



Keys to success in the Greater Bay Area

*Third annual survey on
drivers for growth*



2020

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Foreword

The development of the Greater Bay Area (GBA) into a world-class city cluster by means of deepening reform, prioritising innovation and accelerating connectivity gained considerable momentum in 2019. Since our second annual GBA survey was published in October 2018, businesses and government have invested significant resources to promote and realise opportunities in the cross-border area, which comprises nine mainland cities in Guangdong Province and the two SARs of Hong Kong and Macau.

The cornerstone of efforts to ensure the ambitious vision becomes a reality is the Outline Development Plan blueprint, which was released in February 2019 by the central government. The document commences a new phase of economic and social integration for the Pearl River Delta as focus on the GBA intensifies. A host of other measures have also been unveiled over the year, including the introduction of tax measures and the facilitating of electronic payments and the remote opening of bank accounts.

The region is also being more physically connected, with the opening of two huge infrastructure projects – the Hong Kong-Zhuhai-Macau Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link – further enabling cross-border commuting, working and living.

To gauge the latest business opinions regarding the opportunities and challenges in the region, KPMG China, HSBC and the Hong Kong General Chamber of Commerce commissioned a survey of 747 senior executives based in the GBA and from a range of sectors. The results indicate firms are bullish about both their own and the region's prospects as a whole, and most are planning to expand outside of their home city to other areas within the GBA. The technology and innovation sector is expected to benefit most from the development of the region, with most firms in this industry aiming to take advantage of the deep pool of talent the GBA offers. Financial services and trade and logistics complete the top three sectors seen as major beneficiaries of the GBA initiative.

We hope you find this report interesting and insightful; we would like to thank all the survey respondents for taking the time to provide their input, and the executives who kindly agreed to be interviewed.



Ayesha Lau

Managing Partner, Hong Kong
KPMG China



Terence Chiu

Head of Commercial Banking, Hong Kong
HSBC



Pang-chun Yu

Convenor of the GBA Working Group
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About the survey

For this report, KPMG China, HSBC and HKGCC commissioned YouGov to conduct a survey of 747 business executives in mainland China, Hong Kong and Macau. Almost two thirds (64 percent) of respondents identified as either C-suite or senior management.

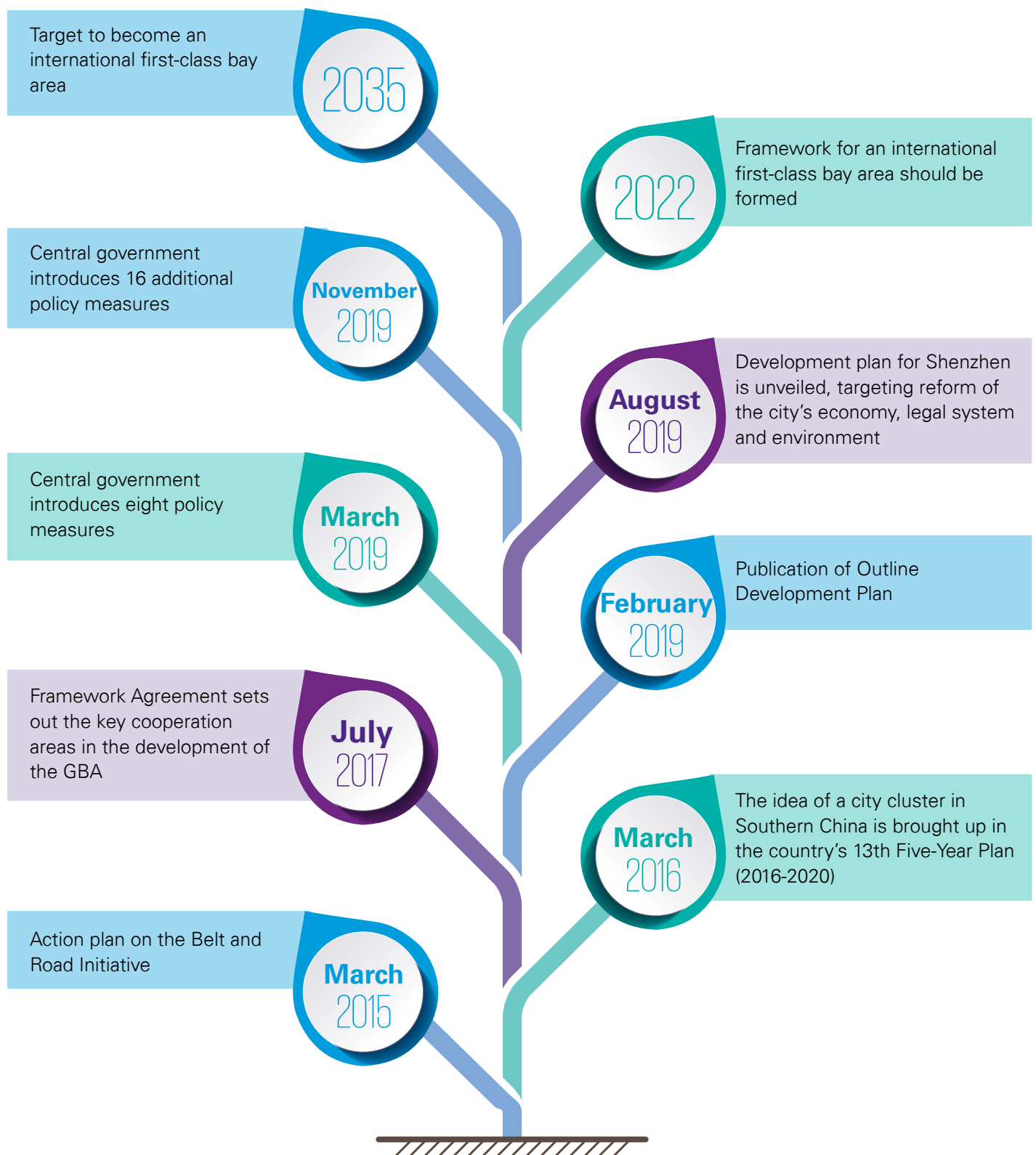
The survey was conducted from July to September 2019. Some 496 respondents (66 percent) are from companies whose principal base of operation is in Hong Kong; 13 (2 percent) are from Macau; 57 (8 percent) from Shenzhen; 34 (5 percent) from Guangzhou; 41 (5 percent) from other GBA cities in mainland China; and 106 (14 percent) from outside the GBA in mainland China.

The business executives are from a wide range of industries, including 185 companies from financial services, 98 from professional services, 89 from manufacturing, 85 from trade and logistics, 57 from technology and innovation, 50 from real estate, 32 from healthcare/life sciences, and 32 from retail.

Among the respondents who disclosed the turnover of their companies, 224 work for companies with annual revenues of more than USD 100 million, and 163 work for companies with annual revenues of between USD 10 million and USD 100 million. The rest work for companies with revenues of between USD 2 million and USD 10 million (108) and USD 2 million or less (83).



Timeline of the GBA's development



Overview

The Greater Bay Area (GBA) initiative is an ambitious scheme to link the nine cities in Guangdong's Pearl River Delta, Hong Kong and Macau into an integrated economy and world-class business hub. Leveraging each city's individual strengths, the project will oversee improved transport infrastructure, the creation of an international innovation and technology centre, and the development of a globally competitive modern industrial system, while promoting the free flow of people, goods, capital and information within the region.¹

The initiative starts from a strong base. Although the GBA covers less than 1 percent of China's land area and is home to 71.2 million people – only around 5 percent of China's total population² – the combined GDP of the region's 11 cities totalled USD 1,641.97 billion in 2018, equivalent to 12 percent of GDP for the whole of mainland China.³

The past 12 months have seen a number of significant developments for the GBA initiative. In February 2019, the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area⁴ was published, setting out the central government's vision for the project. The main focus of development between now and 2022 will be increasing cooperation between the GBA cities through improving infrastructure and having each city adopt a complementary role. The upgrading of traditional industries into high-end manufacturers will also begin, alongside continued economic opening up and increased financial connectivity between Hong Kong and the other GBA cities. The central government has set the goal for the GBA to be an international first-class bay area with an integrated economy and strong focus on technology by 2035.

¹ Greater Bay Area Overview, Constitutional and Mainland Affairs Bureau, February 2019, <https://www.bayarea.gov.hk/en/about/overview.html>

² Statistics of the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong Trade Development Council, June 2019, <http://hong-kong-economy-research.hktdc.com/business-news/article/Guangdong-Hong-Kong-Macao-Greater-Bay-Area/Statistics-of-the-Guangdong-Hong-Kong-Macao-Greater-Bay-Area/bayarea/en/1/1X498Z5Y/1X0AE3Q1.htm>

³ Hong Kong's Role in the Guangdong-Hong Kong-Macao Greater Bay Area, Presentation by Hong Kong Chief Executive Carrie Lam in Tokyo, Japan, April 2019, <https://www.bayarea.gov.hk/filemanager/en/share/pdf/gba-symposium-tokyo.pdf>

⁴ Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, Constitutional and Mainland Affairs Bureau, February 18, 2019, https://www.bayarea.gov.hk/filemanager/en/share/pdf/Outline_Development_Plan.pdf

To leverage the existing strengths of the four core cities of Hong Kong, Macau, Shenzhen and Guangzhou, each city has been assigned focus areas. Hong Kong will act as an international financial, transportation and trade centre, developing its role as an aviation hub, offshore renminbi centre and international asset management and risk management centre. It will also be involved in the development of innovation and technology industries, and act as a centre for international legal and dispute resolution services. Shenzhen will leverage on its status as a special economic zone and innovation city to become a global innovation and creativity hub. Macau will focus on tourism and leisure, as well as acting as a trade platform between China and Lusophone countries. Guangzhou will build on its current function as a national core city, and act as an international commerce and industry centre and integrated transport hub in the GBA.

In addition, an industrial belt for advanced equipment manufacturing will be developed on the west bank of the Pearl River, centred around the cities of Zhuhai and Foshan. A cluster of high-end manufacturing industries, such as electronic communications, will be located on the east bank with Shenzhen and Dongguan at its core.

A number of infrastructure goals have also been announced, including developing a world-class airport cluster in the region, as well as building inter-city high speed rail links and motorways to improve connectivity both within the GBA and beyond it. A further two bridges across the Pearl River Delta will also be constructed to reduce travelling times within the region. The GBA initiative places a strong focus on the environment, with a particular emphasis on ecological conservation and green and low-carbon development models.

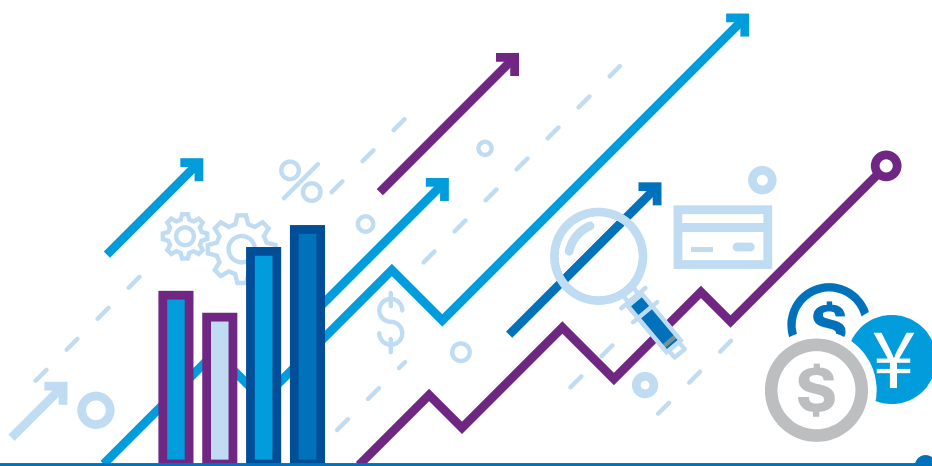
The publication of the Outline Development Plan was followed by eight further policy measures in March. These included tax subsidies for Hong Kong and overseas high-end talents working in mainland GBA cities to offset higher individual income tax rates, and customs reforms.

In November, an additional 16 policies were announced, many of which make it easier for Hong Kong residents to live and work in mainland GBA cities.⁵ They include measures to facilitate Hong Kong residents' purchase of property in the nine mainland cities, and for the children of Hong Kong and Macau residents working in Guangdong province to have the same access to education as local children. There were also further moves to promote financial services within the GBA, including establishing a cross-border wealth management scheme.

As government and businesses concentrate their focus on the region, interest is building among mainland Chinese, Hong Kong and international investors. In the Growth chapter we examine why businesses across a host of sectors are upbeat about both their own prospects and the future of the region.

⁵ HKSAR Chief Executive attends meeting of Leading Group for Development of Guangdong-Hong Kong-Macao Greater Bay Area, November 2019, <https://www.info.gov.hk/gia/general/201911/06/P2019110600764.htm>

Growth

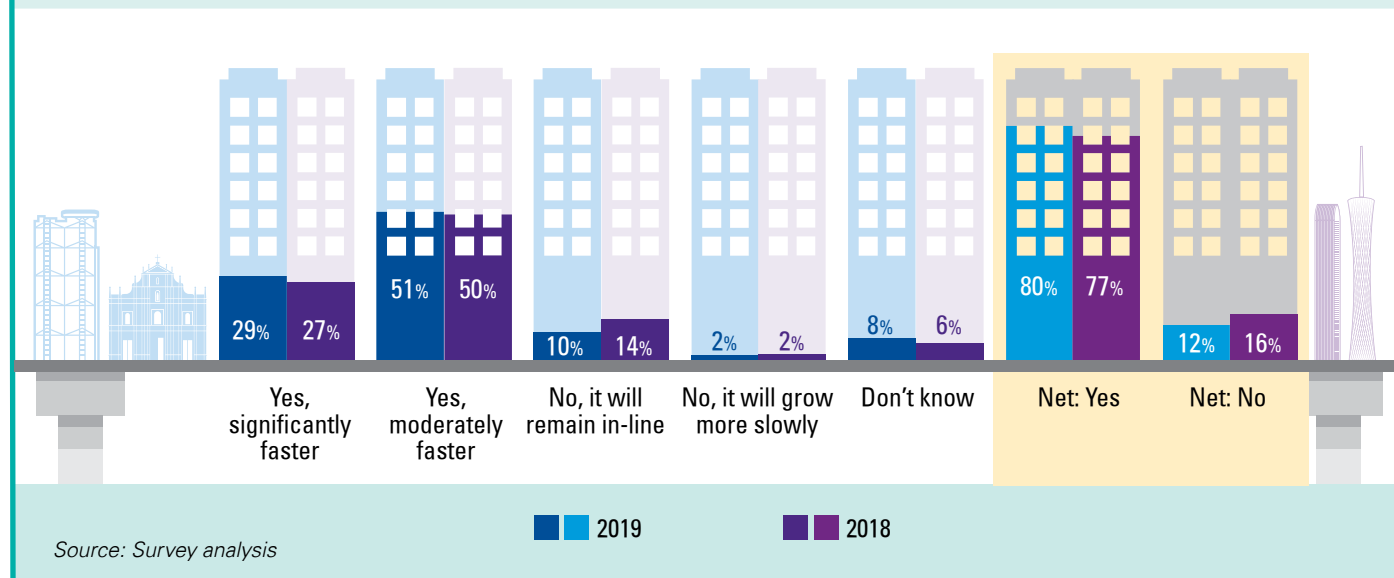


Companies across a range of sectors are bullish about the GBA's economic prospects, as increased connectivity and government incentives will help drive growth in the region. Realising the GBA's potential will not be without its challenges, however the goal of a dynamic economy – powered by innovation and acting as a gateway both internationally and to the rest of China – is now clearer than ever.

Four fifths of companies we surveyed expect the GBA's economy to grow faster than that of the rest of mainland China in the three years ahead, slightly higher than the 2018 survey results (see Figure 1.1). Businesses that have their primary base of operation in one of the nine GBA cities in mainland China are particularly optimistic: 89 percent expect economic growth in the GBA to be faster than that of the rest of the country, while 48 per cent predict it will be significantly faster. Firms based in Hong Kong are relatively more cautious, with 78 percent expecting the GBA to have higher growth than that of the rest of China and 24 percent expecting significantly higher growth. Sentiment among firms based in Macau is more mixed; while 85 percent anticipate higher growth in the region than in mainland China as a whole, just 8 percent think it will be significantly higher.

Figure 1.1 Will the GBA grow faster than the rest of China

(Over the next three years)





**Collaboration
is an important
part of the GBA
initiative, and the
region can grow**

**much faster if full advantage
is taken of each city's
specialisation and economies
of scale are created.**

Ayesha Lau

*Managing Partner, Hong Kong
KPMG China*

Technology and innovation firms are upbeat about the GBA's prospects, with 81 percent predicting growth in the region will outstrip the rest of China. Chris Birdsong, Asia Pacific Chief Executive Officer at engineering and design company Atkins, is not surprised by the level of optimism among companies about the region's prospects, pointing out that the GBA has all the right elements. "It is not a completely joined-up area as yet, therefore the potential is huge," he says. "The idea of talking and promoting it as the GBA sets in people's minds what the art of the possible is."

