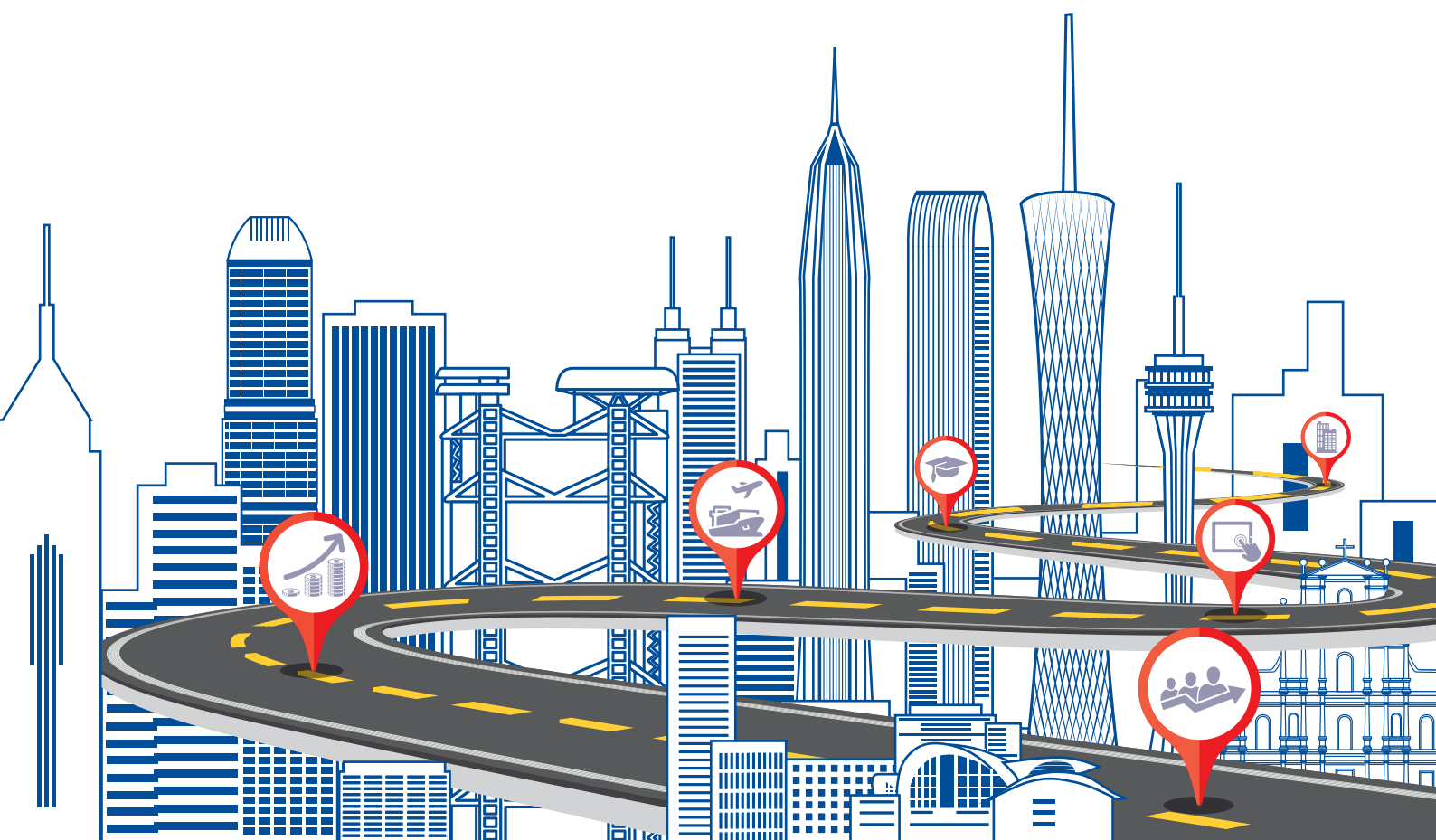


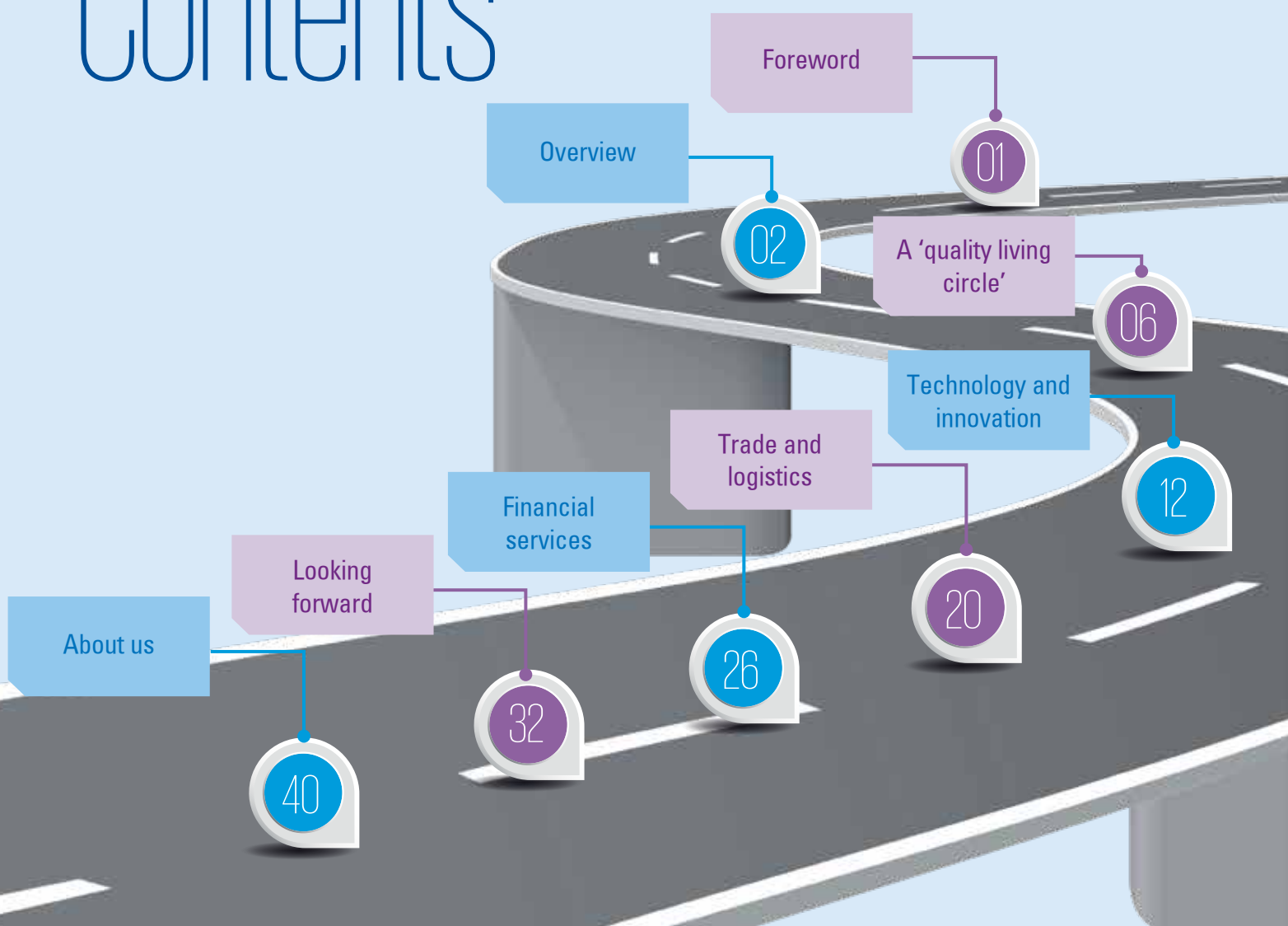


# Navigating the Greater Bay Area

*Second annual survey on  
key drivers for success*



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# Foreword

The Greater Bay Area (GBA) continues to gain momentum as a collaborative initiative, with significant potential to shape the future of the region. In the 12 months since we conducted our inaugural survey on the region, interest in and understanding of the GBA has risen strongly.

We have also seen new initiatives introduced by the respective governments in Guangdong, Hong Kong and Macau to improve the flow of capital, goods and people within the region.

Many of these government proposals aim to help build a 'quality living circle' within the GBA, to provide an ideal place for living, working and travelling. This involves the development of new lifestyle facilities around sports and recreation, arts and culture, education, tourism and hospitality.

The ongoing expansion of transport and logistics networks – including the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong High Speed Express Rail Link – marks further significant steps in enhancing connectivity and the overall liveability of the region.

Twelve months on from our inaugural survey, to further assess business sentiment around the GBA, KPMG China, HSBC and the Hong Kong General Chamber of Commerce (HKGCC) jointly conducted a survey of more than 700 business executives at companies operating in the region.

The results of the second annual survey confirm the strong confidence among business executives, who say that the GBA's economy looks certain to grow at a higher rate than the rest of China, and in doing so will create a range of business opportunities across a number of industries.

Our survey respondents see technology and innovation, trade and logistics, and financial services as the sectors likely to do particularly well as the GBA project unfolds. Moreover, as our interviews for this report show, other industries, including healthcare, transport, professional and business support services all look set to benefit as well.

We would like to thank all the survey respondents for taking the time to provide their input, and to the executives who kindly agreed to be interviewed for this report.



**Ayesha Lau**

Managing Partner, Hong Kong  
KPMG China



**Helen Wong**

Chief Executive, Greater China  
HSBC



**Shirley Yuen**

Chief Executive Officer  
Hong Kong General Chamber  
of Commerce

# Overview

The Greater Bay Area (GBA) Initiative is an ambitious programme aimed at integrating Hong Kong, Macau and the nine cities in Guangdong's Pearl River Delta to create one of the world's foremost economic regions. The close collaboration between the respective governments in the region aims to promote the free movement of capital, goods and people, and to create an ideal place for living, working and travelling.

“



***The GBA is well-positioned to become a major economy and mega metropolis, which will create significant opportunities for businesses across all sectors.***”

**Ayesha Lau**

*Managing Partner, Hong Kong  
KPMG China*

What makes the GBA unique is its potential to leverage Hong Kong's financial, trade and professional services strengths, Shenzhen's high-tech manufacturing and innovation capabilities, Macau's tourist attractions, and Dongguan, Guangzhou, Foshan and Huizhou's manufacturing expertise, to create an equal to the bay areas of San Francisco, New York and Tokyo.

