

An aerial photograph of a city, likely Hong Kong, showing a busy port area with numerous cargo ships and containers on the left. A multi-lane highway with a green median runs through the center. To the right, there are several tall, modern skyscrapers and residential buildings. The sky is blue with some light clouds.

Guangdong-Hong Kong-
Macau Greater Bay Area
- Well-poised for success

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Preface



Albert Ng
Chairman, China
Managing Partner, Greater China

The development of Guangdong-Hong Kong-Macau Greater Bay Area (GBA), formally signed under the witness of President Xi Jinping in July 2017, is expected to unlock significant growth potential to the region.

The area, consisting of nine cities in the Pearl River Delta as well as Hong Kong and Macau, is designed to rival the world's leading bay areas in San Francisco, New York and Tokyo. This will be done by leveraging the diverse strengths of its constituent cities, in technology and innovation, finance, shipping and trade, advanced manufacturing and hospitality. In the process, the GBA will also become an ideal place for living and working.

The key to success is to fully integrate these cities into a collective economy with free flow of factors for production, such as ideas, resources, talent and capital. Border restrictions will be eliminated, regulatory differences will be ironed out and collaborations will be encouraged, to bring win-win results among all parties through synergies.

Streamlined regulations and further opening up of the markets will present significant opportunities for companies looking to create or expand their presence in China and vice versa. In recent years, EY has tapped the potential of the GBA through accumulating extensive professional and practical experience in the region, and through becoming a specialist to support China companies going abroad. We hope this report may provide some initial insights into the key trends and development of the GBA, as well as how enterprises can capture the emerging opportunities to achieve sustainable growth.

Executive summary



Agnes Chan
Managing Partner
Hong Kong & Macau



David Chan
Managing Partner
Tax Hong Kong & Macau
Ernst & Young Tax Services Limited

Consisting of Hong Kong, Macau, and nine cities in Guangdong, the GBA is expected to become one of the leading megacities in China. With the Central Government's ambition to turn the region into a hub to rival the other financial and innovation centers of the world, the goal of the GBA is to push for further industrial structural upgrade and economic reform, in addition to regional integration.

EY believes the GBA is going to bring:

- ▶ Further integration in both physical and regulatory infrastructures to connect the cities together and create a big and unified market
- ▶ Strengthened comparative advantages of each participating city to create world-leading technology and financial services hubs
- ▶ Favorable living environment and public goods that attract talent from across the country and the rest of the world





A closer look shows that the GBA is economically diverse, with cities having different comparative advantages as financial centers, export-oriented manufacturers, service providers, technology hubs, and world-leading ports and universities. What is in common, is that the region has a history of having a vibrant private and outward facing economy since the beginning of China's economic reform. The entrepreneurial spirit is in transition for the region to become a pioneer in industrial upgrade with higher value-added manufacturing and technology-intensive industries.

In particular, we expect opportunities for the GBA to arise in five industries:

- ▶ The technology sector, in which Shenzhen is a leader, may receive an additional boost from Hong Kong amid national policy support

- ▶ The financial sector, as Hong Kong stays at the forefront of China's capital account liberalization
- ▶ The Belt and Road Initiative (BRI), as the GBA will be the world's largest sea freight and air cargo hub that is located at the gateway to the South China Sea
- ▶ Tourism, with infrastructures and new tourism projects linking up top-rated attractions to major airports
- ▶ Nurturing and retaining talent by matching high quality academic institutions with job opportunities and favorable living conditions

Going forward, we believe the support from the Central Government may focus on ensuring full synergies through effective economic and social integration, as well as increased compatibility of the legal and administration systems among the cities within the region.



Forthcoming breakthrough for the Greater Bay Area



Central Government support for an ambitious goal

Anticipating further details on the GBA development

The details of the GBA will likely be released in the coming months. With breakthroughs to remodel the region as a hub for both financial services and technology, we believe the plan will reflect the Central Government's ambition to turn the GBA into a rival to the New York Metropolitan Area and San Francisco Bay Area in the United States and Greater Tokyo Area in Japan, all of which are world-leading bay areas with economic and technology significance.

The concept of the GBA dates back to 2011 with a study *The Action Plan for the Bay Area of the Pearl River Estuary* that was jointly prepared by the Governments of Hong Kong, Macau, and the Governments in the Pearl River Delta, according to the State Council. The idea of a city cluster in Southern China was then expanded when the 13th Five-Year Plan (2016-2020) was endorsed in March 2016.

Under the witness of President Xi Jinping, the preparation culminated in the signing of a framework agreement at the 20th anniversary ceremony of the return of Hong Kong to China, in July 2017. Titled the *Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area*, the document was jointly signed by He Lifeng, the Head of the National Development and Reform Commission (NDRC); Ma Xingrui, the Governor of Guangdong; Carrie Lam Cheng Yuet-ngor, the Chief Executive of Hong Kong; and Fernando Chui Sai-on, the Chief Executive of Macau. It shows that the GBA initiative, and its goal of building a world leading megacity is a policy initiative of top national priority.

Seven directions to become a world leader

By 2030, the region is expected to be a world leader in advanced manufacturing, innovation, logistics, trade and finance. Specifically, the GBA development plan will likely focus on seven directions:



Connect and integrate the infrastructure developments in the region to reduce the travel time within the region and strengthen the advantage of the region as a logistic center of the world.



Integrate the markets within the area to facilitate cross-border investments, job creation, and talent migration between the Mainland, Hong Kong and Macau.



Maximize the synergy within the region through their relative advantages in different modern industries.



Create a global hub in technology and innovation through promoting the adaptation and efficiency of research and development (R&D).



Build a favorable environment not only for living in but also for tourism, international-standard education, entrepreneurship, and the attraction of talent.



Establish a hub for international cooperation, especially through the deepening of connections with the countries along the BRI.



Facilitate the success of inter-city collaborative platforms such as Qianhai in Shenzhen, Nansha in Guangzhou, and Hengqin in Zhuhai.

Evolving to become a megacity

The GBA covers seven prefecture-level cities (Zhuhai, Huizhou, Dongguan, Foshan, Zhongzhan, Jiangmen, and Zhaoqing), two sub-provincial level cities of Guangzhou and Shenzhen, and the two special administrative regions of Hong Kong and Macau. Broadly equivalent to 31% of the size of Guangdong province, they form a vast megacity with 56,000 km² and 67.1m in population that with regions at different stages of development. In addition, as World Bank data shows, the GBA would rank as the world's 12th largest economy, right behind South Korea, although by land area it is only slightly above half its size.

Figure 1 | GBA population and size



Zhuhai

Area: 1,696 sq.km
GDP: USD 32.3 billion
Population: 1.68 million

Huizhou

Area: 11,159 sq.km
GDP: USD 49.5 billion
Population: 4.78 million

Dongguan

Area: 2,512 sq.km
GDP: USD 99.1 billion
Population: 8.25 million

Foshan

Area: 3,875 sq.km
GDP: USD 125.3 billion
Population: 7.50 million

Zhongshan

Area: 1,770 sq.km
GDP: USD 46.4 billion
Population: 3.23 million

Jiangmen

Area: 9,554 sq.km
GDP: USD 34.8 billion
Population: 4.54 million

Zhaoqing

Area: 15,006 sq.km
GDP: USD 30.2 billion
Population: 4.06 million

Guangzhou

Area: 7,436 sq.km
GDP: USD 284.6 billion
Population: 14.04 million

Shenzhen

Area: 2,007 sq.km
GDP: USD 283.0 billion
Population: 11.90 million

Hong Kong

Area: 1,104 sq.km
GDP: USD 319.3 billion
Population: 7.37 million

Macau

Area: 29.2 sq.km
GDP: USD 44.7 billion
Population: 0.64 million

Source: Guangdong Bureau of Statistics, EY

Figure 2 | GBA is the 12th largest economic entity in the world

Rank	Country	Size of economy (USD b)	Land size (sq. km.)
1	US	18,625	9,147,420
2	China (incl. GBA)	11,200	9,388,211
3	Japan	4,949	364,560
4	Germany	3,478	348,900
5	UK	2,651	241,930
6	France	2,466	547,557
7	India	2,264	2,973,190
8	Italy	1,859	294,140
9	Brazil	1,796	8,358,140
10	Canada	1,536	9,093,510
11	South Korea	1,411	97,480
12	GBA	1,317	56,148
13	Russia	1,283	16,376,870
14	Spain	1,237	500,210
15	Australia	1,205	7,682,300

Note: Current GDP in USD as of 2016
Source: Guangdong Bureau of Statistics, EY

A world-leading bay area

The other leading bay areas in the world

A remarkable feature of the Government documents on the GBA is its ambition to rival the other famous megacities that are also geographically bay areas, including the New York Metropolitan Area and the San Francisco Bay Area in the United States and the Greater Tokyo Area in Japan. Respectively, these bay area megacities are all world-leading centers in their area of strength.

