



## Hong Kong's Role in National Economic Development and Reform and Opening up, from the Perspective of the Guangdong-Hong Kong-Macao Greater Bay Area's Strategic Positioning

Dr. E Zhihuan, Chief Economist

On February 18<sup>th</sup>, 2019, the Central Government and the State Council promulgated the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, specifying strategic positioning in five areas, including a vibrant world-class city cluster, a globally influential international innovation and technology hub, an important support pillar for the Belt and Road Initiative, a showcase for in-depth cooperation between the Mainland and Hong Kong and Macao, and a quality living circle for living, working and travelling. Based on this strategic positioning, the Greater Bay Area will assume a leading role in national economic growth and opening up, boosting the development of “one country, two systems”. In the new paradigm of Greater Bay Area development and a new era of comprehensive opening up of the country, Hong Kong will assume an indispensable and active role and attain new room for economic growth.

**One. The Greater Bay Area's city cluster will become a new engine of China's modern economic development in the new era.**

The first strategic positioning specified in the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area is a vibrant world-class city cluster. The goal is to “integrate into the global market system, build a global base of emerging industries, advanced manufacturing and modern service industries”, setting an example in developing institutions and mechanisms for high-quality economic development.

In 2018, the Chinese economy grew 6.6%, and nominal GDP exceeded 90 trillion yuan, reinforcing the shift from high-speed growth to high-quality growth in the new era.

Both the size and growth of the Greater Bay Area's GDP outperform other major domestic city clusters. In 2017, the GDP of the Greater Bay Area amounted to 10.17 trillion yuan. In 2018, the GDP of the nine Greater Bay Areas cities in Guangdong amounted to 8.1 trillion yuan. Considering the yet-to-be released GDP figures for Hong Kong and Macao, the Greater Bay Area's GDP in 2018 could reach 10.83 trillion yuan, or about 12% of the national total. According to simple projections based on the nominal GDP growth records of the Greater Bay Area cities in the 10 years between 2008 and 2017, the GDP of the Greater Bay Area could reach 15.47 trillion yuan in 2022, achieving the goal of considerably strengthening overall competitiveness. In 2035, the GDP of the Greater Bay Area could reach 52.12 trillion yuan, a big leap in its economic prowess. Assuming a nominal growth rate of 7% for the country as a whole, in 2022, the Greater Bay Area's GDP would account for 13.1% of the national total. In 2035, the Greater Bay Area's GDP would account for 18.3% of the national total, genuinely becoming an important engine of China's economic growth.

The Greater Bay Area city cluster will establish and maintain reasonable collaboration and division of roles, realizing interconnectedness in factor markets. Easy movement of various factors will efficiently improve resource allocation and the synergy of regional development, boosting the transition of the Greater Bay Area from simple addition to organic economic consolidation, improving the quality and efficiency of economic growth, and

further elevating the Greater Bay Area's importance in China's modern economic development.

In building the Greater Bay Area, Hong Kong has the advantages of "one country, two systems" and a fully international market economy, enabling the Greater Bay Area to better capitalize on its strengths accumulated from early and pilot implementation during Mainland China's reform and opening up, in adequate industrial systems, congregation of innovative factors, a market economy, and high degree of internationalization, providing important support for national development towards a modern and open economy in line with international standards.

**Two. Deepen the integration between innovative technology and advanced manufacturing in the Greater Bay Area, so as to build a globally influential international innovation and technology hub.**

The second strategic positioning listed in the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area is to build a globally influential international innovation and technology hub.

An important feature of world-class bay areas is the leading role of technological innovation and a large number of technology companies. Due to its well-developed industrial base and an innovative environment, the Greater Bay Area has attracted a large number of technology companies such as Tencent, Huawei, and DJI, providing abundant industrial resources for technological innovation.

The Greater Bay Area has already built a globally influential base for advanced manufacturing and modern services as well as a base for national technological innovation and research and development, forming the foundation for a high-end, open, innovative, and competitive bay area economic system. In the future, in order to build an economic system driven by innovation, the Greater Bay Area could develop new technologies, new industries, new business formats, and new models.

The Greater Bay Area possesses economies of scale and first-mover advantages, a friendly innovative environment, and a congregation of technology companies. Shenzhen's financial and technological leaders and Guangzhou's technological research platform have abundant resources and are of high international standards. Attracting and consolidating the latest resources of global innovative technologies will help build a Guangdong-Hong Kong Innovation Corridor and a Shenzhen-Hong Kong Innovation Circle, providing technological support for the upgrading of advanced manufacturing in the Greater Bay Area and building a globally competitive modern industrial system and an international innovation and technology hub.

In recent years, in order to cope with the impacts of rising protectionism, Hong Kong has, within the legal structure of "one country, two systems", diversified its economic development and signed a number of bilateral and multilateral agreements, improving its position as an international commercial center and maintaining the unique advantages of a separate customs territory. The HKSAR government has been forward looking and has actively implemented measures to boost innovation and technology development. By investing in university research, re-industrialization, and applied technologies, Hong Kong's global competitiveness will improve, which will in turn assist the Greater Bay Area in strengthening its global resources consolidation and pioneering research and development abilities, boosting industrial upgrading and building a globally competitive modern industrial system.

