

# Economic Analysis

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## The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Plan

### Framework of the GBA Plan

The framework plan for the GBA, announced on 18 February 2019, lays out the policy direction for coordinated development of nine Mainland municipalities, Hong Kong and Macau. The blueprint emphasizes the central role of technology and innovation, reflecting the technology-driven transformation of the Chinese economy in recent years.

As of the end of 2018, there were 610 mn accounts registered on Mainland online shopping sites, forming the largest domestic internet market in the world. The low prices and wide selection found on these sites have stimulated Mainland consumer spending. Internet shopping accounted for 23.6% of total retail sales in 2018, in line with the rising trend seen in recent years. Internet firms continue to introduce new online services, experimenting with different ways to make economic activities more efficient. China's internet companies are also expanding into overseas markets, particularly to Southeast Asia. This fits well with China's Belt and Road Initiative (BRI).

Guangdong has played the leading role in this technology-driven reform. The province is home to some 33,000 high-tech enterprises, accounting for

about 30% of the national total. In 2017, 332,652 patents were licensed to firms and individuals in Guangdong province, topping any other regions in China.

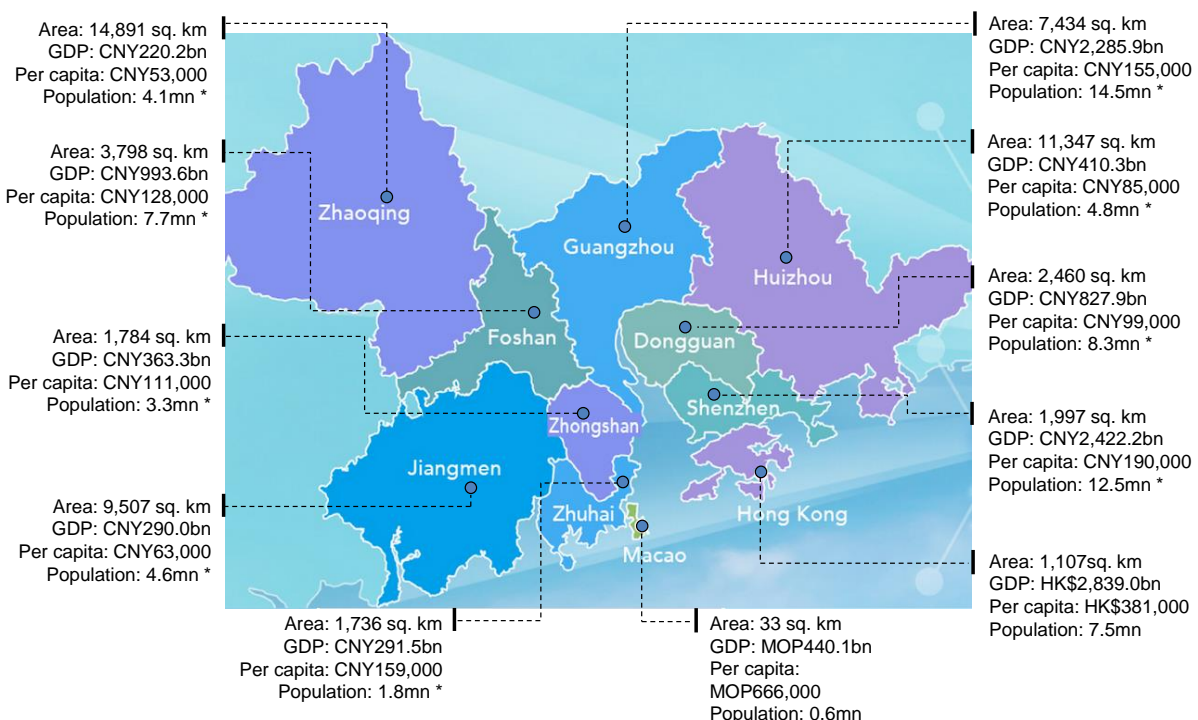
According to the framework plan for the GBA, the main infrastructure for the GBA city cluster will be built by 2022, enhancing regional coordination, innovation, connectivity and flow of various factors of production. By 2035, the GBA will become a world-class bay area for living, working and travelling, with economic development in the region driven mainly by technology and innovation. The region will be highly connected through significant enhancement of mobility of capital, labour and goods.

### Building a Globally Competitive, Technology & Innovation Driven Economic System

#### Developing a technology and innovation hub

To develop the GBA into a technology and innovation hub, the Plan calls for facilitating cross-boundary and regional flows of talent, capital, information and technology. Development of demonstration bases, R&D institutes, incubation clusters and innovation & technology parks will be strengthened. Collaboration among these centres will be encouraged, to facilitate commercial application of newly developed technology.