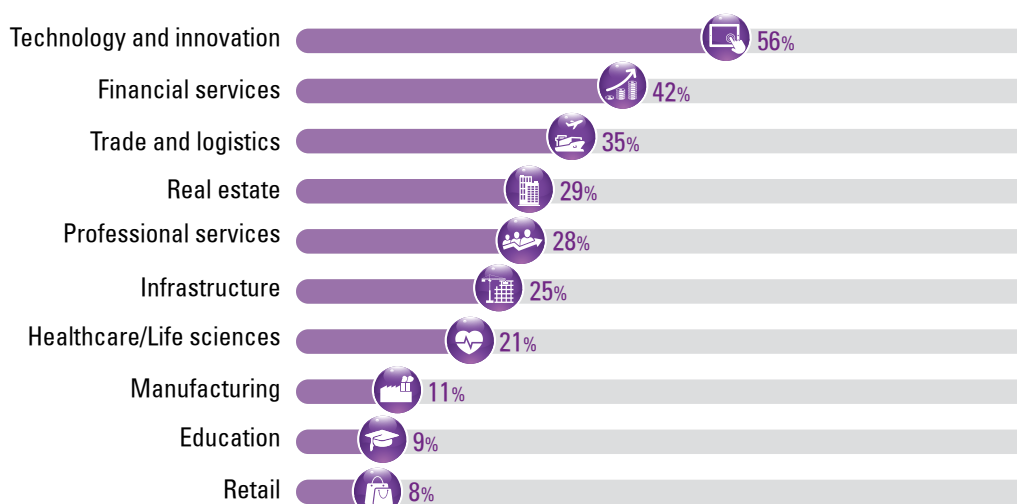
Companies in the real estate sector are among the most optimistic about the GBA's economic outlook, with 92 percent expecting growth to exceed that of the rest of China, followed by conglomerates at 88 percent and financial services firms at 84 percent.

Alan Yau, Partner and Head of Real Estate, Hong Kong, at KPMG China, explains that there are significant opportunities for real estate companies to grow in GBA cities outside of the four core cities of Hong Kong, Shenzhen, Guangzhou and Macau. "Given the connectivity within the region with the high-speed railway and the new bridge, which have reduced commuting times, this has created the possibility of people living in Zhuhai and working in Hong Kong. So, there is a lot of real estate potential for commercial and residential projects." He adds that the region's population is expected to grow substantially by 2030, further driving demand for commercial and residential property.

The survey highlights three key sector beneficiaries of the development of the GBA: technology and innovation, financial services, and trade and logistics, reflecting the findings of the 2018 survey. The technology and innovation sector is seen as the top beneficiary of the region's development, cited by 56 percent of survey respondents (see Figure 1.2).

Figure 1.2 Sectors to benefit most from GBA development

(Respondents asked to cite top three - by sector)



Source: Survey analysis



The development of the GBA has the unique potential to combine the complementary strengths of the four core cities and enable businesses to access all of the opportunities the region offers.

Ricky Wong

Senior Partner, Southern Region
KPMG China

This finding reflects the goal set out in the Outline Development Plan for the GBA to become a world-class technology and innovation hub, with the sector set to benefit from the infrastructure and incentives being put in place to achieve this aim. For example, the development of the Lok Ma Chau Loop into the Hong Kong-Shenzhen Innovation and Technology Park will provide a dedicated space of 87 hectares for start-ups and technology companies. Shenzhen has already been designated a national innovation city, and the central government's reform programme for the city released in August 2019 envisages Shenzhen strengthening its position as a hub for international tech companies, helping transform the region into a pioneer for mainland China's development. Indeed, more than six in 10 companies (61 percent) based in the nine mainland GBA cities see technology and innovation as the sector to benefit most.

Likewise, almost half (42 percent) of respondents overall expect financial services to be a major beneficiary of the development, with 67 percent of respondents in this sector agreeing. The Outline Development Plan sets out a wide range of initiatives for financial services, including allowing the cross-boundary sale of financial products, such as insurance and investment funds, expanding the cross-border use of the renminbi and establishing fintech and insurtech hubs within the region. While the Outline Development Plan expects Hong Kong to enhance its status as an international finance hub, more companies based in the nine mainland GBA cities (46 percent) than those based in Hong Kong (41 percent) expect financial services to be the biggest beneficiary of the GBA's development.

The trade and logistics sector completes the top three industries expected to benefit most from the initiative, cited by 35 percent of survey respondents overall, rising to 58 percent among companies in the industry. Firms in this sector not only stand to benefit from the improved infrastructure both within the GBA and connecting it to major cities elsewhere in mainland China and beyond; as more companies within the GBA move up the manufacturing value chain due to the initiative's focus on innovation, there will be a corresponding rise in the import of component parts needed for production. The region's focus on high-end manufacturing is also expected to lead to an increase in products being moved out of the region for sale domestically and internationally, creating further opportunities for the sector.

Figure 1.3 Sectors to benefit most from GBA development

(By year)



Source: Survey analysis



The scale of the GBA initiative, the increased connectivity and the region's large and growing population will create opportunities for different sized companies across a range of sectors.

Terence Chiu

Head of Commercial Banking
Hong Kong
HSBC

Overall, broadly the same three sectors – technology and innovation, financial services, and trade and logistics – were identified as being the main beneficiaries of the GBA initiative in the 2017 and 2018 editions of the survey (see Figure 1.3).

Across other sectors, businesses are optimistic about the benefits of the GBA. Those in real estate, infrastructure, education, healthcare/life sciences and professional services all consider their own sector to be one of the initiative's top three beneficiaries. Real estate in particular is seeing considerable potential for new residential and commercial projects. The increased connectivity of the region and new policy announcements to facilitate Hong Kong residents buying property in the mainland will increase demand, as will the forecast growth of the region in the 2020s.

Survey respondents overall considered retail to be the sector least likely to benefit. Shopping habits in mainland China are changing and e-commerce platforms are also proving to be major disrupters for traditional retail businesses. Along with retail, manufacturing is the only sector which does not consider itself among the prime beneficiaries of the development of the GBA. The industry has long been a foundation of the region's economy. However, the GBA is now becoming a centre for high-value, high-tech manufacturing. Low cost manufacturing is increasingly migrating to low cost destinations in Southeast Asia such as Vietnam, and this trend is only being accelerated by US-China trade tensions.

Figure 1.4 Expected business revenue growth in the GBA

(Over the next three years - by location)

	Overall	Hong Kong SAR	Macau SAR	9 Mainland GBA cities	Non-GBA cities in Mainland
30% or more	23%	20%	15%	40%	21%
20%-29%	32%	31%	54%	36%	28%
Less than 20%	40%	44%	31%	21%	44%
Business revenue will decrease	4%	4%	N/A	3%	7%

Source: Survey analysis





The region is comparable to Australia or South Korea in terms of the size of its economy, while its population of more than 70 million people means it represents a huge market for companies in Hong Kong, particularly SMEs.

Pang-chun Yu
Convenor of the GBA
Working Group
HKGCC

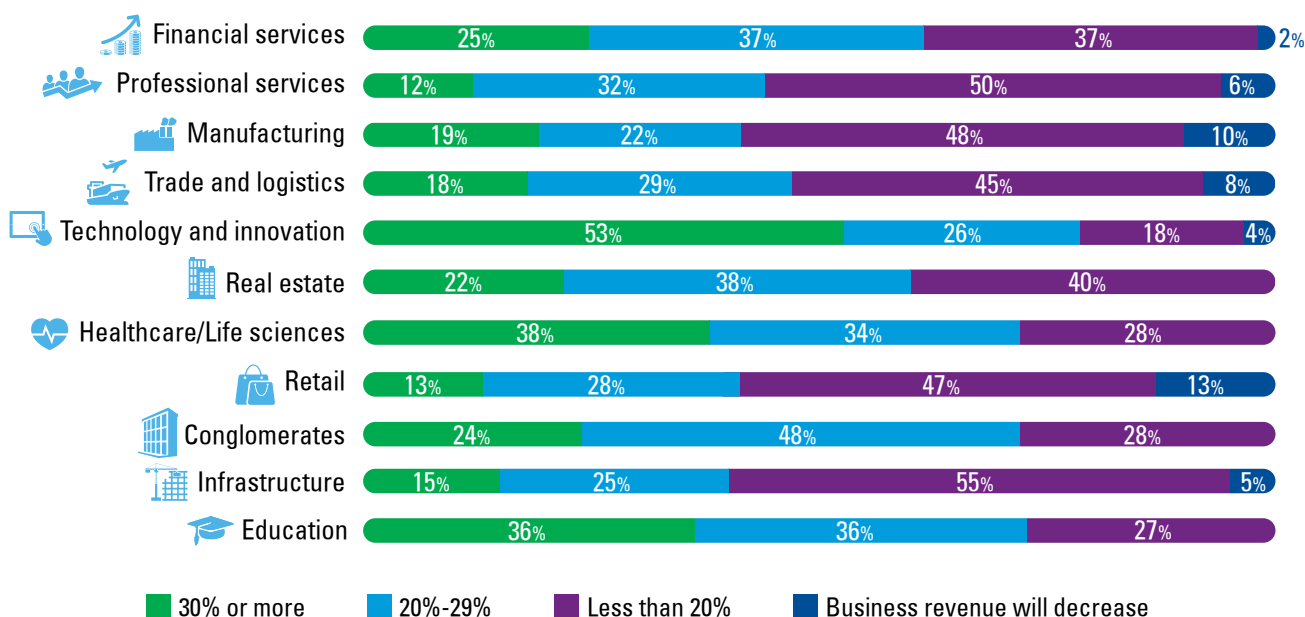
Companies anticipate the GBA's development will enable them to achieve strong revenue growth, with 56 percent of businesses surveyed expecting an uptick of more than 20 percent during the coming three years, 23 percent of which think revenue growth will exceed 30 percent (see Figure 1.4). Companies based in one of the nine GBA cities in mainland China are most optimistic with 40 percent anticipating growth of 30 percent or more, compared with 20 percent in Hong Kong. Companies in Macau are most likely to anticipate revenue growth of between 20 percent and 29 percent.

Sentiment is particularly strong in the technology and innovation sector with 53 percent of companies in the industry expecting their business revenue to increase by more than 30 percent during the period, reflecting the opportunities the GBA offers for companies in this industry (see Figure 1.5).

Healthcare and life sciences companies are also upbeat with 38 percent of firms predicting growth of 30 percent or more. Qian Li, Chief Executive Officer of Consun Pharmaceutical Group, points out that the Outline Development Plan talks about promoting biotech companies and turning the sector into a new pillar industry. "The implementation of these policies will create better external conditions and more opportunities for the development of Consun's core business," she says. Carl Wu, Chief Executive Officer of investment holding company New Frontier, which owns a number of healthcare companies, also sees significant growth potential for the sector from rising wealth levels in the region. "Disposable income in the GBA is robust," he says. "You have a wealthy population that is willing to spend on private healthcare. We do not see substantial competition yet in the GBA because private healthcare is still new."

Figure 1.5 Expected business revenue growth in the GBA

(Over the next three years - by sector)



Note: Numbers may not add up to 100% due to rounding

Source: Survey analysis

Going forward, the GBA will increasingly act as a springboard for mainland companies expanding internationally, including into the countries and regions involved in China's Belt and Road Initiative (BRI). The Outline Development Plan describes the GBA as supporting the BRI through a new platform for international cooperation and two-way opening up between domestic and international markets,⁶ creating further growth opportunities for companies.

More than half (56 percent) of surveyed businesses thought the GBA could best align with the BRI through acting as a service centre to meet the financing, shipping, manufacturing and construction needs of BRI enterprises, rising to 63 percent among companies based in the nine GBA cities in mainland China. A further 48 percent thought it could act as a facilitator for Hong Kong and Macau businesses to expand into the mainland China market, which could then be extended to businesses in BRI countries. Companies in Macau are most likely to consider this to be a key area of alignment.

Other important areas of alignment that were identified included using the GBA as a testing ground for structural reforms. This was cited by 40 percent of companies, rising to 52 percent among companies based in the nine GBA cities in mainland China. Meanwhile, positioning Hong Kong as a dispute resolution centre for BRI projects was identified by 39 percent of those questioned, rising to 44 percent among Hong Kong companies.

Financial services firms see the GBA acting as a service centre to meet the financing, shipping, manufacturing and construction needs of BRI enterprises as a key area of alignment at 65 percent, followed by conglomerates at 64 percent. More than half (52 percent) of trade and logistics firms see the strengthening of the GBA as an air-and-sea freight hub as an important way of aligning the two initiatives.



⁶ Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, Constitutional and Mainland Affairs Bureau, February 18, 2019, https://www.bayarea.gov.hk/filemanager/en/share/pdf/Outline_Development_Plan.pdf

Despite the undoubted potential of the GBA, companies must overcome a number of challenges to realise growth.

Policy or regulatory ambiguity, uncertainty and unfamiliarity continues to be the most significant risk companies think could impact their existing, proposed or future business plan for the GBA. Nearly three quarters (73 percent) of surveyed companies cite this as a concern, up from 68 percent in 2018's survey (see Figure 1.6).

Companies based in Hong Kong or non-GBA cities in mainland China are most likely to highlight this as a risk, at 76 percent and 73 percent respectively. Healthcare and life science companies (84 percent) and financial services firms (82 percent) are the most likely to consider policy or regulatory uncertainty to be a risk to their plans for the region.

The cross-border movement of capital is seen as the second-most significant risk to companies' GBA business plans, cited by 42 percent of firms questioned, up from 34 percent in 2018. Companies in Hong Kong are more likely to be worried about this issue than their counterparts in the nine GBA cities in mainland China, where only 30 percent of firms cite it as a potential risk. Concerns relating to moving capital are highest among conglomerates (68 percent) and financial services companies (55 percent). Exchange rate volatility is also considered to be a potential issue by 26 percent of enterprises, with concerns highest among companies based in Macau, followed by those in the nine GBA cities in mainland China. Companies in the manufacturing sector and trade and logistics sector are more concerned about this issue than other industries, with 40 percent of firms in both sectors citing it as a risk.

With companies expecting strong growth in the GBA, it is important they position themselves correctly to take full advantage of available opportunities. This is likely to involve focusing on the value they can bring to the region and having a strong understanding of the GBA as a market. In the next chapter, we analyse companies' plans and motivations for investing in the region, and which GBA policies most align with their core business interests.

Figure 1.6 Top three risks that could impact business plans

(By year)



Source: Survey analysis

A healthier future

Eddy Tang

CEO, Union Medical Healthcare

Hong Kong's largest provider of non-hospital medical services is now prioritising the GBA to drive its business forward. After years of rapid expansion in its home market, Union Medical Healthcare (UMH) – whose brands offer a range of preventive medical and aesthetic services – is keen to capitalise on the region's growth and the rising disposable income this has created.

"We are focusing on areas within one-hour travel of Hong Kong, so we can have an efficient expansion tapping into potential markets," says CEO Eddy Tang. "We see that the GDP of the GBA is rising rapidly and we are tapping into the disposable income of the middle class. These market segments will grow rapidly, creating a lot of potential and shifting focus to the GBA."

Investors' focus shifting to the GBA

Indeed, Tang maintains the rise of the GBA within mainland China has dramatically altered the focus of many investors in the industry. "We are seeing there's a shift in the mindset of investors – they are not looking into nationwide expansion anymore," Tang says. "I think that capital markets believe that the GBA area will have a higher potential compared to other first-tier cities."

UMH currently has 10 clinics and service centres in the mainland GBA, split between Guangzhou and Shenzhen, compared with 41 in Hong Kong, where the business was founded by Tang in 2005 before listing on the stock exchange in 2016. Additionally, it plans to open on average between three and five clinics in the GBA outside Hong Kong annually as consumer appetite for high-quality medical services grows. Tang has in his sights M&A deals with mainland medical, aesthetic and beauty companies who may be too small to go public. Funding for the ambitious multi-million dollar programme will be potentially sourced from a mixture of cash reserves, bonds, bank lending or issuing new shares.

Advances in medical technology

Another avenue is collaborating with mainland tech and finance giants to offer new services to clients in the GBA. Since November 2018, UMH has launched two Tencent Doctorwork primary care clinics which are jointly operated with the Shenzhen-based company to pioneer the use of AI and big data in patient care.

Tang also highlights the advances in medical technology, or medtech, by companies such as Ping An Healthcare and Technology as it leverages the huge client base of parent company Ping An. "They have the market, they have the technology, they have the capital – they have the environment to grow rapidly," Tang says. "To make a telecom analogy, medtech on the mainland will jump from 3G directly to 5G – overtaking Hong Kong." And he cautions against competing head-on with such companies. "Getting access to new development in medtech is hard but these giants have these resources. We are keen to collaborate with others."

R&D investment and testing, particularly in the pharmaceutical sector, is accelerating quickly in the GBA, fuelled partly by the sheer size of the region.

"Compared with Hong Kong, sourcing volunteers for drug trials is straightforward," Tang says. "It is no problem to find 20,000-30,000 volunteers – and that makes it far easier to develop new drugs. China definitely has the edge in this respect, and it allows them to commercialise medical advances."

Reforming the system

However, despite its modest size, Hong Kong retains fundamental advantages in the medical industry for patients, Tang points out. The city's doctors, medical training system and regulation enjoy a long-standing, ethical reputation for professionalism. In addition, Hong Kong regulators approve drugs and products from overseas jurisdictions such as Europe and the United States, offering patients the latest medicines. Meanwhile Tang is of the view that the mainland's private medical industry has much room for growth, with state-owned hospitals dominating the medical landscape.

Reforms can enable the mainland's medical industry to reach its potential, Tang believes. "At the moment, too many people go to hospital rather than primary care clinics – this is inefficient and also raises the risk of infection," he says. "We have already seen initiatives to allow doctor to open their own clinics, and technology can reduce the administration burden as well as help treat patients more effectively. There are many good, talented doctors in the GBA who can take the pressure off the public system. Reforming the system really can make people happier and healthier."