The New York Metropolitan Area consists of New York City, Long Island, a part of Hudson Valley in New York State, the five largest cities in New Jersey, and six cities in Connecticut. It is arguably the world's largest financial center with the largest stock markets in Wall Street, and it has the headquarters of Morgan Stanley, Goldman Sachs, Citi and JP Morgan Chase.

The San Francisco Bay Area is a region of nine counties surrounding the San Francisco, San Pablo and Suisun estuaries in the northern part of the US state of California. It is a tech center with Silicon Valley being home to tech powerhouses such as Apple, Intel and Alphabet. The Bay Area is also home to the second highest concentration of Fortune 500 companies in the US, second only to the New York metropolitan area.

The Greater Tokyo Area, meanwhile, is the most populous metropolitan area in the world, consisting of eight prefectures in the Kantō region of Japan, including the Tokyo Metropolis, as well as the prefecture of Yamanashi of the neighboring Chūbu region. As the focal point of Japan's economy this is the home of heavy industry giants such as Mitsubishi, Honda, and Nissan, and the home to 38 Fortune Global 500 companies.

Dual focuses in financial services and technology & innovation

Compared to these area, the GBA still lags behind in terms of its GDP per capita, as well as its influence on the global economy. However, the Government has high hopes for the GBA to become one of the first high-income metropolitan areas in China. With Government support, the existing comparative advantage of constituent cities may position the GBA to become both a financial and a technology hub.

The dual focuses are expected to be a catalyst for fast catching up. Specifically, according to estimates by the China Center for International Economic Exchange, a leading think tank in China, the GBA is expected to achieve total economic output comparable to the Greater Tokyo Area by 2020, and surpassing both the San Francisco Bay Area and New York Metropolitan Area with GDP at USD2.2t in 2030.

Figure 3 | GBA vs. other major bay area megacities

	GBA	New York Metropolitan Area	San Francisco Bay Area	Greater Tokyo Area
Size ('000 sq.km.)	56.1	17.4	17.9	36.8
Population (m)	68.0	23.4	7.2	43.5
GDP (USD t)	1.3	1.4	0.76	1.8
GDP per capita (USD)	19,400	69,000	99,000	41,000
GDP share of country (%)	10.8	7.7	4.4	41.0
% of tertiary industry	65.2	89.4	82.8	82.3
Number of Fortune Global 500 HQs	17	23	13	38

Note: Current GDP in USD as of 2016

Source: Guangdong-Hong Kong-Macao Greater Bay Area Forum

Other megacities in China

Together with Beijing-Tianjin-Hebei integration (Jingjinji) and the Yangtze River Economic Belt (YREB)¹ - which were called China's "three main initiatives" along with the BRI in the 2015 Government Work Report - the GBA is expected to become one of the top development priorities at the national level.

Specifically, Jingjinji, the delta of the Yangtze River, and the GBA will form megacities at the top level of China's urbanization blueprint. In each of them, favourable and forward looking policies will be launched to ease the "urban ills" of big cities such as congested roads, high housing costs, severe pollution and substandard living environment. These regions are, in turn, expected to drive China's productivity growth with support from leadership and become leaders in China's next stage of development.

A closer look at these regions shows very different characteristics. Jingjinji, which includes the Xiongan New Area, is tasked with the relocation of various functions of the capital. While the Yangtze River Delta is a manufacturing hub that traditionally is more focused on the domestic market, the Pearl River Delta has long been China's gateway to the world with a strong export sector. The share of SOEs in total industrial revenues, in addition, were more than 36% in Shanghai but less than 14% in Guangdong in 2016.

¹ YREB includes Shanghai, Zhejiang, Jiangsu and Anhui; Jingjinji includes Beijing, Tianjin and Hebei; as of 2016

Figure 4 | The GBA, the YREB and Jingjinji are the three megacities in China



Source: EY

Figure 5 | Three megacities in China

	GBA	Jingjinji	YREB
Size (sq.km.)	56,148	214,228	350,840
Population (m)	68	112	222
GDP (RMB b)	9,138	8,256	19,532
GDP per capita (RMB)	134,366	73,681	87,963
Tertiary industry (% of GDP)	65	58	52
Export ^{Note} (% of GDP)	53	11	30
Hi-tech industry ^{Note} (% of total VAI)	32	18	24

Note: Hong Kong and Macau are excluded from GBA in export and hi-tech industry
Source: National Bureau of Statistics



Long-time leader in economic reform

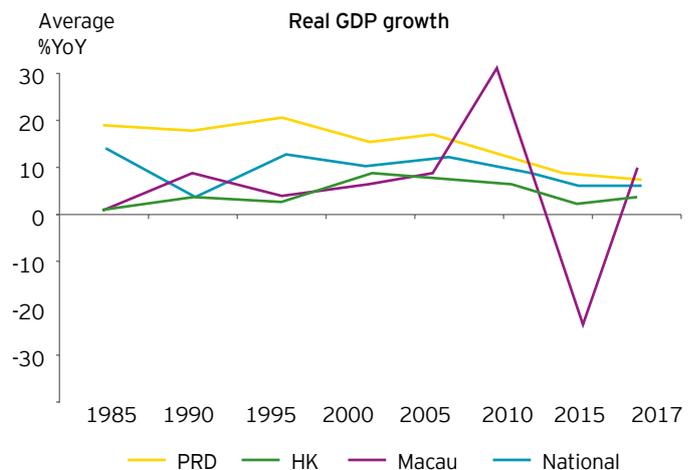
The GBA is China's most dynamic, open, market-oriented and innovative region, according to an *The Economist* special report, *A China that works - What the country can learn from the Pearl River Delta* in 2017². In the development plan, the emphases of the GBA are to bring:

- ▶ Further integration in both physical and regulatory infrastructures to connect the cities together and create a big and unified market
- ▶ World-leading technology and financial services hubs
- ▶ Favorable living environment and public goods that attract talent from across the country and the rest of the world. In our view, the plan is going to build on the region's remarkable strengths and achieve remarkable synergy

A legacy in outstanding economic development

The GBA has a legacy of being the first region to take off economically since the beginning of China's economic reform. Benefiting first from the migration of Hong Kong's manufacturers and then those of Taiwan to Guangdong in response to its favorable policy and low labor cost, the Pearl River Delta, particularly the Shenzhen Special Economic Zone, registered outstanding economic growth in the 1980s and 1990s that was significantly ahead of the national average.

Figure 6 | GBA has been a driver for economic growth since the 1980s

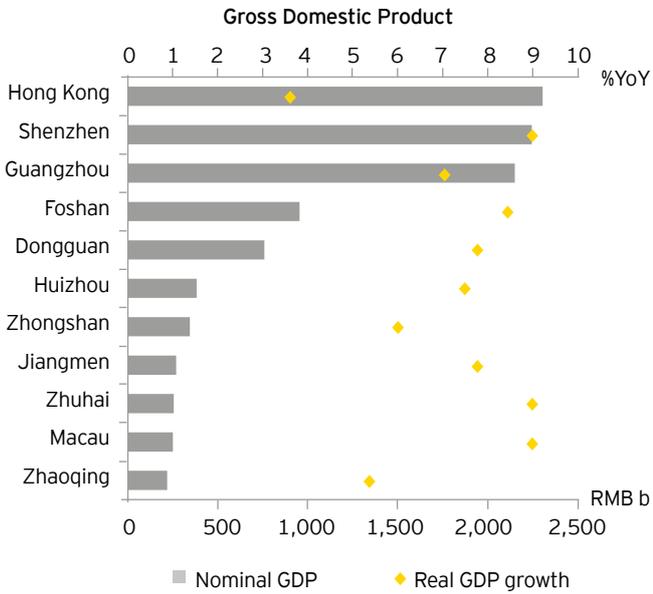


Source: Guangdong Bureau of Statistics, Wind

Subsequent to the early head start and rapid development, the region has been one of the most economically prolific areas in China. The total economic output of the GBA amounted to RMB10.2t in 2017, broadly equivalent to 12.4% of China's GDP. With a total population of 67.1m, or 4.85% of total population, the region is a relatively advanced region in terms of economic development, with GDP per capita at 2.5 times higher than the national average.