### Guangdong-Hong Kong-Macau Greater Bay Area



Note: 2018 macro data; \* 2017 data  
Source: Constitutional and Mainland Affairs Bureau, HKSAR

Hong Kong and Macau entities setting up R&D institutes in Guangdong will be accorded the same status as local institutes, and will have access to Mainland government funding for technology projects. The Plan also supports the development of a platform for the exchange and sharing of Intellectual Property (IP), and positions Hong Kong as a regional IP trading centre.

**Manufacturing Upgrade**

According to the Plan, Shenzhen and Dongguan will focus on high-end manufacturing, such as electronic communications. Advanced equipment manufacturing will be centred in Zhuhai and Foshan.

The Plan supports development of a smart manufacturing industry, with a focus on robotics and high-precision engineering. The Plan also encourages the development of new pillar industries, such as new-generation information technology, biotechnology, healthcare, new energy and new energy vehicles.

**Modern Services**

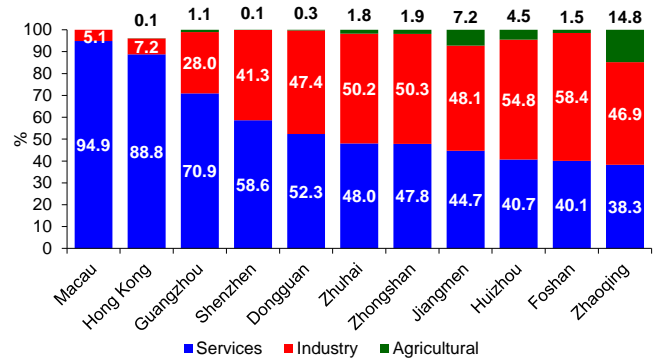
The Plan proposes to upgrade producer services, such as business and distribution services, and refine and improve the quality of consumer services, such as healthcare and family services. Guangdong, Hong Kong and Macau are encouraged to work together to develop logistics, industrial design, film and creative industries as well as professional services such as accounting and auditing, legal and dispute resolution, etc. Meanwhile, Hong Kong’s status as an international high-end convention, exhibition and sourcing centre will be enhanced.

A number of initiatives cover the financial industry. The scope for cross-boundary investment by Hong Kong and Mainland residents and institutions will be widened, while the channels for Hong Kong and Mainland residents to invest in financial products in each other’s market will be expanded. The Plan also promotes development of cross-boundary funds and insurance products within the GBA.

Banking institutions in the GBA will be able to engage in cross-boundary RMB denominated interbank

lending, foreign exchange business and related derivative products, and distribution of wealth management products. Insurance companies in Guangdong, Hong Kong and Macau will be able to jointly develop cross-boundary vehicle and medical insurance products, and provide cross-boundary services in areas such as underwriting, investigation and claims. Hong Kong financial companies will be able to raise RMB funds in the GBA for investment in Hong Kong’s capital markets, and for Mainland private equity funds and venture capital funds. Companies with operations in the GBA will also be able to issue cross-boundary RMB bonds.

**Coordination of Development of the 11 GBA cities**



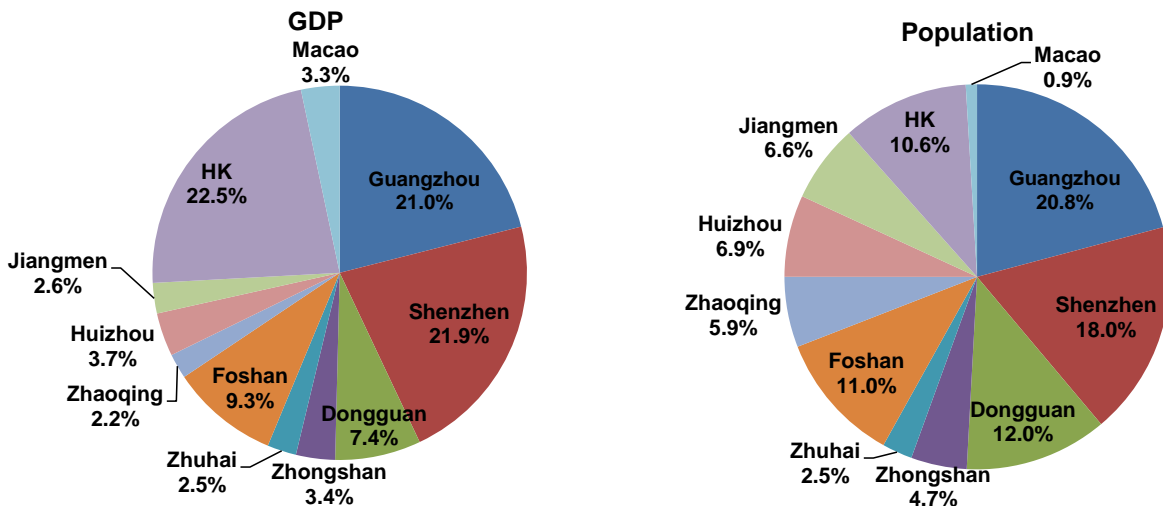
Sources: National Bureau of Statistics of PRC (individual cities), BEA Economic Research Dept.

