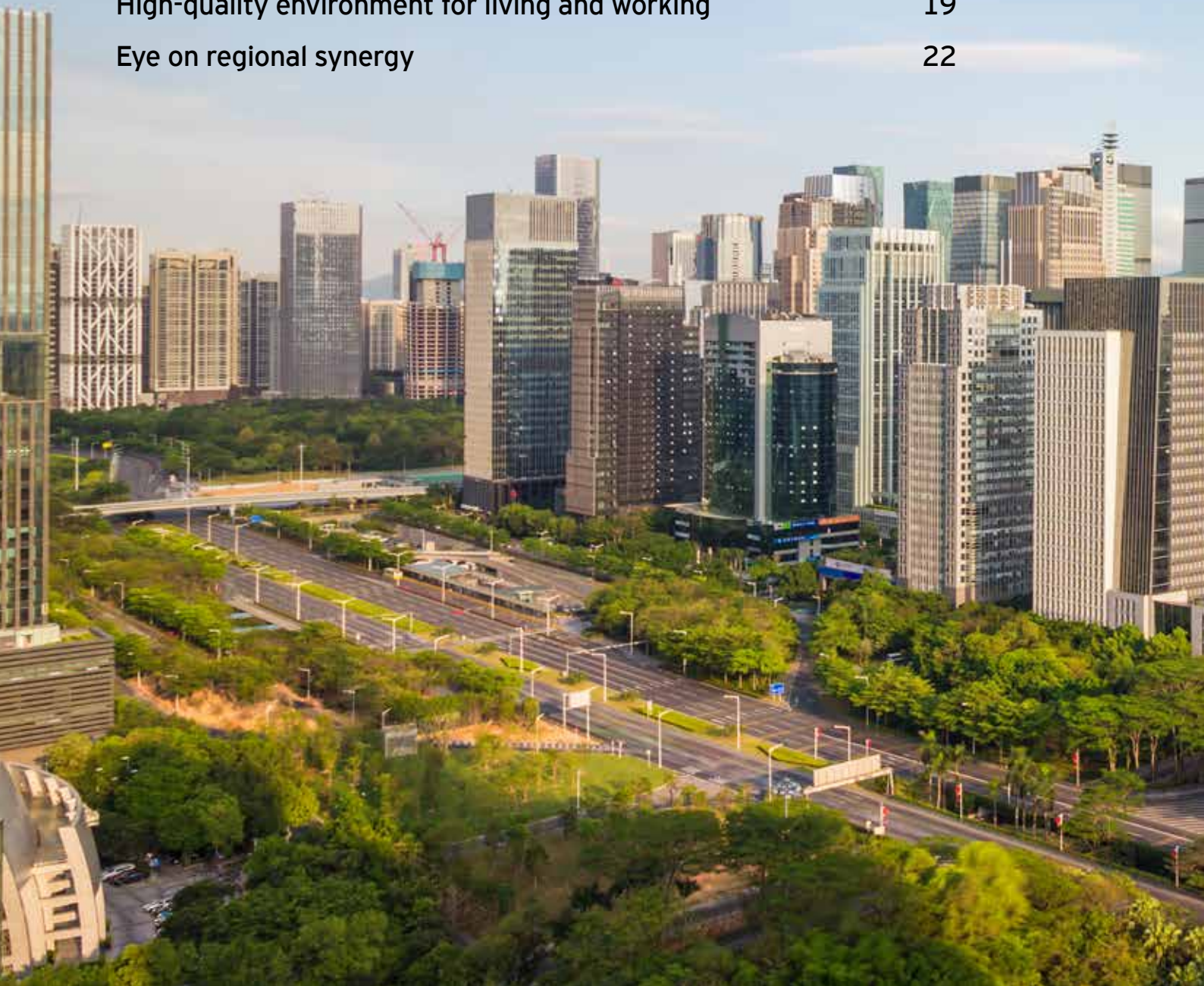


Guangdong-Hong Kong-
Macau Greater Bay Area
- From connectivity to
integration



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Preface

The Outline Development Plan (“the Outline”) for the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) was released in February 2019. With additional insights into the planning, the Outline shows the Central Government’s pledge to turn the area into a high-quality development role model by 2035. This will be done through increasing connectivity within the area, expanding its comparative advantage, reducing duplicated use of resources, and creating new growth engines through reforms. Specifically, the forthcoming policies will be focused on:

- ▶ **Technology and innovation:** the Outline has the ambition of developing the GBA into an international technology and innovation hub. It will build on the comparative advantages of the core cities to 1) strengthen fundamental research; 2) attract international talent; 3) enhance connectivity between cities; and 4) expand new pillars and existing industries with comparative advantage.
- ▶ **Market opening-up:** given the impact of Hong Kong’s role as an international financial center, the Outline aims to strengthen the city’s position in 1) offshore RMB business; 2) international asset management and risk management; 3) bilateral direct investment; 4) FinTech, the Belt and Road Initiative (BRI), and green financing; and 5) intellectual property arbitration. The Outline also emphasizes that it focuses on supporting the development of the BRI, building a new system for an open economy, and emphasizing financial risks management and control.
- ▶ **Infrastructure upgrade:** integrating the area’s infrastructure hardware to create a complementary network. The upgrade of airports, seaports, highways, and railways will ensure that travelling within the area can be completed under an hour, and the combined logistical capacity will facilitate the BRI development. System compatibility and information exchange will also be enhanced to maximize regional synergy.
- ▶ **Resources mobility:** the Outline encourages increased talent and resources mobility within the area to not only facilitate development but also improve the livelihood of residents through 1) social benefits transferability; 2) favorable tax policy that will attract highly-skilled labor; and 3) differentials in home prices and population density. The gap in fiscal spending, nevertheless, makes equalizing social benefits a challenge.

We maintain that the region is well-poised for success. Considering the region’s diverse economies and regulations, there is a call for thorough collaboration between the constituent cities and the Central Government to turn the Outline into actual policies and ensure full synergy.

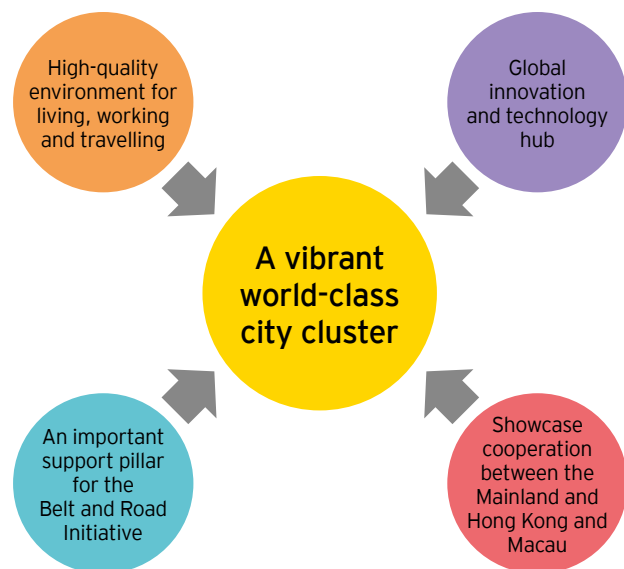
New impetus in the development of the Greater Bay Area

A model in high-quality development

On 18 February 2019, the State Council announced a new milestone in the development of the Greater Bay Area (GBA) with the release of the Outline Development Plan ("the Outline"). In 11 chapters and 56 pages, the Outline covers the main goals of the GBA so that by 2035, the area is expected to become "a role model in high-quality development".

The objective, as stated in the Outline, is to create a more efficient market through opening up and internal connectivity, such that structural reforms and innovation-driven development will make the GBA a vibrant and competitive metropolis. The Outline shows that breakthroughs are forthcoming in four areas: 1) technology and innovation; 2) further market opening-up; 3) physical infrastructure upgrade such as railways and bridges and institutional infrastructure upgrade such as systems and information; and 4) talent and capital mobility. Overall, the additional insights provided in the Outline are broadly consistent with our previous assessment on the GBA (see Guangdong-Hong Kong-Macao Greater Bay Area - Well-poised for success).