A New Frontier: Tapping into the GBA

Carl Wu

CEO, New Frontier

New Frontier, a Hong Kong-based investment holding company, is expanding aggressively into the private healthcare market in the GBA having identified significant opportunities in this sector.

The company, co-founded by former Hong Kong finance minister Antony Leung, in July agreed to buy United Family Healthcare – one of Mainland China's largest private hospital operators – in a major deal worth USD 1.4 billion.

Carl Wu, New Frontier's CEO, points to several key reasons why the GBA is such an attractive investment proposition, including an ageing population that is willing to spend on private healthcare.

"We do not see substantial competition yet in the GBA, because private healthcare is still new. So in Guangzhou and Shenzhen, private facilities are still reasonably underdeveloped, there is still a level playing field where we think we can try to capture the market while it is developing."

An additional benefit of the GBA is that its major cities are now linked through high-speed rail. The improved transport connections mean mainland GBA patients can easily travel to Hong Kong to access drugs that are not available in their home cities owing to the different regulatory standards, while Hong Kong doctors can also take the train to see patients north of the border.

Private hospital sector growing strongly

Wu says he sees the region increasingly as one big market, with different cities offering different opportunities within the wider "metropolis". "Hong Kong is the international financial centre, whereas Shenzhen is a tech hub – our new Shenzhen hospital will probably be the most high tech hospital in our system."

He adds: "Guangzhou is another big market, where the ageing percentage is higher and therefore senior living services are in higher demand."

Mainland China has traditionally relied mainly on its state-run hospital system, however the private hospital sector is now growing strongly. The central government's

current five-year plan allows for up to 100 percent foreign ownership of private hospitals, as Beijing welcomes investment into the sector.

Wu points out: "The public system is under strain because of the ageing population. The private system brings an alternative solution to the market."

Indeed, the push to increase private investment and relieve strain on the public system has paid dividends for companies such as New Frontier.

Bright economic future

"In terms of our own experience, the mainland authorities have been very welcoming. I think the approval process, licensing process is very transparent," Wu says.



"The normal checks and balances and regulatory oversight applies, however the government is absolutely not restricting foreign access to healthcare."

If the region continues to overcome certain challenges, Wu tips the GBA as having a bright economic future. He cites extending personal tax reforms to ensure more Hong Kong professionals can work across the region without being penalised as a priority, along with further streamlining border formalities for Hong Kong and Macau residents using the Mainland Travel Permit.

Another challenge is the availability of talent. "Because private healthcare is a new industry in mainland China, the depth of talent is generally a little bit thinner," Wu says, adding New Frontier trains its own personnel at in-house facilities. "We have a number of schools across mainland China that train our nurses, caretakers, therapists and others."

Overall, Wu is bullish about the prospects of the private healthcare industry in the GBA as the region catches up with Beijing and Shanghai. "The industry has a significant task ahead, however we are optimistic the GBA will become our top market."

Fuelling growth

Siu Hung Chan

Managing Director – China, CLP Holdings

Hong Kong is not only a beneficiary of the Greater Bay Area development plan but also a key contributor, says Siu Hung Chan, Managing Director – China, CLP Holdings.

“The city has provided a platform for both state-owned enterprises (SOEs) and privately-owned enterprises (POEs), as well as companies from the US and other Western countries,” Chan explains.

For CLP, the larger of Hong Kong’s two electricity providers which also has investments in about 50 energy projects across mainland China, the GBA creates even more business opportunities, including in clean and smart energy and other innovative technologies.

“The launch of the GBA is very meaningful for Hong Kong – it provides a platform for the city to export its expertise and advantages while benefitting from the region’s resources,” says Chan.

A chance to become more innovative

“The GBA has made it easier for talented individuals to move within the 9+2 cities and provides a platform to a bigger market.”

Developments like Alipay and individual income tax reform have provided greater convenience and more incentives for Hong Kong-based workers to travel to the GBA for work or leisure.

Innovation is a key focus of the GBA, Chan says. The GBA represents a chance for businesses and individuals to become more innovative and willing to try new ventures.

“Successful innovative practices and projects in the GBA can also be promoted to other cities in mainland China,” he says.

Chan believes financial, technological and regulative innovation are vital for China over the next 40 years.

CLP established a joint venture with Beijing-based TUS-Clean Energy last year. The aim of the partnership is to leverage CLP’s experience in Hong Kong, Australia and mainland China – and combine them with TUS’s expertise in technology, which includes AI, cloud computing and big data analytics – to strengthen its business competitiveness in the GBA.

An attractive place to do business

Going forward, Chan says the Qianhai free trade zone in Shenzhen is an important focus for CLP, and added that the company has registered a company in the area. This will serve as CLP’s holding company in mainland China to provide a financing platform for investments in clean and smart energy projects.

Chan adds there is relatively less scope left for capital investment in energy infrastructure projects in the GBA.

“The local governments have been rolling out development plans for electricity-providing facilities and many SOEs and/or POEs have secured the development rights of most infrastructure projects,” he says. Therefore, CLP is exploring an “asset-light” model within the GBA, compared to the more traditional capital-intensive model.



“We will be investing in service-based business,” Chan says.

With the GBA already an attractive place to do business, Chan asserted it was important for authorities in the region to maintain a clear and stable regulatory and policy regime to give companies the certainty they need to invest.

“When exploring business opportunities in the GBA, it is no longer practical to rely on government assistance and support in the conventional way, such as government subsidies. Businesses need to be innovative,” he says.

Investment



With companies anticipating significant revenue growth in the GBA in the years ahead, they are looking at how best to position themselves to take advantage of the opportunities the region offers. For some this means investing in brand building and marketing as they grow their customer base in the region, while others are focused on talent recruitment or setting up new physical sites, such as factories or offices.

Overall, more than half (52 percent) of companies plan to expand geographically into the GBA before 2022, rising to 61 percent among businesses based in the nine GBA cities in mainland China (see Figure 2.1).

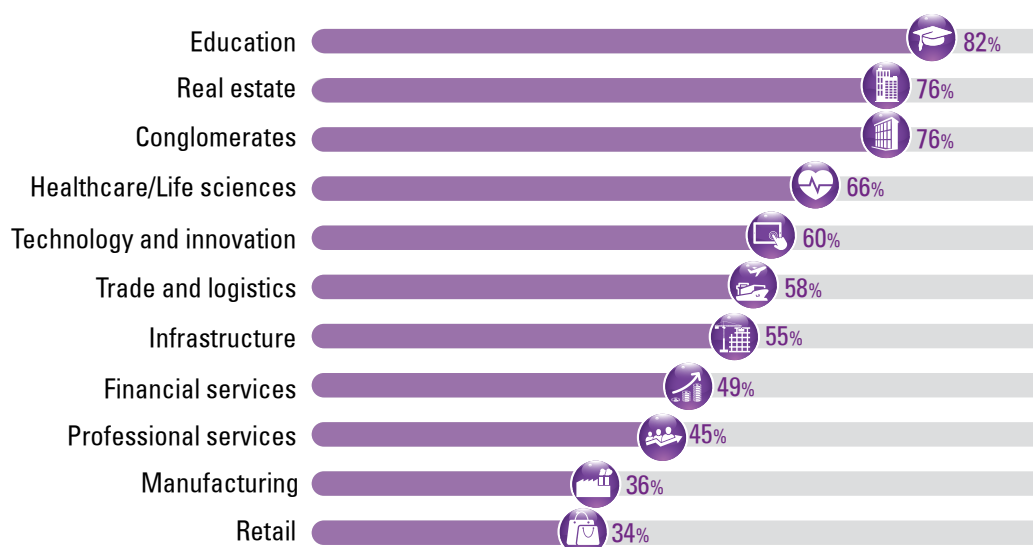
Companies in the education sector are the most likely to be planning an expansion, at 82 percent, while retail companies are least likely to be planning to expand in the GBA, at 34 percent (see Figure 2.2). The Outline Development Plan sets the goal of creating clusters for advanced equipment manufacturing in Zhuhai and Foshan, and high-end manufacturing industries in Shenzhen and Dongguan; many manufacturers are already based in these cities. Jingdong Wang, Chief Financial Officer and Company Secretary of household appliances manufacturer Gree, notes: “In a relatively small area like the GBA, concentrating production is the best strategy to preserve our competitive edge.”

Figure 2.1 Companies planning to expand geographically in the GBA

(Beyond current base in region - by location)



Source: Survey analysis

Figure 2.2 Companies planning to expand geographically in the GBA*(Beyond current base in region - by sector)*

Source: Survey analysis

Three quarters (75 percent) of companies think the GBA policy of building globally competitive finance, manufacturing, real estate and professional services industries will best serve their own core business objectives, rising to 92 percent among firms based in Macau. The acceleration of infrastructure development to improve the flow of talent, goods and information is also seen as key by 71 percent of companies in the poll, with companies in Macau again most likely to cite this as an advantage. Creating an innovation and technology hub in the GBA and building a high-quality living environment are the other policy goals that companies think will most benefit their own businesses. Companies based in both the nine GBA cities and non-GBA cities in mainland China were most likely to think the region becoming an innovation and technology hub would align with their objectives, with each at 61 percent.

Some 88 percent of financial services firms and 82 percent of real estate firms think building globally competitive finance, manufacturing, real estate and professional services industries will best serve their core business objectives, while 88 percent of technology and innovation firms cited the creation of an innovation and technology hub as being key for their business (see Figure 2.3). Likewise, 80 percent of infrastructure firms felt the same way about the GBA policy of accelerating infrastructure development.



I think the GBA will be the most significant and important area within greater China in the next three to five years.

Arthur Chen
CFO, Futu

Figure 2.3 GBA policies that align with companies' core business interests

(By sector)

	Financial services	Professional services	Manufacturing	Trade and logistics	Technology and innovation	Real estate	Healthcare/Life sciences	Retail	Conglomerate	Infrastructure	Education
Building globally competitive finance, manufacturing, real estate and professional services industries	88%	69%	71%	79%	60%	82%	63%	78%	84%	55%	64%
Accelerating infrastructural development to improve the flow of talent, goods and information	71%	61%	74%	74%	63%	78%	88%	81%	76%	80%	64%
Becoming an innovation and technology hub	52%	59%	61%	34%	88%	38%	56%	50%	60%	50%	73%

Source: Survey analysis



I would see many local companies not just as competitors but also as potential collaborators. They can also see that the GBA is too big a pie for just a few companies.

Michael Kwok
East Asia Region Chair, Arup

Companies have significant investment plans for the GBA, with more than six out of 10 (61 percent) businesses in the survey expecting to spend more than HKD 10 million on their top investment focus area in the coming financial year. Within this total, 35 percent anticipate spending between HKD 10 million and HKD 99 million, while 15 percent think they will spend between HKD 100 million and HKD 500 million. One in 10 (10 percent) companies anticipate spending more than HKD 500 million.

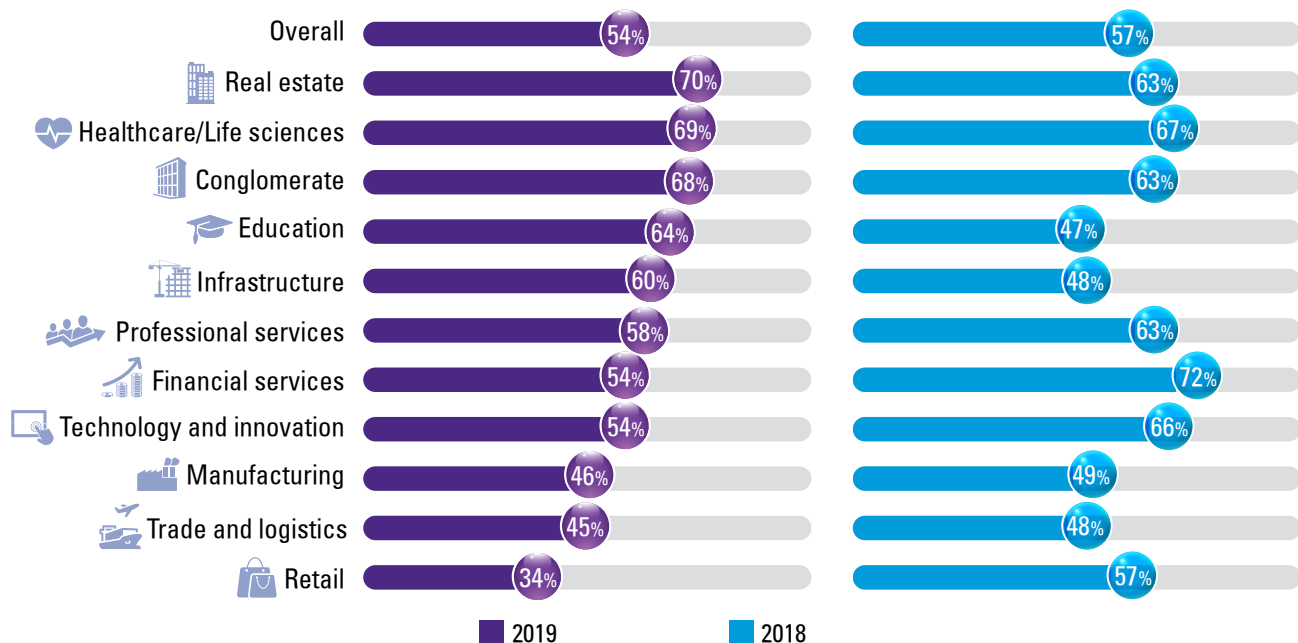
Investment levels are significantly higher among companies that have a strategic plan for the GBA, with 67 percent of firms with a plan for the region expecting to invest more than HKD 10 million on their key focus area, including 12 percent who will invest more than HKD 500 million.

Maggie Lee, Partner, Audit, Head of Capital Markets Development, Hong Kong, at KPMG China, says: "Companies need to invest, but they need to invest smartly. They need to have a strategy and a goal."

In order to capitalise on the opportunities the GBA offers, more than half (54 percent) of companies polled either already have a strategic plan in place or are in the process of formulating one, broadly unchanged from 2018's survey (see Figure 2.4).

Real estate companies are meanwhile most likely to have formulated a strategy for the GBA, at 70 percent – up from 63 percent in 2018's survey – as businesses in the sector look to position themselves to take advantage of increased development in the region. A high level of healthcare and life sciences companies also have a strategic plan (69 percent), followed by conglomerates (68 percent). Retail companies are least likely to be looking at how they can capitalise on the GBA initiative, with 66 percent of those surveyed saying they did not have a strategic plan.

Figure 2.4 Sectors that have a strategic plan for the GBA



Source: Survey analysis

Enterprises that have their primary base of operation in one of the nine GBA cities in mainland China are more likely to have higher investment plans than those based in Hong Kong, with 73 percent of these firms expecting to spend more than HKD 10 million in their key area of investment, compared with 59 percent of Hong Kong companies. Within this total, 16 percent of businesses based in the nine GBA cities in mainland China expect to spend more than HKD 500 million.

The survey further looked at individual business sectors' investment. Real estate firms emerged as the most ambitious, with 82 percent anticipating spending more than HKD 10 million, including 34 percent who think they will spend more than HKD 500 million, as they look to take advantage of the increased development in the region (see Figure 2.5).

Figure 2.5 Anticipated spending on top-ranked GBA priority

(Over next financial year - by sector)

	Overall	Financial services	Professional services	Manufacturing	Trade and logistics	Technology and innovation	Real estate	Healthcare/Life sciences	Retail	Conglomerate	Infrastructure
Less than HKD 10 million	39%	22%	52%	44%	55%	50%	18%	43%	45%	11%	64%
More than HKD 10 million	61%	78%	48%	56%	45%	50%	82%	57%	55%	89%	36%
- HKD 10-99 m	35%	47%	39%	31%	29%	44%	24%	38%	27%	32%	18%
- HKD 100-500 m	15%	21%	10%	19%	10%	6%	24%	14%	27%	32%	N/A
- More than HKD 500 m	10%	10%	N/A	6%	6%	N/A	34%	5%	N/A	26%	18%

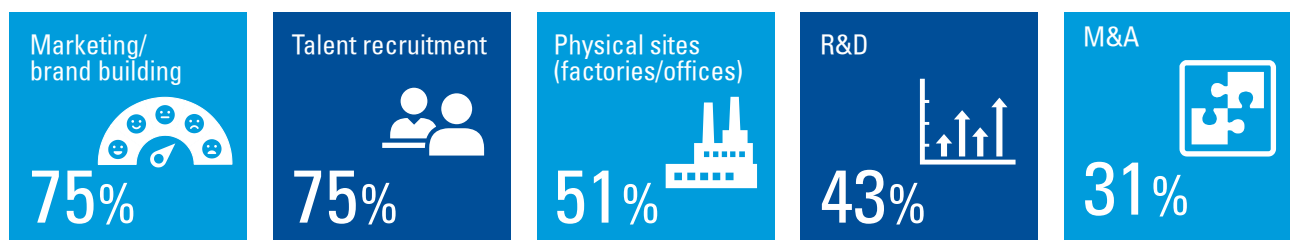
Source: Survey analysis

Financial services firms also have significant investment plans, with nearly eight out of 10 (78 percent) companies in the sector expecting to invest more than HKD 10 million in their key area. Financial services companies are expected to be one of the top three beneficiaries of the initiative, with the Outline Development Plan setting out a number of opportunities for the sector allowing the cross-border sale of insurance and investment funds, and expanding the cross-border use of the renminbi.