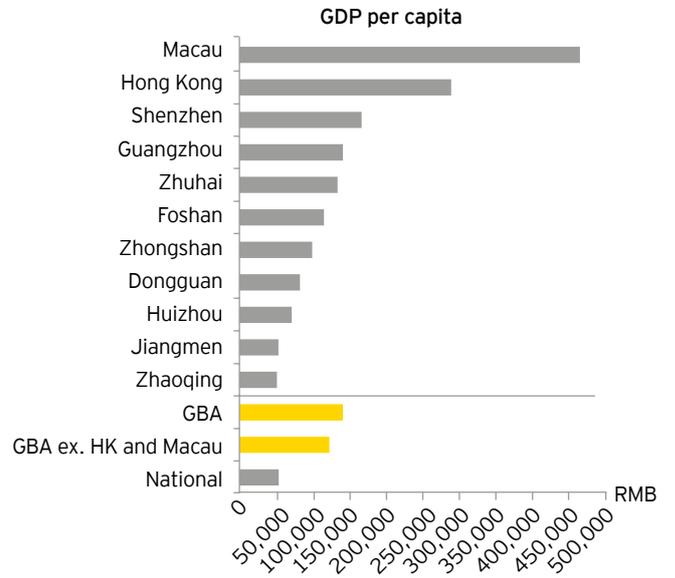
² www.economist.com/special-report/2017/04/08/what-china-can-learn-from-the-pearl-river-delta

Figure 7 | Hong Kong, Shenzhen and Guangzhou are leaders in the GBA by size of GDP



Note: As of 2017
Source: Guangdong Bureau of Statistics, Wind

Figure 8 | GDP per capita in the GBA is well above national average even if Hong Kong and Macau are excluded



Note: As of 2016
Source: Guangdong Bureau of Statistics, Wind

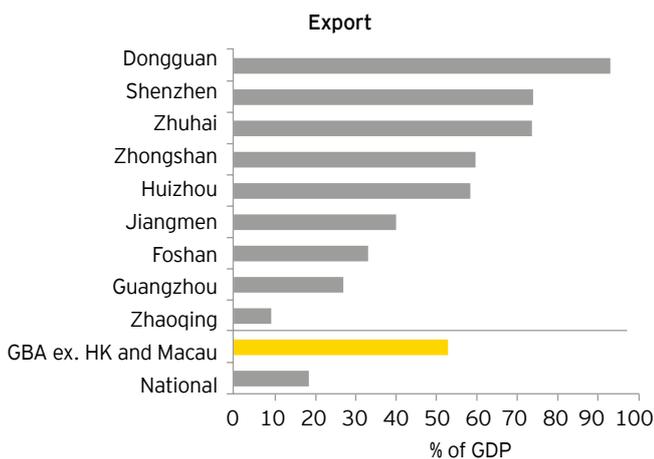


Nurturing ground for private, outward facing economy

The factory of the world

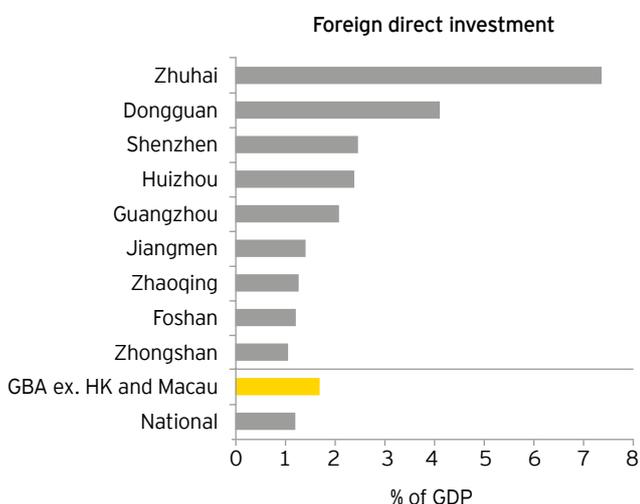
Since the early days, the region has been called “the factory of the world” for being a hub for export-oriented manufacturing. The China Import and Export Fair (Canton Fair) in Guangzhou, now in its 124th session, has been a window for China’s exports since 1957. In 2017, the nine GBA cities in Guangdong continued to account for 26% of China’s total external trade, along with 17.9% of foreign direct investment and nearly 15% of outbound direct investment. Specifically, merchandize exports alone is equivalent to as much as 53% of the region’s GDP, three times above China’s national average, and significantly higher than the YREB and Jingjinji.

Figure 9 | Economy of the GBA is heavily export-oriented



Note: Domestic exports for Hong Kong, as of 2017
Source: Guangdong Bureau of Statistics, Wind

Figure 10 | Zhuhai and Dongguan are major recipients of foreign investment

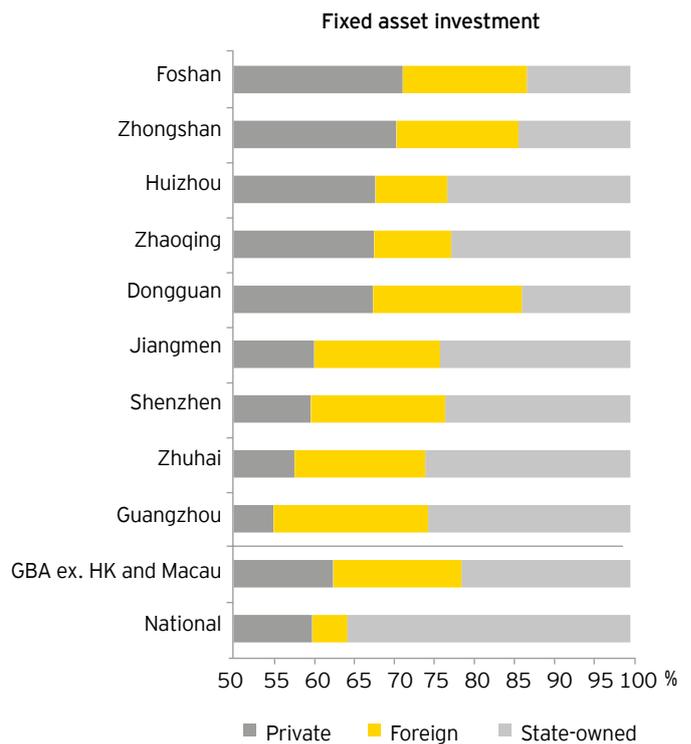


Note: FDI includes investment from Hong Kong, Macau and Taiwan; as of 2016
Source: Guangdong Bureau of Statistics, Wind

Emphasis on entrepreneurship and the private sector

Meanwhile, the share of the private sector in fixed asset investment is also higher in the GBA, especially when foreign investment is also included. The combined share is close to 90% in cities that are notable production hubs such as Foshan, Zhongshan and Dongguan. The share of state-owned enterprises (SOEs) is much lower, at 21.2% compared to the national average at 35.7%. Of the more than 100 giant SOEs controlled directly by the Central Government, only four are based in the region. This reflects an economic environment that was historically driven more by entrepreneurship than state initiatives.

