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Trends on Financial Connectivity in the Greater Bay Area

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After eight years of development, the connectivity of financial markets in the Greater Bay Area has reached a certain scale, which has played an important role in the integrated development of Guangdong, Hong Kong and Macao. Since the beginning of this year, the central government and Guangdong Province have introduced a series of policies to promote the connectivity of financial markets in the Greater Bay Area. The Hong Kong government will also take measures to further promote the connectivity between the two places, including Talent Admission Scheme, Insurance Connect, Bond Connect, Stock Connect, Wealth Management Connect, etc. This article analyzes the status quo of economic and financial development in the Greater Bay Area and the development of financial market connectivity, summarizes the recent policies and measures of the Hong Kong government, and points out four development trends in the connectivity of the Greater Bay Area (GBA).

I. Overview of the Economic and Financial Development of the GBA

The GBA leads the country in terms of its level of economic development. In the first half of 2022, the GBA's nominal Gross Domestic Product (GDP) reached to RMB 5.89 trillion with a combined population of approximately 70 million. By the end of 2021, the region's nominal GDP was about RMB12.6 trillion, an increase

Figure 1. GDP and its Growth Rate of the GBA (2011-2022H1)



Source: Wind, Hong Kong Financial Research Institute of Bank of China.

of 23.5 percent over 2017. In 2021, the GBA had evolved into the second largest Bay Area around the globe in terms of GDP, and the market forecasts that it will become the largest Bay Area in the world in the next few years. With only less than 0.6% of the land of the country, the GBA produces 11% of the China's GDP. The total GDP of the GBA exceeds that of South Korea (RMB 11.5 trillion), Russia (RMB 11.4 trillion) and Brazil (RMB 11.2 trillion). The GBA is home to 24 Fortune 500 companies and 62 unicorns this year, making it one of the most dynamic and prospect regional economies around the globe.

Superior power of the financial industry is an important attribute that helps maintain the GBA's competitive edge. In 2021, the added value of the financial sector in the GBA exceeded RMB1.5 trillion, accounting for about 10% of the region's GDP, an increase of about 35% compared with 2018. The cumulative cross-border RMB trade settlement in the GBA has exceeded RMB21 trillion, and the RMB has continued to be the largest settlement currency in the GBA since 2020.¹ In the 32nd edition of the Global Financial Centres Index (GFCI, 22 September 2022), Hong Kong ranked in fourth place and continued to maintain its position as an international financial centre, where Shenzhen and Guangzhou ranked in 9th and 25th respectively. This unprecedented achievement reveals that the major cities in the GBA are making significant progress in the development of financial industry.²

II. Review of the Development of Financial Connectivity in the GBA

Through years of cooperation and development, financial connectivity in the GBA has deepened. In addition to the mutual access of the stock market, the cross-border financial connectivity has expanded to many capital products such as the issuance and trade of bonds and equities. This is of great significance to the cooperation among Guangdong, Hong Kong, and Macao. On the one hand, the cooperation would help consolidate Hong Kong's status as an international financial center; on the other hand, it would help promote the internationalization of RMB.

1) Deepening financial connectivity among Guangdong, Hong Kong, and Macao

First, the Shenzhen-Hong Kong Stock Connect has been expanding in scope. Stock market connectivity between the Mainland and Hong Kong has been further deepened. The biotechnology companies listed in Hong Kong have already been included and available for trading via the cross-border scheme. In the past three years, the Shenzhen-Hong Kong Stock Connect has seen a total revenue of RMB41.2 trillion, including RMB19 trillion in 2021, up 32.5 percent year on year. In October 2020, the Shenzhen-Hong Kong ETF exchange was officially launched. In 2022, the Shenzhen-Hong Kong ETF will be included as the subject of connectivity, and the connectivity mechanism between Guangdong and Hong Kong markets will continue to be upgraded.³

Second, the Bond Connect has been entitled to function in a two-way mode. The Northbound of the Bond Connect was officially launched in July 2017, allowing overseas investors to access the Mainland bond market via Hong Kong, while the Southbound was officially available in 2021. Data from Shanghai Clearing House showed that by the end of July 2022, institutional investors had managed 339 southbound bonds through the financial infrastructure connectivity model, with a balance of RMB224.11 billion, up 155% month-on-month.⁴