Figure 1
Strategic positioning of the GBA



Source: Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area



The roles of the four core cities

The four core cities of the GBA are each designated in the Outline to take on specific roles:

- ▶ **Hong Kong** Enhance its role as an international financial, transportation and trade center as well as an international aviation hub. Great efforts will be made on its innovation and technology industries, emerging industries, and international legal and dispute resolution services, in order to develop the city into an international metropolis with enhanced competitiveness.
- ▶ **Macau** Develop it into a world-class tourism and leisure center and a service platform between China and Lusophone countries. Economic diversification will also be promoted to develop the city into a base for cultural exchange and cooperation.
- ▶ **Guangzhou** Fully leverage its leading function as a national core city and an integrated gateway to strengthen its functions as an international commerce and industry center and an integrated transport hub. Enhance its role as a technological, educational and cultural center to develop it into a global metropolis.
- ▶ **Shenzhen** Leverage its leading role as a special economic zone, a national economic core city and a national innovation city, to expedite its transformation into a modern and international city, and to strive to become a capital of innovation and creativity with global influence.

Figure 2

Designated role of each city in the GBA

City	GBA development outline
Hong Kong	Core city: International hub for finance, shipping, trading, aviation, offshore RMB, asset management and risk management
Macau	Core city: International tourism and leisure center, trading hub with Lusophone countries, cultural exchange hub
Shenzhen	Core city: National economic center, innovation hub with global influence
Guangzhou	Core city: National top-tier gateway city, international hub for commerce, transportation, culture and education
Zhuhai	Form closer alliance with Macau; advanced equipment manufacturing hub with Foshan; specialist finance in Hengqin
Jiangmen	Connection point with diasporic Chinese; Yinhu Bay to become an energy conservation and environmental protection industry center and a start-up platform
Foshan	Form closer alliance with Guangzhou; advanced equipment manufacturing hub with Zhuhai; manufacturing upgrade and support Hong Kong's "reindustrialization"; high-end service industry
Zhongshan	Innovation center in biomedical technology especially in the field of Chinese medicine
Dongguan	World-class center for electronic equipment and information technology; incubator for new strategic industries
Huizhou	Manufacturing base for green agricultural products
Zhaoqing	Manufacturing base for green agricultural products

Source: Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area

Figure 3

Recent policies/announcements related to Greater Bay Area development

Date	Issuing government/department	Announcement/Policy
21 May 2019	Guangdong	Notice on the strengthening of the implementation of the establishment of innovation and entrepreneurial bases for youths from Hong Kong and Macau
13 May 2019	Zhuhai	Interim measures to support development of large commercial complex in Hengqin by Macau investments
13 May 2019	Zhuhai	Special measures to support joint Guangdong-Macau development of Chinese medicine industry park in Hengqin
13 May 2019	Guangdong Notary Association	Ten measures to support notary industry in Greater Bay Area
23 April 2019	Shenzhen	Notice on expansion of hi-tech zone in Shenzhen
18 April 2019	National Development and Reform Commission	Construction plan on Hengqin "International Leisure Tourism Island"
28 March 2019	Guangdong Association For Science and Technology	Several regulations (trial) on academic and research institutions from Hong Kong and Macau to participate in provincial government technology funding programs in Guangdong
27 March 2019	Shenzhen	Notice on measures to promote Hong Kong and Macau youth development in Qianhai
14 March 2019	Ministry of Finance, State Administration of Tax	Notice regarding preferential individual income tax treatment for the Guangdong-Hong Kong-Macao Greater Bay Area
14 March 2019	Guangdong	Notice on measures to optimize cross-border business environment in Guangdong
13 March 2019	Guangzhou State Administration of Taxation	Twelve measures for Guangzhou to support the role of Greater Bay Area in Belt-and-Road Initiative
18 February 2019	Central Committee of the Party and the State Council	Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area
17 January 2019	Shenzhen	Notice on issuing the measures on financial subsidy of individual income tax for overseas high-end talent and talent in short supply in the Shenzhen Hong Kong modern service industry co-operation zone in Qianhai
7 January 2019	Ministry of Education, State Council	Notice on the requirements of Hong Kong, Macau and Taiwan residents applying for the qualification of primary and secondary school teachers in the Mainland
24 December 2018	Guangdong	Several policy measures for further promoting science and technological innovation in Guangdong
3 December 2018	State Administration for Market Reform	Regulation on optimizing e-commerce business operators to register as legal market players
18 November 2018	Central Committee of the Party and the State Council	Opinions on establishing more effective new mechanisms on Regional Coordinated Development
12 November 2018	Ministry of Industry and Information Technology, Ministry of Emergency Management	Reply on agreement to create a national intelligent security industry park in Nanhai
7 November 2018	Department of Science and Technology of Guangdong Province	Notice on launching the application for the 2018 "Yuehai Zhiqiao Subsidy Scheme"
25 October 2018	Ministry of Human Resources and Social Security	Interim measures for Hong Kong, Macau and Taiwan residents to join the social insurance scheme in the Mainland issued for public comment
24 October 2018	Dongguan	Notice on public consultation on "Implementation suggestions on Dongguan municipal people's government on carrying out the strategic development of the Greater Bay Area"
14 September 2018	Guangzhou	Notice on launching the three-year plan (2018-2020) on developing an international technological infrastructure and innovation centre in Guangzhou

Date	Issuing government/department	Announcement/Policy
30 August 2018	Huizhou	64 Stations from the Huizhou Public Security Bureau will Issue Residence Permits to Eligible Applicants within 20 Working Days
23 August 2018	Ministry of Human Resources and Social Security	Notice on Work Permit Requirement for Hong Kong, Macau and Taiwan Residents in the Mainland
14 August 2018	Guangdong provincial government	Notice on opinions on deepening system innovation in Guangdong free trade zone
9 July 2018	Zhuhai	Measures on managing investment on intellectual property in Zhuhai
28 June 2018	Shenzhen	Notice on publishing the "Measures for the administration of the Shenzhen/Hong Kong innovation circle"



The Guangdong-Hong Kong-Macau Greater Bay Area

A sizeable economy



Geographically, the GBA covers seven prefecture-level cities (Zhuhai, Huizhou, Dongguan, Foshan, Zhongshan, Jiangmen, and Zhaoqing), two sub-provincial level cities of Guangzhou and Shenzhen, and the two special administrative regions of Hong Kong and Macau. Together, they form a vast area of approximately 56,000km² with 70 million population in regions with vastly different stages of economic development. As data from the World Bank shows, the GBA would rank as the world's 12th largest economy in 2017, ahead of South Korea, although by land area it is only slightly above half its size.

Figure 4
The Guangdong-Hong Kong-Macau Greater Bay Area



<p>Zhuhai Area: 1,732 sq.km GDP: RMB 291.4 billion Population: 1.89 million</p>	<p>Zhaoqing Area: 14,891 sq.km GDP: RMB 220.1 billion Population: 4.15 million</p>
<p>Huizhou Area: 11,346 sq.km GDP: RMB 410 billion Population: 4.83 million</p>	<p>Guangzhou Area: 7,434 sq.km GDP: RMB 2,286 billion Population: 14.9 million</p>
<p>Dongguan Area: 2,460 sq.km GDP: RMB 828 billion Population: 8.39 million</p>	<p>Shenzhen Area: 1,997 sq.km GDP: RMB 2,422 billion Population: 13.02 million</p>
<p>Foshan Area: 3,798 sq.km GDP: RMB 993.5 billion Population: 7.91 million</p>	<p>Hong Kong Area: 1,050 sq.km GDP: RMB 2,400.2 billion Population: 7.45 million</p>
<p>Zhongshan Area: 1,784 sq.km GDP: RMB 363.2 billion Population: 3.31 million</p>	<p>Macau Area: 31 sq.km GDP: RMB 361.6 billion Population: 6.5 million</p>
<p>Jiangmen Area: 9,509 sq.km GDP: RMB 290 billion Population: 4.6 million</p>	