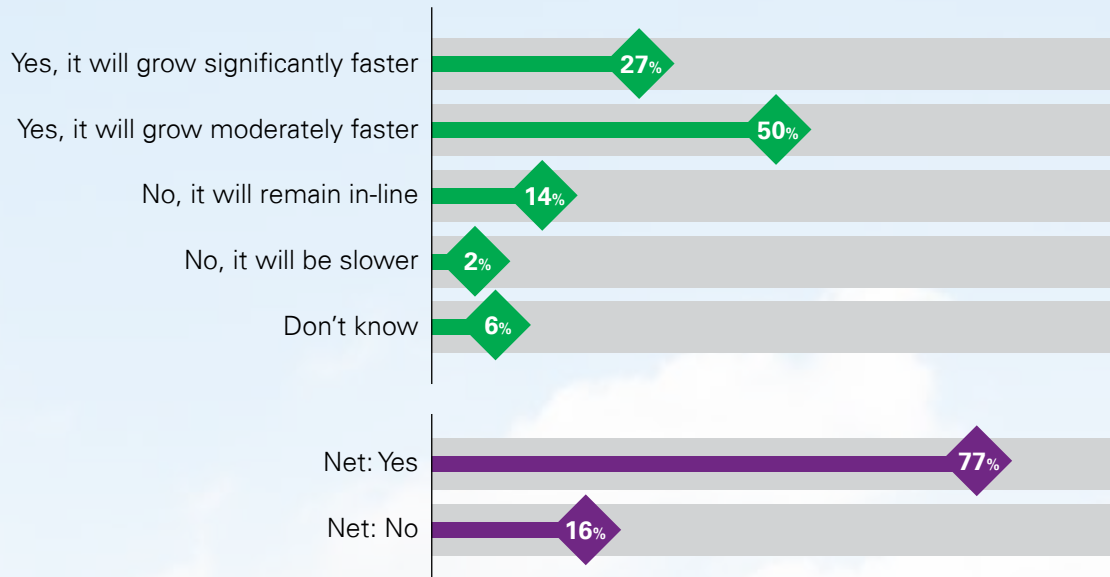
The Initiative starts from a strong base. Although the GBA covers less than 1 percent of China's land area, and is home to less than 5 percent of the country's population, the combined GDP of the region's 11 cities was US\$1.53 trillion in 2017, while its more than 69 million people form the country's single biggest consumer market. At its heart lies three major cities: Hong Kong, China's leading channel for foreign investment since the start of the country's economic reforms at the end of the 1970s; Shenzhen, which has evolved from being China's most successful special economic zone into becoming its leading centre of technological innovation; and Guangzhou, Guangdong's provincial capital.

During the first decades of China's reform and opening up to the world, the Pearl River Delta was seen as the world's factory, financed largely with Hong Kong capital, and reliant on the city's traders and logistics firms to send its goods to the world. Today, the delta region, augmented by Hong Kong and its fellow special administrative region Macau, runs not just one of the world's most advanced manufacturing networks, but has added innovation and technology to its industrial repertoire.

Twelve months on from our inaugural survey of business leaders on the GBA, respondents to this year's survey continue to be optimistic about the potential benefits and opportunities, and eagerly await further developments. The eleven cities of the GBA constitute China's wealthiest urban cluster, and the size of the region's consumer market is expected to increase exponentially by 2025. More than three quarters (77 percent) of respondents say they expect the GBA's economic growth to exceed that of the rest of China over the next three years.



### Will the GBA grow faster than the rest of China over the next three years?



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

Source: Survey analysis



***I believe the GBA will grow to become the largest bay area***

***in the world. A lot of people say by 2030, but I think it may be faster.***

***Helen Wong***

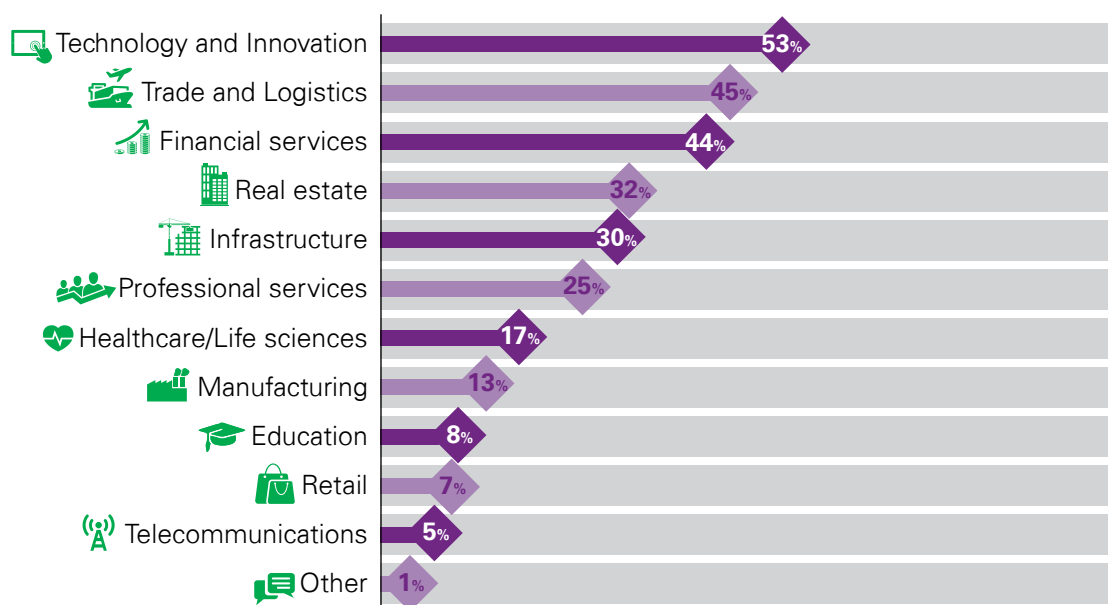
***Chief Executive, Greater China HSBC***

This optimism about the region's growth prospects translates into a positive business outlook. Some 70 percent of those polled expect that the GBA will contribute to the growth of their businesses over the next three years. Only two percent indicate it will have a negative impact. When asked to indicate the region's main benefits, 68 percent of respondents highlighted the GBA Initiative's potential for allowing access to more business opportunities, while 53 percent flagged its potential for greater synergy achieved by pooling resources.

In addition, the launch of new infrastructure like the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge will help drive rapid economic growth and facilitate cooperation between businesses in Hong Kong and the rest of the GBA. "This free movement of people and potential reduction in transaction costs will underpin the GBA's economic activity. With proper policy support and cooperation in the GBA, under the principles of complementarity and mutual benefit, we think the optimism of the survey respondents is understandable," says Shirley Yuen, Chief Executive Officer, Hong Kong General Chamber of Commerce (HKGCC).

While the GBA is expected to create business opportunities across all sectors, the survey respondents identified technology and innovation (53 percent), trade and logistics (45 percent) and financial services (44 percent) as the three key sectors to benefit the most. In the following sections of this report, we look at each of these sectors in more detail. In comparison, respondents in last year's survey highlighted trade and logistics, financial services and R&D in innovative technologies as the top three industries to benefit the most from the GBA's development.

### Industries to benefit the most from the GBA's development



Source: Survey analysis

### Top three industries to benefit the most from the GBA's development



1



Technology and innovation



2



Trade and logistics



3



Financial services

2017



Trade and logistics



Financial services



R&D in innovative technologies

Source: Survey analysis

While the surveyed executives are optimistic about the development of the GBA, a majority of them would like to see greater regulatory clarity, and how the various governments in the region could reconcile their different tax, healthcare and visa regimes – among other things – to facilitate the greater freedom of movement of people, capital, information and goods. In comparison, respondents in last year’s survey identified “protectionist thoughts and resistance among GBA cities”; “breaking silos between and within governments”; and “dependence on government’s foresight and planning capability” as the top three challenges arising from the GBAs development.

As a matter of fact, with 57 percent of the companies we surveyed saying they either already have a strategic plan for the GBA in place or are in the process of drawing up such a plan, the current regulatory ambiguity is not preventing businesses from preparing to commit themselves to the region.

### Top three risks impacting GBA business plans

1

2018

Policy/Regulatory ambiguity, uncertainty and unfamiliarity

2

Coordination among Greater Bay Area cities

3

Cross-border movement of capital

2017

Protectionist thoughts and resistance among cities within the region

Breaking silos between and within governments

Dependence on government’s foresight and planning capability

Source: Survey analysis



# A 'quality living circle'



Beyond commercial development opportunities, a key priority of the GBA is enhancing liveability for the region's citizens. The Framework Agreement for the region signed in July 2017 by China's National Development and Reform Commission and the governments of Guangdong, Hong Kong and Macau, calls for the creation of a 'quality living circle',<sup>1</sup> to provide an ideal place for living, working and travelling. This includes the development of lifestyle facilities and amenities ranging from housing, healthcare and education to sports, arts and tourism, all of which are essential to the growth of the GBA.

A key step in this direction will be developing more service industries. Today, the GBA remains heavily industrial, with a service sector that accounts for just 60 percent of its total economy – below the 80 percent level of the San Francisco Bay Area, Greater Tokyo Bay and New York Metropolitan Area.

While governments are expected to take the lead in laying out priorities, high levels of private sector participation will also be called for to help stimulate the development of many important service industries. Fan Zhen Zhong, General Manager of Taikang Community Investment, the owner and operator of a chain of nursing homes, points out: "You can't really have a complete GBA if you don't have a well-established healthcare system."

Quality healthcare, notes Fan, like education and transport, plays an important role in improving the overall appeal of a city or region, which in turn makes it easier to attract high-level staff and other talent.

<sup>1</sup> The agreement can be downloaded from [gia.info.gov.hk/general/201707/01/P2017070100409\\_262244\\_1\\_1498888409704.pdf](http://gia.info.gov.hk/general/201707/01/P2017070100409_262244_1_1498888409704.pdf) (accessed 13 August 2018).



“



***A key goal of the GBA is to build a quality living circle, which requires the transformation of the region into well-connected smart cities that are innovative and digital.***”

**Ronald Sze**  
Regional Senior Partner,  
Southern China  
KPMG China

Another proposal raised by the business community is the introduction of ‘Insurance Connect’, which would enable Hong Kong insurers to offer health and medical insurance to GBA residents. This would be particularly useful for individuals who frequently travel within the region.

Taikang already operates or is building communities in 13 cities across China. Like many other companies, it sees the harmonisation of rules and procedures as necessary for the GBA to realise its potential. “From our experience, elderly Hong Kong citizens who are covered by government insurance, but are living and incurring medical expenses in the mainland, have not been able to claim these expenses,” says Fan. “This may be a disincentive for them to reside in the mainland as it is inevitable that medical expenses will take up a larger part of their expenditure as they grow older.”

Greater coordination between cities across the GBA could also benefit the environment, another goal outlined in the Framework Agreement. For example, real-time traffic data shared between cities could help ease vehicle congestion, greater energy sharing could reduce atmospheric pollution and collaboration over air quality standards could improve living conditions.

Regional integration could also benefit by drawing on expertise developed in different parts of the region. Hong Kong’s MTR, for example, is looking for ways to share its experience in combining mass transit railways with property development as a viable way of allowing cities to run economically sustainable subway or rail networks. “A lot of local governments in the GBA are beginning to explore the opportunities offered by MTR’s hybrid business model,” says Jacob Kam, Managing Director of the company’s Operations and Mainland Business division. With the GBA looking to build a total of 3,000 kilometres of high speed, intra-city and inter-city railways during the current five-year plan period (2016-20), there is plenty of scope for cooperation and involvement, says Kam.

The GBA also provides opportunities for smart city development. This could extend beyond the goal of making each city in the GBA individually smart to offering ways of merging advanced technology and infrastructure that can improve the quality of life and the efficiency of business operations across the zone’s 56,000 square kilometres. In this regard, the continued integration of the GBA could help transform the region into a well-connected ‘mega smart city’ that can enhance the connectivity and ease of conducting business in the region, encourage innovation, attract talent and promote the sharing of information.

