Standard Chartered

press release

Standard Chartered survey shows ASEAN is poised to become Asia's next Pearl River Delta

- ***ASEAN is set to become Asia's next low-cost manufacturing powerhouse as wages in China's Pearl River Delta (PRD) increase***
- ***ASEAN's competitive edge is its lower cost, abundant supply of labour and rising household affluence over the next 20 years***
- ***PRD manufacturers eye Vietnam and Cambodia as preferred relocation sites***

Bangkok, 18 June 2015 – ASEAN is poised to become Asia's next low-cost manufacturing powerhouse as wages in China's Pearl River Delta (PRD) factory belt continue to creep up. As China sees waning wage competitiveness, ASEAN stands to gain, with its lower costs and abundant supply of labour over the next 20 years.

ASEAN's high rate of GDP growth, and rising household affluence, means companies relocating from the PRD could capture a share of a large and growing consumer market.

The latest survey conducted by Standard Chartered shows that manufacturers in the PRD – spanning nine cities in China's Guangdong Province and accounting for 27 per cent of Chinese exports – continue to face persistent labour shortages and rising wages.

"At the macro level, this is good news for China. Rising wages reflect the country's improving productivity and the increasing complexity of the products it makes. It confirms China's transition to high-end manufacturing and a more sustainable growth model. At the company level, however, labour shortages mean persistent cost pressure for PRD manufacturers," said **Kelvin Lau, Senior Economist Standard Chartered.**

More than 290 Hong Kong and Taiwan-based manufacturers operating in the PRD participated in the survey and more that 85 per cent said labour shortages are at least as bad as last year. Migrant worker wages are expected to rise 8.4 per cent on average this year, against 8.1 per cent in 2014, pointing to an overall real wage growth of 6.8 per cent.

"More than 30 per cent of the companies we spoke to are planning to respond by relocating their factories – some further inland in China, and some overseas, with Vietnam and Cambodia being the preferred location

As China's manufacturing sector transforms, ASEAN's is likely to grow. While wages may still be competitive in some parts of China, particularly the West, the shrinking labour force means that wages are likely to catch up quickly with those in Eastern China," added Kelvin.

Vietnam, with its geographical proximity to China, is poised to be one of the biggest beneficiaries, as low-costs manufacturing shifts away from the PRD. The companies in our survey estimate that moving here could give them an average cost reduction of 19 per cent. Cambodia, on the other hand, could yield a 20 per cent saving on wages.

As a whole, ASEAN has strong and varied manufacturing capabilities – from low-cost factories in Cambodia, Laos, Myanmar, Vietnam and Indonesia, to mixed manufacturing and electronics in Thailand, Malaysia and the Philippines, and high value-added production in Singapore.

"ASEAN may well take note of China's experience, which demonstrates the importance of external trade in improving economic structure and propelling growth. The potential prize is huge. As foreign direct investment continues to shift from China to ASEAN, the region may close its gap with China and become one of the world's largest exporters," concluded Kelvin.

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