Figure 11 | GBA is driven more by entrepreneurship than state initiatives



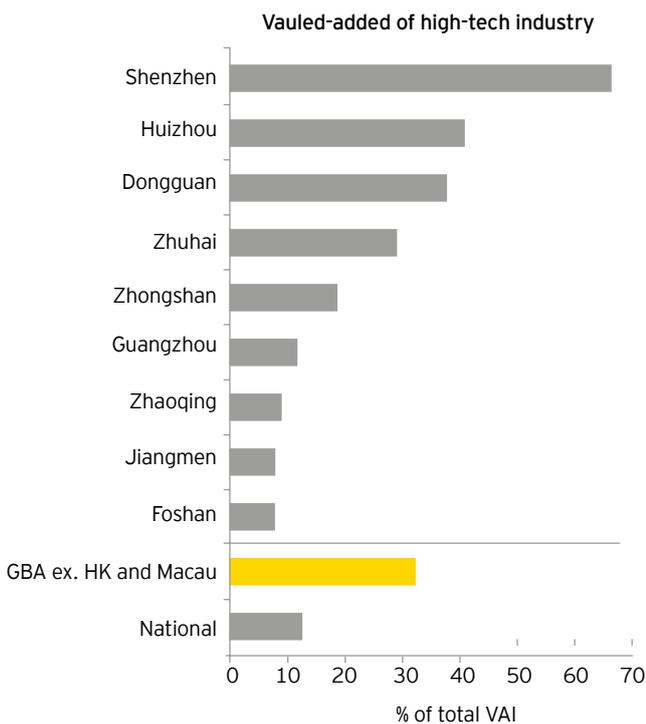
Note: Foreign investment includes Hong Kong, Macau and Taiwan, as of 2016
Source: Guangdong Bureau of Statistics, Wind

Leader in industrial upgrade

Subsequent to the rising production cost in labor income and land price, industries in the coastal cities of the GBA have also been upgrading the production portfolio in pursuit of higher margins.

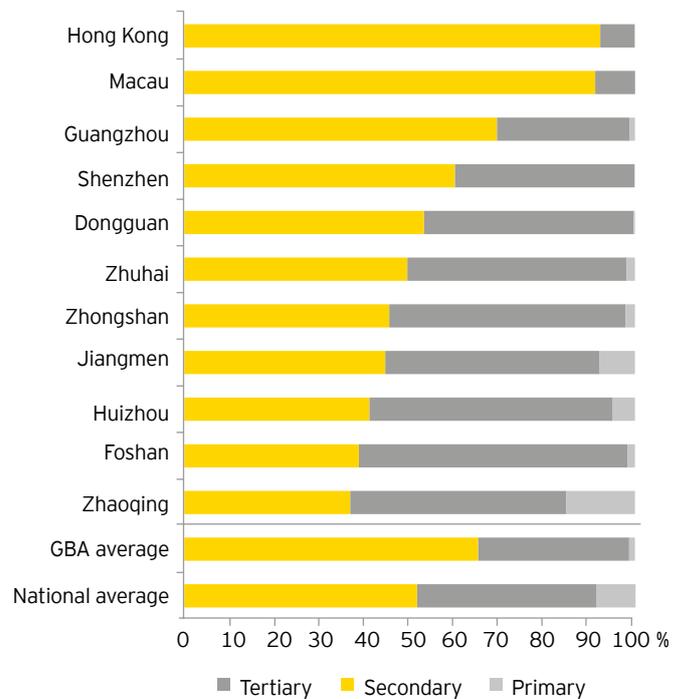
Specifically, Shenzhen has transitioned from an industrial to a service-oriented city and a technology hub, while the main products of Dongguan and Zhuhai have changed from labor intensive products such as shoes and toys to more advanced capital intensive products such as mobile phones and biomedical products, respectively. Meanwhile, more inland cities such as Huizhou and Zhaoqing continue to have a substantial primary sector.

Figure 12 | GBA has evolved to become a high-tech industrial centre



Note: As of 2016
Source: Guangdong Bureau of Statistics, Wind

Figure 13 | GDP by industry



Note: As of 2016
Source: Guangdong Bureau of Statistics, Wind



Figure 14 | Share of value-added among top industrial sectors in GBA cities

	Shenzhen	Dongguan	Huizhou	Zhuhai	Zhongshan	Jiangmen	Foshan	Guangzhou	Zhaoqing
Computer, communication and electronic equipment	✓	✓	✓	✓	✓	✓	✓	✓	✓
Electrical and mechanical equipment	✓	✓	✓	✓	✓	✓	✓	✓	
Heat and power generation	✓	✓	✓	✓				✓	✓
Chemicals			✓	✓		✓		✓	✓
Textile and garment		✓			✓	✓	✓		
Metal products					✓	✓	✓		✓
Rubber and plastic products		✓	✓		✓				
Petroleum processing, coking and nuclear processing			✓	✓				✓	
Non-metal mineral products							✓		✓
Non-ferrous metal smelting							✓		✓
Pharmaceutical	✓			✓					
Culture, sports and entertainment equipment	✓								
Specialized equipment	✓								
Paper		✓							
Automobile								✓	
General equipment					✓				
Railway, shipping vessel, aerospace and other transportation equipment						✓			

Note: As of 2016
Source: Wind, EY

The role of Hong Kong and Macau

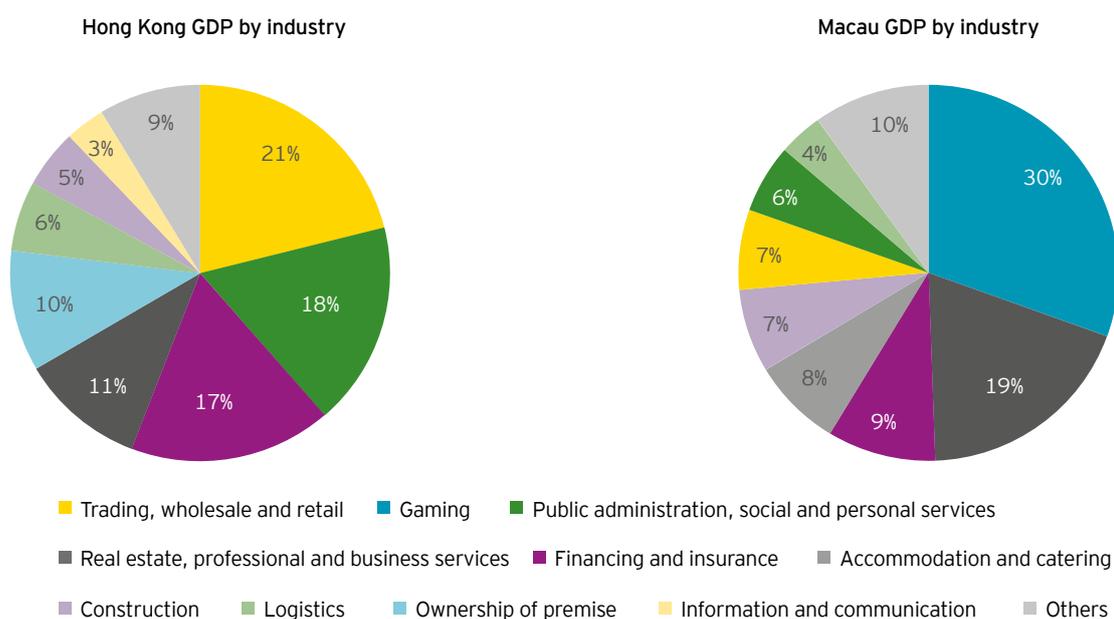
Hong Kong is China's most international city amid its institutional advantages - its legal, accounting and regulatory systems are of international standard. It also enjoys an internationalized professional workforce, high-quality education institutions and an enabling business environment. While its manufacturing has migrated to the Pearl River Delta, these advantages allowed it to re-emerge as a service center with four key industries - financial services, tourism, trading and logistics and professional services - accounting for 56.6% of GDP in 2016.

Expanding its comparative advantage, Hong Kong pledged to deepen its role as the "connector" between the Mainland and the rest of the world. As of 2017, it has over 30 foreign business chambers and nearly 8,000 multinationals - about half of them regional headquarters. In anticipation of the GBA

initiative, the Hong Kong SAR Government has renamed its Steering Committee on Cooperation with the Mainland to the Steering Committee on Taking Forward Bay Area Development and Mainland Cooperation to highlight the significance of the framework.