Third, the pilot of the Wealth Management Connect has launched in 2021. At present, participants include 27 banks in the Mainland, 24 in Hong Kong, and 9 in Macao. According to the data released by the People's Bank of China Guangzhou Branch, as of October 31, 2022, a total of 38,406 individual investors in the GBA participated in the pilot, including 26,936 investors from Hong Kong and Macao and 11,470 from the Mainland who completed a total of 14,629 cross-border capital transfers with an amount of RMB1.734 billion. The transaction amount of "Cross-border Financial Connect" between the jurisdictions of Guangzhou region (including Guangzhou, Dongguan, Foshan, Zhuhai, Jiangmen, Zhongshan, Huizhou and Zhaoqing, the same below) and Hong Kong and Macao is RMB127 million, accounting for 71.67% of the total allowance under the scheme, of which northbound transactions account for 9.33%, and southbound transactions account for 90.67%.⁵ As of 24:00 on October 30, 2022, the Southbound Wealth Management Connect had a net outflow of RMB275.1509 million, and the amount used was RMB275.1509 million or about 0.18%. The southbound financial connect has a net inflow of 313,289,600, and the amount used is 313,289,600 (0.21%).⁶

¹ Guangdong-Hong Kong-Macao Greater Bay Area's financial "three-year report card" highlights frequently <https://3g.163.com/dy/article/HB77F59L05129QAF.html>

² The 32nd Global Financial Centers Index Report (GFCI 32)

³ Guangdong-Hong Kong-Macao Greater Bay Area's financial "three-year report card" highlights frequently <https://3g.163.com/dy/article/HB77F59L05129QAF.html>

⁴ <https://www.shclearing.com.cn/>

⁵ People's Bank of China Guangzhou Branch <http://guangzhou.pbc.gov.cn/guangzhou/129196/4332364/4332376/4714129/index.html>

⁶ People's Bank of China Guangzhou Branch <http://guangzhou.pbc.gov.cn/guangzhou/129196/4332364/index.html>

Fourth, the implementation of the QFLP policy in the GBA has enriched the channels for financial connectivity. Through the QFLP pilot program, major cities in the GBA have greatly encouraged overseas capital from Hong Kong, Macao and other countries to set up cross-border private equity investment funds. By the end of 2021, more than 210 private equity institutions have been approved as QFLP pilots in Guangdong. In March 2021, the QDLP pilot project was expanded from Shenzhen to 9 mainland cities in the GBA, establishing a “two-way” channel for cross-border investment of private funds in the GBA. At present, about 70 institutions in the 9 mainland cities in the GBA have been approved for relevant pilot projects.⁷

Fifth, Shenzhen and Hong Kong venture capital linkage development, private equity funds through the line. The Hong Kong Government and the Qianhai Authority jointly issued 18 new measures to “support the integrated development of venture capital in Qianhai, Shenzhen and Hong Kong”, the core of which is the connectivity of private equity funds between Hong Kong and the Mainland. Hong Kong is the center of private equity in the Asia-Pacific region, and Shenzhen is an important center of scientific and technological innovation in China. The interconnected development of Shenzhen and Hong Kong will help cultivate more unicorns and build a scientific and technological innovation ecosystem in Shenzhen and Hong Kong.

2) Financial connectivity has significantly deepened the financial cooperation in the GBA

On the one hand, financial connectivity in the GBA is conducive to further consolidating Hong Kong’s status as an international financial centre. As an international financial center, Hong Kong has contributed a lot to deepening the reform of the Mainland’s financial system and promoting its financial opening-up. Financial connectivity is a major measure to gradually open up the domestic financial market and satisfy the investment aspirations of domestic and foreign investors while fully leveraging Hong Kong’s advantages as an international financial center. After eight years of practice, financial connectivity has achieved fruitful results. Through Stock Connect and Cross-border Wealth Management Connect, domestic individual investors can invest in overseas assets, enriching the wealth management channels of domestic residents; through Bond Connect, foreign institutional investors can be attracted to invest in the domestic bond market. The financial connectivity of the GBA has also strengthened the financial cooperation between the two places and ensured that cross-border funds flow within a controllable range.

On the other hand, financial connectivity in the GBA will help promote the internationalization of the RMB. China has achieved good results in the reform and development of its financial sector in recent years, and the international influence of the RMB has been on the rise. But compared with other major global currencies, there is still room for the RMB’s global use to improve. Financial connectivity in the GBA is of great significance to promoting the internationalization of the RMB. The financial connectivity of the GBA is conducive to giving play to the advantages of Hong Kong as an international financial center and an offshore RMB center, driving the two regional financial centers, Shenzhen and Guangzhou, and thus driving the integrated development of the entire GBA, promoting the internationalization of RMB and expanding the role of the offshore RMB market for the markets in the Belt and Road Initiatives.