Marketing and brand building as well as talent recruitment are the leading areas in which companies that have a strategic plan for the GBA expect to make investments, with 75 percent of those polled planning to spend money in each of these areas during the next financial year (see Figure 2.6).

Figure 2.6 Expected GBA investment priority

(Over next financial year - companies with a GBA plan)








Source: Survey analysis

Trade and logistics companies are most likely to be allocating their GBA investment to marketing and branding, at 91 percent, followed closely by financial services and professional services firms, at 84 percent and 83 percent respectively. Technology and innovation companies are prioritising investment in talent recruitment, with 92 percent of companies in this sector saying they will be investing in this area, and 79 percent of financial services firms also focusing on talent.

Michelle Hui, Director, Executive Search and Recruitment at KPMG China, points out that growing businesses face challenges when it comes to recruiting talent. "Many start-ups look for experienced executives to run their company and build their profile, particularly when they are entering into series B and series C fundraising stage," she says.

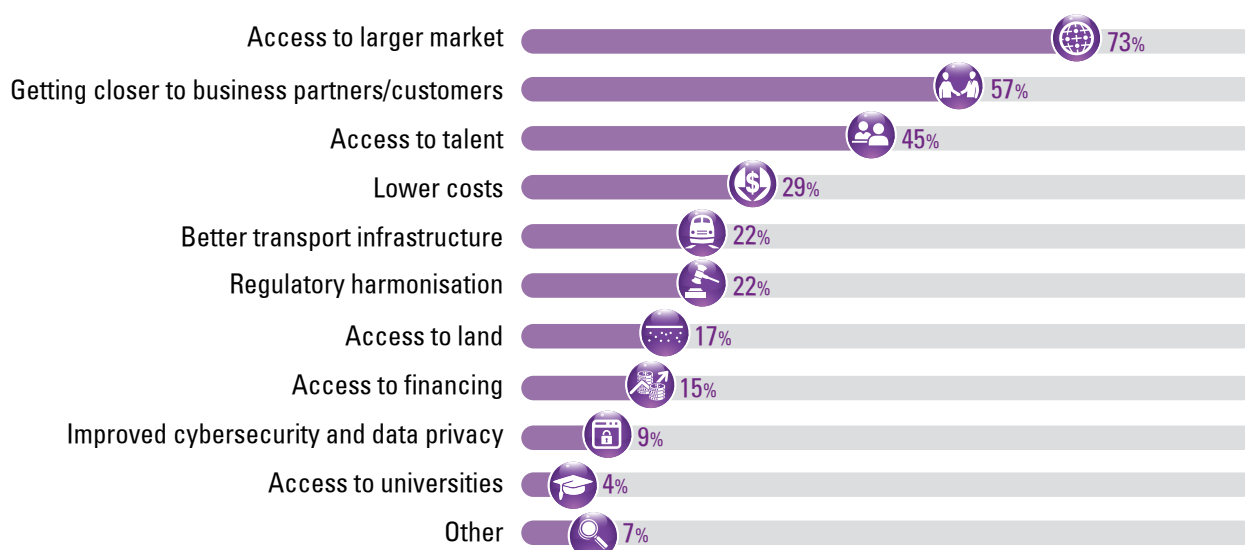
More than half (51 percent) of companies with a GBA plan say they will be investing in physical sites, such as factories and offices, rising to 55 percent among those based in Hong Kong. Real estate and manufacturing companies are most likely to be planning to invest money in physical sites (see Figure 2.7). Patrick Lee, Chairman of the Hong Kong Association for Testing, Inspection and Certification, says the shortage of land available in Hong Kong for industrial use is likely to be driving companies to invest in physical sites in the GBA cities in mainland China. "Industrial land accounts for less than 1 percent of the total of Hong Kong land and that percentage is shrinking every day," he says.

Figure 2.7 Expected GBA investment priority*(Over next financial year - companies with a GBA plan - by sector)*

	Financial services	Professional services	Manufacturing	Trade and logistics	Technology and innovation	Real estate	Healthcare/Life sciences	Conglomerate
 Marketing/brand building	84%	83%	58%	91%	67%	69%	72%	43%
 Talent recruitment	79%	77%	58%	74%	92%	72%	61%	64%
 Physical sites (factories/offices)	35%	57%	63%	48%	38%	63%	56%	50%
 R&D	53%	40%	58%	30%	71%	16%	50%	43%
 M&A	23%	29%	26%	30%	17%	63%	39%	64%

Source: Survey analysis

Gaining access to the GBA's larger market is the top motivation for companies to invest in the region, cited by 73 percent of those surveyed (see Figure 2.8). This is broadly in line with 2018's survey when 68 percent of companies said the GBA offered access to more business opportunities. Hong Kong-based companies are particularly keen to tap into the region's customer base, at 78 percent, compared with 55 percent of businesses based in the nine GBA cities in mainland China.

Figure 2.8 Companies' top motivations for investing in the GBA*(Respondents asked to cite top three)*

Source: Survey analysis



Many start-ups look for experienced executives to run their company and build their profile, particularly when they are entering into series B and C fundraising stage.

Michelle Hui
Director

Executive Search and Recruitment
KPMG China

Eddy Tang, Chief Executive Officer of Union Medical Healthcare, says the GBA initiative has altered the focus of many investors. He explains that while investors previously wanted to know about Hong Kong companies' mainland China strategy, they are now much more focused on their expansion plans for the GBA. "We are seeing a shift in the mindset of investors," he says. "They are not looking into nationwide expansion anymore."

Getting closer to business partners and customers is also seen as important by 57 percent of businesses, while 45 percent said access to talent was a key motivation. Companies based in the nine GBA cities in mainland China are more likely to cite access to talent as a key reason for investing, at 52 percent, compared with 43 percent in Hong Kong. For enterprises that are based in non-GBA cities in mainland China, gaining access to a larger market is a key motivation for investing in the GBA, at 71 percent, while 58 percent want to get closer to business partners or customers.

In terms of the different industries, financial services firms and infrastructure companies are most likely to cite access to a larger market as their key reason for investing in the GBA, both at 85 percent, followed by conglomerates at 84 percent. Professional services firms were most likely to be motivated by getting closer to business partners and customers, at 68 percent, while technology and innovation firms highlighted access to talent as a priority, at 58 percent.

Nearly half of companies (44 percent) plan to increase their R&D spending in the GBA, rising to 59 percent among firms with a strategic plan for the region. Within this total, 14 percent of firms with a strategic plan expect to increase R&D spending by between 50 and 100 percent, while 6 percent expect it to more than double. Chris Birdsong, Asia Pacific Chief Executive Officer at engineering and design company Atkins, points out that R&D plays a key role for many industries. "We are on the same path as most companies," he says. "We are asking ourselves, 'how can we use technology to improve what we do?' There are significant opportunities."

Shenzhen is expected to see the highest level of companies' additional R&D spending, with 33 percent of firms in the survey naming it as the primary beneficiary, rising to 48 percent among financial services companies and 37 percent among technology and innovation firms. This finding reflects Shenzhen's status in the GBA as the core innovation hub. Daniel Hui, Partner, Greater Bay Area Tax Practice, KPMG China, explains that certain cities within the GBA are offering corporate tax incentives for companies in particular industries that choose to be based there. "There are income tax incentives for companies that qualify for certain activities, mainly in the areas of technology and R&D," he says. For example, there is a 15 percent reduced corporate tax rate and additional tax deduction for R&D spending for technology companies in Shenzhen.

Figure 2.9 Prime beneficiary city in terms of additional R&D spend

(By sector)

	Overall	Financial services	Professional services	Manufacturing	Trade and logistics	Technology and innovation	Real estate	Healthcare/Life sciences	Retail	Conglomerate	Infrastructure
Dongguan	5%	N/A	8%	11%	13%	3%	5%	5%	N/A	N/A	18%
Foshan	5%	3%	8%	3%	6%	8%	5%	N/A	N/A	9%	9%
Guangzhou	17%	20%	13%	11%	25%	16%	5%	29%	14%	27%	18%
Hong Kong SAR	18%	18%	26%	16%	9%	24%	5%	19%	29%	9%	27%
Huizhou	1%	N/A	N/A	3%	N/A	3%	N/A	5%	N/A	N/A	N/A
Jiangmen	2%	N/A	N/A	8%	3%	N/A	N/A	N/A	N/A	N/A	N/A
Macau SAR	2%	1%	3%	N/A	6%	3%	N/A	5%	N/A	N/A	N/A
Shenzhen	33%	48%	18%	24%	16%	37%	63%	24%	14%	36%	18%
Zhaoqing	1%	N/A	N/A	3%	N/A	N/A	N/A	5%	7%	N/A	N/A
Zhongshan	3%	3%	5%	8%	N/A	3%	5%	N/A	N/A	9%	N/A
Zhuhai	7%	4%	10%	11%	16%	N/A	N/A	10%	14%	9%	9%
None of the above	6%	5%	10%	3%	6%	5%	11%	N/A	21%	N/A	N/A

Source: Survey analysis



Companies need to invest, but they need to invest smartly. They need to have a strategy and a goal.

Maggie Lee

Partner, Audit,
Head of Capital Markets
Development, Hong Kong
KPMG China

Healthcare and life sciences are most likely to be planning additional R&D investment in Guangzhou, at 29 percent (see Figure 2.9). The city already has a high concentration of companies in this sector, as well as the Guangzhou Institutes of Biomedicine and Health. Qian Li, Chief Executive Officer of Consun Pharmaceutical Group, says her company is also focusing on the city. “The pivot points of Consun’s innovation in the GBA are Guangzhou, Hong Kong and Macau,” she notes. “We have a research centre in Guangzhou for renal diseases and will soon establish a medical imaging research centre there, too.” One in four (25 percent) trade and logistics companies also think Guangzhou, which the Outline Development Plan names as the international commerce and industry centre and integrated transport hub of the GBA, will be the main beneficiary of additional R&D spending.

Professional services firms are most likely to be investing additional money in Hong Kong, at 26 percent, reflecting the fact that Hong Kong has been designated as the global finance hub and centre for international legal and dispute resolution services. The city also has a deep pool of professional services talent. KPMG’s Lee says: “Hong Kong has a very important role supporting the ecosystem of the GBA in terms of tax, legal services and investment.”

Talent is also being highlighted as an increasingly critical priority for businesses across all sectors. The next chapter examines the extent to which labour mobility is likely to become top of mind as the region grows and becomes more connected.

Prioritising investment in the GBA

Simon Wong

Chairman, Kampery

The historic cultural bond between cities across the Greater Bay Area makes the region a natural connected market, one that is distinct from the rest of mainland China, according to the chairman of Kampery, a major food and beverage group.

Simon Wong of the Hong Kong-based business, which has roots on both sides of the border, puts the case that despite some differences between the SAR and its neighbours in areas such as ecommerce and tech, the region's common culture and language can promote efficiency, and allow Hong Kong businesses to take advantage of the significant GBA market.

"We have been investing in mainland China since 1993 and working with Chinese staff for almost three decades," Wong says. "Especially in the GBA area, where we have our offices in Guangdong, we all speak Cantonese. Culturally, language-wise, we communicate very effectively. So that's one advantage to merge into the GBA area."

Kampery – which is involved in manufacturing, wholesaling, retailing, importing and exporting, and whose brands specialise in coffee, tea, wine and organic foods – employs 350 staff in Hong Kong and 150 elsewhere in the GBA, including Shenzhen, Foshan, Dongguan and Guangzhou. Its business includes importing food products from around the world into Hong Kong before distributing it to clients in mainland China, and Wong says the city has a vital role to play in the region.

Access global opportunities

"I have seen a lot of companies that have tried to get into mainland China fail," Wong says. "We know the culture, we know the business environment, we know the people. So it's good for foreign companies to work with Hong Kong companies as they make plans to enter the mainland China market." The city can also perform a valuable role in allowing mainland firms to access global opportunities, particularly in the Belt and Road where Beijing is targeting investment. "Companies can use Hong Kong to go abroad," Wong says.

Kampery has also noticed concrete progress in easing restrictions for businesses within the GBA, with customs

for food imports into mainland China becoming more efficient in the past five years. However, Wong says importing organic products remained an administrative challenge and he called for further reform. "I would urge the government in Guangdong province to treat Hong Kong companies as though they are based in mainland China, so we can enjoy the same benefits and develop the region further."

Long term investment

The market for organic products in the GBA has boomed in recent years and Wong cautions sustainability is just one of the areas in which Hong Kong is in danger of being left behind – e-commerce is another. Partly owing to Hong Kong's well-developed infrastructure and high density of physical shops, e-commerce has been relatively slow to develop. However, Wong says the city risks missing out on long term investment.

"Shenzhen is the leading hub for IT development in mainland China – and they have a lot of human resources experienced in technology, as well as highly-developed logistics," he notes. "For our company, we will put in more resources into mainland China, because there's more potential if we invest in ecommerce in the mainland cities of the GBA rather than Hong Kong."

Wong urges the SAR government to ease restrictions on mainlanders to alleviate manpower shortages in the food and beverage industry, which has long struggled to attract talent.

However, Wong adds tech could be a lifeline for the sector, and suggested robots could eventually play a key role in automating service. The region boasts thousands of milk tea cafes and as part of the industry's annual Kam Cha (milk tea) competition typically held throughout the GBA, a two-metre tall milk-tea making robot – KamChAI – was unveiled by the Association of Coffee and Tea of Hong Kong in 2018. Wong invested in the development of the machine which was designed to demonstrate the potential of robots in the industry. "What I see from mainland China is people like Jack Ma funding a lot of AI development, and I think in future AI robotics are one of the solutions for the catering industry."



The art of the possible

Chris Birdsong

Asia Pacific CEO, Atkins

Opportunities abound for multinational companies willing to invest in relationships with local counterparts and share international best practice, says Atkins' Asia Pacific Chief Executive Officer Chris Birdsong, as the development of the Greater Bay Area accelerates.

The global design, engineering and project management consultancy's roots in the region go back to the 1970s in Hong Kong when investment in key infrastructure in the city stepped up. Atkins subsequently expanded to Shenzhen and Macau and currently employs over 700 staff in the GBA.

Birdsong says the sector's future in the region was bright, as GBA authorities strive to create a world-class bay area through the regeneration of brownfield sites, master planning future growth, transitioning towards clean industries and technologies, and continuing large-scale investment in infrastructure. However, multinational companies will only realise opportunities if they are able to leverage international standards and best practice – and capitalise on strong local knowledge and partnerships – to address local requirements.

"Mainland China wants the best access to knowhow and technology because they want to be the best. And so I think that offers most international companies an opportunity," Birdsong points out.

Bridging the gaps

A challenge is dealing with the structure of the industry in mainland China, according to Birdsong. "China continues to develop its engineering and construction industry. You have design institutes, contractors and there are gaps. Therefore, we see there are many opportunities for us to play the integrator role and help them manage the separation of the gaps, putting things together."

One of the key strengths of the region is its young, tech-focused population. "What stands out in this particular

region is that it is fuelled by tech and has a young, well-educated population," Birdsong says. "We are on the same path as most companies – we are asking ourselves: 'How can we use technology to improve what we do?' So there are significant opportunities."

Big data and sustainability are two of the biggest areas of growth, with many clients in the region embracing the use of data to prolong the productive life of assets and manage risks. The sheer scale of development in the GBA and the implementation of more stringent regulations are making sustainability a key issue. "The region is getting more focused on the whole sustainability issue; particularly when you look at the certification of buildings on the mainland, developers are beginning to see the value of sustainability."

Identifying opportunities

Birdsong adds that multinational companies need to be clear about what they can offer their Chinese counterparts in a rapidly evolving environment.

"Mainland China continues to develop and open up to outside consultancies and contractors," Birdsong asserts. "The Chinese players in our industry do not need international players like us to show

them how to design or build a bridge for today – they already have excellent capabilities and experience.

"However, for tomorrow it will be a different story. Companies like us need to be clever about where we can really add value to our Chinese counterparts. I think we need to leverage our international and local experience, end-to-end knowledge of capital projects, use of technology and new materials for construction."

Birdsong says the greatest impact of the GBA is in changing mindsets and the use of technology. "It is 70, 75 million people – and growing. It is not a completely joined up area as yet, therefore the potential is huge. So I think the idea of talking and promoting it as the GBA sets in people's mind what the art of the possible is."



A connected cluster of cities

Michael Kwok

East Asia Region Chair, Arup

The GBA needs to go further to break down barriers and build a level playing field for both local and foreign firms, according to international engineering and design consultancy Arup. While East Asia Region Chair Michael Kwok says the region had transformed beyond all recognition since the company first opened in Hong Kong in 1976 and Shenzhen in 1995, he cautions the GBA will not realise its full potential until further opening-up of the mainland market allows greater collaboration between local and international firms. Progress is being made, although multinational companies (MNCs) still face some restrictions on doing business.

"I would see many local companies not just as competitors but also as potential collaborators – they can also see that the GBA is too big a pie for just a few companies," Kwok says. "I think a lot of our local collaborators see the advantage of working closely with a firm like Arup to capture some of the opportunities in the GBA, just as we will be strengthened by working with the right partner. After all, we are all in the same space."

Kwok says that particularly in the built environment – including master planning, urban regeneration and infrastructure – it was essential to develop further coordination between the 11 cities of the GBA as the region's success draws in talent from mainland China and further afield.