Meanwhile, Macau remains a tourism and leisure hub with dominant roles played by the gaming, hospitality, entertainment and retail industries. Together these industries accounted for close to half of the city's GDP in 2017. According to Fernando Chui Sai-on, the Chief Executive of Macau, the city has readied to take part in the GBA via the experience gained from the Guangdong-Macau Comprehensive Cooperation Demonstration Zone located in Zhongshan and from Macau's involvement in The Great Guanghai Bay Economic District in Jiangmen.³

Figure 15 | Hong Kong and Macau GDP by industry



Note: As of 2016
Source: Wind

3 www.mofcom.gov.cn/article/i/jyj/j/201804/20180402733545.shtml

Opportunities in five industries

Upon the announcement of the blueprint, we believe the size and economic characteristics of the GBA present significant opportunities for business across all sectors in the region, most notably technology, financial, logistics, tourism and education. To effectively implement the blueprint, however, we believe it also implies major changes to the area's economic, immigration and tax policies, in order to facilitate the seamless movement of goods, capital, labor and information, as well as regulation harmonization.

Technology sector to receive a boost by the Central Government

Shenzhen is a leader in technology and innovation

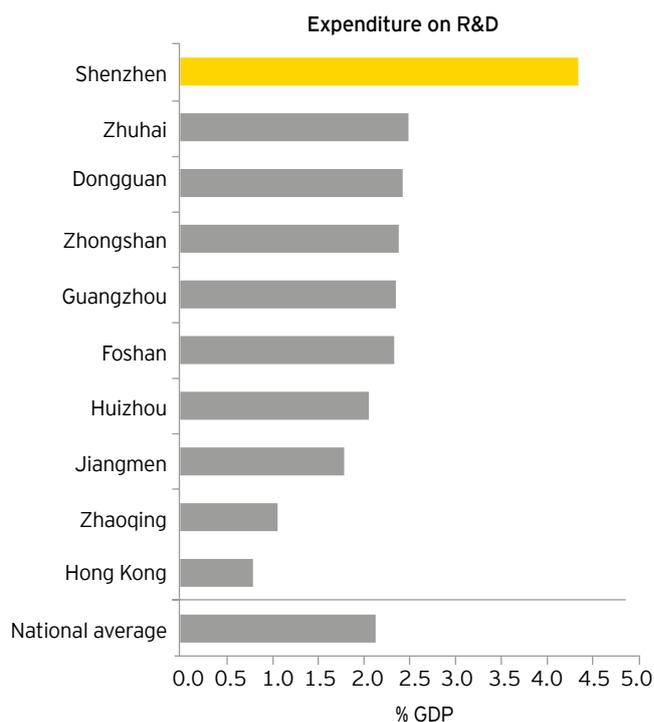
Shenzhen, which is the home of tech giants such as BYD, ZTE, Huawei, BGI and Tencent, is the clear leader in technology and innovation within the region. New industry, which mainly consists of tech-related industries such as internet, new energy, bio-tech, intellectual equipment, robotics, life and health sciences, aerospace, new materials and creativity, achieved 13.6%YoY growth in 2017 and accounted for 40.9% of Shenzhen's total GDP.⁴

Since 2013, Shenzhen has invested more than 4% of its GDP annually on R&D, on par with tech powerhouses such as South Korea and Israel and far exceeding that of Guangzhou, Singapore and Hong Kong. As a leader in China's structural upgrade, Shenzhen also generates nearly half of the Mainland's international patent filings.⁵

4 www.szjt.gov.cn/xxgk/zfxxgkml/tjsj/tjgb/201804/t20180416_11765330.htm

5 www.gov.cn/xinwen/2018-04/26/content_5286160.htm

Figure 16 | Shenzhen spends as much as 4.3% of GDP on R&D



Note: As of 2016
Source: Guangdong Bureau of Statistics, Census and Statistics Department of Hong Kong

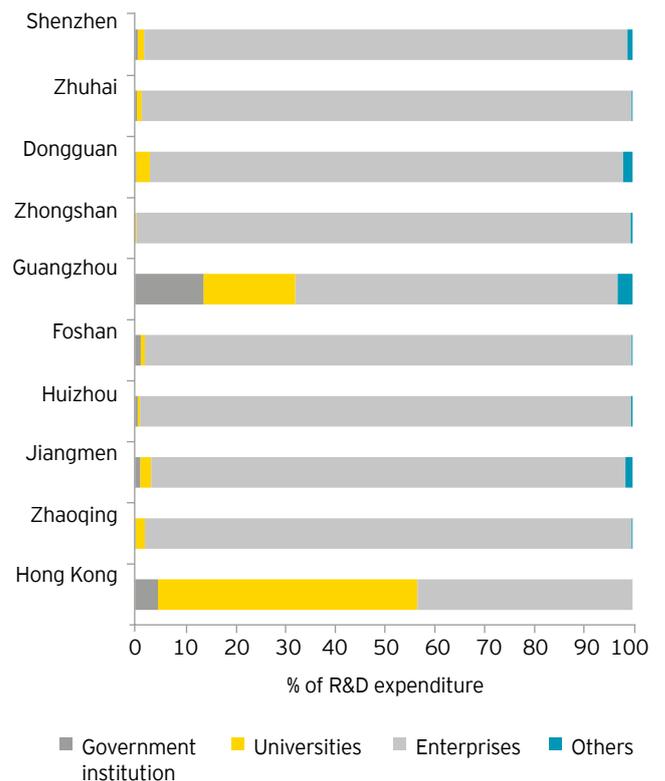


Technology in Hong Kong received top leadership support

The plan to make the GBA a global innovation and technology hub goes beyond the boundary of Shenzhen. Hong Kong, in particular, has picked the Lok Ma Chau Loop (an area close to the border with Shenzhen) to develop the Hong Kong-Shenzhen Innovation and Technology Park (HSITP). The park is expected to expand the reach of Shenzhen companies across the border, and help foreign tech companies venture into the Mainland.

In addition, President Xi Jinping pledged on 14 May this year to make Hong Kong a global innovation hub by allowing national agencies to directly support the science and technology research in Hong Kong's universities through national funding. The measure could allow Hong Kong, with its relative strength on foundational research and talent training in the academia, to complement technology adaption and application which are the strong suit of Shenzhen.

Figure 17 | Despite limited spending, Hong Kong's R&D is mainly by academia rather than enterprises



Note: Data not available for Macau; As of 2016
 Source: Guangdong Bureau of Statistics, Census and Statistics Department of Hong Kong

Financial services as China engages in further market opening

Hotbed for pilots in further capital account liberalization

Opportunities in the financial services sector will evolve around FinTech innovation, BRI project financing, cross-border banking and green financing, according to the GBA development plan. With recent improvements such as the permission for weighted voting rights, Hong Kong's financial market is expected to become more connected than ever with the Mainland.

So far, significant integration has been achieved following China's financial reform measures such as the stock and bond connect schemes, quota expansion for Qualified Foreign Institutional Investors (QFII), Qualified Domestic Institutional Investors (QDII) and Renminbi Qualified Foreign Institutional Investors (RQFII), and the rapid development of wealth management services. The development of the GBA would also push for more opportunities when the area becomes a hotbed for trial schemes.