“



***The development of the GBA will lead to greater collaboration and synergy within the region. With each city in the GBA identifying their core comparative advantages and exploring ways to complement one another, we think there would be a more efficient allocation of resources in the region. As a result, transaction costs of commerce between Hong Kong and other GBA cities could be reduced, creating a vibrant business environment and boosting economic growth.***”

**Shirley Yuen**  
Chief Executive Officer, HKGCC

## Viewpoint

**Andrew Wells**

Executive and Senior Corporate Consultant

# Lai Sun Development

Hong Kong-based conglomerate Lai Sun Development highlights the transformation of Zhuhai into an entertainment hub, supporting the key GBA aim of establishing clear market positioning for each of the cities in the region. The Group has invested very significant amounts in the GBA, including the flagship Novotown in Zhuhai's Hengqin New Area. This is a tourism and entertainment focused mega-project which, when complete, will have a gross floor area of some 15.5 million square feet showcasing the latest technologies, products and services available in these sectors.

There are a number of parallels which can be drawn between the GBA and the US, with Hong Kong playing the role of a financial hub similar to New York; Shenzhen's technology and innovation expertise putting it in a similar position to Silicon Valley; and Macau the equivalent of Las Vegas, according to Andrew Wells, Executive and Senior Corporate Consultant for Lai Sun.

"We believe Zhuhai has the potential to be the GBA's Orlando, a major tourism hub that aims to provide a cutting-edge entertainment experience," Wells explains. "Apart from Macau, the GBA is currently very business-oriented. It doesn't yet have a complete ecosystem, which is why we believe the potential is there for services-based industries to grow significantly." Consequently, Lai Sun is also on the lookout for opportunities within the food and beverage sector. As the region's economy continues to grow, the population will naturally expect a higher standard of living, leading to increased demand for better quality products and services.

An integrated southern China offers plenty of other business opportunities, although Wells says Lai Sun will focus on its core strengths (entertainment, real estate and a number of subsidiary sectors) and markets (Hong Kong, Zhuhai, Guangzhou and Zhongshan).

"We are conscious of where our competitive advantages lie and are keen to not overextend. The GBA is a complex, long-term initiative that will require companies to adjust as and when developments occur," Wells notes.

In terms of government policies, there are a number of initiatives that he would like to see introduced, including the creation of a more integrated talent pool by lowering the criteria for Hong Kong/Macau residents to live and work in the GBA and vice versa. He also suggests the signing of a double tax treaty (or similar arrangement) between Hong Kong, Macau and the other GBA cities in order to simplify the existing differences in the interest of integration.

Wells believes policies enhancing the movement of capital, goods, information and people will be key to the successful development of the GBA. The governments of more established cities can help to accelerate the process by sharing their experiences with their peers. "At the end of the day, the various cities within the GBA are not at the same starting point," Wells points out. "We are not only talking about GDP, but also education, healthcare, transportation and also service quality. Hong Kong, for example, does not have a lot of natural resources, but it can contribute by sharing its expertise in financial, legal and logistical services with other cities in the GBA."

## Viewpoint

**Fan Zhen Zhong**

General Manager

# Taikang Community Investment

The Greater Bay Area is one of China's potentially most attractive markets, according to Taikang Community Investment, the owner, developer and operator of a chain of communities for the elderly. Its core focus is the creation and management of a community for the elderly, including accommodation and medical services provision. "Because of the way our communities operate – they are not just old peoples' homes, but essentially small towns with sports facilities, retail shops, and so on – we serve mainly the high-end consumer segment," explains Fan Zhen Zhong, Taikang's General Manager.

Headquartered in Beijing, and currently building and/or operating across 13 cities, Taikang has a community established in Guangzhou. "In our Guangzhou community, currently around 70 percent of the clientele are from Guangzhou, 30 percent are from other parts of mainland China, Hong Kong and Macau." Of the 70 percent from Guangzhou, notes Fan, nearly a third are "New Guangzhouers" – people originally from other parts of China but who moved to the city for work and decided to stay on after retirement.

"Hong Kong has a very good policy for the elderly. If a Hong Kong citizen decides to spend their retirement years in the mainland, the government offers subsidies and a host of other support services," adds Fan. The one drawback, he notes, is that elderly Hong Kong citizens who are covered by government insurance, but are living and incurring medical expenses in the mainland, have not been able to claim these expenses.

Amending practices such as this could contribute greatly to both boosting service industries in the GBA and improving living standards. Doing so, however, will take time, suggests Fan. "Simply by fixing the medical claims issue, we will be able to improve the flow of people and help to solve Hong Kong-specific challenges, such as a lack of space and an ageing population. The GBA is currently only geographically connected. Culture, regulation and policy wise, it is not as well-connected yet," he says.

There are fundamental differences in medical practices between mainland China, Hong Kong and Macau, adds Fan. "Medical systems will need to be aligned, in terms of both standards and language."

Also important is being able to find the right staff. "The more high-end your customer base is, the more demanding they will be of medical services. You can't build a healthcare industry without good medical staff. And you can't have a complete GBA region without a well-established healthcare system. Unlike some other sectors, a much longer timeframe is needed to create a complete healthcare ecosystem, and a lot of it has to do with the longer education tenure for medical students, he notes.

Straightening out such matters will be crucial for all businesses looking to operate across the GBA, not just ones in health care and social services, says Fan. "Because of regulatory/administrative ambiguities and other uncertainties and hurdles, it is hard for some companies to come up with a holistic GBA development strategy. As a result, there are companies implementing an integrated and holistic GBA strategy, but only a few are fully committed as of yet," he concludes.

## Viewpoint

**Jacob Kam**

Managing Director, Operations and Mainland Business



Railway operator MTR Corporation has clear goals in sight for the Greater Bay Area, including turning the concept of the “one-hour living circle” into reality, enabling individuals to move from one location to another within about an hour. The Hong Kong-based firm is keen to leverage its strengths in terms of physical infrastructure and railway operations to enhance the mobility of people within the region.

With the unveiling of the GBA – an ambitious plan to transform the nine cities of Guangdong together with Hong Kong and Macau into an integrated city cluster – the company has adopted a holistic approach encompassing the entire region, rather than looking at individual projects or cities.

Jacob Kam, the firm’s Managing Director of Operations and Mainland Business, notes the core concept of MTR’s business is to reduce boundaries between people, which complements the GBA’s aim to enhance greater movement. Physical infrastructure and mass transportation are some of the best solutions to achieve that goal and it’s an area the company will continue to focus on.

“It currently takes 48 minutes by train to travel from Hong Kong to Guangzhou South, without including customs clearances,” Kam says. “This is important because you can’t really have an integrated region if an individual is not able to travel to another location quickly, efficiently and effectively.”

In addition to physical infrastructure, another aspect in which Kam believes MTR can contribute is to impart new ideas and business models into other cities. For example, he points out that one of the main hurdles for the railway industry – globally – is the struggle to find a sustainable business model.

“History tells us that pure railway operators tend to have low or even negative return. Many are relying on government subsidies or other types of preferential treatment to stay afloat,” he points out. “In my view, a good business needs to be self-sufficient and sustainable regardless of the industry they are in.”

MTR operates under a transit-oriented city development model in Hong Kong, which integrates both rail and property development. The Shenzhen Metro Line 4 (Longhua Line), which has been under its management since 2010, is also operating under a similar model.

“The Shenzhen Metro Line 4 is a good example because it shows that a hybrid business model, encompassing railway and real estate, can work in the mainland,” Kam notes. “It’s not an exact replica of what we have in Hong Kong because of regulatory and administrative differences, but the aim of the project is to impart our expertise and, hopefully, invoke new thinking.”

Kam says growth prospects of the GBA are strong, with approximately 3,000 kilometres of railway expected to be built within the region by the end of the current five-year plan. These include intra and inter-city rails as well as high-speed rails.

“In addition to rail and property management, there are also plenty of opportunities in rail-related R&D as well as talent development,” Kam comments. “I think the GBA has the potential to develop one of the world’s leading railway networks in terms of technology, efficiency and service quality.”







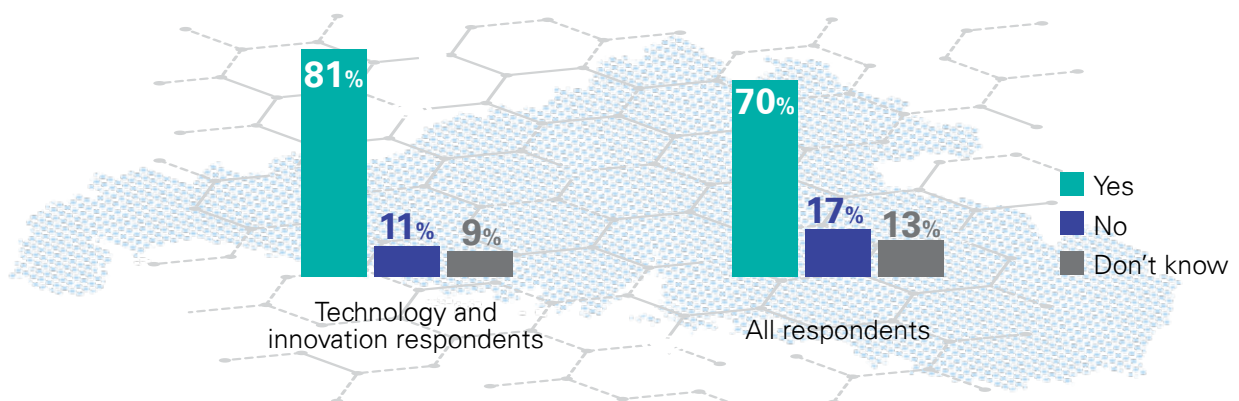
# Technology and innovation



According to our survey, the GBA's greatest area of potential lies in technology and innovation – with opportunities for businesses of all sizes – as well as the possibilities offered by the initiative to create a global technology and innovation hub by leveraging on the strengths of Shenzhen's high-tech manufacturing capabilities and Hong Kong's financial acumen.

About 81 percent of technology and innovation industry respondents say they believe their business would grow as a result of the GBA's development over the next three years, with 23 percent expecting growth of more than 10%. From a business perspective, the respondents identified the GBA's key assets as being access to more business opportunities (picked by 62 percent), the free movement of people and capital (both picked by 49 percent), and the synergies achieved from pooling resources (42 percent).