Greater than the sum of their parts

"Growing connectivity of people, goods, services and information will need a lot of infrastructure, and not just physical infrastructure but social infrastructure too such as schools, hospitals and affordable housing," Kwok says. "The GBA will hopefully become even more open and will attract more people. There will be more urbanisation, and this may bring challenges such as traffic congestion, air pollution, and providing sustainable energy and clean water, which we will need to overcome."

With over 70 million people across the GBA, Kwok cautions that individual cities have to develop a common approach to become "greater than the sum of their parts." He adds:

"Firms like us want to help the GBA become a more connected cluster of cities, so that people can flow, capital can flow, services can flow more easily."

Working together will also allow the region to build the flexibility needed to thrive in an unpredictable future. Cities' primary function today will inevitably change, and a connected region is far better placed to adapt to that change than individual cities. "Although cities are going to have their own specialties – we have Shenzhen as the innovation hub, Hong Kong as the finance hub and so on – at some point, the lines will become blurred and the other cities will adopt some of these functions," Kwok says. "A region can be more robust and successful in benefitting from change if it functions as one."



Magnet for international staff

In addition to the opening of key transport infrastructure projects, one of the biggest impacts of the GBA Initiative to date has been encouraging businesses to think region-wide, Kwok adds. Arup, with 2,100 staff in the GBA, including 1,800 in Hong Kong and 200 in Shenzhen, has changed the way it works. "In the past, our offices in Hong Kong, Macau, Shenzhen, Guangzhou may have regarded their own cities as more of an independent market. But I think as we realised we are all part of the GBA, we now look at it in a more holistic way."

Arup's regional headquarters remain in low-tax, free-trade Hong Kong and the city is still a magnet for international staff. However, Kwok says the SAR increasingly has much to learn from its neighbours north of the border. "It's a two-way street," Kwok points out. "Mainland GBA cities are typically much faster at building schemes and they're not afraid of taking risks. We must learn from each other because the region can become one big laboratory to test out ideas."

Despite the GBA Initiative being a flagship government policy on both sides of the border, Kwok is firmly of the view that business has much to gain by contributing. "This is a business-dominated part of the world. With the support of government, business can help drive it forward – because the GBA can pay dividends to everyone."



Talent



One of the key aims of the GBA is to increase the mobility of people within the region to facilitate business connectivity. The recent opening of the Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Shenzhen-Hong Kong Express Rail Link has reduced travel times from Hong Kong to Shenzhen to just 18 minutes and to Guangzhou to only 46 minutes.⁷ This is expected to boost journeys between the region's cities; last year, more than 640,000 people a day on average made overland trips into Hong Kong from Guangdong or Macau.⁸

In addition, improved infrastructure is cited by four out of 10 businesses as a key factor in their staff being more mobile. Additional initiatives have also been introduced to make it easier for talents to work across the region, including changes to taxation and work permit requirements.

These developments are driving increased labour mobility, with more than one in 10 businesses (13 percent) in the survey now expecting at least half of their senior staff to regularly work in more than one GBA city within the next three years, while 23 percent expect between a quarter and a half to do so (see Figure 3.1). Companies that have begun implementing their strategic plan for the GBA since the publication of the Outline Development Plan are most likely to expect high levels of labour mobility; nearly one third (31 percent) expect more than half of their senior staff to regularly work across different cities in the GBA as they look to capitalise on the opportunities the region offers.




^{7,8} Hong Kong SAR Constitutional and Mainland Affairs Bureau, 2019

Businesses based in the nine GBA cities in mainland China anticipate greater mobility of talent than those in Hong Kong and Macau, with 34 percent of surveyed companies expecting more than half of their senior staff to regularly work across the region. By contrast, just 8 percent of companies based in Hong Kong anticipate the same level of mobility, although one in four (24 percent) expects between one quarter and half of their senior staff to be mobile within the region. Companies in Macau do not anticipate a high level of talent mobility, according to the survey. The lower level of mobility among Hong Kong and Macau-based companies reflects the fact that it is still easier for staff to move within the nine GBA cities in mainland China than it is for them to move between Hong Kong or Macau and the mainland.

Figure 3.1 Companies' senior staff expected to work regularly in more than one GBA city

(Over the next three years - by location)



	Overall	Hong Kong SAR	Macau SAR	9 Mainland GBA cities	Non-GBA cities in Mainland
More than half	13%	8%	N/A	34%	8%
Between a quarter and a half	23%	24%	31%	23%	18%
An insignificant proportion	64%	67%	69%	42%	74%

Note: Numbers may not add up to 100% due to rounding

Source: Survey analysis

Conglomerates are most likely to anticipate high levels of staff mobility within the region, with one in five (20 percent) companies in the sector expecting more than half of their senior staff to regularly work in more than one GBA city, followed by trade and logistics firms at 18 percent and manufacturing companies at 17 percent.

The most important factor seen as supporting labour mobility within the GBA is the introduction of tax initiatives for Hong Kong residents working in mainland China. Almost six out of 10 businesses (58 percent) polled said tax initiatives supported labour mobility for their company, up from 50 percent in 2018's survey (see Figure 3.2). Tax initiatives are seen as being particularly important by firms based in Hong Kong and Macau, at 63 percent and 62 percent respectively, while 69 percent of companies with a turnover of more than HKD 800 million cited them as a key factor. Conglomerates are also highly likely to view tax incentives as being important for labour mobility, at 80 percent, followed by retail companies at 66 percent and firms in the healthcare and life sciences sector at 63 percent.

Figure 3.2 Factors supporting companies' labour mobility*(By location)*

	Overall	Hong Kong SAR	Macau SAR	9 Mainland GBA cities	Non-GBA cities in Mainland
Tax initiatives for Hong Kong residents working in mainland China	58%	63%	62%	41%	57%
Mainland China's abolition of work permits for Hong Kong and Macau residents	50%	51%	69%	41%	54%
The Guangzhou-Shenzhen-Hong Kong Rail Link and the Hong Kong-Zhuhai-Macau Bridge	40%	40%	38%	50%	32%
Adoption of a more integrated approach	35%	35%	31%	34%	41%
More efficient headcount deployment	28%	26%	15%	39%	26%
Others	3%	2%	N/A	5%	2%

Source: Survey analysis



Because the nine mainland cities in the GBA have different

economic landscapes, each city has different requirements for people to qualify for the tax incentive.

Daniel Hui
Partner

Greater Bay Area Tax Practice
KPMG China

A number of tax changes have been introduced during the past year to facilitate the movement of talent between Hong Kong and Macau and the nine GBA cities in mainland China. Daniel Hui, Partner, Greater Bay Area Tax Practice, KPMG China, explains a key tax issue being that while the top rate for individual income tax for people working in Hong Kong is 15 percent, in mainland China it is 45 percent. "This difference can be an issue for companies that want to move their people to mainland China, especially for high earners," he says.

To address the situation, a tax subsidy scheme has been put in place under which foreign talents, including Hong Kong and Macau permanent residents working in the nine mainland China GBA cities, can qualify for a tax subsidy from the local municipal government, meaning they pay individual income tax at a rate of 15 percent.⁹ While the subsidy helps to address the tax rate issue, Hui points out that only people who qualify as being 'high-end and urgently needed talent' are able to apply for the scheme. Different cities within the GBA also have different criteria for what constitutes a 'high-end talent'. "Because the nine mainland cities in the GBA have different economic landscapes, each city has different requirements for people to qualify for this incentive," he explains. The scheme, which applied retroactively from January 1, 2019, runs for a one-year trial period, after which it is subject to review.

⁹ PRC Ministry of Finance and the State Taxation Administration, March 2019

Figure 3.3 Factors supporting companies' labour mobility*(By sector)*

	Financial services	Professional services	Manufacturing	Trade and logistics	Technology and innovation	Real estate	Healthcare/Life sciences	Retail	Conglomerate	Infrastructure	Education
Tax initiatives for Hong Kong residents working in mainland China	62%	53%	54%	53%	49%	60%	63%	66%	80%	65%	55%
Mainland China's abolition of work permits for Hong Kong and Macau residents	46%	52%	44%	53%	61%	48%	38%	47%	68%	60%	36%
The Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macau Bridge	37%	39%	48%	39%	25%	46%	47%	31%	56%	40%	18%
Adoption of a more integrated approach	39%	35%	30%	29%	37%	38%	44%	38%	40%	25%	36%
More efficient headcount deployment	28%	26%	27%	31%	25%	24%	28%	34%	48%	20%	36%
Others	3%	2%	1%	N/A	7%	N/A	N/A	N/A	N/A	N/A	9%

Source: Survey analysis

Another tax initiative enables individuals to spend up to 182 days (i.e. fewer than 183 days) a year in mainland China before they become a China tax resident. In March 2019, it was clarified that stays of less than 24 hours would not be counted towards this total.¹⁰ This clarification creates more flexibility for Hong Kong talents to work in the nine GBA cities in mainland China. However, Jingdong Wang, Chief Financial Officer and Company Secretary of household appliances manufacturer Gree, thinks the initiative could go further: "The taxation policies of these cities need to be consistent," he says. "Since we're looking at the GBA as a whole, less internal separation would lead to better integration."

The second most important factor identified by companies as supporting labour mobility was the abolition of work permits for mainland China for Hong Kong and Macau residents. The abolition of these permits is seen as a key development by 50 percent of businesses surveyed, rising to 69 percent among those in Macau and 54 percent for companies based in non-GBA cities in mainland China. The figure was also higher compared with 2018's survey when 40 percent of companies cited having visa-free entry as being an important factor facilitating the free movement of people within the GBA. Last year's survey took place prior to the announcement in July 2018 that Hong Kong and Macau residents would no longer require work permits for mainland China.¹¹

With respect to sectors, conglomerates were most likely to see the abolition of work permits as significant in terms of staff mobility at 68 percent, with technology and innovation and infrastructure companies also seeing this as a key factor at 61 percent and 60 percent respectively (see Figure 3.3).

¹⁰ PRC Ministry of Finance and the State Taxation Administration, March 2019

¹¹ The State Council of the PRC, July 2018



I would say that every company that goes into the GBA is now fighting for talent to help their company grow.

Simon Wong
Chairman, Kampery

Improved transport links are also seen as one of the top three factors supporting labour mobility. Four out of 10 (40 percent) businesses cite the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macau Bridge as key to labour mobility within their company, rising to 50 percent among companies based in the nine GBA cities in mainland China. Conglomerates (56 percent), manufacturing companies (48 percent) and healthcare and life sciences firms (47 percent) were most likely to cite improved transport links as being a key factor supporting labour mobility.

Survey participants pointed out that while the physical infrastructure in the GBA has improved in the past year, certain policy areas still need to catch up. The central government addressed some of the issues through the publication of additional policy measures in November,¹² which facilitates Hong Kong residents' purchase of property and opening of bank accounts in the mainland China cities of the GBA, as well as offering the children of Hong Kong and Macau residents working in Guangdong the same access to education as local children. Foreign nationals possessing a Hong Kong Permanent Identity Card will also be able to apply for a visa or residency for the nine mainland China GBA cities for up to two to five years.

Maggie Lee, Partner, Audit, Head of Capital Markets Development, Hong Kong, at KPMG China, thinks the tax changes and other measures to make it easier for people to work across the GBA are key to talent mobility. "The main hurdles have been resolved with all of the latest policies," she says. "It now comes down to the nitty-gritty of daily convenience."

Businesses in a number of sectors think adopting a more integrated approach is key to driving their company's labour mobility in the GBA, with healthcare and life sciences (44 percent), financial services (39 percent), retail (38 percent) and technology and innovation firms (37 percent) most likely to say this. Simon Wong, Chairman at Kampery, a food and beverage manufacturer and distributor, says: "We are using our Guangzhou and Shenzhen staff to help Hong Kong in terms of many areas like accounting, back office and marketing."

However, some sectors still face issues in adopting a more integrated approach to their business across the GBA region. Tang, of Union Medical Healthcare, explains that although under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) healthcare professionals registered to practise in Hong Kong can now provide short-term services in mainland China, there are still barriers to doctors working there. Some Hong Kong-registered healthcare professionals do not have professional indemnity insurance coverage in mainland China. "This means that few doctors are willing to make the trip north," he says.

In the technology and innovation sector, companies that want to bring talents to Hong Kong can fast-track visa applications under the Technology Talent Admission Scheme, but they are limited to recruiting 100 people a year.¹³

¹² Hong Kong SAR government, November 2019

¹³ Hong Kong SAR government, Innovation and Technology Commission

While companies still perceive some hurdles to moving talent around within the GBA, they are optimistic about the prospects of recruiting talent in the region. Arthur Chen, Chief Financial Officer of fintech firm Futu, says: “Shenzhen attracts talent from around the mainland. Many young people, fresh graduates, come to Shenzhen every year. The city is very energetic, and these young people have the patience, they have the hunger, they have the energy.” Chris Birdsong, Asia Pacific Chief Executive Officer at engineering and design company Atkins, agrees: “You’ve got a fairly young population that is more and more well-educated,” he says. “It is relatively easy to find good people to hire.”

Alex Ho, Co-founder and Chairman of marketing company Moli Media, highlights his strategy when recruiting talent in the GBA. “We will look for CFOs and financial talents in Hong Kong, and we will look for R&D talents in Shenzhen,” he says.

Companies are likewise optimistic that initiatives to increase the flow of talent in the GBA will be effective, while they are also confident that they will be able to hire the people they need as they grow their businesses. Whether they intend to tap into local talent pools in other GBA cities or increase labour mobility across the region, there is a need to formulate a clear people strategy that considers both benefits and risks.

In the next chapter, we examine the three standout sectors – technology and innovation, financial services and trade and logistics – seen as the key beneficiaries of the region’s development. We analyse how they can contribute to the future of the GBA.



A new hub for social e-commerce

Alex Ho

Co-founder and Chairman, Moli Media

The Greater Bay Area is developing as mainland China's hub for e-commerce content marketing, according to a leading company in the rapidly emerging field.

Guangzhou-based Moli Media manages a number of online key opinion leaders (KOLs) to provide marketing solutions to brands such as Procter & Gamble and Unilever.

Co-founder and Chairman Alex Ho says the GBA was well-placed to attract firms working at the intersection of social e-commerce and content marketing.

"There is a lot of research going on for cutting-edge technologies like AI in Beijing, there are numerous traditional e-commerce companies in the Yangtze River Delta, but the GBA has an overall advantage in the new social e-commerce phenomenon where media and e-commerce are combined," says Ho.

He notes that many cross-border e-commerce companies are operating in the GBA, especially in Guangzhou and Shenzhen. "They are the two biggest cities for cross-border online trading in mainland China, so when we combine content marketing, e-commerce and cross-border business in the future, the GBA definitely has a competitive edge here."

Media and communications hub

Guangzhou has several advantages as a base for a company such as Moli Media, Ho explains.

"We're in a subdivision of the e-commerce industry focused on content marketing, and because Guangzhou has ample industrial chain and supply resources, we have set up camp here," he says.

"The reason we chose Guangzhou for our head office is because the city is a media and communication hub in South China: a lot of the provincial level TV stations and major traditional media companies are based here," Ho explains.

He admits that for a company based in Guangzhou that is heavily dependent on the internet, the biggest challenge is finding high-quality tech talent.

"For a company in the new economy, we are in need of good-quality talent, especially in IT and sales. We don't need to establish branches to connect with our clients – this can all be achieved online, so we direct most energy towards acquiring high-calibre talent," says Ho.

"It is very hard to build a sound R&D team in Guangzhou, we cannot find enough talent here, so there is also the idea of setting up a R&D centre in Shenzhen in the future."

He notes that Moli Media is looking to Hong Kong for financial professionals, Shenzhen for tech professionals and Guangzhou for commercial professionals.

"Now that the salary gap between the mainland and Hong Kong is closing and GBA has brought about favourable tax policies for Hong Kong residents to work in the mainland, as part of our attempt to recruit better talent from elsewhere, Moli Media has made job offers to Hong Kong residents."

Moli Media has already made a move into the international e-commerce space by collaborating with e-commerce companies in countries involved in the Belt and Road Initiative.

Centre for online content marketing

"Our original plan was to cooperate with leading e-commerce operator Shopee in Shenzhen to extend our e-commerce marketing in Southeast Asia," says Ho.

"But recently, we have set up a new independent company in Guangzhou to specialise in the business related to content e-commerce in Southeast Asia."

In terms of regulatory support, Ho believes that the social e-commerce sector has yet to benefit from the current set of policies in the GBA.

"The policies so far have been focused on attracting overseas investment and talent into the GBA, which has not really made a direct impact on us," says Ho. "But I do think that we could benefit from more foreign capital in the future since the cost is much lower than domestic funds."

However, he asserts the GBA has much to gain from leveraging expertise and investment from Hong Kong and Macau.

"I have noticed an increasing number of entrepreneurs from Hong Kong and Macao launching their start-ups in other GBA cities – I have seen incubator projects in cities like Shenzhen and Guangzhou, this is a good start," he says. "Maybe we can attract more and better overseas talent because they are essential to the GBA's transformation into an international hub."

Ho has already proposed the Guangzhou government help build the city into the centre of online content marketing in the GBA, by promoting collaboration with universities and introducing e-commerce to traditional trading businesses.

"We could position the GBA as the hub for content marketing in China, or even the world," he adds.



Setting the standard for the GBA

Patrick Lee

Chairman, Hong Kong Association for Testing, Inspection and Certification

Hong Kong should take the lead in harmonising consumer standards across the GBA – and use world class benchmarks to drive innovation and investment across the region, according to the chairman of the Hong Kong Association for Testing, Inspection and Certification.