**Three. An important support pillar for the Belt and Road Initiative**

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area states that the third strategic positioning of the Greater Bay Area is to be an important support pillar for the Belt and Road Initiative. The Greater Bay Area has the conditions to develop as an important support area for the pursuit of the Belt and Road Initiative, investment and financing platforms as well as overseas services hub.

The Belt and Road Initiative is an important engine for the nation's latest round of opening-up. From an international perspective, the investment and construction of Belt and Road infrastructures can facilitate regional economic development, gradually develop into a new growth driver for the global economy, and reshape the global economic landscape in the long run. In the past five years, the Belt and Road Initiative has successfully completed the formulation of an overall layout, and made remarkable achievements in facilitating trade and investment activities as well as forming a new structure of further opening up, etc. It has also provided a Chinese solution for improving the governance system of the global economy which has received widespread feedbacks from the international community positively.

As an international service hub, Hong Kong has the first mover and geographical advantages in promoting the Belt and Road Initiative. Hong Kong can leverage its position as a leading international financial center, the world's largest offshore RMB business center, financing center, and international asset management center, etc., actively support enterprises to go global and provide comprehensive financial and supporting professional services to more enterprises and institutions. Hong Kong can become both a promoter and participant for the building of Belt and Road Initiative, with the following efforts specifically.

Firstly, supportive professional service and comprehensive risk management service will be provided for Belt and Road Initiative. In the coming future, the risks associated with various Belt and Road investment projects will become increasingly prominent. It is necessary to further improve the comprehensive risk management system. In adopting more market-based risk management instruments, the wide range of professional service providers in Hong Kong can play an important role in identifying and mitigating risks for Belt and Road projects. Obviously, Hong Kong can better leverage its leadership in various professional service sectors to provide high quality professional services to the Belt and Road projects.

Secondly, efforts will be made to develop into a Belt and Road business operating platform to provide long-term support for the Belt and Road Initiative. Over the past few years, Hong Kong has accelerated its development as a Corporate Treasury Center (CTC) and offered tax incentive to those related activities. Currently, there are over 8,000 companies in Hong Kong with parent companies located overseas. The development of a multinational operating platform in Hong Kong can enhance the operational capability and competitiveness of those Belt and Road related enterprises as well as to support them to go global. The development of multinational operating platform in Hong Kong can also enhance enterprises' social responsibility awareness, improve multi-party communication ability, and promote people and people bond through their projects in the Belt and Road region.

Thirdly, Hong Kong is the largest offshore RMB center in the world and should actively promote the co-development of Belt and Road Initiative and RMB internationalization. Cross-border RMB business is a major focus of financial cooperation between Guangdong, Hong Kong and Macao. It is also a core element for the financial market development in the Greater Bay Area. As of the end of 2017, the cumulative business volume of cross-border RMB settlement in Guangdong reached 13.87 trillion yuan, of which the total cross-border RMB settlement between Guangdong, Hong Kong and Macao was 9.93 trillion yuan, accounting for 71.6% of the total cross-border RMB settlement in Guangdong. The cumulative receipt and payment of cross-border RMB fund pool amounted to 40.8 billion yuan. The RMB business is one of the core competitive advantages of Hong Kong's financial sector. It is also an important way for Hong Kong to serve the financial needs for the Belt and Road activities.

#### **Four. A showcase for in-depth cooperation between the Mainland and Hong Kong and Macao for financial markets connect**

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area states that the fourth strategic positioning of the Greater Bay Area is to be a showcase for in-depth cooperation between the

Mainland and Hong Kong and Macao. The starting point for the building of the Greater Bay Area is expediting infrastructural connectivity, which is conducive to seamless goods and people flows. With the accelerating development of the Greater Bay Area, the economic and trade links between the nine major cities in Guangdong, Hong Kong and Macao will be much closer, leading to movement of production factors more smoothly within the Greater Bay Area and enhancing its ability to better utilize international and market resources.

Reviewing the development and evolution of the world's major bay areas, such as the New York Bay, San Francisco Bay and Tokyo Bay, the Greater Bay Area will explore its own way for better market connectivity, capital and people flows under the premise of "one country, two systems", three customs zones and three currencies, which is likely to require policy breakthroughs.

The innovative reform of the free flows of production factors in the Greater Bay Area as well as the acceleration of opening up of the Mainland's financial markets are interrelated. Under the overall framework of building a modern and open economic system, the Greater Bay Area should have long-term visions in exploring the building of new economic system, high quality opening platform, fostering international cooperation and new competitive advantages.