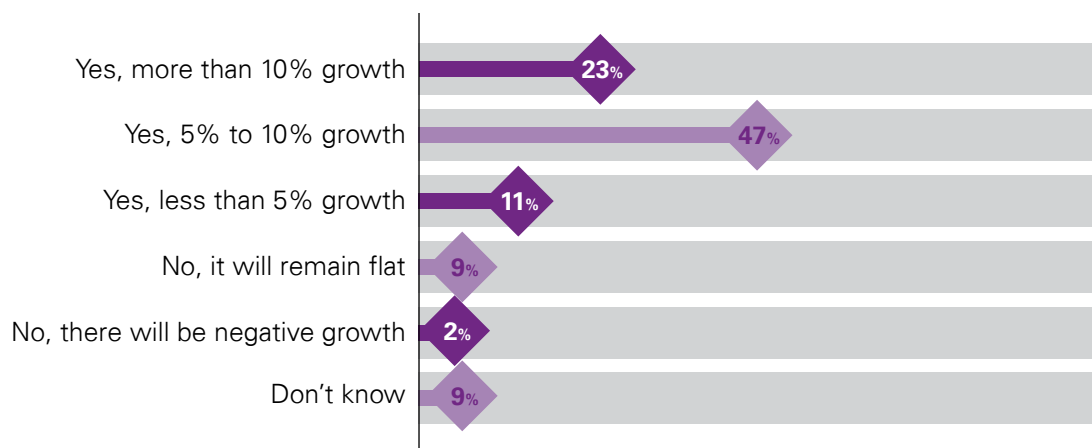
## Our business will grow as the GBA develops over the next three years



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

## Will your business grow as the GBA develops over the next three years?

### Technology and innovation respondents



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

Source: Survey analysis



**Critical to the GBA's success, as indicated by the survey respondents, is access to and the free movement of talent, as well as appropriate tax harmonisation.**

**Ronald Sze**  
Regional Senior Partner,  
Southern China  
KPMG China

The GBA is already China's principal centre of innovation, accounting for more than half of China's international patent applications. We expect Shenzhen's high-tech exports to account for a significantly larger proportion of all of China's high-tech exports in the coming years. In addition, an increasing number of China's high-tech businesses are expected to be based in Guangdong province.

Hong Kong and Shenzhen offer complementary strengths in the research and development of new products and services. Hong Kong, with its long-established universities and greater international exposure, has an advantage in conducting both basic and applied research; Shenzhen, with its better access to Chinese markets, sourcing chains and manufacturing skills, excels at testing and commercialising ideas.

Among those already taking advantage of the GBA's different assets is internet marketing company Mobvista. "As a company, the financial services we require are heavily reliant on Hong Kong. We leverage its capital markets to fund both our regional and global expansion aspirations," says Sean Song, the company's CFO. "On the other hand, our main operations are based in our Guangzhou headquarters. So the whole concept of the GBA – better collaboration, the free flow of capital, people, information and goods – will affect us greatly."

Since the announcement of the GBA Initiative, cities in the region have launched various schemes aimed at encouraging collaboration in technology and innovation. One example is the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop, an 87-hectare area on the border of the two cities, which has the potential to be a significant driver of future economic growth and a platform for technology companies to go global. According to initial plans, the Hong Kong and Shenzhen governments have agreed to co-develop the area into a new education and innovation hub, focusing on R&D and other forms of collaboration between companies and academic institutions, that will be home to around 600 high-tech firms by 2020.

Another example, in Guangdong, is the Guangzhou-Shenzhen Science and Technology Innovation Corridor, a 180-kilometre long belt running between the cities unveiled in September 2017, aimed at combining the research strengths of Guangzhou's universities and other scientific institutions, Dongguan's network of manufacturing businesses and industrial parks, and Shenzhen's high-tech enterprises.

Other proposals are being made to improve flows of technology, research and academic talent. Hong Kong is testing a three-year pilot initiative allowing the faster processing of visa applications for researchers into Hong Kong. Known as the Technology Talent Admission Scheme (TechTAS), it will initially open to tenants and incubatees of the Hong Kong Science and Technology Park and Cyberport engaging in biotech, artificial intelligence, cybersecurity, robotics, data analytics, financial technologies and material science. Companies which qualify under the scheme will be given an admission quota of up to 100 people a year.

In addition, a directive from the Central Government issued in May allows for higher education and research institutions in Hong Kong to apply for funding under the Central Finance Science and Technology Plans programme, paving the way for Hong Kong innovators to be funded directly from the mainland. "This indicates the Central Government's firm support for developing the region into an innovation and technology hub, which is one of the cooperation goals under the GBA framework. This support will certainly encourage more local businesses to get involved in technological R&D in Hong Kong," says HKGCC's Shirley Yuen.

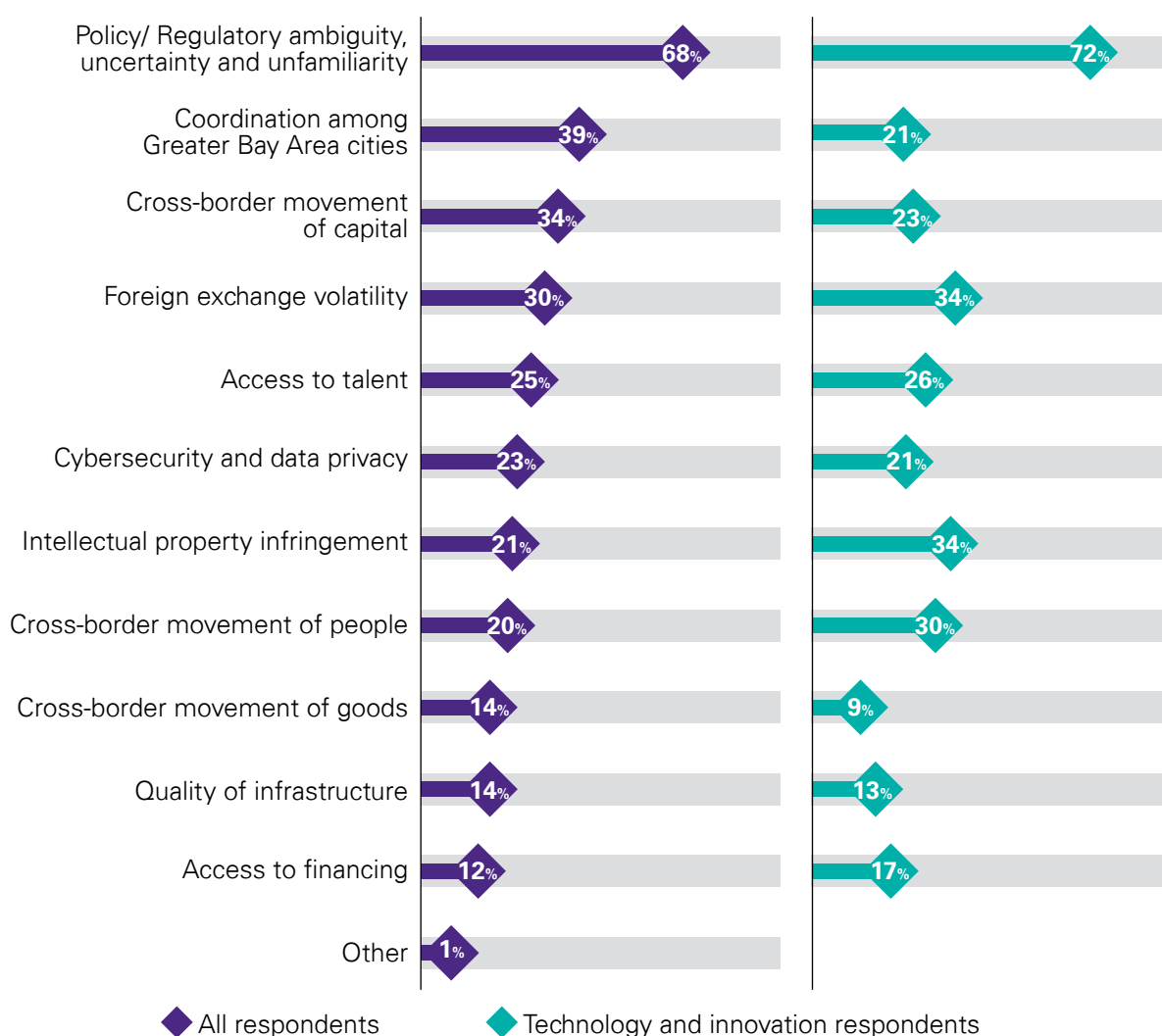




Despite the significant growth opportunities and ongoing initiatives to further develop the GBA, there are still challenges to businesses in the region. Seventy-two percent of the technology and innovation respondents say they view “policy/regulatory ambiguity, uncertainty and unfamiliarity” as the key issue likely to hold back GBA development, followed by “intellectual property infringement” and “foreign exchange volatility” (both selected by 34 percent). While “policy/regulatory ambiguity, uncertainty and unfamiliarity” is also the top risk for all surveyed business executives (68 percent), a smaller proportion of technology and innovation respondents view “coordination among GBA cities” and the “cross-border movement of capital” as major risks to existing or future GBA business plans.

Interestingly, executives in the technology and innovation sector view the cross-border movement of people (30 percent) as more of an issue than the overall respondents (20 percent), who themselves highlight the cross-border movement of capital as a more significant challenge (34 percent compared to 23 percent of technology and innovation respondents).

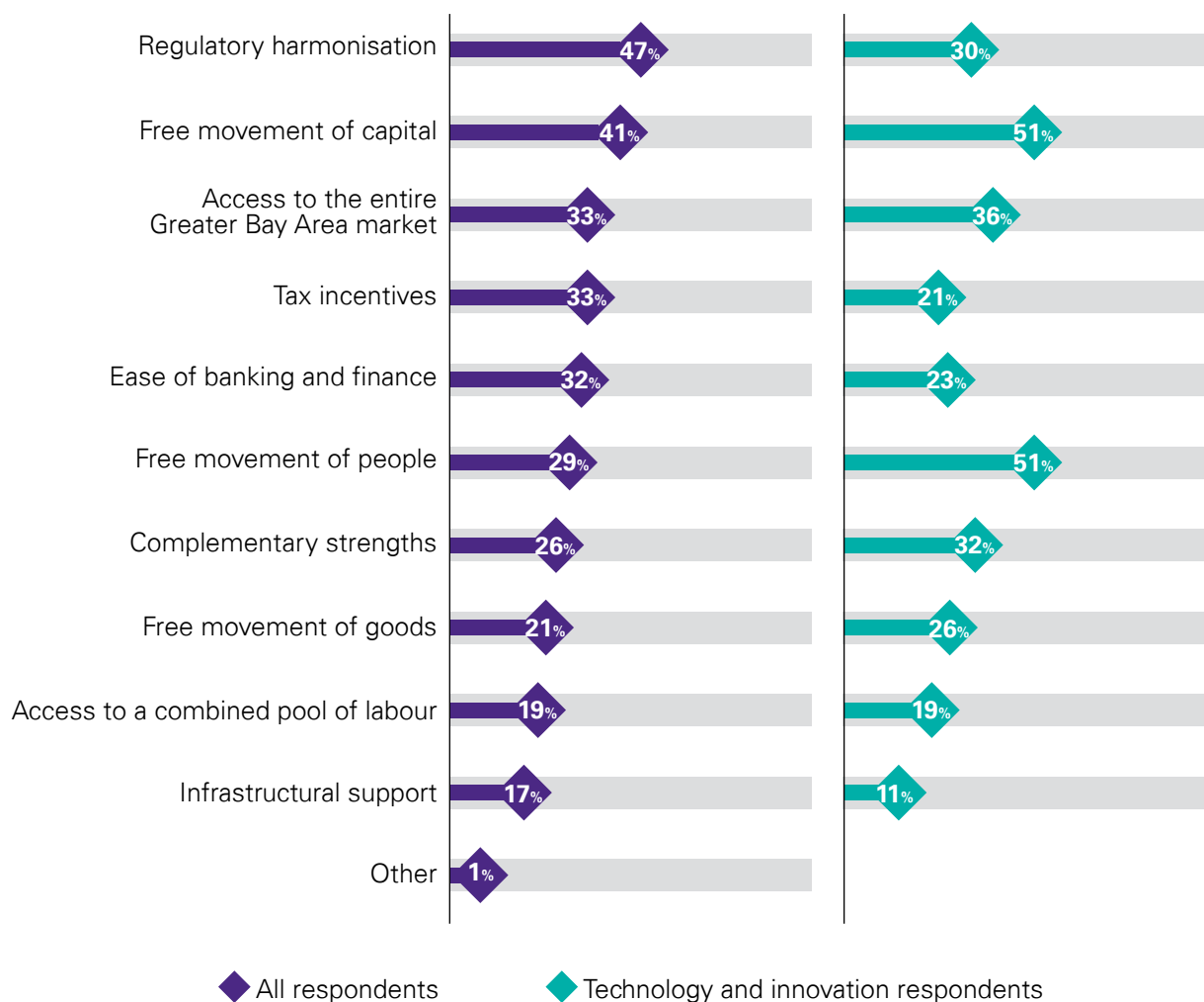
### The most significant challenges to GBA business plans