Patrick Lee says the industry is pivotal in building a competitive, innovative economy that provides residents with a decent living environment – ambitions that dovetail with the GBA Outline Development Plan released by the central government in February 2019.

The region can harness increasing consumer demands for safe, quality products to set standards in areas where no effective international benchmarks currently exist and position the region as a world leader in the industry.

Lee suggests areas in which the region could pioneer new standards include food, consumer products and construction materials – but he added the priority should be sustainability, where international frameworks remain vague.

“Sustainability is more of an idea right now – there are still a lot of areas with no real standard,” he says. “And we are not just talking about the environment, but also related products such as dehumidifiers, air conditioners or batteries for electric vehicles.”

World-class standards can also help provide more than 70 million GBA residents with clean air, water and food they can trust, as well as burnishing the credentials of the region as a place to live and build a business.

Rigorous standards can protect investment

By developing regulations that are more stringent than those elsewhere in China, the industry can also promote R&D, provide certainty to investors and even give exporters an advantage, Lee adds. “Standards can attract the right products to be sold in the GBA, and you can also provide incentives for sustainable new technology.” He also notes rigorous standards can also protect investment in hi-tech products by preventing substandard copies from being sold in the region. “And you also give manufacturers a new weapon when they are selling their products outside of the GBA – because they can say my product is actually GBA standard, which will be known around the world.”

As the GBA becomes increasingly connected, it is imperative it develops unified standards. Prefabricated sections of a building manufactured in southern China,

for example, may be used on a construction site in Hong Kong, so rigorous standards must apply throughout the region.

Lee says HKTIC is already in discussion with the Hong Kong government’s Innovation and Technology Commission about liaising with authorities across the border, and adds the Guangdong provincial government has already shown its willingness to engage with Hong Kong’s testing and inspections community. The goal is to set up a GBA committee to set and uphold standards.

Adding value to the economy

“The GBA is becoming a powerhouse of innovation – we can leverage that and become an area that we set the rules,” Lee asserts. “Let everybody else follow. Because setting the rules implies that we can get a faster return on our capital expenditure. And then we can open the eyes of the world to what good quality really means.”



Within Hong Kong, Lee concedes the industry is facing a shortage of land and manpower. However, he says the key to ensuring its viability is to demonstrate the value testing and certification can bring to the economy. If the industry can champion Hong Kong’s traditional strengths, Lee is of the opinion that it can prove its worth, attract talent and secure sufficient land.

“There is one thing which is absolutely distinctive about Hong Kong: integrity,” he says. “Our anti-corruption index is one of the best in Asia. In testing and inspection and certifications, you require people and a culture of high

integrity. The value of testing in Hong Kong has not been fully explored.

“Once consumers are willing to pay more for products tested in Hong Kong then you can start realising the value.”

Lee adds that by working in R&D with regional universities the industry can proactively enable innovative materials and products to be brought to market. Ultimately, the testing, inspection and certification industry in Hong Kong can only prosper by taking advantage of the mainland’s transition to an economy driven by domestic consumption and technological innovation.

“Without the GBA it is nothing – nobody cares if we just set a Hong Kong standard, because the Hong Kong market is just too small,” Lee says.

Making smart and green cities a reality

Chin Yee Wong

General Manager, Pokfulam Development Company Limited

German Cheung

Business Development Director, Elevant-Garde

Cloud and Internet of Things (IoT) solutions can boost connectivity while cutting energy use and carbon emissions to transform the GBA into a networked region of smart and environmentally-friendly cities.

This is creating opportunities for real estate and property management companies – and as a result, developers are now examining ways technology can give them a competitive advantage.

One example is smart building solutions provider Elevant-Garde (EVG), a two-year-old joint venture created by Hong Kong-listed property developer Pokfulam Development (PDCL) and German Cheung (pictured right), the founder of multimedia system design and engineering company VanguardCube Limited.

PDCL General Manager Chin Yee Wong (pictured left) points out that the rise of the GBA has opened up a host of possibilities, and in addition to its developments in Hong Kong, PDCL has a subsidiary in Qianhai and a project in Guangzhou.

Breaking down barriers

The growing popularity of shared office and residential space in the region, for example, could exploit technology to change the way offices and homes are used, while cutting emissions and improving the environment.

“The GBA initiative encourages the idea of more space-sharing in this area. That could also apply to the digital space. I can see many more people getting most of their work done remotely using their digital devices, and maybe only meeting up in a physical office as a hub to exchange and share their business ideas,” says Wong.

The idea of using technology to break down the barriers between personal and professional lives is a key part of the smart cities vision. Making it a reality requires that

the technology be built into a development, but recent developments in cloud and IoT technology have made it a highly achievable target for cities to attain.

“The idea of smart cities is well known,” says Cheung, who also serves as the business development director of EVG. “One of the key elements in a smart city is smart buildings, which are comprised of smart units. We can use this technology for data analytics and automation. Energy control and consumption are also more efficient this way.”

Getting to the point where a significant portion of buildings are “smart” will take many years. For now, only newer developments incorporate smart

building management systems and many older buildings remain disconnected.

Affordable and intuitive

However, the challenge of updating older buildings with the new technology also creates opportunities. For example, EVG developed an economical intelligent building management system (iBMS) that can be incorporated into older buildings to provide many smart features that make newer buildings more efficient.

Ultimately, this evolution will depend on the capacity of the region’s infrastructure – and how affordable and accessible smart features are.

“For the GBA to be a success, fast or even real-time exchanges of information between the government, the private sector and citizens are key and need to be improved,” says Wong. “Our hope is that all stakeholders and citizens in a smart city can access useful information like current traffic conditions or where to buy products through a single platform.”

“We need to make smart cities and green solutions affordable and intuitive in order to increase the participation rate – instead of the idea of smart cities as something that looks nice on paper but is not realistic,” he concludes.





Sector winners



The central government is fostering a culture of innovation in the believes innovation driver of growth. ”

Philip Ng
Partner, Head of Technology
and Head of Media
KPMG China

Technology and innovation

Technology and innovation companies are seen as having the most to gain from the development of the GBA for the second year running. The sector is set to benefit from plans to transform the region into a world-class technology and innovation hub and centre for emerging industries. This view is shared by business executives we surveyed, with Siu Hung Chan, Managing Director – China, CLP Holdings Limited, pointing out: “In the Outline Development Plan one word certainly stands out: innovation. It appears over 130 times in the report.”

Shenzhen is already one of three key innovation centres in mainland China, home to tech giants such as Tencent, Huawei and SenseTime. The GBA aims to leverage this strength through the development of a Guangzhou-Shenzhen-Hong Kong-Macau innovation and technology corridor. The Outline Development Plan sets out a range of policies to support the sector, including measures to increase talent mobility, the creation of a GBA big data centre and national innovation demonstration zones. Other initiatives to further boost the innovation and technology ecosystem set out in the plan include the provision of co-working spaces, entrepreneurship exchanges, innovation platforms and R&D institutes. Collaboration between the industry, research institutes and universities across the GBA will also be encouraged. The central government is stepping up its focus on Shenzhen, with an ambitious reform plan published in August seeking to build on the city's tradition of entrepreneurship and innovation that has seen it submit more international PCT patents than any other city in China.

Survey respondents are similarly optimistic. More than half (56 percent) of all businesses polled think the innovation and technology sector will benefit most from the GBA initiative, broadly in line with 2018's survey results. Companies based in mainland China are particularly upbeat about the sector's prospects, with 61 percent of firms based in one of the nine mainland China GBA cities and 62 percent of enterprises based in non-GBA cities in mainland China expecting it to benefit from the development. Among technology and innovation companies themselves, 79 percent think the sector will be the main beneficiary of the development.



**Shenzhen
is one of the
most tech-
savvy cities
in China,**

**thanks to the existence of
Tencent and a lot of star
entrepreneurs.**

Arthur Chen
CFO, Futu

Given the high levels of support that are being put in place, innovation and technology companies are the most bullish of all about their own growth prospects in the GBA, with 53 percent of firms expecting their revenue to rise by at least 30 percent in the next three years – more than double the average of 23 percent for companies across all sectors that anticipate this level of growth. A further 26 percent of technology companies expect revenue growth of between 20 percent and 29 percent in the three years ahead.

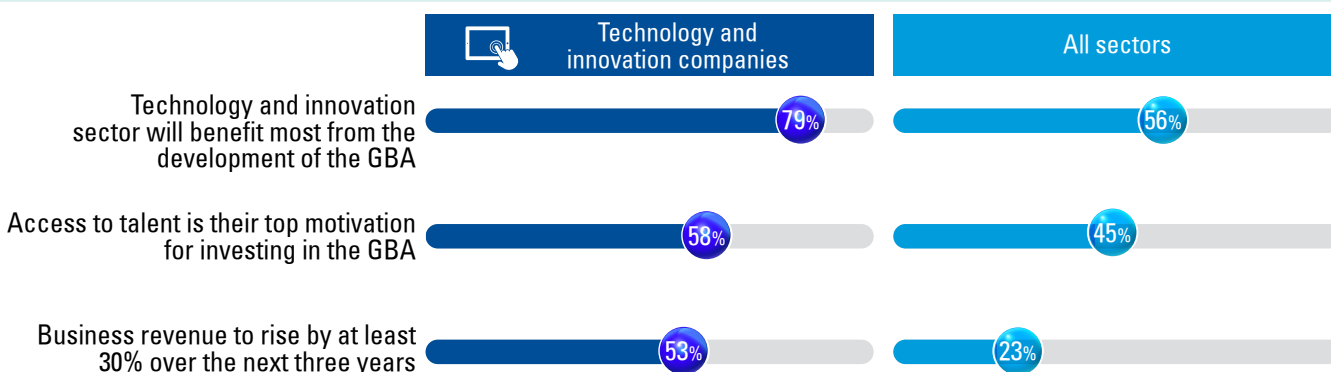
Philip Ng, Partner, Head of Technology and Head of Media, KPMG China, says: “Deep tech innovation has now become the national priority of mainland China. The SOEs and POEs are all geared towards deep tech innovation. The central government is fostering a culture of innovation in the GBA, as it believes innovation will be a key driver of economic growth.”

Talent recruitment is seen as a key investment focus for technology and innovation companies, with 92 percent of firms that have a strategic plan for the GBA saying they will be investing in this area in the next financial year. Arthur Chen, Chief Financial Officer of fintech firm Futu, says his company has already increased its headcount by 30 percent year on year. “This year starting from Q1 after the GBA Outline Development Plan, we’ve hired aggressively not only in Shenzhen but also here in Hong Kong because we think it is a huge opportunity for us,” he notes.

R&D is the second biggest area of investment focus for firms in the technology and innovation sector, with 71 percent of companies with a strategic plan for the GBA expecting to spend money on this area in the year ahead. More than two thirds (67 percent) of technology and innovation companies anticipate increasing their R&D spending in the coming three years in the GBA outside of the city in which they are based. That is among the highest level for any sector in the survey.

Figure 4.1 Highlights for the technology and innovation sector

(Compared to other sectors)



Source: Survey analysis

Shenzhen, which has been designated as the GBA's innovation city, is set to be the top recipient of additional R&D spending, with 37 percent of technology and innovation companies expecting their R&D expenditure to be focused there, followed by Hong Kong at 24 percent and Guangzhou at 16 percent.

KPMG's Ng notes Shenzhen's unique standing in this area within the GBA. "In August the central government released plans for Shenzhen to become a model city with bolder reforms, and one priority area is technology and innovation," he says. "This is the only city given this kind of status." He adds that the Shenzhen government has also formulated additional policies and incentives, most of which are linked to the deep tech innovation area, like 5G, biotech, chipsets and artificial intelligence. "Much innovation talent is congregating in Shenzhen because of the tech companies in the city, so we believe Shenzhen will continue to lead the way in deep tech innovation."

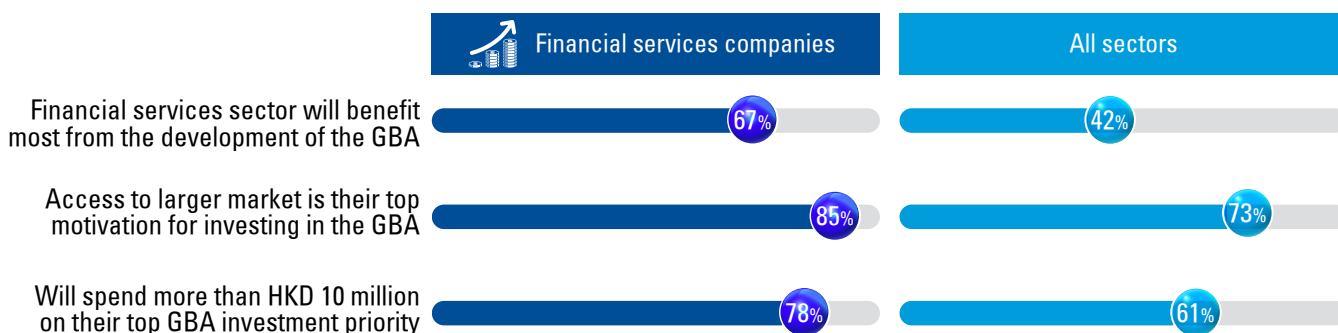
For its part, Hong Kong is set to act as a funding hub for the innovation and technology sector, as well as an intellectual property centre. The Outline Development Plan talks about using the city's private equity funds to help finance innovation and technology enterprises in the GBA and becoming a centre for high-tech industries and technology enterprises that want to list. The city's status as a global financial centre also makes it well placed to support fintech firms.

Financial services

Financial services is considered the second major beneficiary of the development of the GBA. Companies' plans to grow their businesses in the GBA create significant opportunities for the sector, with demand for financing, asset management, banking and insurance all set to increase. In addition, the Outline Development Plan sets out a number of policy goals that will benefit the sector, ranging from establishing new equity and capital exchanges, to the creation of fintech and insurtech hubs. There are also plans to establish a GBA international commercial bank to spearhead the development of the region.¹⁴

Figure 4.2 Highlights for the financial services sector

(Compared to other sectors)



Source: Survey analysis

¹⁴ Outline Development Plan, February 18, 2019, https://www.bayarea.gov.hk/filemanager/en/share/pdf/Outline_Development_Plan.pdf

“



Green loans and green bonds are a fast-growing space, and we see increased investor sophistication.”

Pat Woo

*Partner,
Head of Sustainable Finance
KPMG China*

The sector has a significant role to play in helping to improve the flow of capital within the region and meeting companies' growing cross-border financial needs. In line with this, the Outline Development Plan sets out a number of initiatives to increase the scope for the cross-border use of renminbi (RMB) in the GBA, including cross-border RMB interbank lending, RMB foreign-exchange spot and forward business, and the creation of RMB derivative products, as well as to connect electronic payment systems across the GBA to facilitate the creation of a single, unified economy. In November, plans were announced to explore the possibility of creating a cross-border wealth management scheme, and to enable Hong Kong residents to open bank accounts remotely and use mobile payments in the nine mainland China GBA cities.¹⁵ The policy measures also set out plans to make it easier for Hong Kong insurers to operate in the nine mainland China GBA cities.

As one of the world's leading financial centres, Hong Kong will play a key role in the development of financial services in the GBA. The city has been named as the international financial hub for the region, while it will continue in its role as the world's largest offshore RMB centre, and an international asset management and risk management hub. The Stock Exchange of Hong Kong is also expected to continue to play a key role in helping mainland China firms to list. Chen of Futu says: "Many Chinese companies, in particular new economy companies, have started to list in Hong Kong in the past five years."

However, opportunities created by the initiative are not limited to Hong Kong, with the Outline Development Plan setting out a range of goals for other cities in the GBA, including developing a regional private-equity trading market in Guangzhou, a capital market in Shenzhen with the Shenzhen Stock Exchange as its core, and a new platform in Macau for financial services for China-Lusophone countries, including an export credit insurance system and an RMB clearing centre.



¹⁵ HKSAR Chief Executive attends meeting of Leading Group for Development of Guangdong-Hong Kong-Macao Greater Bay Area, November 2019, <https://www.info.gov.hk/gia/general/201911/06/P2019110600764.htm>



The financial services sector in the GBA is facing a critical development period fuelled by significant infrastructure construction and financing demands, asset management expansion, offshore and onshore business growth, as well as fintech.

Ivan Li

*Managing Partner, Shenzhen,
and Head of Financial Services
for Southern China
KPMG China*

Given the range of opportunities being created, the financial services industry is seen as one of the top three sectors that will benefit from the development of the GBA for the third year running. More than four out of 10 (42 percent) surveyed companies cite it as a major beneficiary, broadly unchanged from 2018's survey. But while in 2018 financial services was considered to be the third-most likely industry to gain from the initiative, in this latest poll it placed second. Among financial services companies themselves, 67 percent expect the sector to benefit from the GBA's development, with the industry seeing itself as the top beneficiary.








Ivan Li, Managing Partner, Shenzhen, and Head of Financial Services for Southern China at KPMG China, says the sector is uniquely placed to benefit from the development focus on the area. "As the central government promotes investment in the GBA, more and more mainland Chinese, Hong Kong and foreign investors will set up and or invest in new banks, asset management and securities companies."

There is likely to be positive movement around Hong Kong's development as a cash management and corporate treasury centre. A number of China based SOEs and POEs – many with multi-jurisdictional operations – continue to look at expanding overseas, especially into the ASEAN region, and are increasingly thinking about how to manage their cash centrally. This opens up opportunities for banks in Hong Kong to provide support to companies.