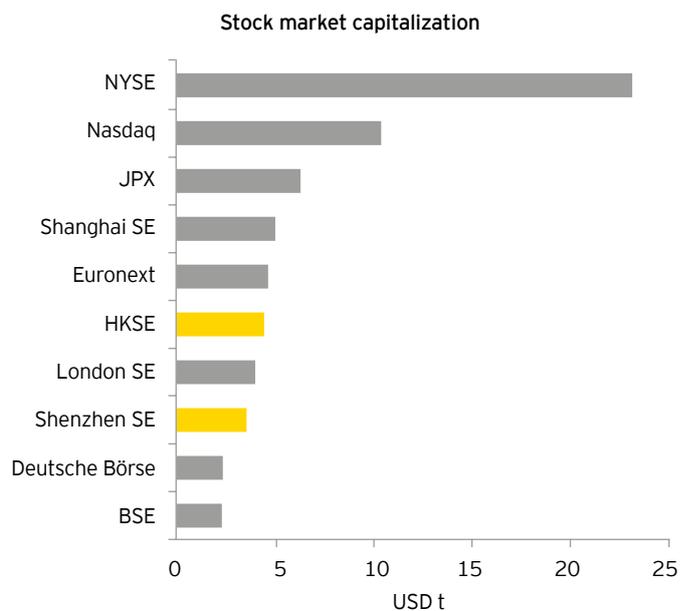
In the Boao Forum for Asia in April 2018, President Xi announced that China is starting a fresh round of market opening to welcome foreign investment, with emphasis on the financial sector (see *Reaffirming the shift to quality of growth - Takeaways from the "two sessions"*). According to the People's Bank of China (PBoC) governor Yi Gang, the following measures will be rolled out in the coming months:

- ▶ No longer require joint-funded securities companies to have at least one local securities company as a shareholder
- ▶ Allow eligible foreign investors to provide insurance agents and loss adjuster services in China
- ▶ Lift restrictions on the business scope of foreign-invested insurance brokerage companies, treating them on the same footing as domestic companies
- ▶ Encourage foreign ownership in trust, financial leasing, auto finance, currency brokerage and consumer finance
- ▶ Apply no cap to foreign ownership in financial asset investment companies and wealth management companies
- ▶ Substantially expand the business scope of foreign banks
- ▶ Remove restrictions on the business scope of jointly-funded securities companies, treating domestic and foreign institutions equally
- ▶ Foreign insurance companies will no longer need to have a representative office in China for two consecutive years prior to establishing a fully-owned institution

Cross-border banking for GBA residents

Going forward, a possible area for further liberalization is the cross-border use of customer records in the financial industry, such as accepting credit and identity records issued in Hong Kong for Hong Kong residents to open bank accounts in the rest of the GBA. Gradually, the reverse direction could also be opened with banks in Hong Kong accepting records issued by the Ministry of Public Security in the Mainland to qualified residents in the GBA. It could potentially reduce the banks' burden on Knowing Your Customer (KYC) in Hong Kong and facilitate cross-border collaboration of the financial sector.

Figure 18 | Two of the world's largest stock exchanges are in the GBA



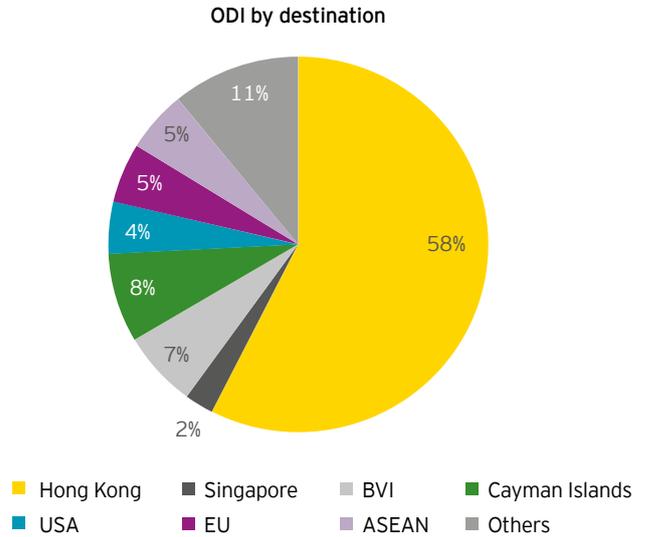
Note: As of April 2018
Source: World Federation of Exchanges

“Super connector” for Mainland enterprises to go abroad

Hong Kong remains one of the leading financial centers with the top spot in offshore RMB business. As we emphasized in the series *China Go Abroad*, EY holds the view that Hong Kong will continue to enjoy significant institutional advantage and international experience to make it an important channel for Mainland enterprises to “go out”.

As of end-2016, Hong Kong was the first destination for close to 60% of outbound investment from the Mainland, in pursuit of opportunities in Hong Kong or abroad. The diversified offering of investment, financing and risk management products in Hong Kong’s financial market is also going to make the region an ideal platform to connect China with the rest of the world.

Figure 19 | Hong Kong is a preferred initial destination for Mainland’s ODI



Note: ODI stock as of 2016
Source: Ministry of Commerce, Wind

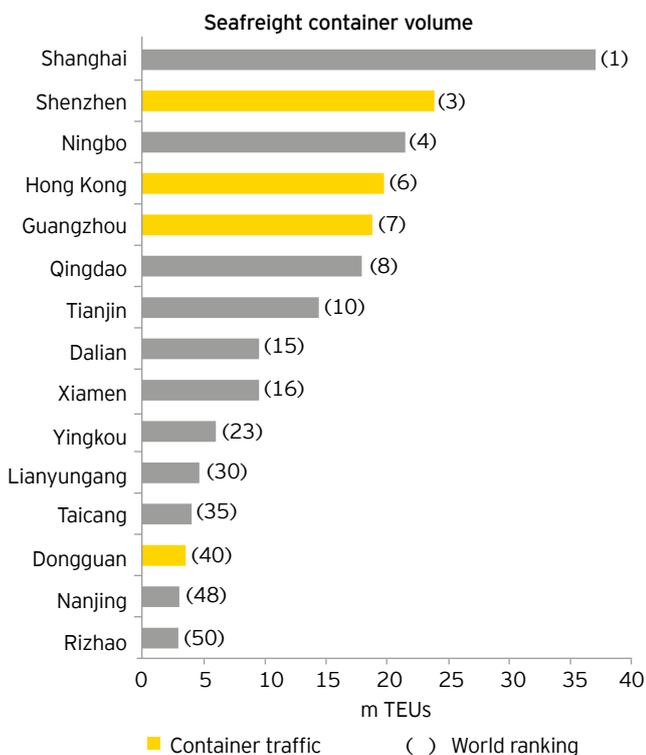


A core area in the Belt and Road Initiative

World leader in cargo throughput

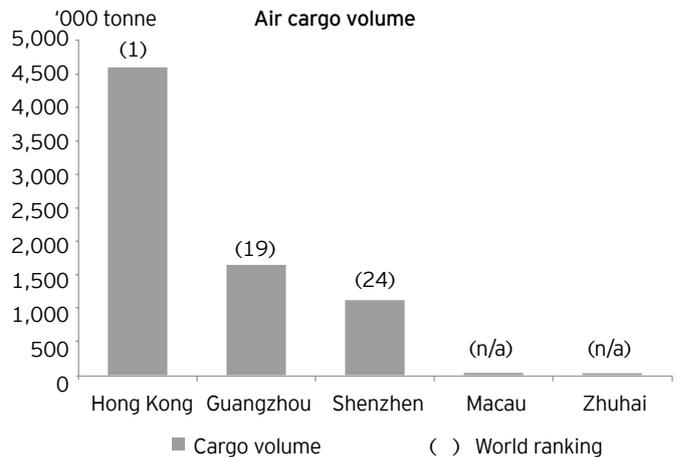
Another focus of the GBA will be to fortify the region's position as the world's top logistics hub through modern infrastructure. Together, the throughput of Hong Kong port, Guangzhou Port, and the ports in Shenzhen reached 66.3m twenty-foot container equivalent units (TEUs) to remain the world's largest logistics hub in 2017, closely followed by the Yangtze Delta at 64.8m TEUs. Meanwhile, Hong Kong, Guangzhou and Shenzhen airports were also ranked as some of the world's busiest air cargo and passenger hubs.

Figure 20 | Four of the world's busiest ports are located in the GBA



Note: As of 2016
Source: Lloyd's List

Figure 21 | Airfreight cargo volume by airports in the GBA



Note: As of 2016
Source: Airports Council International

Going forward, infrastructures to connect the region are 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 in summer 2018, it is expected that air cargo from Hong Kong airport could reach Zhuhai in about an hour, which could help connect the lower tier cities in the Mainland with the rest of the world.

As part of the 13th Five-Year Plan, Guangdong province is expected to spend as much as RMB2.5t in 2017-2020 on improving the transportation network, with Guangzhou as the provincial hub. By building a tight-knit network of ports and airports, the GBA is expected to expand the logistical capacity dramatically in order to connect the provinces in Southern China and the rest of the world.