Source: Survey analysis

Getting policies right, however, will take careful planning and coordination, says Arnald Ho, Chairman of Print-Rite Holdings, the world's largest manufacturer of compatible printer consumables and a major innovator in 3D printing. Although Ho already runs a GBA-wide business – headquartered in Hong Kong, with its R&D and mainland sales arms in Zhuhai and its international sales run from Macau – he sees no need for the region's various governments to rush measures through. "I think it's actually good that the implementation plans have yet to be announced because that's given the market time to digest and discuss what they would like to gain from this landmark initiative," says Ho.

### The most decisive factors for the successful development of the GBA

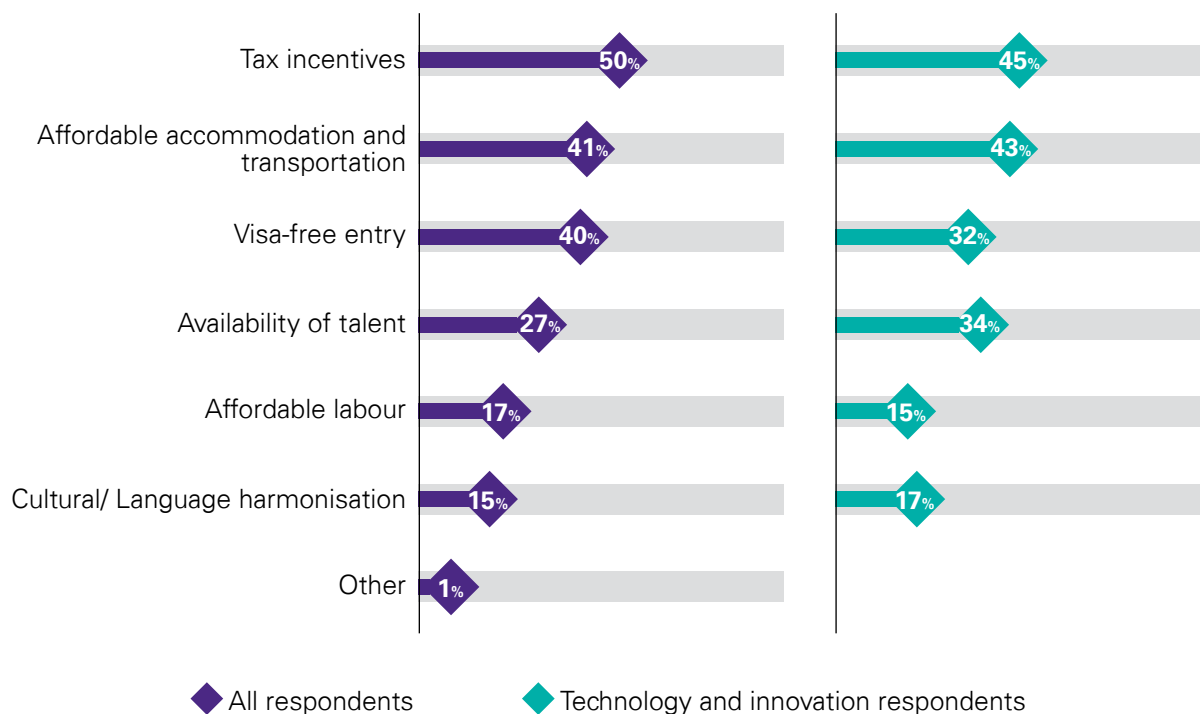


Source: Survey analysis

“Once the mainstream ideas [for the GBA] are more or less formed, we’ll start seeing the implementations come out,” says Ho. “Like many initiatives in China, things start with the concept then the implementation plans follow.” He also notes that officials in China often like to test things on a small scale to see if they work before rolling them out more widely, citing the example of an experimental scheme now underway in Zhuhai’s Hengqin district, adjacent to Macau, in which people visiting a tract of land leased by Macau University do not need to cross customs. If this proves feasible, the scheme could be extended to all of Hengqin, and then possibly to other parts of the GBA, suggests Ho.

With 40 percent of the executives we surveyed citing visa-free travel as important to facilitating the free movement of people within the GBA – behind tax incentives (50 percent) and affordable accommodation and transportation (41 percent), getting this scheme right is likely to prove important.

### The most important factors to facilitate the free movement of people within the GBA



Source: Survey analysis

## Viewpoint



**Sean Song**  
CFO

## Mobvista

Guangzhou-based mobile marketing platform Mobvista sees increased interest in the GBA from international investors. "Global interest in the GBA is definitely increasing," says Sean Song, the company's CFO. "This was apparent in a recent investor roadshow, when we were constantly being asked about the developments in the GBA and how we were leveraging on the area's growth."

For Mobvista, which is looking for ways of applying big data and artificial intelligence to make mobile online advertising more effective, this is a major branding plus. "It is starting to show that tech companies from the GBA are good – it's a sign of trust and quality," says Song.

The company already draws on different parts of the GBA area to support its growth. Headquartered in Guangzhou, which is also the site of its principal operations, it looks to Hong Kong for funds to finance its international expansion; it has an investment arm in Shenzhen's Qianhai Special Economic Zone and Hengqin, a development area directly adjacent to Macau in Zhuhai. And it has an entity tasked with availing of preferential policies to attract technology talent from Hong Kong and overseas.

"Despite the fact that we are a young company, we have already tried a lot to maximise the potential from existing policies or support services within the GBA. If we see more GBA-related policies or support that can propel free movement of capital, people and goods, this will be beneficial for us. Dynamic movement of capital as well as financial services is important to us. All our financial-related activities, including our Hong Kong Stock Exchange main board listing, are done out of our GBA offices," says Song.

For the GBA's long-term development, Song suggests it should look to emulate the San Francisco Bay Area's strengths. "The biggest advantage of Silicon Valley – the reason why it is so successful and is the go-to place for all tech-related R&D and investments – is its strong talent pool, further supported by the close proximity of Stanford University and other tech-focused universities."

"This is a relatively weaker point for the GBA. Hong Kong has a couple of globally top-ranked universities – Hong Kong University, Chinese University and HK University of Science and Technology. However, it is not easy for us to find the internet technology talent from their graduates – they are better known for their law, medical, MBA, finance programmes or other more traditional technology talent." In mainland China the top-ranked universities are located mainly in Beijing and Shanghai, he notes.

As a result, companies such as Mobvista can find it hard to hire the people they want. "We are currently experiencing the difficulty of finding high-quality tech/internet-related graduates within the GBA; as a result we have had to set up our R&D centre in Beijing." Song says other companies face similar problems, and that addressing it should be quite important for local governments' future development strategy. "We are not talking about one university, but having a cluster of successful universities. It is about building a conducive educational ecosystem that propels tech and innovation," says Song.

Song hails Silicon Valley's willingness to emphasise innovation above everything else. "In Silicon Valley, the first and foremost topic of discussion is innovation. Everything else comes later. In southern China, by contrast, while innovation is important, other interests, among them property, infrastructure and official policy investments, are also playing influential roles in terms of the area's development." Another important difference between Silicon Valley and the GBA is the attitudes of people who hold the money behind the scene. Silicon Valley's investors have more patience and tolerance towards innovation which is always coupled with risks and failure. The investors here want to see more proven business models and products. Such attitude is apparently difficult to encourage real innovation.

As a result, developing the GBA's innovation capabilities has to be seen as a long-term project. Song however is confident of the GBA's long-term success. "The concept of the GBA at the moment is still at a high level. But I hope eventually to see people migrating to the GBA, not only to Beijing and Shanghai – and that we will become the next Silicon Valley."



## Viewpoint



**Arnald Ho**  
Chairman

## Print-Rite Holdings

The success of the Greater Bay Area hinges on its ability to offer free movement of capital, goods and people, according to Arnald Ho, Chairman of office supplies manufacturer Print-Rite Holdings. He highlights preferential policies introduced in the Hengqin New Area as a potential template for the rest of the region.

Headquartered in Hong Kong, Print-Rite is a manufacturer of printer consumables and office supplies. Its primary manufacturing and R&D plant is located in Zhuhai, and the company also invests in emerging technologies such as 3D printing.

Ho points out the potential benefits of a successful GBA for companies with inter-city operations. "A more integrated southern China is great for the market because companies are currently having to spend a lot of resources to understand and comply with the various regulations and administrative procedures," he explains. However, work will need to be done to transform the GBA into a fully integrated region, given differences such as economic development and population demographics between the various cities.

He is of the view that policies applied in the Hengqin New Area could offer a sneak preview of what is to come for the region. A coastal island within southern Zhuhai adjacent to Macau, the Hengqin New Area is a special economic zone that enjoys preferential policies across a number of areas such as customs and clearance, finance and tax. For example, Hong Kong and Macau residents travelling into the Hengqin New Area can avail of simplified clearance procedures, while financial institutions operating in the special economic zone are allowed to conduct FX business as well as issue industrial investment funds in various currencies.

"I think the development of Hengqin is important as it is essentially a test bed of policies that aims to enhance the flow of capital, goods, information and people," he adds. "Not all of the policies might be adopted in the future, but companies should still pay closer attention in order to better assess the potential impact of a more integrated southern China."

In the longer term, Ho believes the GBA will provide companies in the region a bigger platform to market their products and services, in particular businesses that are currently only operating within their home city.

"Many established or larger companies already have operations in a number of cities within the GBA. With or without the initiative, they will be pushing forward their own business strategies for the region," he concludes. "It's companies with fewer resources or knowledge to expand beyond their domestic market that can really benefit from having a single, integrated market."

# Trade and logistics



Since the launch of China's opening-up and reform programme 40 years ago, the GBA has grown to become one of the world's leading export-manufacturing regions. Its factories contribute to 37 percent of China's exports – enough to make it the world's fourth largest exporter, with a long-established network of transport and shipping infrastructure able to ship goods efficiently to destinations around the globe.