III. Hong Kong Actively Participates in Connecting the Greater Bay Area

The Chief Executive of the Hong Kong Special Administrative Region (HKSAR), John Lee, delivered the first Policy Address of his new administration on October 19, 2022. The Policy Address demonstrates the government’s priorities on its policy agenda as the new administration has commenced since July 1. The Hong Kong government pledges to take a series of actions to enhance the city’s connectivity with the GBA, which was mentioned 48 times and making it one of the most popular words in the document. Talent Admission Scheme: Keep the Greater Bay Area Youth Employment Scheme on a regular basis to encourage enterprises recruiting post-university graduates to work in the Greater Bay Area. Insurance Connect: Establish insurance after-sales service centres in Nansha and Qianhai in the near future to provide support services for the residents in the GBA who have bought insurance from Hong Kong. This is also an important step towards mutual market access in the GBA. Bond Connect: Explore enhancements to the Southbound Trading of Bond Connect by facilitating the issuance and trading of more diversified “dim sum” bonds and continue the discussion with the Mainland on further expansion of mutual market access. Stock Connect: Enhance the RMB stock trading mechanism by exempting the stamp duty payable for transactions conducted by dual-counter market makers. Wealth Management Connect: Facilitate cross-boundary investment by individual residents of the GBA, and is therefore an investment channel and asset allocation choices for residents in the area and opens up a broader market for the financial and relevant professional sectors, bringing enormous business opportunities.

⁷ The integrated construction of the capital market in the Greater Bay Area is accelerating, and financial interconnection is advancing in depth https://finance.sina.com.cn/tech/roll/2022-09-01/doc-imizmsev8586274.shtml?finpagefr=p_114

IV. Trends of Connectivity Development in the GBA

Based on the above analysis of the economic and financial status quo of the GBA and the financial connectivity development status of the GBA, it can be seen that after eight years of development, the financial connectivity of the GBA has reached a certain scale, playing an irreplaceable role in the development of Guangdong, Hong Kong and Macao. In light of the highlights and current status of connectivity in the Policy Address, this paper proposes four trends in the development of connectivity in the GBA:

1) Implementation of cross-boundary insurance pilot in GBA cities

Cross-border insurance cooperation is the latest direction of financial connectivity between Hong Kong and the Mainland. In accordance with the Policy Address and the Financial Support for the Development of the Guangdong-Hong Kong-Macao GBA, the central government will encourage the insurance industry in Hong Kong and Macao to set up insurance after-sales service centres in the Mainland of the GBA under the CEPA Framework”, strive to submit proposals for joint ventures with the Hong Kong side to the China Banking and Insurance Regulatory Commission (CBIRC), and adopt more flexible ways of cooperation. According to the preliminary plan formulated by the CBIRC, Nansha intends to set up an insurance after-sales service center in Qianhai and Nansha. So far, Nansha has submitted a proposal to the CBIRC and obtained preliminary approval. Nansha and Hong Kong Federation of Insurers jointly invest and establish a company, and then hold a physical after-sales service center in Nansha.

2) Cross-border finance is expected to expand further

First, it is suggested that the Mainland regulatory authorities further broaden the depth and breadth of the “Cross-Border Wealth Management Connect” to better match the diversified investment needs of the GBA residents. Explore the expansion of cross-border financial Connect to first-tier cities, such as Beijing and Shanghai, to meet the needs of local residents for cross-border financial management. Second, to actively explore a joint cross-border asset management cooperation mechanism, actively promote cooperation among financial institutions of the three GBAs in the overseas issuance of RMB-denominated bonds, stocks, funds and insurance, and encourage the governments of mainland cities in the GBA to issue bonds in Hong Kong. Third, we will encourage mainland regulatory authorities to promote financial opening-up and improve cross-border investment and financing systems, and actively promote QFLP and other cross-border investment plans.