Financial services firms are more likely than any other sector to cite access to a larger market as being their key reason for investing in the GBA, with 85 percent of companies in the sector saying this is their key motivation for investing in the region, compared with an average of 73 percent across all sectors. Six out of 10 financial services firms also say getting closer to business partners and customers is an important reason for investing in the GBA.

With the GBA a focus for expansion across multiple sectors, the funding plans of other industries also create opportunities for financial services firms. While almost six out of 10 (59 percent) companies polled say they will use their working capital to fund their growth in the GBA during the coming three years, 36 percent plan to use shareholder investments or private equity (see Figure 4.3). More than one in 10 also plan to use public capital markets or equity (14 percent), private debt (13 percent) or debt or bonds raised through public capital markets (13 percent).

Figure 4.3 How companies plan to fund their growth in the GBA*(Over the next three years - by location)*

	Overall	Hong Kong SAR	Macau SAR	9 Mainland GBA cities	Non-GBA cities in Mainland
 Working capital	59%	61%	69%	52%	56%
 Shareholder investment/Private equity	36%	33%	46%	38%	43%
 Government funding	16%	18%	23%	15%	10%
 Public capital markets/Equity	14%	13%	N/A	22%	12%
 Private debt	13%	11%	23%	17%	16%
 Public capital markets/Debt/Bonds	13%	11%	15%	20%	10%
 Crowd funding	3%	3%	N/A	8%	2%

Source: Survey analysis



As interest in sustainable finance grows across the GBA, promising opportunities will arise for those offering in-demand green solutions.

David Harrity

Head of Growth Propositions
Commercial Banking
Hong Kong
HSBC

In addition, the development of the GBA brings opportunities for financial services companies offering green finance. Pat Woo, Partner, Head of Sustainable Finance at KPMG China, points out that sustainable and green finance has been one of the top topics in 2019, and sustainability is also a key policy initiative of Beijing, with the 14th Five-Year Plan expected to continue this focus. “Green loans and green bonds are a fast-growing space, and we see increased investor sophistication,” he says. “They will be looking for more checks and balances. Hong Kong has a key role to play with regards to trust and transparency and can use global standards to support ESG claims made by corporates operating in the GBA to avoid green washing.”

In fact, businesses in the GBA have expressed an interest in exploring green financing products. Nearly half (47 percent) of companies polled say they would consider using sustainable financing products as a source of funding as they expand in the GBA, although within this total, only 12 percent actually plan to use sustainable financing products, with 35 percent saying they are interested in the products but need more information on them. Companies in the healthcare and life sciences (69 percent), and technology and innovation sectors (61 percent), along with conglomerates (64 percent), are most interested in sustainable financing products, but at least half of firms in these sectors still want more information.

Trade and logistics

For the third consecutive year, trade and logistics is seen as one of the top three sectors that will benefit from the development of the GBA, with 35 percent of companies in this year's poll expecting it to gain from the initiative. The figure is down slightly from the 45 percent of businesses that cited it as a major beneficiary in 2018, when it was seen as the number two sector that was most likely to gain, while in 2017's survey it was rated as the top industry that would benefit from the development of the GBA.

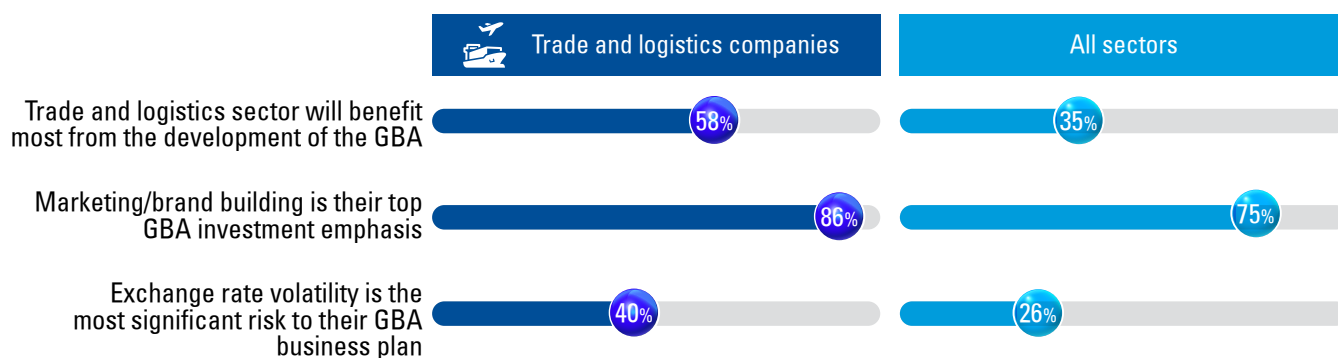
Companies in the trade and logistics sector itself are particularly optimistic about the industry's prospects, with 58 percent expecting it to be a major beneficiary of the development of the region. Duanwei Fan, Deputy General Manager, Transportation and Logistics, at China Merchants Group (CMG) says: "The planning for the GBA is relatively well-developed in our business sector." He adds that CMG is not only constructing a hub in the GBA to link its logistics network with cities in southern China and Southeast Asia, but it is also monitoring consumption trends in the region so that it can adjust its distribution services accordingly. "We pay close attention to new retail trends: e-commerce, online shopping and online-offline integration," Fan says.

Karmen Yeung, Head of Enterprise at KPMG China, identifies a unified customs system within the GBA as a possible development that would benefit the sector. "This could take the form of goods arriving in Hong Kong for consumers within the GBA being subject to a simplified customs regime," she says. "This means business could take advantage of Hong Kong's status as a free port."

The sector is further poised to benefit from the GBA's focus on innovation and technology. On the one hand, efforts to help manufacturers move up the value chain are expected to lead to a rise in both the import of component parts needed for production, and the export of finished products. At the same time, the focus on technologies such as automation, artificial intelligence, the Internet of Things and blockchain will also increase the efficiency of supply chain management.

Figure 4.4 Highlights for the trade and logistics sector

(Compared to other sectors)



Source: Survey analysis

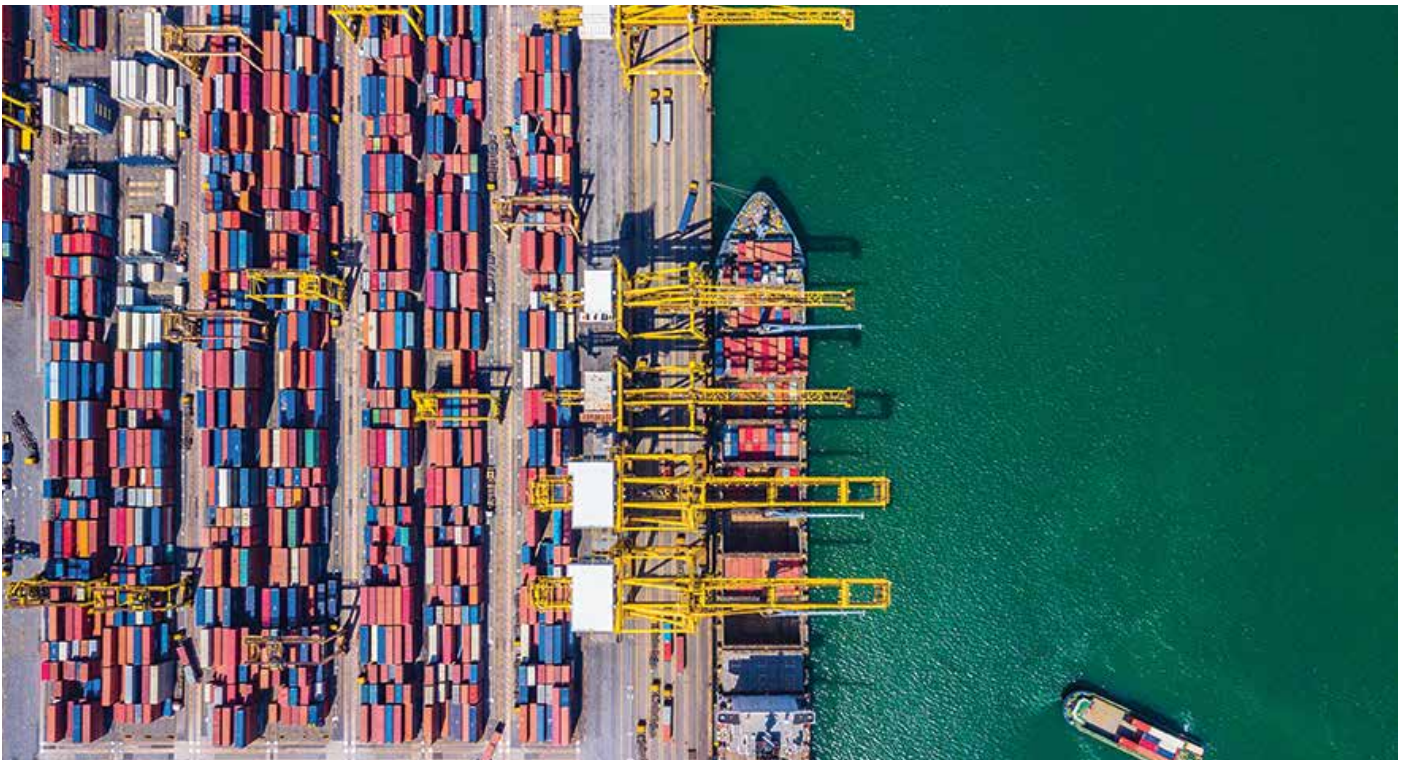
In terms of labour mobility, trade and logistics firms have relatively ambitious plans for the region. Nearly one fifth (18 percent) of companies in the sector expect more than half of their senior staff to regularly work in more than one GBA city within the next three years, with a further 22 percent anticipating between one quarter and half will do so.

Regarding their investment focus, trade and logistics companies are most likely to be planning to spend money on marketing and brand building, at 86 percent, significantly ahead of the average of 75 percent across all sectors.

However, Fan still sees hurdles that need to be overcome before the GBA is truly integrated for firms in the sector. "From a logistics point of view, I am concerned about a more streamlined transit clearance process. We have three jurisdictions in the GBA: mainland China, Hong Kong and Macau. Although the flow of goods is easier in the GBA, we still need to better streamline the process of crossing the borders." Another challenge is the way the 11 cities in the GBA will converge, Fan says. "The overall plan involves the repositioning of 11 cities, and the construction of logistics hubs, including the upgrading of ports and airports," he explains. "From a policy point of view, I think connecting the individual logistics plans for each city is also a challenge."

In summary, technology and innovation is the sector expected to see most benefit from the increasing integration of the GBA. The region, led by Shenzhen, is positioning itself as the Silicon Valley of East Asia, and has a number of key technology giants attracting attention globally. Additionally, with the continued convergence of technology and innovation with other sectors such as financial services and trade and logistics, lines between sectors will continue to blur and the benefits from the development of the technology industry will reverberate more widely.

In the final section of the report, we put forward recommendations to help businesses across all sectors benefit from the GBA initiative.



Riding the equity wave

Arthur Chen

CFO, Futu

Shenzhen-based online brokerage platform Futu is targeting Hong Kong for aggressive expansion as the fintech aims to repeat its success with mainland China clients. The move hints at the convergence of the fintech sector within the Greater Bay Area – and the demand on both sides of the border for innovative financial products.

The seven-year-old start-up is emblematic of Shenzhen's growing fintech strength and it is capitalising on Hong Kong's status as China's international finance hub. CFO Arthur Chen says the region is by far the best place in the country for the firm – which counts Tencent as its key strategic investor – to flourish.

Natural fit between GBA cities

"Shenzhen is one of the most tech savvy cities in mainland China, and is very strong in entrepreneurship," Chen says. "And Hong Kong is definitely one of the most influential financial centres in the world. So, I do think there will be a lot of connections – not only among industries but also among people and culture. I think there is a lot of natural fit between these cities."

Futu employs around 700 staff, mostly in Shenzhen where its product development and R&D teams are based. The company – which allows mainlanders to use their offshore money to invest in Hong Kong and US shares – also has an office in Hong Kong as well as a satellite office in Palo Alto in California. Currently, 70 percent of its clients are from the mainland, and Chen says the market would continue to grow as investors in mainland China catch up with developed countries and allocate more of their assets into overseas markets.

Hong Kong remains an attractive destination

Chen adds the company had ambitious plans to expand in Hong Kong, where the onshore trading market remains considerably less advanced than north of the border. "On the mainland, you have over 100 securities firms," he notes. "Also, they are much, much stronger in terms of tech infrastructure compared with Hong Kong, where there are still a lot of legacy issues, not only regarding infrastructure, but also from the regulations."

With the launch of the GBA Initiative in February, Futu has accelerated investment. "We have increased headcount by over 30 percent year-on-year," Chen says. "This year, starting from Q1, after the GBA Outline Development Plan, we've hired aggressively not only in Shenzhen, but also here in Hong Kong because we think it is a huge opportunity for us."

Chen points out Hong Kong remains an attractive destination for mainlanders and their families, not least because of its "soft" advantages in education and healthcare, although quotas mean there are limits on the number of IT staff Futu can move from Shenzhen.

Conversely, Futu does not need to move people north and has no problem recruiting in the tech-focused city. "We can find a lot of good talent in Shenzhen already in the financial service market," Chen says. "Shenzhen attracts talent from around the mainland, so many young people, fresh graduates, come to Shenzhen every year. The city is very energetic, and these young people have the patience, they have the hunger, they have the energy."

Shenzhen's proactive government support

Shenzhen, with its wealth of tech talent, also benefits from more proactive government support and preferential policies for the fintech sector. "Hong Kong has had discussions but I have not

seen concrete action or supportive policies in place yet," Chen says. He also suggested regulations in Hong Kong preventing smaller investors from buying stocks in fintechs should be phased out – and he is confident authorities are committed to widening access to markets. "I think the regulators have become more open minded and want to be more flexible and more constructive," he says. However, Hong Kong's regulations around data security and privacy remain significantly tighter than those on the mainland.

Overall, Chen is optimistic for the region's future, as long as barriers between its cities continue to be dismantled. "If you look at the key cities within the GBA such as Shenzhen, Guangzhou, Zhuhai and Hong Kong, a lot of their advantages and disadvantages can complement each other. I think that the GBA should be the most significant area within Greater China in the next three to five years."



Heating up the incubator scene

Dr Claudia Xu

Chief Commercial Officer,
Hong Kong Science and Technology Parks Corporation

The Greater Bay Area is a region where manufacturing is extensive, and innovation, talent and collaboration are top of mind for many companies.

"Growing numbers of enterprises in mainland China, especially in the GBA, have innovation and technology (I&T) as their focus," says Dr Claudia Xu, Chief Commercial Officer of the Hong Kong Science and Technology Parks Corporation (HKSTP), a statutory body established by the Hong Kong government in 2001. "We have witnessed overseas as well as mainland companies come to set up their R&D operations in the Science Park."

As the GBA draws upon the unique attributes of its 11 cities, Dr Xu believes HKSTP "can play a better role" in attracting overseas talent for I&T companies. Dr Xu says HKSTP can also complement efforts to lure overseas universities and research institutions to build up a research capability and talent pool in Hong Kong. She cites as an example InnoHK – a major initiative of the Hong Kong government to attract world-class institutions focusing on healthcare, AI and robotics technology to set up in Hong Kong Science Park.

Pursuing talent a priority

Talent is a watchword at HKSTP, a sprawling campus providing over 4 million square feet of laboratory and office space. It is home to 800 technology companies and has launched more than 640 incubation graduates since its inception in 2002. HKSTP's "comprehensive support"

for incubation, Dr Xu says, includes "people, funding, hardware, and networking".

HKSTP hosts start-ups and talent as they grow in Hong Kong, serving as their regional headquarters or R&D site. HKSTP provides facilities for tenants to use, such as the Robotics Catalysing Centre, Sensor Lab and Biomedical Technology Support Centre. HKSTP's iDM2, programme is designed to help start-ups shorten the hardware and development cycle, and lower R&D and production costs. Along an uncertain journey, HKSTP assists start-ups to survive and grow.

"Talent is the key focus of all start-ups," Dr Xu says, noting companies always ask "where they can recruit top people." For this reason, HKSTP has created programmes to connect firms to university graduates and students seeking full-time employment or internships. Combining the resources of Hong Kong's well-regarded universities with the manufacturing capabilities of Shenzhen and Dongguan has boosted optimism within the GBA, Dr Xu

adds. "You can migrate from research, prototyping, scaled-up production to some other advanced business area in GBA. You need material, knowledge, and talent – and you can find them all."

Collaboration a key to success

The GBA also relies on cross-border collaboration to thrive. HKSTP is "able to offer companies space, funding support and connection" before they expand to the mainland. "We understand the mainland I&T landscape, policies and regulatory process which start-ups must navigate," Dr Xu says. "Using medical devices as an example, we have good knowledge and connection with government agencies, regulatory bodies, testing labs and manufacturers in the GBA. We build these networks and connect our start-ups with good partners in the GBA."

In addition, I&T companies view Hong Kong as their regional headquarters or R&D base for expanding to overseas markets. "Especially now with the Belt and Road Initiative, tech companies want to expand into countries such as the Philippines, Thailand or Malaysia. Hong Kong is the best place for them to start and grow," Dr Xu says. "As it is connected to international innovation and technology resources, Hong Kong sits in a favourable position within the GBA and along the Belt and Road countries," she notes. HKSTP works closely with the Hong Kong Trade Development Council and InvestHK to promote business opportunities for the cities in the Belt and Road countries. Dr Xu adds that start-ups in the GBA can

benefit from a "vast network in different countries via Hong Kong".