Even so, companies in the industry still foresee further possible gains arising from a more integrated region. From a business perspective, trade and logistics respondents in our survey say that the development of the GBA offers access to more business opportunities (66 percent), creates greater synergies arising from the pooling of resources (48 percent) and facilitates the free movement of capital and goods (44 percent).

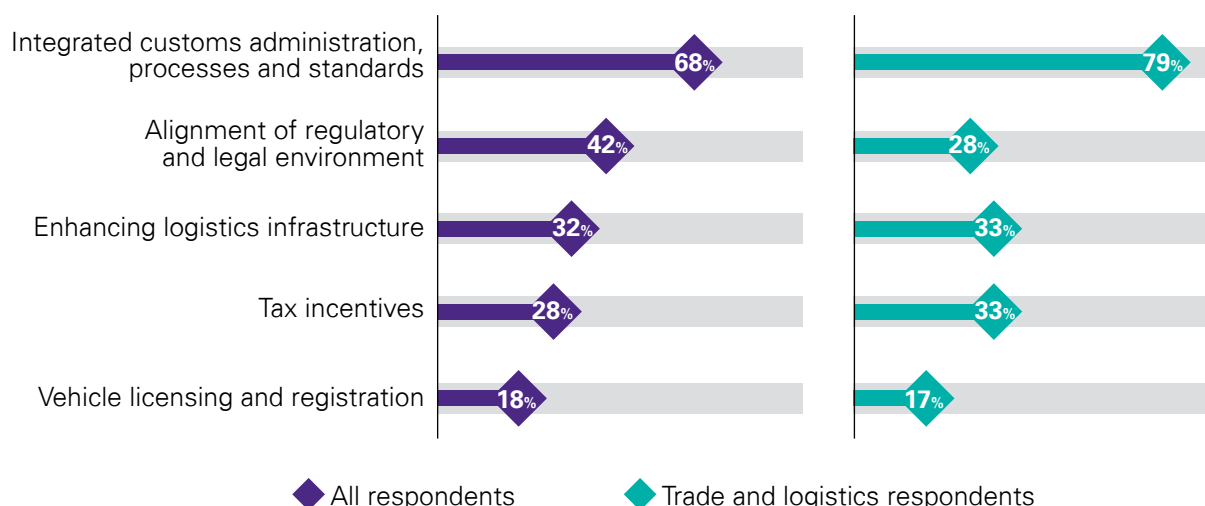
In addition, the surge in e-commerce development in China presents a number of opportunities for companies to expand operations and grow in the GBA, tapping into the technological expertise and fast-growing consumer market in the region.

Their biggest challenges are policy/regulatory ambiguity (68 percent), followed by foreign exchange volatility (47 percent) and obstacles to the cross-border movement of capital (38 percent).

For trade and logistics companies, having integrated customs administration is crucial, with 79 percent of respondents from the sector viewing it as important for the free movement of goods within the region (compared to 68 percent of all respondents). Other significant factors are “enhancing logistics infrastructure” and “tax incentives” (both selected by 33 percent) and “aligning the regulatory and legal environment” across the GBA (28 percent).

The increased connectivity within the GBA and the freer movement of goods, capital and labour presents opportunities for companies to assess their existing sourcing, manufacturing, warehousing and distribution structures to optimise their supply chain in the region.

### The most important factors to facilitate the free movement of goods within the GBA

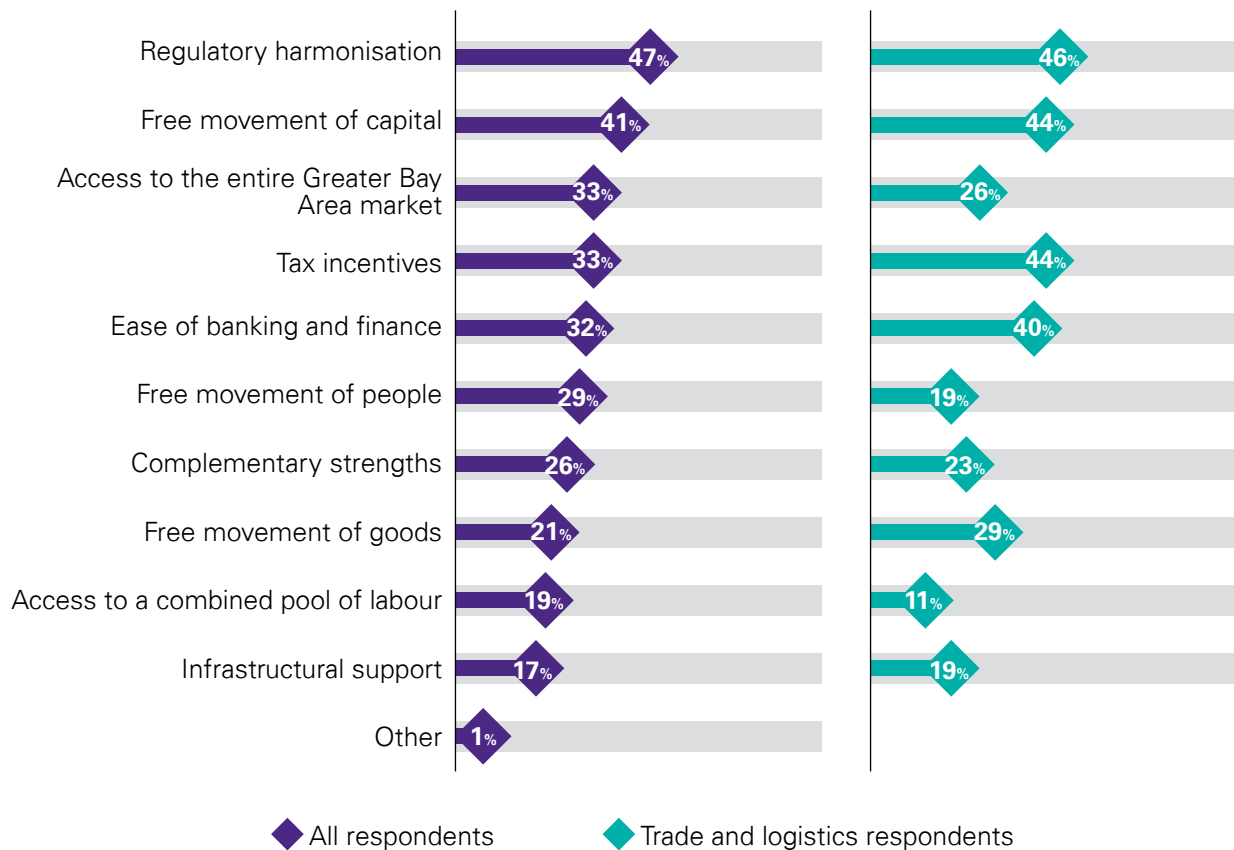


Source: Survey analysis



As with other sectors, the business executives in trade and logistics view regulatory harmonisation as the most important factor in promoting business in the GBA (46 percent), followed by the free movement of capital and tax incentives (both 44 percent). In comparison to the overall average, more trade and logistics respondents view tax incentives, the ease of banking and finance and the free movement of goods as decisive factors for the successful development of the GBA.

### The most decisive factors for the successful development of the GBA



Source: Survey analysis







***The GBA as a single connected market offers investors***

***and businesses a hub for both financing and the export of high-value goods and services. The close cooperation between local governments on a broad range of topics including economic, immigration and tax policies will help facilitate the seamless movement of goods, capital and people, and enhance the ease of doing business in the region.***”

**Ayesha Lau**

*Managing Partner, Hong Kong  
KPMG China*

Yet the success and strength of the sector also means that some companies, while eager to explore new possibilities, are also wary about changes to established and efficient practices. Gerry Yim, Managing Director at Hongkong International Terminals Limited (HIT), a key member of Hutchison Ports, sees the GBA initiative as a benefit to both its 11 member cities and China as a whole. “Better coordination has to be a good thing for China and for the region,” he says.

Yim points out that Hutchison Ports has a long history of involvement in the Pearl River Delta region, dating back to its investment in Shenzhen’s Yantian Port in the 1990s. Since then, the company has seen the region’s shipping infrastructure evolve, with each of its major ports claiming a distinctive role: Shenzhen’s Yantian, Shekou and Chiwan, close to the factories of the western side of the Pearl River Delta, have focused on exports. Hong Kong has become the transshipment hub – taking containers from across South China and organising them into shipments to other ports around the world, and Nansha, the most recent port to emerge, becoming a domestic hub, handling shipments of goods to and from other ports up and down China’s coast.

Yim sees maintaining these distinctive roles as important for maintaining the well-being of all ports in the GBA. However, what is important for the area’s ports, he stresses, is ensuring a coordinated demarcation of roles and responsibilities. The logistics sector – in particular the port industry – needs careful consideration from the government in terms of balancing the roles, needs and future supply of each port, he says.

Helen Wong, Chief Executive, Greater China, HSBC, notes that Hong Kong, for example, has always been an offshore trading and finance hub for China. “Because of the proximity of Hong Kong to Guangdong and Macau, there has always been a lot of trade, business and capital flow all these years. We want to build a scale business in the PRD. In terms of our commercial banking activities, we are in a strong position to support both inbound and outbound trade, also leveraging the increased use of technology and more digital interactions,” she says.



## Viewpoint



**Gerry Yim**  
Managing Director

# Hongkong International Terminals

Since its establishment in 1969, Hongkong International Terminals (HIT), part of Hutchison Ports' global network of port and logistics operations, has been a significant driver of the development of Hong Kong port. Key to the company's success has been its ability to adapt its business model to respond to market changes and capitalise on new growth opportunities in the GBA.

With a bulk of manufacturing shifting from Hong Kong to Guangdong province over the last two decades, export trade is also increasingly being handled by the ports that are close to the factories. "As a response to the growth of other GBA city ports as export hubs, the Hong Kong port has transformed into a transshipment hub," says Gerry Yim, Managing Director of HIT. "Roughly 70 percent of our business in Hong Kong is now transshipment," he adds.

## Focusing on each port's strengths

This ongoing trend has led the major ports in the GBA to morph into specialised roles. For example, the Shenzhen ports of Yantian, Shekou and Chiwan are close to the factories and focus primarily on export trade, while Hong Kong is the transshipment hub. Nansha, which has traditionally acted as a domestic cargo transshipment centre in the region, is also fast expanding. To ensure greater and more efficient collaboration between the ports in the GBA, Yim says it is important that the different ports are allowed to continue to focus on their strengths. This could be achieved by the inclusion of a framework within the Central Government's upcoming GBA implementation plan that protects the status of certain logistical and shipping advantages, notes Yim.

"We would like to see a special role within the GBA framework for Hong Kong to remain the transshipment hub, while Shenzhen and Nansha remain the export and domestic centres, respectively. The logistics sector – in particular the port industry – needs careful consideration from the government in terms of balancing the roles, needs and future supply of each port," says Yim.

One way for Hong Kong to retain its status as a transshipment hub is for mainland China to maintain its existing cabotage rules, which prohibit foreign ships from engaging in coastal trade or transportation within the mainland. "These rules enable Hong Kong to maintain a competitive advantage because it allows for greater flexibility – anything can come here and go anywhere," says Yim.