Figure 22 | Ongoing infrastructure projects in the 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	Massive expansion to loop in Foshan, Jiangmen, and Zhuhai
	Railway	Jiangmen-Shenzhen section of Shenzhen-Maoming railway and Guangzhou-Shantou high-speed railway
Shenzhen	Tramline	Construction of Tramline No.3 in Longgang
	Highway	Expansion of Shenzhen-Huizhou highway
	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 Zhangshan-Kaiping Highway
	Intercity Railway	Jiangmen section of Shenzhen-Jiangmen-Maoming railway
Huizhou	Pingtian 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 section of Shenzhen-Zhongsan highway, Zhongshan-Kaiping highway and Zhongshan-Jiangmen highway
Zhuhai	Intercity Railway	Guangzhou-Foshan-Jiangmen-Zhuhai intercity railway
Zhaoqing	Highspeed Railway	Construction of Shenzhen-Zhaoqing high-speed railway
	Intercity Railway	Construction of Zhaoqing-Nanhai intercity railway
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	Planned to open in summer 2018
Hong Kong	Hong Kong International Airport	Construction of the third runway
	Guangzhou-Shenzhen-Hong Kong Express Rail Link	Planned to open in 3Q 2018

Source: EY

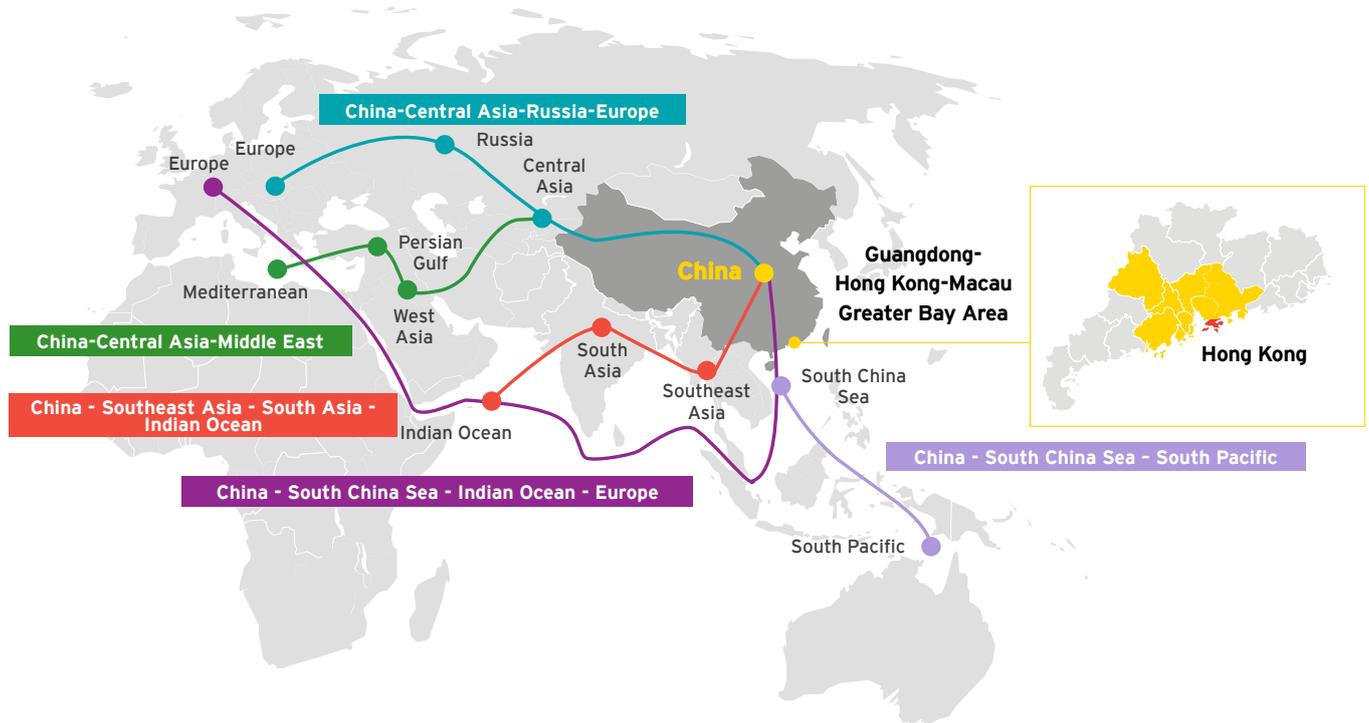
Distinct advantage as a core area in the BRI

More importantly, the GBA is expected to play a key role in the BRI. First, the region's strategic location at the entrance of the South China Sea and the gateway to countries along the 21st century maritime silk route. Second, the unique features of the economy allow the GBA to be a one-stop shop with manufacturer, shipper, financier and builder to cater to the projects and business needs along the route.

Third, a significant part of the Chinese diaspora originated from the GBA. In addition to the emigrants from Hong Kong, the Hakka and Toisanese could trace their lineage to Huizhou and Jiangmen, respectively. Combined with the Central Government's support, the region's strength in technology, and global professional services, we believe the GBA has a distinctive advantage in the initiative. In return, the region could also be a testing ground as the BRI pushes for further structural reforms to increase economic efficiency in China.



Figure 23 | GBA set to become a core area in the BRI



Source: CCTV; Big Data Report of Trade Cooperation under the Belt and Road Initiative 2017, State Information Center of China; EY analysis

Cradle for free flowing talents

Expansion of high quality academic institution in Guangdong

One of the key benefits of the GBA is people mobility, which is conducive to nurturing and retaining talent in the region. First, Hong Kong's Chief Executive Carrie Lam Cheng Yuet-ting has appealed to the Minister of Education of mainland China, Chen Baosheng, on 14 April 2018 to help universities in Hong Kong to set up campuses in the GBA. According to the Hong Kong Government, the move could facilitate teacher and student exchange between the Mainland and Hong Kong and establish education institutions with international standard in the area. In our view, the plan may have significant consequences in regional integration.

Unlike Guangzhou or Hong Kong, Shenzhen does not have a well-established local base of higher-education institutions to produce sufficient graduates annually. Instead, Shenzhen creates its talent pool mainly through attracting graduates from the rest of the Mainland and Hong Kong, in addition to opening branches of famous universities in the city. The network of higher education institutions in GBA could, therefore, help nurturing local talent across the region.

Figure 24 | National ranking of Universities in the GBA

University	Location	National Ranking
The Chinese University of Hong Kong	Hong Kong	4
The University of Hong Kong	Hong Kong	6
The Hong Kong University of Science and Technology	Hong Kong	12
City University of Hong Kong	Hong Kong	14
Sun Yat-sen University	Guangzhou	16
The Hong Kong Polytechnic University	Hong Kong	24
Macau University of Science and Technology	Macau	28
South China University of Technology	Guangzhou	39
University of Macau	Macau	42
Hong Kong Baptist University	Hong Kong	46
Jinan University	Guangzhou	96

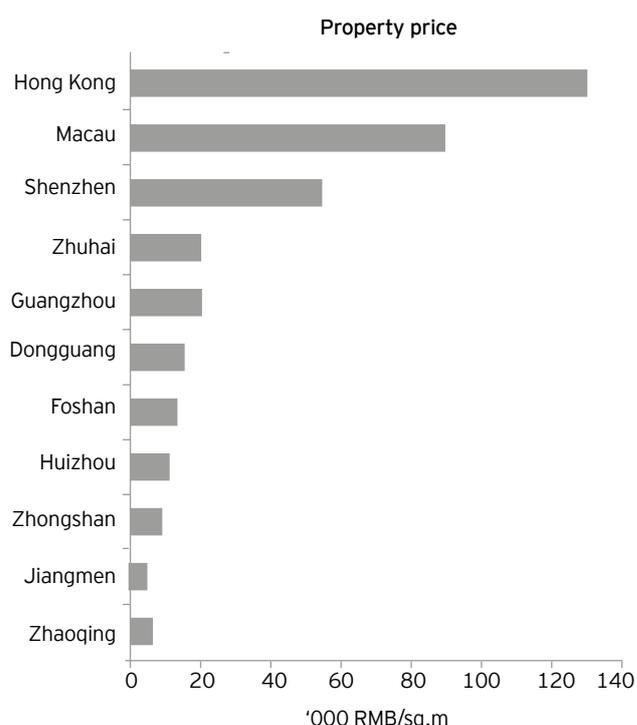
Note: As of 2017
Source: Shanghai Ranking Consultancy

For example, while Guangzhou has four universities that belongs to the group of Double First Class university plan that receive special government attention and resources, out of which two also belong to the Project 985 list, Shenzhen does not have any universities that belong to either double first class, Project 985 or Projection 211. Among the top 100 universities in Greater China ranked by Shanghai Ranking Consultancy, six are located in Hong Kong, two are in Macau, and three are in Guangzhou, but none of the universities in Shenzhen could make the list.

