Cuishanhu Industrial Transfer Park is currently recruiting logistics companies to take up space in its dedicated logistics base. Funded by the Park, the 130-mu logistics base will be developed in three phases, of which the first phase takes up 40 mu with two warehouses and offices of courier companies.

Growing level of informatisation in logistics

Jiangmen’s logistics circle reckons that there is still much room for improvement in the local logistics industry in terms of efficiency and level of informatisation. In light of this, industry players in western PRD are actively seeking to raise the industry’s level of informatisation. According to the competent authorities of Jiangmen, the city government has set aside dedicated funding to boost the development of advanced logistics services, which includes RFID applications and other informatisation systems. The local enterprises can use these funds to collaborate with information systems suppliers to raise the industry’s overall service efficiency. The Jiangmen government will also implement informatisation measures for small- and medium-sized enterprises, by subsidising the information system design for the enterprises’ use. It will also set up a public information service platform to help enterprises disseminate their supply and demand information. Some fast-growing logistics enterprises in Yangjiang, particularly the courier companies that work with e-commerce companies or specialised courier companies (handling pharmaceuticals, electronic products and product samples, etc), are gearing towards developing their systems with greater efficiency. Such informatisation development among western PRD logistics players presents new opportunities to Hong Kong’s related service providers.

In addition, in light of the rapid growth in cross-border e-commerce, Guangdong Customs has reportedly decided to build a distribution centre at Jiangmen’s new- and high-tech zone. This facility will handle some of the cargoes diverted from the Baiyun Airport, including cross-border e-commerce goods, especially those bound for southwest China. The opportunities generated by cross-border e-commerce development for the logistics industry of western PRD are not to be overlooked.