## At the forefront of innovation

In addition, the efficiency of Hong Kong's port and logistics industry – aided by the use of advanced technology, big data and AI – makes it an important port player in the development of shipping and trade in the GBA.

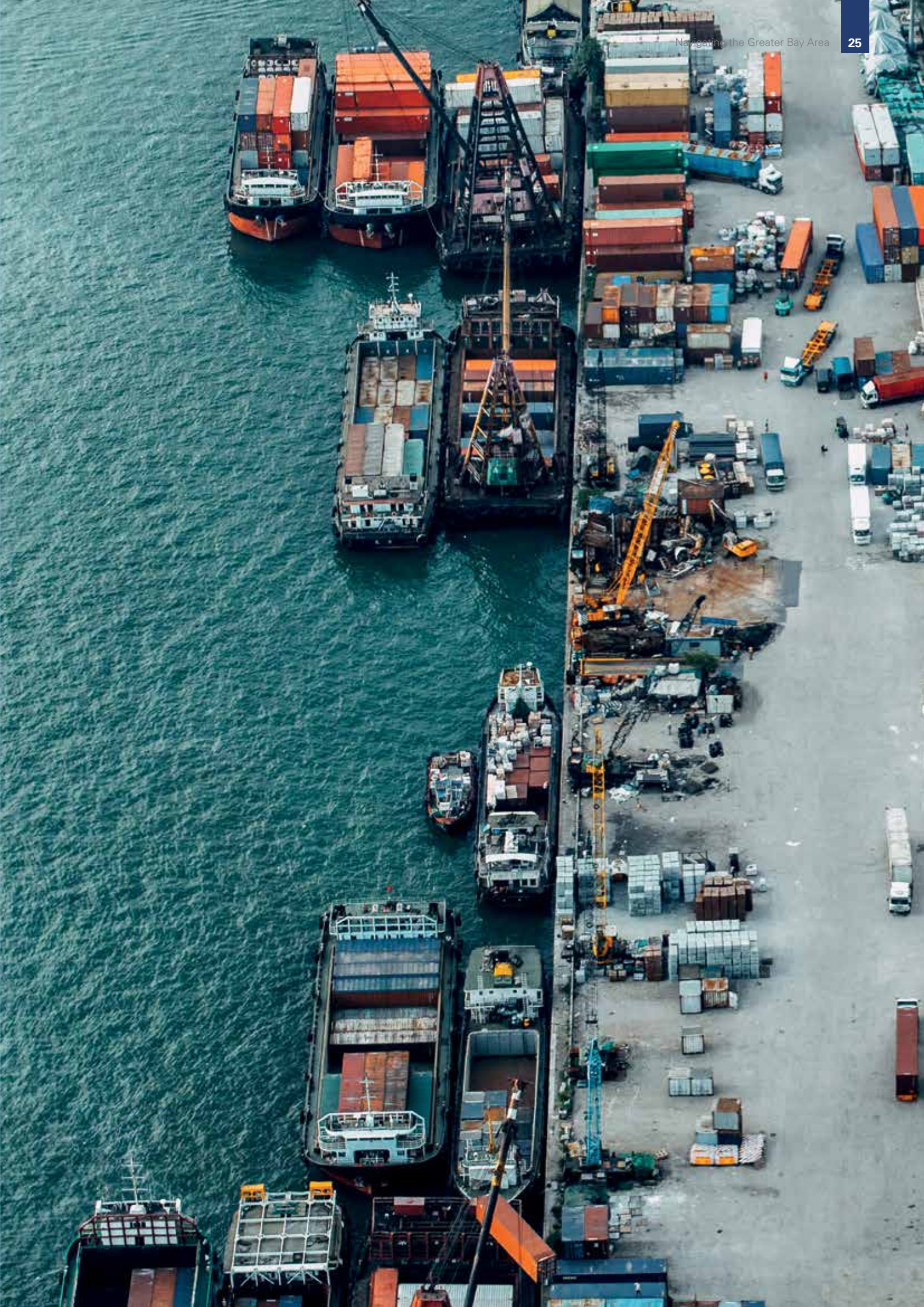
For example, in January this year HIT fully deployed an automated container stacking system and remote-controlled rubber-tyred gantry cranes at its Container Terminal 9 North – the first of its kind in Hong Kong – which has led to a 20 percent increase in operational efficiency and productivity. "Technology gives our employees a lot more flexibility than before. We have not replaced any employees because of automation or remote control technology. Instead, we have enabled the existing labour pool to do more things, provide a better service, and perform tasks more efficiently," says Yim.

## Fitting into the GBA framework

Overall, the continued development of the GBA is a benefit to the region and to China, notes Yim. "At the moment, the export factories in southern China are well served, and the ports are currently meeting these needs well, with ample spare capacity in the region," says Yim.

For Hong Kong's port and logistics industry – an integral part of the city's economy – it will be important to find out how it can best fit into the GBA framework, and how it can maintain its competitive advantage as a transshipment hub, says Yim. "If there is a clear demarcation of responsibilities for the ports, that will be a great thing for Hong Kong's port and logistics industry, as well as for the region as a whole."







# Financial services



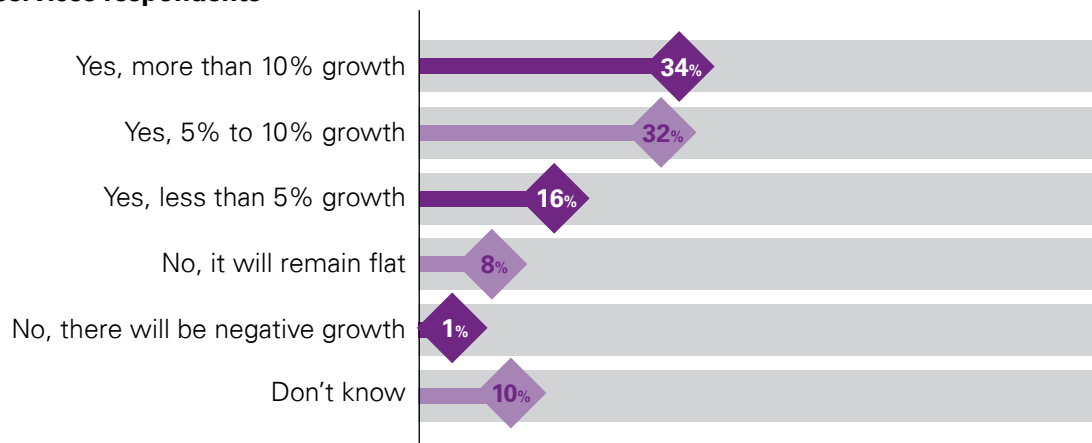
The growth of new business across the GBA looks certain to offer ample opportunities for growth in financial services, particularly for new companies with cross-border needs. As a leading international financial centre, Hong Kong has a vibrant capital market and serves as a conduit for financing both inbound and outbound investment and trade in the GBA.

Furthermore, Hong Kong's development into a venture capital hub and Shenzhen's status as a centre for start-up businesses and entrepreneurship is creating one large venture capital ecosystem.

Of the financial services executives surveyed, 82 percent expect their business to grow as a result of the GBA's development over the next three years, with 34 percent expecting more than 10 percent growth.

## Will your business grow as the GBA develops over the next three years?

### Financial services respondents



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



***If you want to approach 50 million-plus people, you have to have a good digital proposition.”***

***Helen Wong***  
*Chief Executive, Greater China*  
*HSBC*

The respondents are also optimistic about the prospects of their own industry, with about 73 percent naming financial services as among the industries most likely to benefit from the development of the GBA.

About 72 percent of financial services respondents view the GBA as likely to mean more business opportunities, while 53 percent expect it to lead to a freer movement of capital and 49 percent see synergies achieved from the pooling of resources.

In the next several years, Hong Kong will play a crucial role in the development of the GBA's financial services, both in linking businesses from the region to the world and as a conduit of capital flows in and out of China.

Since its launch at the end of 2016, the Hong Kong-Shenzhen Stock Connect has further enhanced the cross-border flow of securities and investment. Recent changes to Hong Kong's listing rules aimed at attracting listings from new economy companies offer a new avenue of financing for the many technology, life science and healthcare companies already operating in the GBA. In 2017, technology, healthcare and life science listings accounted for 28 percent of companies listed on the Hong Kong Stock Exchange.

Meanwhile, banks and other financial institutions in Hong Kong also know that their future growth will depend on being able to find and take advantage of opportunities in the mainland, particularly in Shenzhen with its multitude of new and established technology companies.

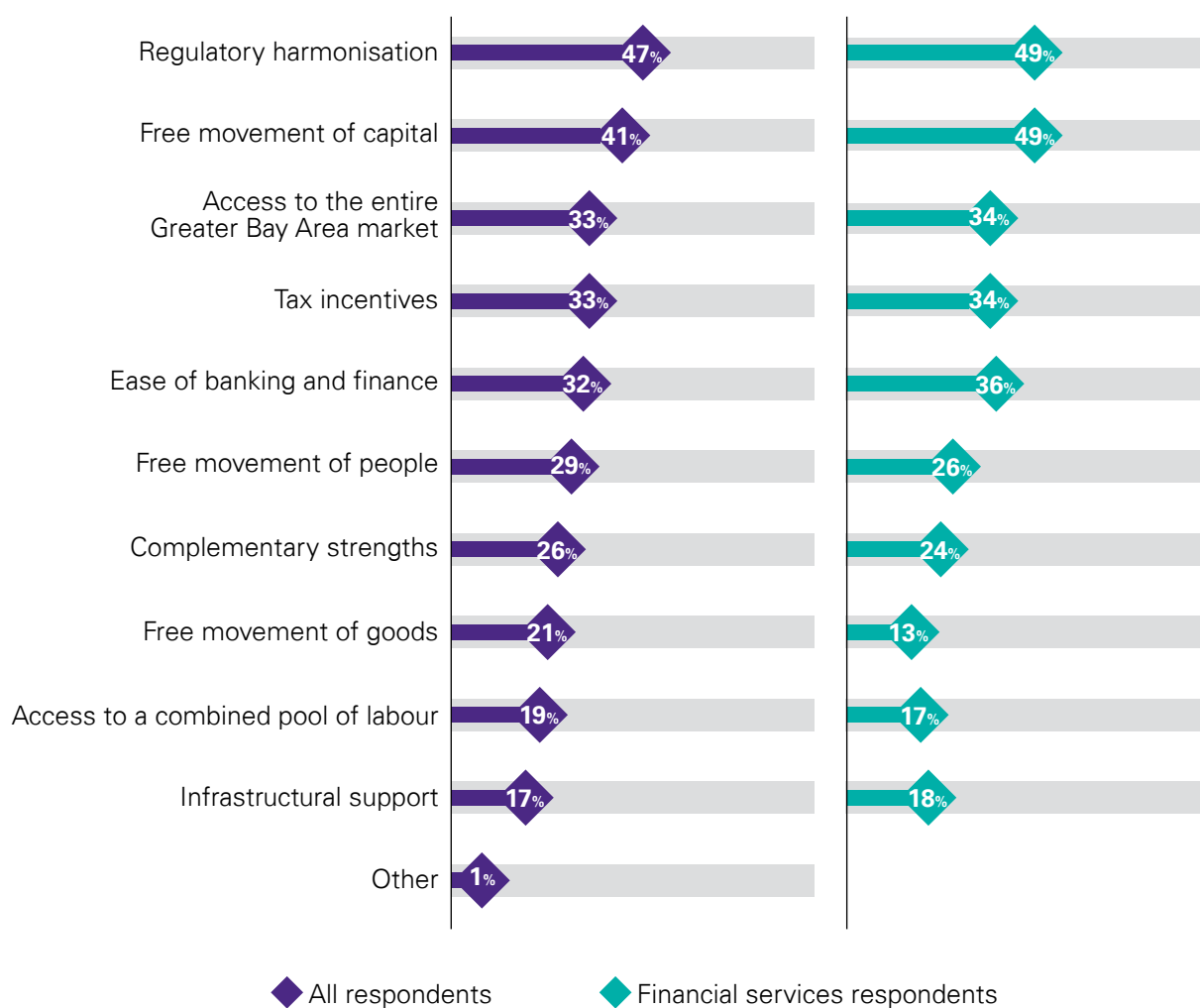
This will include having to explore the various new locations in the GBA now establishing themselves. Shenzhen's Qianhai Special Economic Zone, now under construction across 15 square kilometres of reclaimed land on the city's western fringe, is tasked with becoming a hub for modern services, including finance. The zone already is a key part of HSBC's plans for the GBA. It is home to HSBC Qianhai Securities, the first and only securities joint venture in mainland China to be majority-owned by a foreign bank. HSBC Qianhai Securities opened for business in December 2017 and offers HSBC's Chinese and global clients services such as equity and debt capital markets underwriting, equity research, brokerage and advice on mergers and acquisitions.