Accommodating talent from inland area

Second, greater integration will help multinationals to better leverage their Hong Kong-based talent for opportunities across the border. Arguably, one of the main objectives of urbanization reform in China is to ease the "urban illness" of major cities, which includes congestion, pollution and substandard living environment. While Governments of top-tier cities may limit the number of new migrants, the creation of megacities allows smaller cities in the region to attract non-resident talent to settle through providing equivalent registration (hukou), more affordable homes and access to public goods.

Figure 25 | Property price in the outskirts cities is as much as 18 times cheaper than Hong Kong



Note: Private housing price in Hong Kong and Macau; As of end-2017
Source: Ricacorp, Wind

Potential from improved people mobility

Attractions within an hour's commute

Unrestricted mobility of people can also unlock the potential in hospitality and expand business opportunities. On 13 December 2017, all 11 tourism authorities within the GBA collaborated to establish the Tourism Federation of Cities in Guangdong, Hong Kong and Macau Bay Area. In addition to shopping in Hong Kong and gaming in Macau, the Federation pointed out that there are many top-rated tourist attractions in the GBA that are within a short distance from major airports in the region, especially after the high-speed rail, intercity rail lines, and the bridges spanning across the Pearl River have begun service.

In addition to the existing sites, new investments in tourism projects such as new hotels, entertainment hubs, shopping arcades and theme parks have started. For example, an indoor and outdoor go-kart track and augmented reality (AR) and virtual reality (VR) game facilities are being built in what is going to become Hong Kong's largest commercial entertainment hub near the airport.

Cross-region elderly care

Likewise, differentials in living costs could provide incentive for resident movements within the GBA cities, especially for the retired population. This is especially true for Hong Kong, which has an elderly rate at 17.9% in 2017 (compared to 8.6% in Guangdong and 10.1% in Macau), and an acute shortage of land for retirement facilities. In April, Hong Kong Financial Secretary Paul Chan Mo-po proposed that Hong Kong residents should consider retiring in the GBA.

To provide stronger incentive to moving besides similar language and eating habits, Secretary for Food and Health Sophia Chan Siu-chee revealed in July that Hong Kong's medical subsidy for local elderly aged 65 or above, a HKD2,000 annual medical voucher, could be extended to meet medical expenses incurred in the GBA in the future. It will likely be accompanied with expanding development of retirement villages for Hong Kong residents in the GBA, possibly with Government endorsement.

Figure 26 | Top tourist attractions in the GBA

City	Attraction	Recognition
Guangzhou	Chime-long Paradise	AAAAA
	Baiyunshan	AAAAA
	Sun Yat-sen Memorial Hall	AAAA
	Huanghuagang Memorial	AAAA
	Mausoleum of the West Han Nanyue King	AAAA
Shenzhen	Overseas Chinese Town	AAAAA
	Mission Hills	AAAAA
	Fairy Lake Botanical Garden	AAAA
	Evergreen Resort	AAAA
Foshan	Xiqiaoshan	AAAAA
	Changlu Resort	AAAAA
	Sanshui Lotus World	AAAA
	Qing Hui Yuan	AAAA
Jiangmen	Kaiping Diaolou and Villages	UNESCO World Heritage
	Guifengshan	AAAA
	Liyuan Garden	AAAA
Huizhou	Luofushan	AAAAA
	West Lake	AAAA
	Nankunshan Ecological Tourism Zone	AAAA
Zhongshan	The Former Residence of Sun Yat-sen	AAAAA
	Zhan's Garden	AAAA
Zhuhai	Dong'ao and Wailingding Islands	AAAA
	New Yuan Ming Palace	AAAA
Zhaoqing	Seven Star Cave	AAAA
	Panlong Gorge	AAAA
Dongguan	The Opium War Museum	AAAA
Macau	Historic Centre of Macau	UNESCO World Heritage
	Casinos	
Hong Kong	Hong Kong Geopark	UNESCO Global Geoparks

Source: UNESCO, Tourism Administration of Guangdong

Breaking the silos to boost regional competitiveness



While there are many benefits, the success of the GBA is not without challenges. Due to the special status of Hong Kong and Macau as special administrative regions (SARs), integrating the cities into one economic unit would require significant efforts to iron out the differences and set aside their local mind sets.

System compatibility in government-driven initiatives

Both SARs have their own customs and immigration departments as well as regulatory independence in the large areas of the economy. For example, parties in China can only choose a “foreign” legal system and tribunal, under China’s law, if there is a “foreign element” or if there are exceptional circumstances. This could potentially side line the courts of Hong Kong as the definition of “foreign element” is increasingly blurred in the GBA.

In order to fully realize the potential of the GBA, infrastructure connectivity, cross-border regulatory frameworks, administrative governance, immigration and customs policies should all be brought into line with one another. Meanwhile, maintaining Hong Kong and Macau’s relative legal and regulatory independence may prove to be critical for their special economic statuses.

As it stands, studies on compatibility are already underway. In September 2017, the Qianhai Authority started an evaluation system to assess judicial innovation and the construction of a fair legal environment in the Qianhai and Shekou Pilot Free Trade Area. The Qianhai District Court also allows Hong Kong residents to join the judging panel as jurors in the cases related to Hong Kong.

Lack of a clear leader within the region

Beyond regulatory differences, there are three top-tier cities in the GBA. This is different from Jingjinji, where Beijing is a clear leader, and the YREB where Shanghai has a more dominant role. It is critical to note that synergetic cooperation calls for full cooperation between the cities, which may require close sponsorship and support from the Central Government.



The next steps

Unleashing the synergy of the GBA

The China Government is about to formalize the GBA development plan in the coming months, which will lay out the opportunities in the years to come. In summary, the potential of the GBA comes from fully integrating the SARs of Hong Kong and Macau in the national planning strategies of the Mainland, to form a collective economy. The plan is expected to provide new impetus to development through free flow of factors for production, such as ideas, resources, talent and capital.

We believe the GBA will extend the traditional roles of the Pearl River Delta, and continue to be China's leading portal. Within this framework, enhanced connectivity and the comparative advantage of its cities across different industries could prove to present significant opportunities for companies looking to create or expand their presence in China.

How EY can help

EY has established a strong presence in the GBA that has helped companies identify and seize opportunities in recent years. Agnes Chan, EY's Managing Partner in Hong Kong & Macau, and five other Partners in Guangzhou, Shenzhen, Hong Kong and Macau are at the Council for the Promotion of Guangdong-Hong Kong-Macao Cooperation, which is under the guidance of the Guangdong Government to strengthen the connection between the regions in the GBA.

David Chan, EY's GBA Leader, as well as our network of professionals in financial services, private equity, real estate, hospitality & construction, and technology, are well-positioned by our ongoing focus on the region. Specifically, our tax team in the GBA comprises experienced corporate tax advisory and transaction teams that provide in-depth technical and practical advice to our clients along the evolving tax landscape across the sectors.

In addition, the influence of the GBA will reach far beyond its geographical boundaries as it becomes a stepping stone for Mainland companies going abroad, especially along the BRI. Led by Loletta Chow, our China Overseas Investment Network (COIN) links professionals in over 70 countries and territories around the world to provide consistent and coordinated services with overseas investment from China.





Contacts

Agnes Chan

Managing Partner
Hong Kong & Macau
+852 2846 9921
agnes.chan@hk.ey.com

David Chan

Managing Partner
Tax Hong Kong & Macau
Ernst & Young Tax Services Limited
+852 2629 3228
david.chan@hk.ey.com

Loletta Chow

Belt and Road Task Force Leader
Global Leader
China Overseas Investment Network
Hong Kong
+852 2629 3133
loletta.chow@hk.ey.com

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