The 11 GBA cities have a combined population of 69.6 mn and GDP of USD1,500bn, or 12% of China’s total GDP in 2017. To attain optimum economic development, policy coordination among the GBA cities is considered essential, so that each area is able to contribute and further develop their own expertise. The Plan proposes the pairing of cities lying in close proximity, so that Hong Kong-Shenzhen, Guangzhou-Foshan and Macao-Zhuhai work closely together to develop their shared strengths.

**Hong Kong-Shenzhen Combination**

Shenzhen has established itself as the leading high-tech innovation centre in China. It is also a global pioneer in several high-tech sectors, including 5G technology, DNA sequencing, metamaterials and 3D

**% Share of Greater Bay Area (2017)**



Sources: National Bureau of Statistics of PRC (Individual cities); The Ministry of Land and Resources, PRC; InvestGuangdong; Census and Statistics Department, HKSAR; Constitutional and Mainland Affairs Bureau, HKSAR; Statistics and Census Service, Macao SAR (DSEC)

displays. The city is very supportive of investors, and has attracted many young people who are keen to try new ideas. Two-thirds of Shenzhen's 12.5 mn population are registered as non-local migrant workers; their average age is just 33. Some 20% of all Chinese citizens holding a PhD degree live and work in Shenzhen.

The Plan proposes that Shenzhen aims to establish itself as a modern, international city, recognised as a centre of innovation and creativity with a global influence. In addition, Shenzhen should work jointly with Hong Kong to develop green finance and FinTech. Cooperation with Hong Kong will also support the development of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop and the Qianhai Shenzhen-Hong Kong Youth Innovation and Entrepreneur Hub.

The Plan points out that, on its own, Hong Kong lacks a sustainable base for future growth, and a closer relationship with the dynamic Shenzhen economy will be beneficial for both cities. Hong Kong's role as an international financial, transportation and trade centre will be strengthened as part of the GBA. Hong Kong should also establish itself as a centre for legal and dispute resolution in the Asia-Pacific region, as well as a financing platform for the BRI.

### ***Guangzhou-Foshan Combination***

Guangzhou has long been the economic, logistic and political centre of Guangdong province. The GBA Plan describes Guangzhou as a national core and integrated gateway city, and envisions that Guangzhou's role within the GBA will be to serve as an international commerce and industry centre, and integrated transport hub. Already, Guangzhou's Baiyun International Airport is Mainland China's third-busiest airport.

The Plan envisions the establishment of experimental zones for entrepreneurship and employment for Hong Kong and Macau in the Nansha region of Guangzhou. The city will develop as a regional private equity market, and a regional centre for equity and commodity trading. Guangzhou is also encouraged to develop a pilot zone for green finance reform and innovation, and set up a global quality and traceability centre for import and export commodities in Nansha of Guangzhou.

Meanwhile, Foshan has developed as an industrial centre, complementing Guangzhou's commercial and trading role. The Plan proposes that Foshan seeks to upgrade its industries, focussing on the manufacture of advanced equipment in tandem with Zhuhai. The Nanhai region of Foshan could also cooperate with the rest of Guangdong, Hong Kong and Macau to develop high-end services.

### ***Macau-Zhuhai Combination***

Guangdong, Hong Kong and Macau will establish a cooperation alliance in tourism for the GBA, to be based in Macau. This alliance will facilitate joint actions to encourage tourism within the entire region. The GBA Plan supports Macau to develop as a

service platform for Lusophone countries for financial and other business activities, and the setting up of a platform for developing traditional Chinese medicine. It could also develop industries such as marine tourism, marine technology and marine biology, and explore the feasibility of developing international yacht tourism.

Meanwhile, Zhuhai has been voted China's most liveable city, and is known as the "Best Garden City in China". It has several theme parks, among them Chimelong Ocean Kingdom, which was ranked as the world's 11th most popular theme park in 2017. It is also a centre for high-end manufacturing, such as robots and smart home devices. The Plan foresees that Zhuhai will develop as a centre for advanced equipment manufacturing and for aviation. Zhuhai should also cooperate with Macau to develop cross-boundary financial services.

### **Development of a Quality Living Circle**

As the GBA aims to develop into a world class city cluster, it will have to compete with other centres worldwide for talent. In order to attract the best talent from domestic and overseas markets, the GBA Plan envisions providing a quality environment for living, working and travelling. It also introduces initiatives to upgrade education, talent development, employment, entrepreneurship, leisure, health and social security.