Note: Current GDP and population as of 2018, area as of 2016
Source: Wind

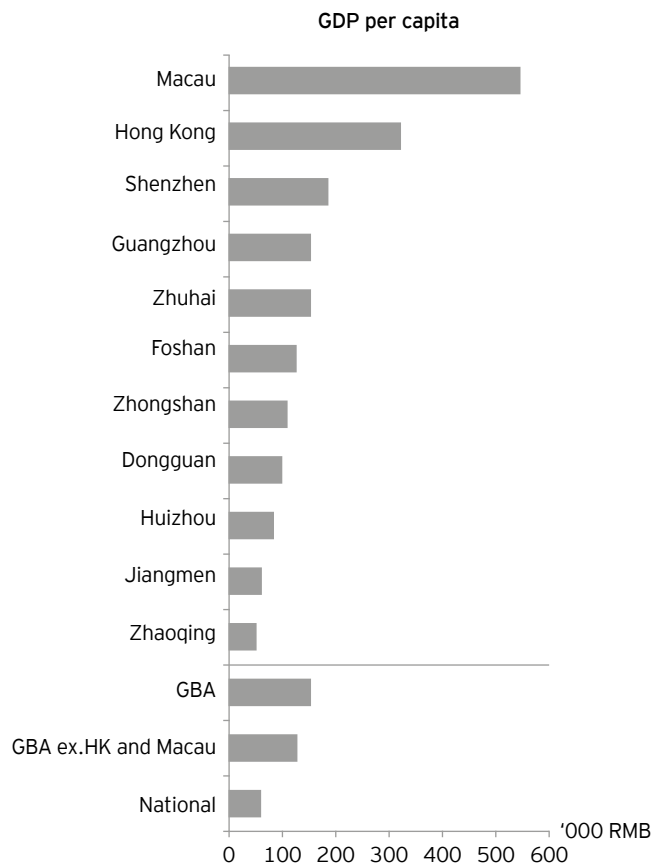


Figure 5
GBA is the 12th largest economic entity in the world

Rank	Country	Size of economy (USD b)	Land size (sq. km.)
1	US	19,485	9,147,420
2	China (incl. GBA)	12,238	9,388,210
3	Japan	4,872	364,560
4	Germany	3,693	349,360
5	India	2,651	2,973,190
6	UK	2,638	241,930
7	France	2,583	547,557
8	Brazil	2,054	8,358,140
9	Italy	1,944	294,140
10	Canada	1,647	9,093,510
11	Russia	1,578	16,376,870
12	GBA	1,550	56,031
13	South Korea	1,537	97,489
14	Australia	1,323	7,692,020
15	Spain	1,314	499,564

Note: As of 2017 except area of GBA which is as of 2016
 Source: World bank, Wind

Figure 6
GDP per capita in the GBA is well above national average



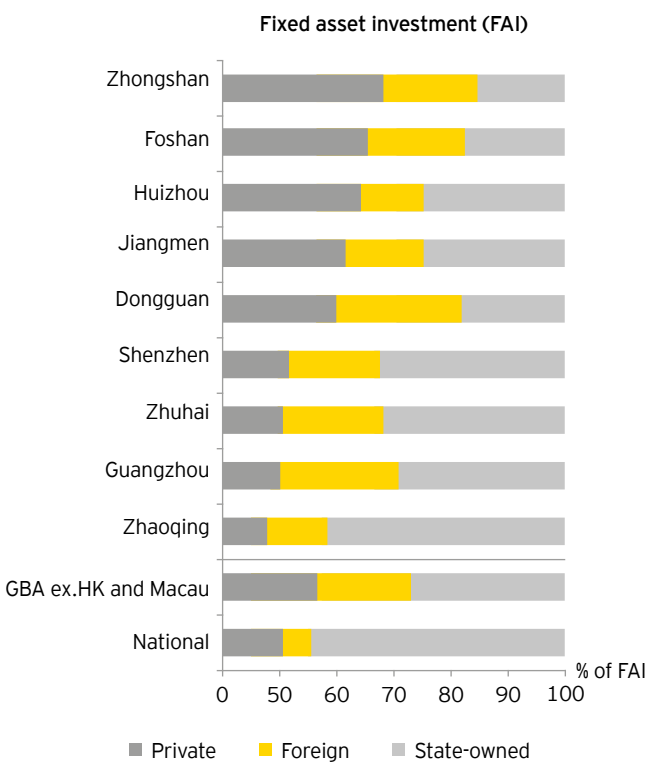
Note: As of 2018
 Source: Wind

A leading example of China's economic reform

Compared to the rest of China, the GBA - excluding the impact of Hong Kong and Macau - is more advanced in terms of economic development and it stands out for having a more external-facing and private-driven economic structure. It has been the case since China's economic reform began

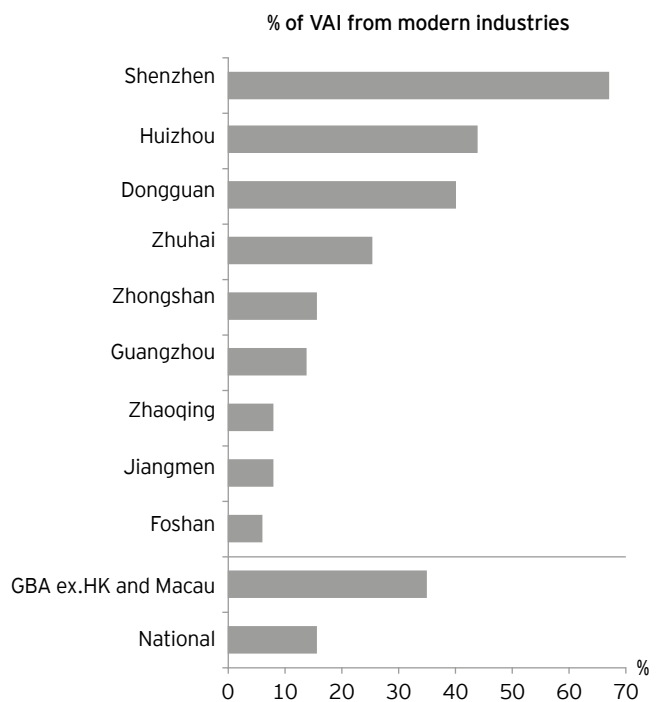
in the early 1980s. More recently, subsequent to the rising production cost in labor income and land price, industries in the coastal cities of the GBA have also been leaders in technology upgrade.

Figure 7
The shares of private and foreign enterprises are higher in the GBA



Note: As of 2017
Source: Guangdong Bureau of Statistics

Figure 8
The share of modern industry is also higher in the GBA



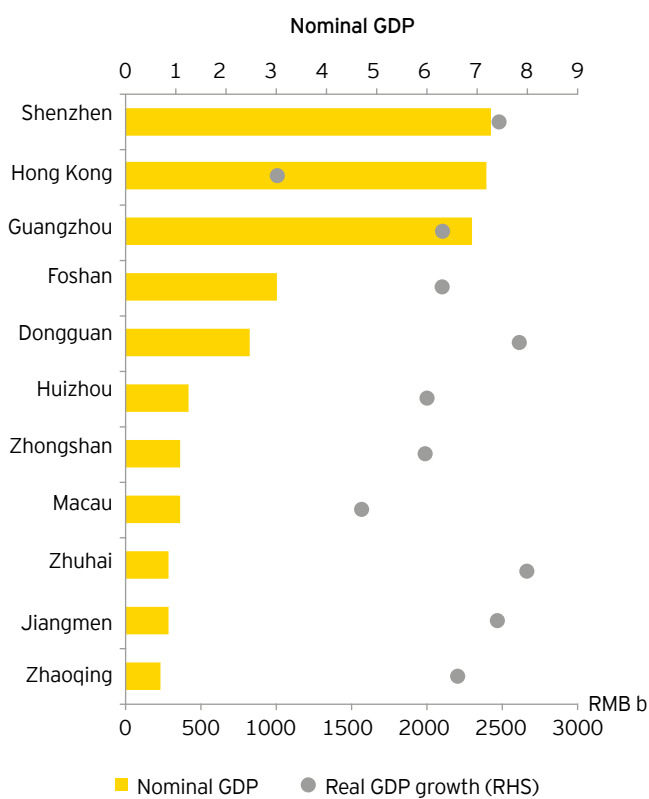
Note: As of 2017
Source: Guangdong Bureau of Statistics

Development gridlock calls for a new development plan

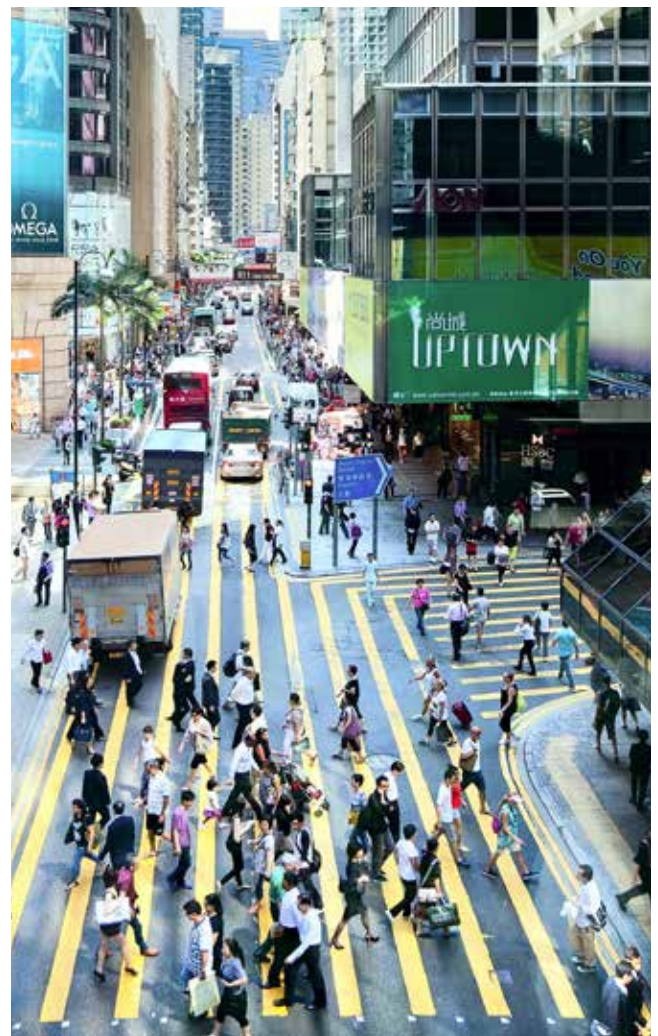
Hong Kong has long been a leader in the region in terms of the size of its economy and development stage. However, as the Outline points out, a lack of sustainable and stable support for its economy has taken its toll on the economic growth of the Special Administrative Region (SAR) in recent years. Meanwhile, Macau also experienced volatile growth