3) Cooperation between Hong Kong and the Free Trade Zones will be further strengthened

The Qianhai, Nansha and Hengqin Free Trade Zones in the GBA are important breakthroughs in breaking barriers to the free flow of factors of production between Hong Kong, Macao and the Mainland. The central government has given the zone more flexible policies and fewer restrictions. The Nansha Plan released in June 2022, the Hengqin Plan, the Qianhai Plan and the Northern Metropolitan Area released in the second half of 2021 will accelerate the integration of the GBA through institutional innovation. The Hengqin Plan supports in-depth cooperation between Guangdong and Macao to build Hengqin, and features convergence of rules, cross-border cooperation and financial facilitation to promote the appropriately diversified development of Macao’s economy.”Qianhai Plan” promotes the accelerated flow of key factors such as talent, capital, technology and data, and accelerates the establishment of a modern service industry system connecting Qianhai with Hong Kong, Macao and the world. By promoting Hong Kong-Shenzhen scientific and technological innovation cooperation, the “Northern Metropolitan Area Plan” will build itself into an international scientific and technological innovation center from the perspectives of land, infrastructure and industry. It is possible to explore the formation of innovation cooperation between Guangdong, Hong Kong and Macao. The Hong Kong innovation carrier is responsible for connecting international resources, introducing front-end projects and initial incubation, while Nansha, Qianhai and Hengqin cooperation Zones are responsible for accelerating and industrializing the incubation of graduate enterprises, so as to drive high-quality development through innovation and breakthrough.

4) Hong Kong’s financial services will promote the innovation and technology in GBA

With the further integration of Guangdong, Hong Kong, and Macao, the GBA is expected to promote the high-quality development of strategic industries in the future by deepening innovation capabilities, upgrading talents, and strengthening the synergy of innovation mechanisms. In his Policy Address, the Chief Executive proposed the establishment of the Hong Kong Investment Management Company Limited to pool relevant resources and provide government-led investment in strategic industries to attract and facilitate the development of more enterprises in Hong Kong. The Hong Kong government may consider to jointly establishing a Science and Innovation Fund with major enterprises in the GBA to foster quality enterprises in the Bay Area and foster new strategic industries. To channel various types of funds into industrial development and technological the Hong Kong government will be able to initiate and boost industrial transformation, upgrading and technological progress in the GBA.

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主要經濟指標 (Key Economic Indicators)

	2020	2021	2022/Q2	2022/Q3
一. 本地生產總值 GDP				
總量 (億元) GDP(\$100 Million)	26,757	28,454	6,681	6,899
升幅 (%) Change(%)	-6.5	6.3	-1.3	-4.5
二. 對外貿易 External Trade			2022/10	2022/01-10
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	39,275	49,607	3,747	38,248
進口 Total imports	42,698	53,078	3,955	41,403
貿易差額 Trade balance	-3,422	-3,471	-209	-3,155
年增長率 (%) YOY Growth(%)				
總出口 Total exports	-1.5	26.3	-10.4	-4.4
進口 Imports	-3.3	24.3	-11.9	-3.7
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	0.3	1.6	1.8	1.9
四. 樓宇買賣 Sale & Purchase of Building Units			2022/11	2022/01-11
合約宗數 (宗) No. of agreements	73,322	96,133	3,713	56,054
年升幅 (%) Change(%)	-2.0	31.1	-48.7	-37.1
五. 勞動就業 Employment			2022/07-2022/09	2022/08-2022/10
失業人數 (萬人) Unemployed(ten thousands)	259.1	250.9	15.5	14.7
失業率 (%) Unemployment rate(%)	5.5	5.5	3.9	3.8
就業不足率 (%) Underemployment rate(%)	3.1	2.7	1.8	1.7
六. 零售市場 Retail Market			2022/10	2022/01-10
零售額升幅 (%) Change in value of total sales(%)	-24.3	8.1	3.9	-0.7
零售量升幅 (%) Change in volume of total sales(%)	-25.5	6.5	2.4	-3.5
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	356.9	9.1	8.1	33.0
年升幅 (%) Change(%)	-93.6	-97.4	760.9	355.7
八. 金融市場 Financial Market			2022/09	2022/10
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	775.2	779.8	785.1	785
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	30.1	8.0	-15.3	-18.0
M2	5.8	4.3	1.6	1.2
M3	5.8	4.3	1.6	1.2
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	5.4	4.6	1.9	1.4
港元存款 In HK\$	6.2	1.4	-1.4	-2.8
外幣存款 In foreign currency	4.6	7.9	5.1	5.5
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	1.2	3.8	-1.8	-2.7
當地放款 use in HK	1.7	4.7	0.3	-0.5
海外放款 use outside HK	0.1	1.7	-6.9	-8.0
貿易有關放款 Trade financing	-6.2	14.2	-14.9	-17.8
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.1250	5.1250
恆生指數 Hang Seng index	27,231	23,398	17,223	14,687