Room for improvement

Looking ahead, Dr Xu says Hong Kong could aim to facilitate the transfer of its universities' research to market. The government has given the institutions funding to support their tech transfer offices and seed money for start-ups based on research output. In addition, she advocates a more collaborative funding model in which "all the cities or governments in the GBA have common mechanisms" to underwrite major research.

The GBA is not yet a fully integrated region, Dr Xu adds, comprising different legal systems, currencies and ways of doing business. "The government has done a lot, but we also need to leverage the community and the private sector for investments of all kinds of support. The market changes very fast. Hong Kong should promptly capitalise on market opportunities."



A base for global expansion

Duanwei Fan

Deputy General Manager, Transportation and Logistic BU, China Merchants Group

Sinotrans – the China Merchants Group’s logistics unit – has a new Hong Kong headquarter as the conglomerate expands in the Greater Bay Area. The region’s unique position within mainland China as an international financial and logistics hub makes the city a natural home for global projects.

Duanwei Fan, CMG’s Deputy General Manager, Transportation and Logistics BU, identifies four key areas of development in the GBA for transportation and logistics: the construction of logistic hubs, the linkage between the GBA and Southeast Asian countries, the advancement in logistics technology, and the utilisation of financial tools in the logistics sector.

The construction of transport and logistics hubs in the GBA is complex, explains Fan, and should be designed to integrate with the GBA’s connections to other networks in Central and Southern China, as well as Southwest China.

“This is a matter of how to achieve the holistic domestic integration of logistics hubs, including the ones in the GBA,” he says. “We need to find out where the nodes of urban connection are; how to best choose airport locations for logistics; how to develop different modes of transportation including sea transits, ports, and highway-railway-waterway journeys; and how to plan the channels in the Pearl River Delta.”

Logistics and finance hub

Fan notes the key strategic plans of the state-owned group highlight a host of overseas regions which are involved with the Belt and Road Initiative (BRI).

“The Middle East and Africa region is another one of our focuses, for example, we have a port project in Djibouti,” says Fan. “We’re also doing some planning along the railways connecting China and Europe, for example, the Sino-Belarus Industrial Park, Great Stone.”

Fan notes that the group has been leveraging the invaluable expertise in Hong Kong and Macau to help carry out these projects. “The scale of the GBA’s economy is huge,” he says. “At the same time, it is also the most active economic zone in China.”

Hong Kong may be able to help procure new opportunities as Sinotrans plans further expansion in the Belt and Road.

“To help other countries build roads, airports, railways, power stations and telecommunication infrastructure, China exports a large amount of construction equipment, and we are taking care of the overseas logistics of that,” Fan says.

“After all, Hong Kong is an international city, it has logistics and finance as two of its pillar industries. Maybe Shenzhen has recently surpassed Hong Kong in scientific

and technological capabilities, but the city’s position as an international finance and freight centre is still a big advantage in the GBA.”

Fan notes that CMG’s overseas business only accounts for about 10 percent of the group’s total business. “But we hope to increase it to 20-30 percent,” he says. “We also have a 30 percent target for the logistics business unit.”

Branching out from traditional logistics

Another direction of Sinotrans’ development in the GBA is urban consumption logistics. As Sinotrans branches out from traditional industrial logistics to capture the growth in consumer logistics, the group is looking at the re-planning of its consumer goods distribution system in the GBA. A typical expanding business is a supermarket and chain store distribution company, which hired Sinotrans to help meet their demands during their rapid expansion.

Fan points out that new retail such as “e-commerce, online shopping and online-offline integration” is also of interest for the group.

“Two out of the four first-tier cities are located in the GBA,” he says. “We are looking for opportunities in population re-distribution and urban consumption upgrades. After all, consumer goods supply is a big challenge.”

In the past, consumer distribution centres in most GBA cities grew organically. Taking cues from the overall development plan of the GBA released in February, Sinotrans hopes to adjust its consumer goods distribution system to reflect each GBA city and possible changes in population distribution.

Room for improvement

Developing logistics technology is an important aspect of Sinotrans’ business plan for the GBA – and here the free flow of talent plays a crucial role.

Although the movement of talent between Hong Kong, Macau and the mainland cities has been made easier with newly established express visa policies, Fan points out that there is still room for improvement.

“Maybe there can be a fast pass within the GBA that allows greater mobility of people, I think our current conditions would allow that to happen,” he says.

Technological innovation for the logistics sector is already flourishing in Shenzhen where top-notch tech talent gathers.

Fan gives the example of SF Express, a delivery services company based in Shenzhen that has “already formed a reserve for technology innovation in the Shenzhen Bay area” with its 4,000-member R&D team. He adds the results may be promoted nationwide or even globally in the future if coupled with “Hong Kong’s rich capital, strong financial and logistics capabilities”.





Viewpoint

**Ayesha Lau**

Managing Partner, Hong Kong

The continued development of the Greater Bay Area into a single connected market with a seamless movement of goods, capital and people will yield meaningful opportunities for both businesses and investors.

The past 12 months have seen a number of significant policy developments, creating increased certainty for businesses expanding in the region as they develop their own strategic plans. The publication in February 2019 of the Outline Development Plan, which sets out a blueprint for the GBA, was followed by a further eight policy measures in March and 16 additional policy measures in November. Building on the increased connectivity already seen as a result of the expansion of transport networks, these measures further facilitate the flow of talent, goods and finance within the GBA.

Deeper harmonisation is an important part of unlocking the true economic potential of the GBA. These policy measures help to overcome some of the issues created by the three different legal, tax and regulatory systems of mainland China, Hong Kong and Macau, while also increasing companies' confidence in the initiative.

The four core cities have been assigned complementary roles to enhance the global competitiveness of the region and build on their existing strengths. As such, Guangzhou will function as an international commerce and integrated transport hub; Shenzhen will act as a focus point for the innovation and technology sector; Hong Kong will leverage its status as a global financial centre; and Macau's role will not only include tourism and leisure, but it will also act as a platform linking China and Lusophone countries.

Collaboration is an important part of the GBA initiative, and the region can grow much faster if full advantage is taken of each city's specialisation and economies of scale are created.

KPMG China

Forecasts suggest the GBA economy could double in size in less than a decade, putting it on track to overtake the UK which is currently the world's fifth largest economy. Companies in the region are therefore highly confident about their own prospects, with 56 percent of firms in our survey expecting revenue growth of more than 20 percent in the coming three years, with 23 percent predicting revenue growth will exceed 30 percent. The fact that businesses in eight out of the 11 sectors included in our survey consider themselves to be in one of the top three sectors that will benefit most from the GBA's development shows the high level of optimism companies feel about the initiative.

To fully capitalise on the opportunities the GBA offers, it is important that businesses put in place the right strategy and adopt a GBA mindset. This involves factoring in the increased connectivity and flow of goods, services, talent and information, and embracing the region holistically. It is tantamount to economic globalisation at a local level.

Innovation should also play a key role in companies' strategies for the GBA. While a number of policy measures have been announced that specifically support the technology and innovation industry, these policy measures have a knock-on effect for other sectors too. Companies in all sectors should think about how they can harness innovation and technology to grow their own business.

Alongside expansion opportunities in the region, the GBA initiative is also expected to create international opportunities for businesses through its alignment with the Belt and Road Initiative. In addition, it could act as a catalyst for a further opening up of the country's economy, with new policies tested in the region before being extended nationally.

Whether businesses are looking to break into the mainland China market or expand overseas, the GBA represents an opportunity they should not ignore.

Viewpoint

**Terence Chiu**

Head of Commercial Banking, Hong Kong

HSBC

The Greater Bay Area initiative represents a significant opportunity for businesses, as the nine cities in Guangdong join the two Special Administrative Regions of Hong Kong and Macau to drive value that is greater than the sum of their parts. Companies in the region, including HSBC, are optimistic about the GBA's outlook.

The region already punches well above its weight from an economic perspective, producing more than 35 percent of the country's exports and 12 percent of its GDP by 2018, despite occupying only 1 percent of the landmass. It is already comparable to many of the other top 20 countries in terms of GDP and exports.

The city-cluster model will create further value with businesses in the region able to benefit from the individual strengths of each city. The GBA provides the most compelling example of how the clustering of talent, capital and industries will drive higher value-added production and support consumption to secure long-term sustainable growth. The true strength of the GBA is combining growing businesses in the region with the benefit of the offshore financing platform Hong Kong has to offer.

The scale of the initiative, the increased connectivity and the region's large and growing population will also create opportunities. It is a unique proposition that everything is so close: you can achieve so much in such a small landmass.

The innovation and technology sector is likely to be one of the main beneficiaries of the initiative due to the central role innovation plays in the Outline Development Plan. In fact, a number of large innovation and technology companies have already come out of the GBA. The level of GDP spent on R&D in the region is also significantly higher than in the rest of China – which already spends more than many other countries around the world. If you look at the start-up scene, both in Hong Kong and on the Pearl River Delta side, there will continue to be the emergence of a noticeable number of these companies with global potential, supported by government policies to drive the GBA to be a world-class innovation centre.

HSBC also sees opportunities around retail consumers due to the large market in the GBA. The region has a population of over 70 million people, with this expected to rise in the coming 10 years. We can see the macro factors: a large population, rising disposable income and GDP growth all point to people consuming more.

The trade and logistics sector is expected to be another major beneficiary of the GBA's development as a result of increased connectivity in the region. We have already seen examples of infrastructure being brought online in the last 12 months, and we expect more infrastructure to be developed to make the GBA truly connected. Trade and exports also look set to increase as manufacturing in the region moves up the value chain.

HSBC Commercial Banking recently launched a GBA+ Technology Fund to support early stage new economy companies in the region. It has set aside USD 880 million to lend to companies operating in sectors including Artificial Intelligence, robotics, biotechnology, healthcare technology and e-commerce. We see it as quite a material step forward for HSBC to support new economy companies earlier in their life cycle that are facing challenges accessing financing.

The bank has also set up dedicated client coverage teams for the technology and healthcare sectors to help it develop a more specialist understanding of these areas in response to the important role they will play in the GBA. We have a dedicated team of relationship managers from Hong Kong to provide on-the-ground support in GBA cities to facilitate business referrals. We are investing in talent in the region to support the needs of customers across the border. The bank is also keen to support the next generation of growth companies, reflecting HSBC's strategic commitment to adopt a holistic approach and help entrepreneurs and new economy companies thrive across the GBA.

Viewpoint

**Pang-chun Yu**

Convenor of the GBA Working Group

HKGCC

The strong support the GBA initiative has received from both the central and local governments makes it potentially the most significant development for the Hong Kong business environment for decades to come.

The region is comparable to Australia or South Korea in terms of the size of its economy, while its population of more than 70 million people means it represents a huge market for companies in Hong Kong. It also offers a larger pool of resources, such as land and labour, two areas where Hong Kong is facing bottlenecks. In fact, the region may be one of the few places where businesses can expand and seek higher returns over the next few years.

Since the GBA initiative was first announced, the Chamber has organised a wide range of seminars and missions to update its members on the latest developments. These are particularly welcomed by SMEs which have fewer resources at their disposal than larger companies and may not be as well informed about the GBA. Accordingly, we have seen Chamber members keen to join the Chamber's GBA events and explore opportunities arising from the GBA plan.

We expect financial services, professional services, and R&D related to innovation and technology to be particular beneficiaries of the initiative, due to their cumulative knowledge and experience in dealing with both domestic and international businesses. Our stock, bond and insurance experts can serve the needs of local, mainland and overseas companies in the GBA and beyond. Hong Kong's financial sector can leverage on these strengths and tap into opportunities arising from the GBA market.

Despite the numerous opportunities presented by the GBA initiative, Hong Kong businesses still have some concerns because of the different tax and legal regimes, exchange and capital controls among the jurisdictions within the GBA, and whether there will be a level playing field for them. The survey also

highlights relatively fewer companies in Hong Kong have prepared a strategic plan for the region compared with businesses in other GBA cities. Going forward, as these concerns are addressed, more Hong Kong companies are likely to adopt a strategic plan for the GBA in the near future.

Even so, the Chamber would like the governments in the GBA to do more to support SMEs, as they lack the information and resources to deal with the different jurisdictions within the region. The GBA governments can provide SMEs with more information on areas such as regulations, taxation and other policy measures, talent availability and business opportunities. Additionally, standardising certain regulations to minimise operational obstacles to doing business in the GBA would also provide significant relief to Hong Kong companies, especially SMEs.

The Chamber would also like to see more being done to help increase the mobility of talent within the GBA. While the recent announcement to facilitate the travelling of non-Chinese Hong Kong permanent residents to and from the nine GBA cities in Guangdong Province is welcome, foreign talent still cannot travel freely within the GBA. The Chamber proposes the introduction of a GBA Card, a visa system modelled on the APEC Business Travel Card Scheme, in which business travellers – no matter whether they are permanent Hong Kong residents or not – can travel among GBA cities more easily.

Despite the regulatory differences that still exist, we urge companies not to delay entering the GBA market. Instead, they should proactively identify the key tax policies and incentives that impact their industry, as well as looking at the key development priorities of each city within the GBA, so that they can select the one that best fits their profile.

In order to capture those opportunities, they should act now even though they may not be 100 percent sure, as procrastination may lead to missed opportunities.









Suggestions

The comments below regarding the further improvement of the GBA are drawn from participants in the report, together with feedback from roundtable events. They do not necessarily represent the views of KPMG, HSBC or HKGCC.





Sector initiatives

-  Continue to invest in transport infrastructure to enhance realisation of a 'quality living circle' in the region
-  Share real-time traffic data between GBA cities to ease vehicular congestion and increase energy-sharing
-  Transform Hong Kong's ageing construction industry, addressing labour force constraints and adopting new digital technologies
-  Enable reciprocity of bank accounts and know-your-customer/anti-money-laundering standards across the GBA
-  Launch 'Insurance Connect' and 'Wealth Management Connect' to allow Hong Kong financial institutions to offer insurance and wealth management products to residents elsewhere in the GBA
-  Allow banks in Hong Kong and Macau to fund infrastructure projects across the GBA



Tax

-  Clarify and harmonise legal and tax regulations across all sectors to facilitate business
-  Extend the scope of the 15-percent individual income tax to people who fall outside the definition of high-end talent



Mobility and Talent

- ✓ Develop a GBA Free Trade Zone to encourage efficient trade and movement of talent, goods and services across the region
- ✓ Propose additional initiatives to speed up and simplify customs procedures for cross-border movement of goods
- ✓ Introduce a GBA card similar to the APEC Business Travel Card to facilitate business travel, help talent from mainland GBA cities come to Hong Kong and vice versa, and hasten border clearance
- ✓ Expand the scope of mutual recognition of professional qualifications to more sectors to increase the flow of GBA talent
- ✓ Promote easier transfer of payments across the GBA, using electronic systems such as Alipay and WeChat Pay



Additional

- ✓ Create a central GBA office to coordinate policy interpretations, such as on tourism, infrastructure planning and marketing
- ✓ Establish a GBA committee to set and uphold standards in areas such as testing and inspection for closer alignment and greater clarity between respective cities
- ✓ Offer additional support for SMEs looking to broaden their operations in the GBA amid regulatory changes and other developments
- ✓ Foster further collaboration between universities and research institutes in the GBA so that they can leverage their strengths

About KPMG

KPMG China is based in 23 offices across 21 cities with around 12,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Zhengzhou, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing audit, tax and advisory services. We operate in 147 countries and territories and have more than 219,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multi-disciplinary services (including audit, tax and advisory) by some of China's most prestigious companies.

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About HSBC

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HSBC Commercial Banking

For over 150 years we have been where the growth is, connecting customers to opportunities. Today, HSBC Commercial Banking serves around 1.5 million customers across 53 markets, ranging from small enterprises focused primarily on their home markets through to corporates operating across borders. Whether it is working capital, term loans, trade finance or payments and cash management solutions, we provide the tools and expertise that businesses need to thrive. As the cornerstone of the HSBC Group, we give businesses access to a geographic network covering more than 90 percent of global trade and capital flows. For more information, visit <https://www.hsbc.com/who-we-are/our-businesses/commercial-banking>.

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About HKGCC

Established in 1861, the Hong Kong General Chamber of Commerce is the oldest and most broadly representative business organisation in the city. The chamber is the voice of business in Hong Kong. Its strong corporate membership covers more than half of the Hang Seng Index's flagship corporations and about one-fifth of Fortune Global 500 companies. Chamber members combined employ about one-third of Hong Kong's workforce.

For the past 158 years, the chamber has grown with Hong Kong. Its mission is to promote, represent and safeguard the interests of the business community in the city. At the same time, the chamber provides support, networks, training and business services to help companies grow and prosper.

Through its advocacy work, the chamber lobbies governments, legislators, policymakers, public bodies and other organisations to make it easier for the business community to do business. The chamber has representatives on more than 40 government and non-government advisory boards, as well as the Hong Kong SAR's Executive Council and Legislative Council, plus the CPPCC Standing Committee of the PRC.

Every year, the chamber organises more than 500 events. These range from networking cocktails, seminars, training programmes and policy discussion sessions to meetings with delegations from around the world. It arranges visits to companies and government facilities in Hong Kong, as well as missions to mainland China and overseas. The chamber also provides a wide range of services, from business document services and conference room rental to events management and advertising.

The chamber is not just the oldest business organisation in Hong Kong but also the most dynamic and progressive. Its sights are fixed firmly on the horizon, constantly searching for new opportunities and ways to help its members.

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