due to a highly homogenous economic structure relying on the gaming industry. Among the nine municipalities in the Mainland, problems such as overcapacity, structural imbalance, the escalating pressure on the environment and the resources mismatch have led to development bottlenecks to different degrees.

Figure 9
Slowing economic growth in Hong Kong



Note: As of 2018
Source: Wind

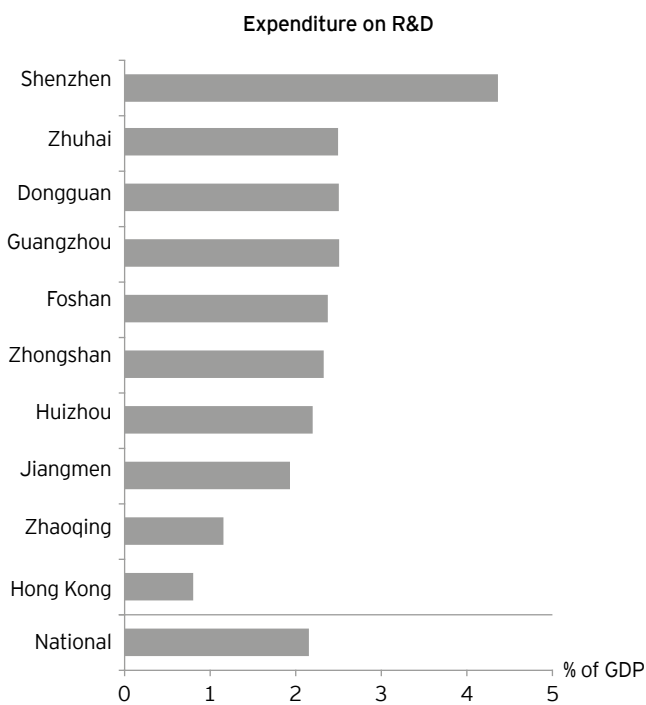


Quality innovation and technology platform

Participation expected from all core cities

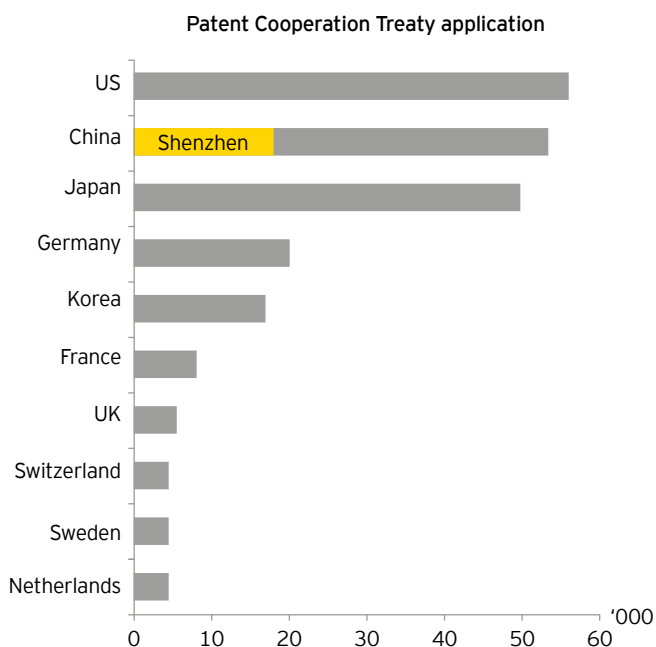
The Outline places great emphasis on developing the GBA into an international innovation and technology hub, and building a globally competitive modern industrial system. To this end, Shenzhen is the clear leader with the presence of tech giants such as BYD, ZTE, Huawei, BGI and Tencent. Since 2013, Shenzhen has invested more than 4% of its GDP annually on research and development (R&D)¹, on par with tech powerhouses such as South Korea and Israel. Subsequently, it generates nearly half of the Mainland's international patent filings. Nevertheless, the Outline also focuses on the "Guangzhou - Shenzhen - Hong Kong - Macau technology and innovation corridor", such that the other cities in GBA are also expected to take up proactive roles in expediting their development in this aspect.

Figure 10
Shenzhen spends 4.3% of GDP on R&D in 2017



Note: As of 2017
Source: Guangdong Bureau of Statistics, Census and Statistics Department of Hong Kong

Figure 11
Shenzhen is a robust generator of international patent



Note: as of 2018
Source: WIPO, National Intellectual Property Administration of China

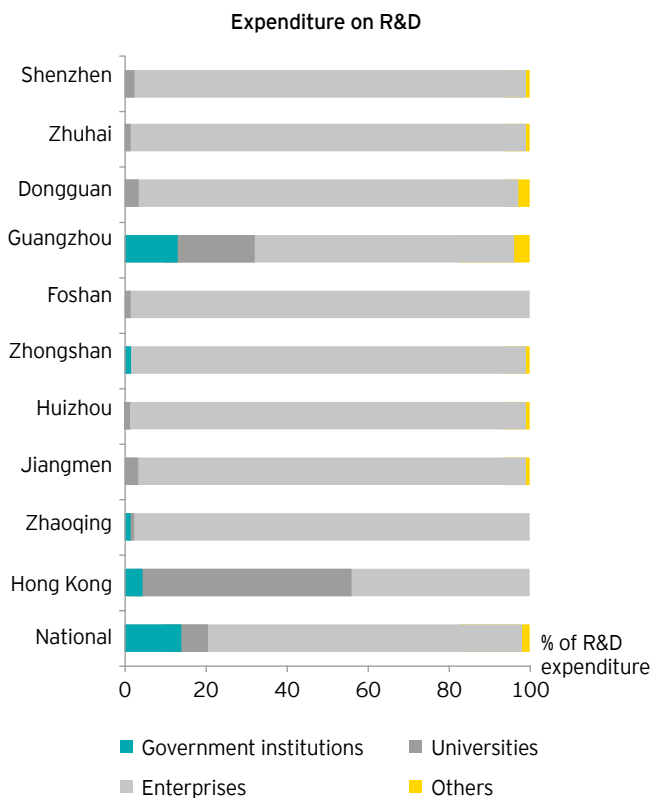
The Outline specifically highlights the objective to promote in-depth integration of the internet, big data and artificial intelligence with the real economy. It is expected to help give a boost to the manufacturing industry to move from processing trade and production to R&D, design, branding, marketing, and re-manufacturing. In the process, industries with competitive advantages such as equipment manufacturing, automobile, petrochemicals, home appliances and electronic information may expect more favorable policies. The Outline also confirms the Government's plan to pursue the development of new pillar industries including high-end medical diagnostic equipment, robotics, new materials, high-performance integrated circuit, among others. This is consistent with the Central Government's pledge in the National People's Congress to make China a strong nation in manufacturing.

1 “深圳研发投入占GDP比重达4.2%”, Xinhua, http://www.xinhuanet.com/fortune/2019-04/14/c_1124365176.htm 14 April 2019 (In Chinese)



Emphasis on fundamental research

Figure 12
Hong Kong has advantage in fundamental research



Note: As of 2017
 Source: Guangdong Bureau of Statistics, Census and Statistics Department of Hong Kong

The Outline pledges to encourage academic institutions in the GBA to expand innovation and technology (I&T) fundamental research. This is an area where Hong Kong has comparative advantage as a significant share of its technology R&D spending already comes from academic institutions and the public sector. With its relative strength on foundational research and talent training in academia, Hong Kong may complement the region's technology adaptation and application which are the strong suits of Shenzhen.