The Plan highlights the need to identify talent in short supply, and take steps to attract such talent to the GBA. The Plan also proposes a pilot program to offer national treatment to foreign entrepreneurs setting up technology firms in the GBA.

Special schemes will be introduced to encourage young people from Hong Kong and Macau to study in the GBA, seek out employment opportunities and establish new ventures. Hong Kong and Macau residents are also encouraged to take up positions at state agencies on the Mainland.

The Plan also supports Hong Kong and Macau institutions to set up healthcare facilities in the Mainland GBA cities, and deepen cooperation among GBA cities in the field of Chinese medicine, cross boundary patient transfer and public hospital referrals. It suggests that higher education institutions from Guangdong, Hong Kong and Macau jointly operate tertiary institutions. It also proposes to enhance the portability of Hong Kong's social security programmes for the elderly, and support Hong Kong and Macau investors to establish social service institutions in the GBA.

### **Analysis**

The economic rationale of the GBA Plan is to leverage Hong Kong and Macau's unique strengths to upgrade the overall economic competitiveness of the GBA region, so as to attract domestic and overseas talent to support the development of an innovation and technology corridor. Hong Kong's comparative advantages include its world class financial and legal

systems, business and professional services as well as its university system.

To nurture this process of closer collaboration, new policy arrangements are required to encourage the flow of people, goods, capital and information in the region. Many related measures have already been introduced in the past year, such as the introduction of the residence permit policy to facilitate Hong Kong, Macau and Taiwan residents to live and work in the Mainland, subsidies provided by the Guangdong and Shenzhen governments to non-Mainland high-end talent, and measures to offset the tax differential between the Mainland and Hong Kong. Other measures in the pipeline include the so called 'Wealth Management Product Connects' which will allow cross-boundary financial transactions and operations. More policy initiatives are expected to be announced in the coming months.

Development of the GBA will open up a new dimension of opportunities for Hong Kong. Companies will have to consider expanding operations to the GBA, not only to reach out for more customers, but also to serve their existing clients who will be increasingly active in the region. With greater convenience and support for Hong Kong people to work, travel and live in Mainland GBA cities, more Hong Kong people will migrate and travel to the region. Furthermore, the high cost of living in Hong Kong will motivate retirees to move to the Mainland cities in the GBA.

Furthermore, while Hong Kong excels in business and financial services, its small domestic market offers limited room for development of other economic activities. The GBA plan will open up new possibilities. For example, although Hong Kong's universities have solid research capacity producing outstanding research output, there is insufficient local business interest to find commercial applications for the research. With the Plan's support for commercial application of technological achievements, Hong Kong researchers will find greater application for their work in the technology and innovation demonstration zones and incubators in the GBA. The development will also offer young people more opportunities in career development, particular with the assistance of various programmes.

Meanwhile, the plan also poses challenges for Hong Kong. A key benefit of the Plan is facilitation of the free flow of talent across GBA cities. As Hong Kong is the major centre for high value-added services, talent from other GBA cities will be attracted to work in the city. However, Hong Kong's social infrastructure – ranging from hospital services to housing to transportation – is already saturated. Hong Kong may not be able to accommodate this additional demand.

The bottleneck must be addressed, or it will undermine the city's ability to support the GBA in the long run.

The Plan includes a number of measures to encourage Hong Kong youth to take up internships, start businesses or seek employment in GBA. However, a recent survey<sup>1</sup> showed that 58% of those interviewed would not consider working or living in the Mainland GBA cities. Lingnan University<sup>2</sup> surveyed Hong Kong residents aged 18 or above, and found that 36.2% of the respondents were concerned about finding the right job in the GBA. The main concern raised was unfamiliarity with Mainland culture and job requirements. Some 42.5% were concerned about losing their benefits in Hong Kong upon relocating to the GBA.

To motivate these young people to work on the Mainland, particularly in the GBA, it will be crucial to enhance their knowledge of China. The Hong Kong and GBA governments will need to provide relevant policy support. The governments can also cooperate with Hong Kong business associations and chambers of commerce in the nine GBA cities to provide advice on finding suitable jobs, hiring procedures, working environment and culture. Meanwhile, the governments could also provide incentives to encourage Hong Kong companies with operations in Mainland GBA cities to provide internships or short-term employment contracts for Hong Kong young people.

1 Hong Kong Economic Journal, "調查: 近六成港青不考慮往大灣區發展" (2 May 2018)

2 Lingnan University and Sun Yat-Sen University release research report – "Perception & Evaluation of Hong Kong Residents of the Greater Bay Area Development" (23 Oct 2018)