The Greater Bay Area will accelerate the capital markets connectivity within the region. Hong Kong, as a leading international financial center, has accumulated plenty of successful experience in establishing connectivity with the capital markets in the Mainland. The experience will be very useful in building capital markets connectivity within the Greater Bay Area. Hong Kong and other cities in the Greater Bay Area will work together in establishing a financing platform for innovative and technology sector, creating a common market to foster the overall economic development.

#### **Five. A quality hub for living, working and traveling lays important foundation for cooperation within GBA cities**

The one-hour living circle of the Greater Bay Area has taken shape after the launch of the Hong Kong-Zhuhai-Macau Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL). The construction of a quality hub is the important groundwork for the in-depth cooperation between the Mainland and Hong Kong and Macao.

Economic cooperation within the GBA enables Guangdong, Hong Kong and Macao to fully leverage their unique advantages, and to transform their diversification into an important driving force for the overall development of the GBA city cluster. The high-quality growth of the economy would promote rapid rise of the middle class in the region, and bring retail businesses to the financial sector, including bank loans, bond issuance, insurance, IPO, and wealth management. With demands for financial services more comprehensive, banks are required to accelerate service transformation and enhance services efficiency.

Hong Kong's financial industry should seize the opportunity to improve the connectivity mechanism of financial services and elevate their levels of service. Under the framework of development plan for the Greater Bay Area, banks in Guangdong can provide Hong Kong residents with cross-border financial facilities such as account opening, remittance, exchanges and wealth management. Financial services will cover diversified consumptions including clothing, food, housing and travel in the region, allowing residents of GBA to pay offsite fees and expenses.

#### **Six. Enhance Hong Kong's economic growth by leveraging traditional advantages and promoting institutional innovation**

During the construction of GBA, Hong Kong is positioned as one of the four core cities and the three growth

pillars. Combining traditional advantage such as the world's leading financial center, and the new advantage such as international innovation and technology hub, Hong Kong will not only enhance economic vitality but also promote the construction of GBA.

Firstly, Hong Kong's traditional advantages could provide high-level financial support to the construction of GBA. The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area aims to consolidate and enhance Hong Kong's position as international finance, transportation and trade centers, strengthen its functions as a global offshore RMB business hub, international asset management center and risk management center. The plan also supports Hong Kong to build a green finance center and establish internationally recognized green bond certification institutions in GBA, which will help further develop Hong Kong's financial industry.

Hong Kong's professional services industry is highly developed, which is highlighted by its advantageous international financial center, transportation hub, trade center and aviation hub. Core competitiveness of Hong Kong's service industry is manifest in its status as an international financial center, which enables Hong Kong to play an active role in promoting the coordinated development of the Greater Bay Area. GBA has a solid foundation for cross-border financing. At present, total assets of Guangdong, Hong Kong and Macau's banking sector exceed 42.7 trillion yuan, with bank deposits totaling US\$ 4.7 trillion, both exceeding the New York Bay Area and the San Francisco Bay Area. Twelve Hong Kong-funded banks have established more than 180 branches in Guangdong, while Guangdong-funded banks have more than 80 business networks in Hong Kong. In addition, there are nearly 200 companies from Guangdong listed on the Hong Kong stock market, the most among all provinces and cities. The scale of cross-border financial services in GBA keeps rising, and Guangdong's cross-border RMB receipts and payments account for about a quarter of the national total. According to McKinsey's forecast, by 2025, the overall banking profit of "Pearl River Delta + Hong Kong" can reach HK\$ 1.44 trillion, surpassing Tokyo and New York and becoming the highest in the world.

The construction of GBA will promote trade and cross-border economic activities between Guangdong and Hong Kong, enabling Hong Kong to expand its traditional financial services to GBA city cluster. The rapidly rising demands for cross-border financial services by enterprises and residents will bring a steady stream of business opportunities for the financial industry within the GBA. By leveraging the "one country, two systems" and its unique advantages, Hong Kong will provide investment and financing services for the advanced manufacturing industry in the region, and enhance the overall capacity of industrial division and cooperation.

Secondly, the blueprint proposes to leverage Hong Kong's advantages in intellectual property protection and professional services, and to develop Hong Kong into an international innovation and technology hub. In the future, the government will promote the construction of "Guangzhou-Shenzhen-Hong Kong-Macau" Science and Technology Innovation Corridor, build a big data center and international innovation platform in the GBA, support the construction of the Hong Kong-Shenzhen I&T Park at the Lok Ma Chau Loop and the adjacent Science and Technology Park. The construction of the Greater Bay Area into an international science and technology innovation hub will help cultivate a number of world-class industrial clusters, and eventually provide support for China's economic innovation.

The construction of the GBA city cluster will provide Hong Kong with a new opportunity to better integrate into the overall development of the country. The HKSAR government has seized the opportunity of the Belt and Road Initiative and the Greater Bay Area development, established a Working Committee for GBA development, to further consolidate and enhance Hong Kong's status as an international financial, transportation and trading center, and to inject new impetus into the long-term development of its economy.