Going forward, Hong Kong's role in fundamental research is set to gain further significance as the Outline 1) encourages Guangdong, Hong Kong and Macau enterprises and scientific research institutes to participate in international I&T cooperation; 2) supports Hong Kong and Macau institutions to participate in national technological research funding and programs; and 3) pledges to create incubation centers and an innovation alliance of industries in the GBA to promote the adaptation and commercialization of I&T research. In addition, the Chinese Academy of Science founded the Hong Kong Institute of Innovation which will have research centers on regenerative medicine and AI robotics.

Connectivity of talent and capital

In order to facilitate the connectivity of talent and capital, high-end foreign talent (including residents of Hong Kong, Macau and Taiwan) “who possesses skillset that China is short of” will get subsidies from local governments to help offset their individual income tax differentials between the Mainland and Hong Kong. Tax saving could be sizable as the income tax rate in Hong Kong is capped at 17% versus the top rate at 45% in the Mainland. Meanwhile, private equity funds in Hong Kong are going to be encouraged to participate in the GBA, and qualified technology enterprises will be invited to list in Hong Kong.

The Guangzhou-Shenzhen-Hong Kong-Macau technology and innovation corridor

Projects highlighted in the GBA Outline

- ▶ Hong Kong-Shenzhen Innovation and Technology Park
- ▶ Sino-Singapore Guangzhou Knowledge City
- ▶ Partner State Key Laboratories in Hong Kong and Macau
- ▶ Innovation and technology base in Qingsheng of Nansha
- ▶ Traditional Chinese Medicine Science and Technology Park in Hengqin
- ▶ R&D centers for logistics and supply chain, textiles and apparel, information technology, automotive parts, and nano and advanced materials in Hong Kong

Source: Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area



Market opening to expand further

Strengthening Hong Kong's role as an international financial center

The Outline also seeks to capture the regulatory difference of the SARs to make the GBA a stepping stone for further market opening. It pledges to strengthen Hong Kong's role as an international financial center, with commitment to 1) offshore RMB market development; 2) international asset management and risk management centers; 3) foreign investment entering the Mainland, such as financing for the technology sector in the GBA; 4) the Mainland's effort to "go global" such as financing in the BRI; and 5) the development of green bond issuance and certification to support environment conservation. Meanwhile, Macau is also expected to become a financial service platform between China and the Lusophone countries, creating an export insurance system, and becoming the off-shore RMB center targeted at Lusophone countries.

Figure 13
Five ways to strengthen Hong Kong's position as an international financial center

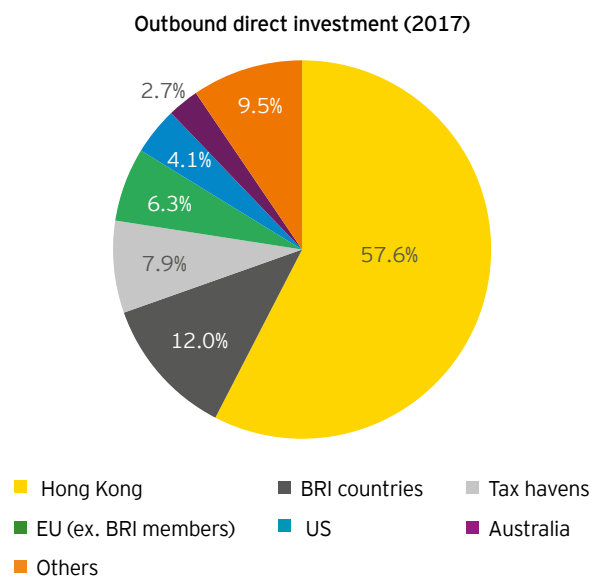


Source: Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area

A main portal in bilateral direct investment for the Mainland

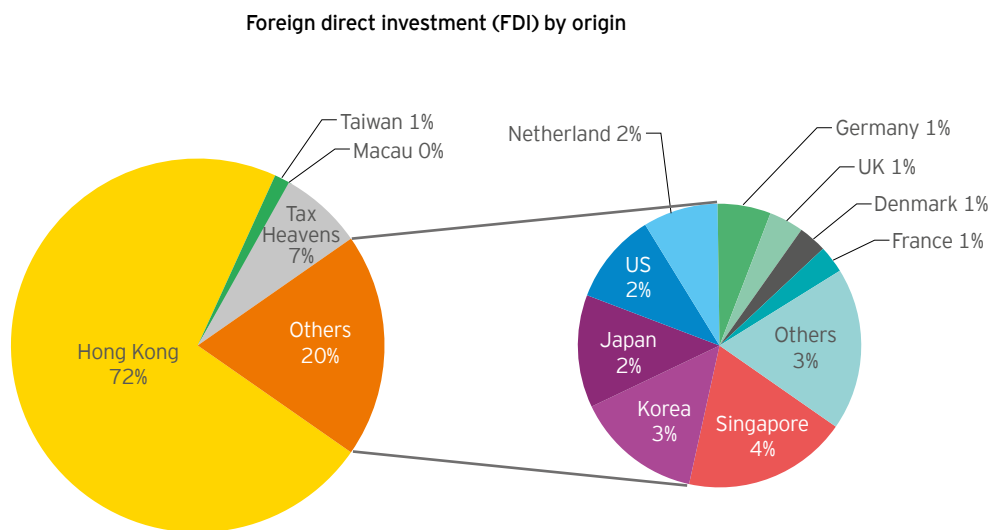
Specifically, the Outline will strengthen Hong Kong as an existing bilateral direct investment portal for China. In 2016, close to 60% of China's outbound direct investment and close to 70% of inbound direct investment passed through Hong Kong respectively, making it the top investment partner with the Mainland. In both directions, it has represented a rising share since 2011, possibly because Hong Kong has been increasingly acting as an agent for investment amid its regulatory advantage.

Figure 14
More than half of the Mainland's outbound direct investment goes to Hong Kong



Note: As of 2016
Source: Wind

Figure 15
Hong Kong is also the source of close to three quarters of direct investment in China



Note: As of 2017
 Source: Wind

The new Foreign Investment Law (FIL) was passed in the National People's Congress in March 2019. As a significant step-up in China's opening up of its economy to foreign investment, the law will be used as a reference to the Mainland's treatment to investment coming from Hong Kong, Macau and Taiwan. Together with the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the SAR will likely continue to enjoy favorable policies for its position in the foreseeable future (see *New legislation preps China as an attractive investment destination*).

Protection of intellectual property

A key emphasis of the FIL is on strengthening the protection of intellectual property (IP). In the GBA, the Outline also pledges to promote the integrated development of high-end IP services and industries in the region, and alternative dispute resolution (including arbitration, mediation and consultation) as a mean to resolve IP disputes. This calls on Hong Kong's advantages in IP protection and related professional services, such that it is expected to become a regional IP trading center and establish a comprehensive cooperation mechanism for cross-border IP cases.

An important support pillar for the Belt and Road Initiative

In addition, promoting the BRI is a significant move of the GBA's attempt to strengthen China's opening up. The Outline hopes by focusing on the BRI development, the GBA will develop a new system for an open economy, create a high-level platform for China's opening up, and align with high-standard trade and investment rules. These developments will help enhance the GBA's international competitiveness and boost its participation in international cooperation.

Located along the coast, at the forefront of China's opening up with the Pan-Pearl River Delta (PRD) region at its backyard for development, the GBA plays an important role in the BRI. The Outline encourages joint participation in the BRI, better leveraging the roles and functions of Hong Kong and Macau in the opening up of China, enhancing the development of an open economy in the nine PRD municipalities, facilitating effective connection between domestic and international markets, and developing an influential international transport and logistics hub as well as an international cultural exchange center.

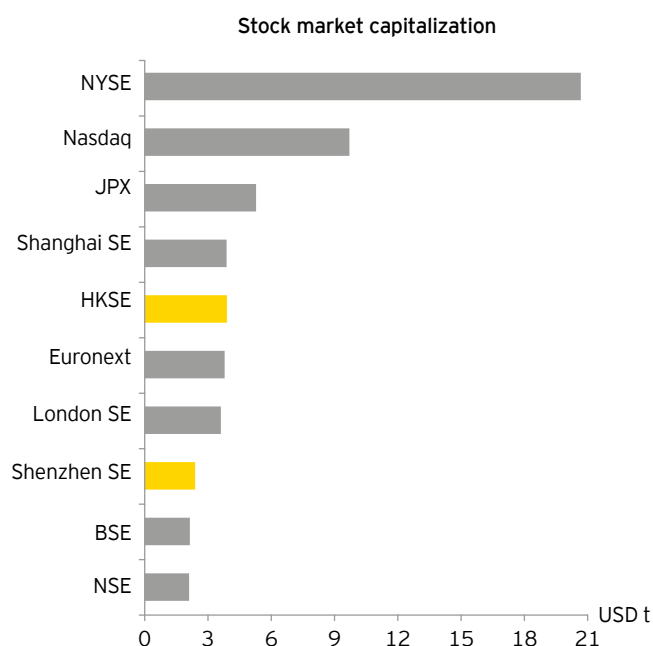
Vigilance against cross-border financial risks

Similar to technological development, the Outline emphasizes that market opening is going to involve all core cities. Innovation in financial development is expected from Shenzhen as it draws on the advantage of having a leading stock market in China. It is also expected to become a center for cross-border insurance production innovation. Meanwhile, Guangzhou is expected to establish modern financial services, become a regional private equity trading center, and set up a future trading center on carbon emission.

During the National People's Congress, Wang Jingwu, Head of the Financial Stability Bureau of the People's Bank of China (PBoC) said that as the financial market in China becomes more open, cross-border financial institutions are increasingly involved in complex transactions that could hide the problem of illicit capital flow and create a ground for unregulated risky activities. As a result, the PBoC sees the need to create a "regulatory sandbox"² involving the regulators across the borders to set up standardized data-reporting, create an alert system for potential risks, and ultimately create a tight-knit regulatory system to prevent system arbitrage and defend against systemic risks.

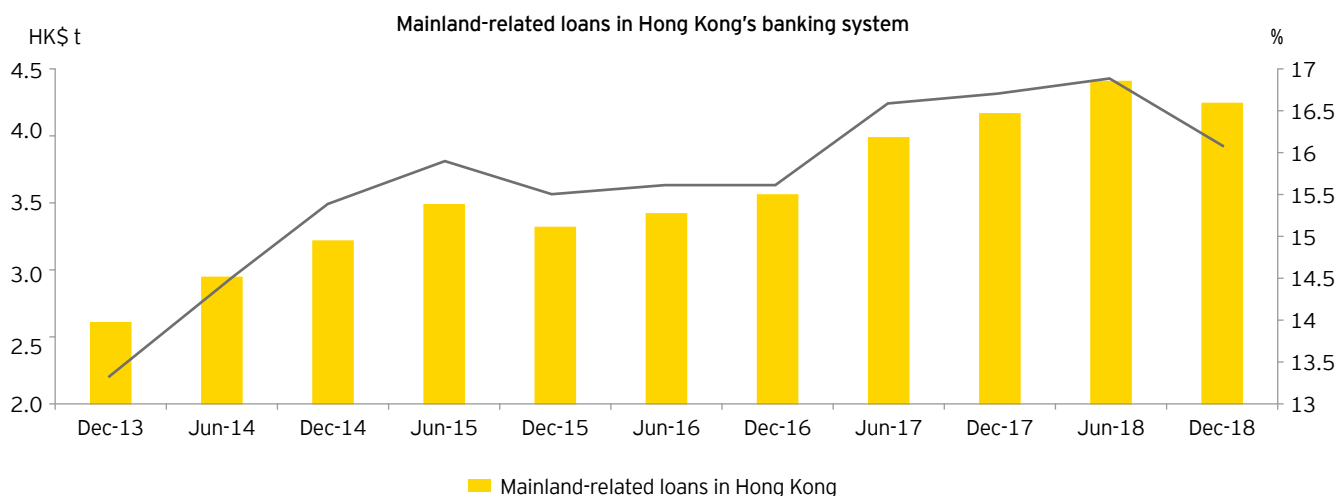
2 “央行王景武：建立粤港澳大湾区金融监管协调机制”，“Shanghai Securities News”<http://finance.jrj.com.cn/2019/03/07135327131166.shtml> 7 March 2019 (In Chinese)

Figure 16
The GBA is home to two of the world's largest stock exchanges



Note: As of 2018
Source: World Federation of Exchanges

Figure 17
Mainland-related loans account for around 16% of Hong Kong's banking sector asset



Source: Hong Kong Monetary Authority

A complementary network of infrastructure

Competitiveness through regional integration

A key aspect of the Outline is the connectivity between the cities. It calls for closer integration in both physical infrastructure, such as bridges, highways and railways, and institutional infrastructure, such as systems and information.



Comprehensive upgrade of physical infrastructure

The GBA has some of the world's leading seaports and airports. The GBA combined was the world's busiest area in terms of container and airfreight cargo throughput in 2017³. However, the Outline points out that a lack of coordination between the region's infrastructure has led to misallocation of resources. Therefore, it outlines a consolidation of resources that will create complementary networks of infrastructure to make the GBA an efficient and competitive international logistics hub.

In fact, infrastructure upgrade to increase connectivity of the region is already underway, including more than 10 high-speed rail and intercity rail lines, four bridges crossing the Pearl River, and new airports and runways in the pipeline. Currently, the Hong Kong International Airport is connected to over 220 cities around the world with over 100 airlines, however, its reach with the Mainland is mainly limited to tier-1 and tier-2 cities due to insufficient capacity. With the opening of the Hong Kong-Zhuhai-Macau Bridge, air cargo from the Hong Kong airport could now reach Zhuhai in about an hour, which could help connect the lower-tier cities in the Mainland with the rest of the world. Meanwhile, airport expansion in Hong Kong, Guangzhou, Shenzhen, Zhuhai, Huizhou and Macau, new airports construction in Guangzhou and Foshan, airspace resources adjustment, and the preparation of intra-modal code sharing service between the airports will complete the network.

A comprehensive upgrade of the region's highway and railway networks is also in the pipeline to ensure that journeys between the core cities within the GBA can all be completed within an hour. With Guangzhou as the hub, four bridges across the Pearl River, and multiple new border control points with Macau and Hong Kong, the GBA is expected to expand the logistical capacity dramatically to connect the provinces in Southern China and the rest of the world. The Outline also pledges to promote the use of a single ticket for all trips within the GBA.

³ "Lloyd's List Top 100 Ports 2017", Maritime Intelligence , <https://lloydslist.maritimeintelligence.informa.com/one-hundred-container-ports-2017> & "Cargo Traffic 2017 FINAL" Airports Council International, <https://aci.aero/data-centre/annual-traffic-data/cargo/2017-cargo-summary-annual-traffic-data/>, retrieved on 10 May 2019



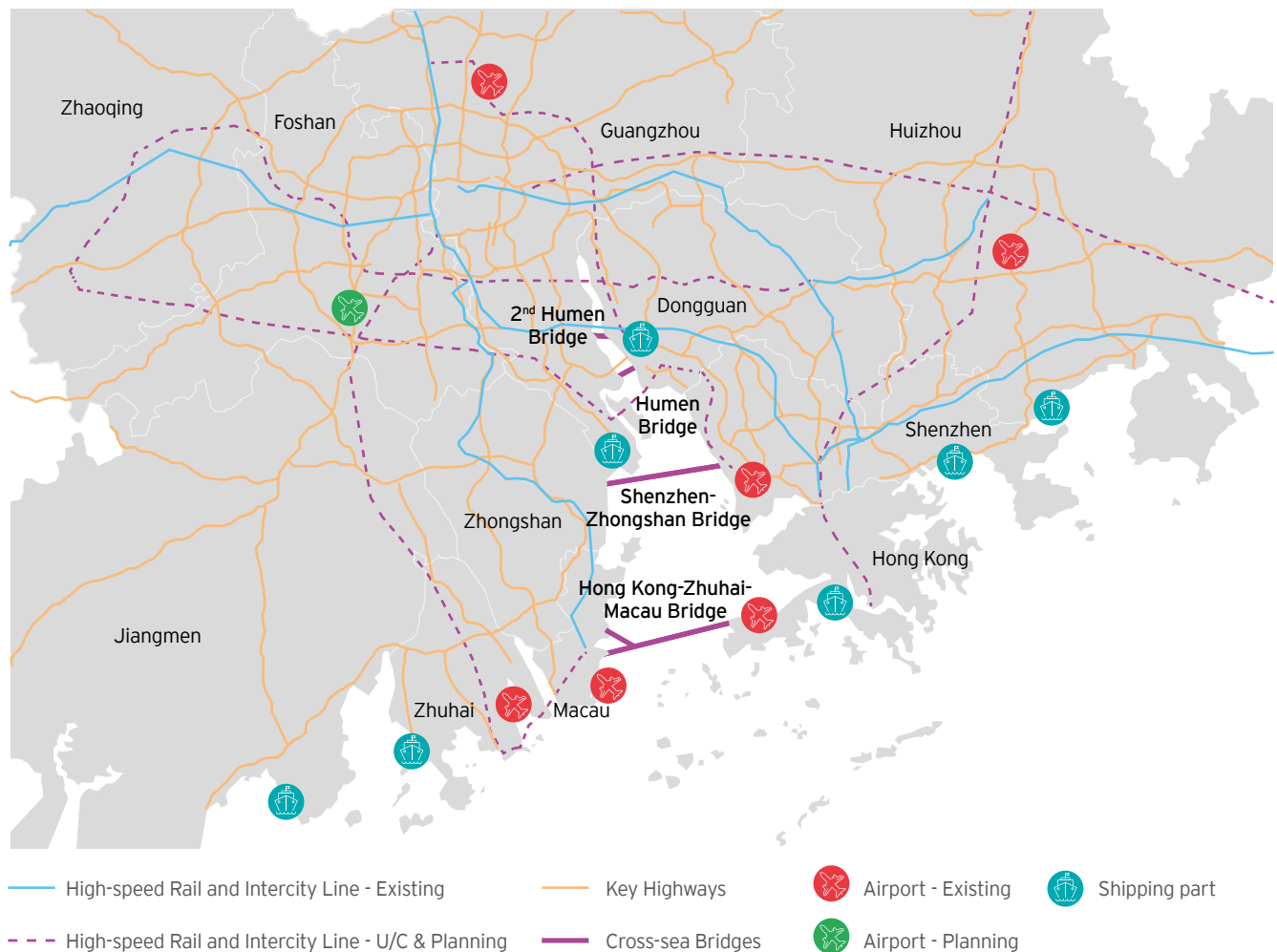
Figure 18
Infrastructure projects in GBA

City	Project	Description
Guangzhou	Baiyun Airport	Expansion of a new terminal and two additional runways to become a business aviation service base
	Zhengguo Airport	Construction of a second civil airport to begin in 2020
	Nansha Port	The third and fourth phases of development and the first phase of Nansha cruise terminal
	Intercity Railway	Expansion to loop in Foshan, Jiangmen, Qingyuan and Zhuhai
	Railway	Guangzhou-Shantou high-speed railway
	Highway	Expansion of Shenyang-Haikou and Beijing-Hong Kong-Macau Expressway
Shenzhen	Tramline	Construction of Tramline No.3 in Longgang
	Highway	Expansion of Shenzhen-Huizhou highway
	Railway	Construction of railway to Maoming, and Ganzhou, Jiangxi
	Shenzhen-Zhongshan Bridge	Shenzhen-Zhongshan bridge scheduled to open in 2024
Foshan	Pearl River Delta New Line Airport	Construction of new airport in preparation as part of "5+4" airport in Guangdong
Jiangmen	Highway	Jiangmen section of Guangzhou-Zhongshan-Jiangmen highway and Zhongshan-Kaiping highway
	Intercity Railway	Jiangmen section of Shenzhen-Jiangmen-Maoming railway
Huizhou	Pingtang Airport	Expansion of airport to accommodate civil flights and cargo as part of "5+4" airport in Guangdong
	Highway	Huizhou section of Hunan-Huizhou highway
Zhongshan	Highway	Zhongshan-Kaiping highway and Zhongshan-Jiangmen highway
Zhuhai	Intercity railway	Guangzhou-Foshan-Jiangmen-Zhuhai intercity railway
	Jinwan airport	Construction of new highway and terminal in preparation as part of "5+4" airport in Guangdong
Zhaoqing	Highspeed Railway	Construction of Shenzhen-Zhaoqing high-speed railway
	Railway	Construction of railway to Nanhai and Liuzhou, Guangxi
Dongguan	Humen Bridge	The second Humen bridge scheduled to open in 2019
	Intercity Railway	Guangzhou-Dongguan-Shenzhen intercity railway, Dongguan-Huizhou intercity railway, Foshan-Dongguan intercity railway, Zhongshan-Humen-Longgang intercity railway and Dongguan-Shenzhen rapid transit
Macau	Border Crossing	Construction of new crossing adjacent to the existing checkpoint at Gongbei to expand passenger capacity
	Hong Kong-Zhuhai-Macau Bridge	Opened in October 2018
Hong Kong	Hong Kong airport	Construction of the third runway
	Guangzhou-Shenzhen-Hong Kong Express Rail Link	Opened in September 2018

Source: City governments in GBA, EY

Figure 19

A comprehensive upgrade of transportation infrastructure is underway



Source: City governments in GBA, Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area, EY analysis

Regional integration of systems and information

In terms of information, the Outline pledges to build smart city clusters. It is expected to be done through strengthened cooperation between Guangdong, Hong Kong and Macau on information exchange, the establishment of common standards, and the development of a comprehensive sensor network with full coverage and ubiquitous internet. It will begin with the development of the new generation network (IPv6) together, the deployment of a national big data pilot zone, the mutual recognition of electronic signature certificates, connections between electronic payment systems, and the reduction of telecommunication service fees. The Outline also pledges to enhance the cyber security system among the GBA cities. It includes facilitating the use of secure communication technology in government departments and financial institutions, and adopt advanced technologies throughout the GBA.

To create a globally competitive business environment in the GBA, the Outline also proposes to 1) strengthen judicial exchange and cooperation among Guangdong, Hong Kong, and Macau to develop a multi-faceted dispute resolution mechanism in the setting of an international arbitration center; 2) relax restrictions for Hong Kong and Macau investors in the GBA such as qualification requirements, shareholding percentage, and market access; 3) promote trade liberalization through mutual recognition of regulatory regimes as well as mutual assistance in enforcement among border control authorities; and 4) simplify exit endorsements for eligible persons from the nine GBA municipalities traveling to Hong Kong and Macau.

High-quality environment for living and working

Mainland measures to attract migration

The Outline is prepared to make great strides in making the GBA a high-quality environment for living and working. To achieve this, the GBA is expected to engage in in-depth integration in multiple areas of daily lives, such as education, health care, social welfare, employment, leisure, and transportation.

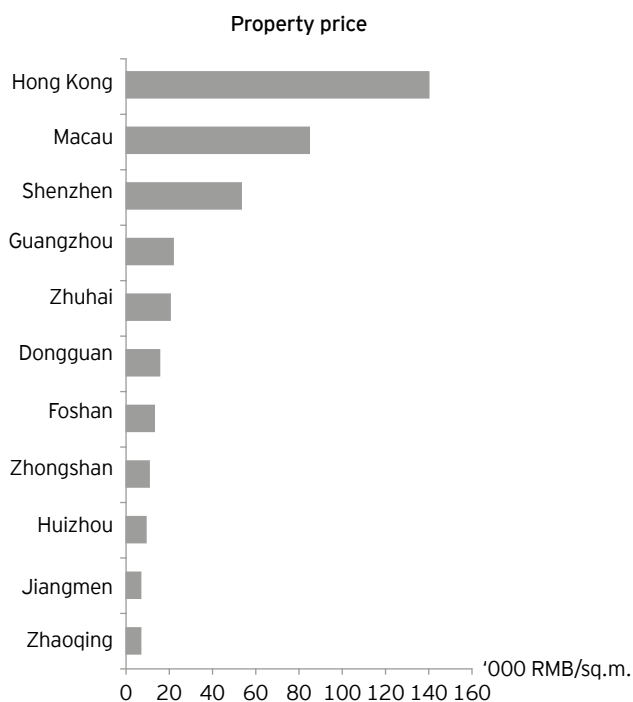
- ▶ **Education:** The Outline pledges to explore mutual recognition of academic credits across the higher education institutes in the GBA, and to expand programs sharing scientific research. To promote exchange, young people from Hong Kong and Macau will be encouraged to study in the rest of the GBA through concessionary policies, eligibility for scholarship, and issuance of Employment Registration Certificates to help with job search. To enhance exchange and cooperation in basic education, primary and secondary schools in Guangdong, Hong Kong and Macau are encouraged to link up as “sister schools” and schools in Guangdong are encouraged to admit Hong Kong and Macau children with boarding services.
- ▶ **Health care:** The Outline allows health care providers in Hong Kong and Macau to set up facilities and health care professionals in Hong Kong and Macau to take short-term private practice in the nine GBA municipalities in the Mainland. Cross-border transfer of non-emergency patients are also going to be allowed to improve the linkage mechanism for medical services across the GBA.
- ▶ **Social welfare:** Hong Kong and Macau residents living in the nine mainland municipalities will be able to receive comparable standard of social welfare in education, health care, elderly care, housing, and transportation, while the elderly will be able to continue receiving social support transfers across the border. The authorities will also explore mutual recognition of social work professional qualification, and deepen the collaboration of social service sector, especially elderly care, within the GBA.
- ▶ **Employment:** Improve policy measures to allow Hong Kong and Macau residents, especially those graduating from mainland schools, to take up positions in state-owned enterprises and public service. Qianhai, Nansha and Hengqin will become pilot zones for Hong Kong and Macau’s engineering professionals to provide direct services to mainland businesses. Microenterprises and school graduates from Hong Kong and Macau are also going to be eligible for favorable policies, startup incubation programs, and internship opportunities.
- ▶ **Leisure:** Significant effort will be put in creating a strong cultural identity for the GBA. It will form a part of the cultural and creative industries in the area. It involves government initiatives to promote the development of the media - the publishing, radio, and television industry under that theme. It will also help promote tourism in the GBA, which will offer diversified tourism products such as culture and history, leisure and vacation, health care and well-being as well as cruise and yacht travel.
- ▶ **Transportation:** Discussion is already underway to facilitate cross-border travel for Hong Kong and Macau vehicles with single license plates. The Outline also plans to enhance management measures for cross-border vehicles in Hong Kong-Guangdong and Macao-Guangdong, allowing vehicles with dual license plates to travel via multiple-border control points.

The implementation of these plans began on 1 March, when the Central Government announced tax subsidies for high-end foreign talent. In addition, a concession was released in relation to the implementation of the new Individual Income Tax (IIT) law such that each stay in China for less than 24 hours will not be counted as one day in the 183-days threshold. The concession effectively allows many Hong Kong and Macau residents to continue working in the Mainland without subjecting their non-mainland income to China’s IIT calculation.

Differentials in home prices and population density

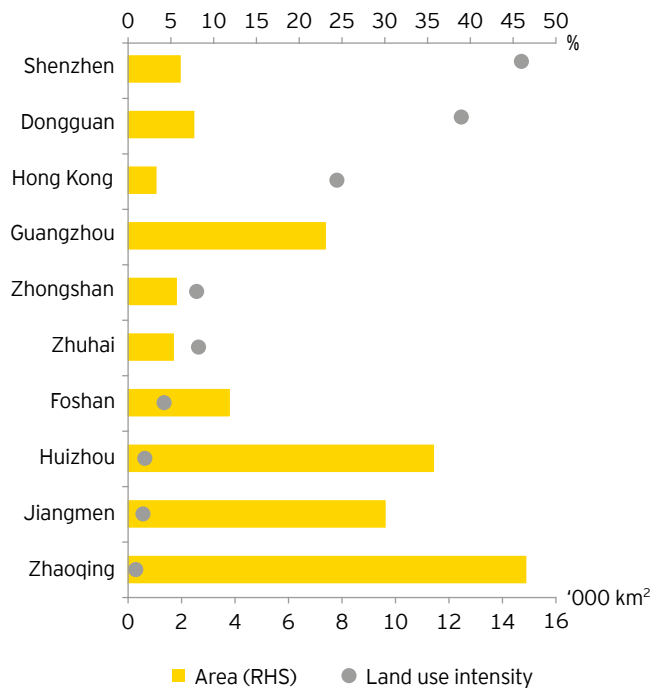
In addition to policy incentives, significant home price differentials may help encourage people movement within the GBA, especially as the infrastructure upgrade is about to keep traveling time between cities to one hour or less. It is because the average home price of the more affordable cities, such as Zhaoqing, is as much as 20 times cheaper than that of Hong Kong. Population density, a proxy indicator of life quality, may also encourage residents of Macau and Hong Kong to move to small cities such as Zhuhai and Huizhou once the transfer of social welfare becomes possible. Further, land supply in the peripheral cities of the GBA may create incentive for industry transfer from the core area, the employment opportunities it creates could generate further incentive for labor migration.

Figure 20
Differentials in home price and population density are expected to drive people movement



Note: As of end 2018
Source: Wind

Figure 21
Huizhou, Jiangmen and Zhaoqing are the three land-rich municipalities in the GBA

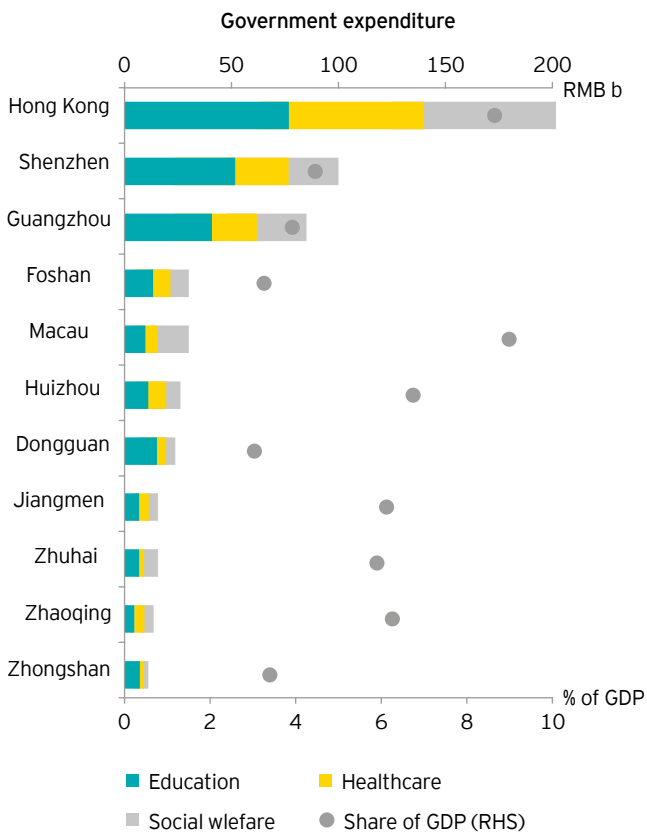


Note: As of 2016
Source: Wind

Government spending to rise for public good offerings to equalize

The measures on GBA integration announced so far have focused on facilitating the migration of Hong Kong and Macau residents, who will be allowed to take their social welfare package with them as they move to other municipalities in the GBA. To truly facilitate migration within the GBA, however, the municipalities will have to equalize their social welfare offerings to achieve comparable standards. As of 2017, there was significant discrepancy in local government spending on social welfare, education, and health care. Even from a share of GDP basis, Hong Kong's spending remained much higher than its mainland counterparts.

Figure 22
Government expenditure on education, health care and social welfare remains unequal



Note: As of 2016
 Source: Wind



Eye on regional synergy

System compatibility between constituent cities

The Outline will be turned into actual policy measures by the constituent local governments with support from both the Central and the Guangdong governments. We maintain that the region is well-poised for success, but in order to fully realize the potential of the Outline, infrastructure connectivity, cross-border regulatory frameworks, administrative governance, immigration and customs policies should all be brought into line with one another. However, maintaining Hong Kong and Macau's relative legal and regulatory independence may prove to be critical for their special economic status, and by extension the area's success in external connectivity.

The challenge, as such, is that integrating the cities into one economic unit would require significant efforts to iron out the differences. On 1 March, Han Zheng, Vice Premier of the State Council who also chairs and hosts the Greater Bay Area leading group, stressed that more down-to-earth work is required to take advantage of the unprecedented opportunities⁴. On 19 March, the Hong Kong SAR Government responded by proposing to set up a GBA development liaison under the Constitutional and Mainland Affairs Bureau⁵. This will likely call forth much more coordination between city governments at the working level and deepen integration.

From competition to partnership

While other national initiatives, such as development of the Yangtze River Delta Economic Zone (YRDEZ) and Beijing-Tianjin-Hebei Economic Zone (Jingjinji), have just one top tier city as a clear leader, the GBA is set apart with three top tier cities: Shenzhen, Hong Kong, and Guangzhou. As the Outline illustrated, nevertheless, the GBA is going to eventually become one metropolitan area. It is expected to nurture one ecosystem for innovation-driven growth, and provide impetus for China's urbanization, and industrialization not only through collaboration between cities but also through elimination of city boundaries. Increasingly, we believe the 9+2 cities should also change from competition to partnership as they position for the future.



⁴ “韩正：建湾区任重道远 三优势前所未有”，Wenwei, <http://news.wenweipo.com/2019/03/02/IN1903020001.htm> 2 March 2019 (In Chinese)

⁵ Legislative Council of Hong Kong paper No. CB(1)697/18-19(01), Administration's paper on "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" 12 March 2019 (accessed via www.legco.gov.hk, 11 May 2019).

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