On its retail side, credit cards are a major area of growth, with around 300,000 issued in the PRD since December 2016, accounting for about half of the credit cards issued by the Bank in mainland China. HSBC reaches many of its new customers via an online application rather than through bank branches – a development that Wong sees as crucial. “If you want to approach 50 million-plus people, you have to have a good digital proposition,” she says.



The GBA's fintech industry is also expanding fast, both in Hong Kong and the mainland. Shenzhen-based Tencent remains a major innovator, with its WeChat Pay now being used by more than 700 million people. But smaller companies, such as Hong Kong-based WeLab, are offering an ever-increasing range of services across wealth management, big data and digital financial services to manufacturers and other businesses. Overall, many in the business community have stated that companies and consumers alike would benefit significantly from the ability to use electronic payment systems across the entire GBA. The technology already exists to allow this to happen, but a system needs to be developed to enable the ease of use of these technologies across the region. Looking to the future, the GBA's technology sector is one of HSBC's key targets. "In Shenzhen, we focus very much on the innovative industries. In late 2016, we set up an RMB 2 billion innovation fund focused on supporting new technologies, clean energy, innovation and so on," adds Wong.

### The most decisive factors for the successful development of the GBA



Source: Survey analysis

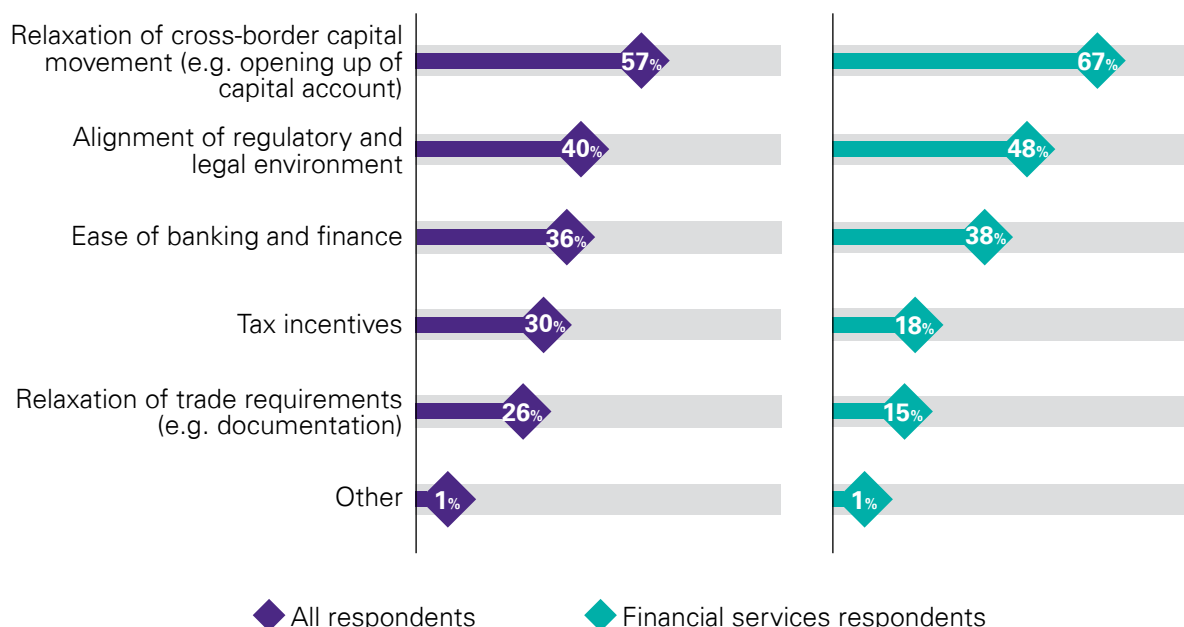
To realise the GBA's potential, the surveyed financial services executives note that regulatory harmonisation, the free movement of capital and the ease of banking and financial services as the three most decisive factors for the successful development of the GBA. Among all respondents, regulatory harmonisation and the free movement of capital are also the top two most decisive factors, with tax incentives and access to the entire GBA market also viewed as key to the GBA's success.

Indeed, greater regulatory alignment around financial services – including the opening and operating of bank accounts and compliance requirements – in the GBA would help facilitate a seamless banking experience for businesses and consumers in the region.

In addition, many in the business community note that establishing a framework to deepen the connection of capital markets and to facilitate the flow of capital within and into the region is of significant importance for the development of the GBA.

Closer collaboration between banks and fintech businesses should help ease the use of banking and financial services by allowing banks to offer more advanced and flexible digital products. Regulators, however, will have to keep pace – not just to protect consumers, but also to ensure a suitable environment for innovation and competition. One likely outcome is an expansion in the number and scope of fintech sandboxes to allow pilot trials of new fintech products across the GBA.

### The most important factors to facilitate the free movement of capital within the GBA



Source: Survey analysis

## Viewpoint

**Helen Wong**

Chief Executive, Greater China

HSBC

Even before the formal announcement of the Greater Bay Area, HSBC had picked out the region as crucial to its long-term global growth plans. In 2015, the bank founded in Hong Kong and Shanghai in 1865 announced that it would be increasing investment in Guangdong's Pearl River Delta to build up its local business in the area. In its Strategy Update in June, HSBC reinforced this commitment by identifying the PRD as one of eight markets globally where it aims to develop scale businesses.

"With the country specifying that the [cities of the] GBA should work even closer and the governments working together, we believe that reinforces the opportunities that we have been seeing in the PRD over the years," says Helen Wong, Chief Executive, Greater China, at HSBC.

"I believe the GBA will grow to become the largest bay area in the world. A lot of people say by 2030, but I think it may be faster," says Wong, pointing out that the PRD's economy is still growing at around 7 percent annually, and Hong Kong continues to capture flows from this growth, allowing its economy to also continue expanding at a strong rate.

**Delta strategy**

HSBC has ambitious targets for the region, aiming for a 3-5 percent market share and ultimately revenues of around US\$1 billion, says Wong. To reach these goals, for the last three years, the bank has been formulating and executing a PRD strategy across its retail, commercial and investment banking arms.

The bank now has 64 outlets in Guangdong province, including 50 in the Pearl River Delta region, and its insurance arm is expanding its business in the GBA, with a branch open in Guangzhou and one in Shenzhen in the making. It is also an active player in

the Shenzhen-Hong Kong Stock Connect, the cross-border investment channel that allows Chinese investors to buy Hong Kong-listed stocks and Hong Kong investors to buy Shenzhen-listed ones.

And in Shenzhen's Qianhai Modern Service Industry Cooperation Zone, principally being developed to boost the city's financial services industry, HSBC has the country's first securities joint venture to be majority-owned by the foreign partner: HSBC Qianhai Securities. Having opened for business in December 2017, the venture also has branches in Shanghai and Beijing and offers HSBC's global and Chinese clients local research, brokerage, underwriting and advisory services.

On its retail side, credit cards are a major area of growth, with around 300,000 issued in the PRD since December 2016, accounting for about half of the credit cards issued by the Bank in Mainland China. HSBC reaches many of its new customers via an online application rather than through bank branches – a development that Wong sees as crucial. "If you want to approach 50 million-plus people, you have to have a good digital proposition," she says.

On the mainland side of the border, a range of digital propositions are driving the bank's business. In Guangzhou and Shenzhen, people can already open accounts through branch-based video ATM machines. The machines can handle everything from scanning ID cards to verifying know-your-customer information, with the option of calling a person to guide the new customer through any tricky bits, streamlining and shortening the account opening process. Once on board, customers can check their bank balances and carry out foreign exchange transactions through WeChat, China's most popular mobile messaging app.

Looking to the future, the GBA's technology sector is one of HSBC's key targets. "In Shenzhen, we focus very much on the innovative industries. In late 2016, we set up an RMB2 billion innovation fund focused on supporting new technologies, clean energy, innovation and so on. This was very well received by clients."

### Challenges

For Wong, the development of the GBA's financial industry faces two big challenges. First, is figuring out how to harmonise its various regulatory and legal arrangements. Unlike the world's other leading bay areas in Tokyo, San Francisco and New York, she notes, the GBA will have to contend with the different legal and regulatory systems of the mainland, Hong Kong and Macau for a while yet.

And second is working out how to make the best use of the talent the GBA is already attracting.

"The area attracts a lot of people, but how do you actually use these people so that there is the least wastage of people resources?" says Wong, pointing to businesses having to develop skills in educating, training and getting the best out of people drawn from different parts of China and the world.

Eventually, however, she expects to see a future of seamless cross-border finance, with customers able to open new accounts and access banking services anywhere in the area without having to travel between jurisdictions. "Someone in Hong Kong, for example, should be able to open an account in the PRD and through it gain access to wealth products or corporate bonds in China, while someone from the mainland should be able to buy insurance products in Hong Kong," says Wong.

Wong is confident officials in the area can make progress with coordinating and harmonising rules. She points out that Hong Kong and Singapore have already agreed on using blockchain technology to build a shared trade finance platform – due to go into operation in 2019 – which suggests that Hong Kong and Guangdong can also collaborate on measures for their financial services sectors.

"We have to work on this; it's crucial to the development of the GBA," says Wong. "It's already physically close, and it's already culturally close – think about how many Hong Kong people's families actually come from Guangdong – and the strengths are there. So it's really about working on whatever restricts the easy flow of people, capital and trade."

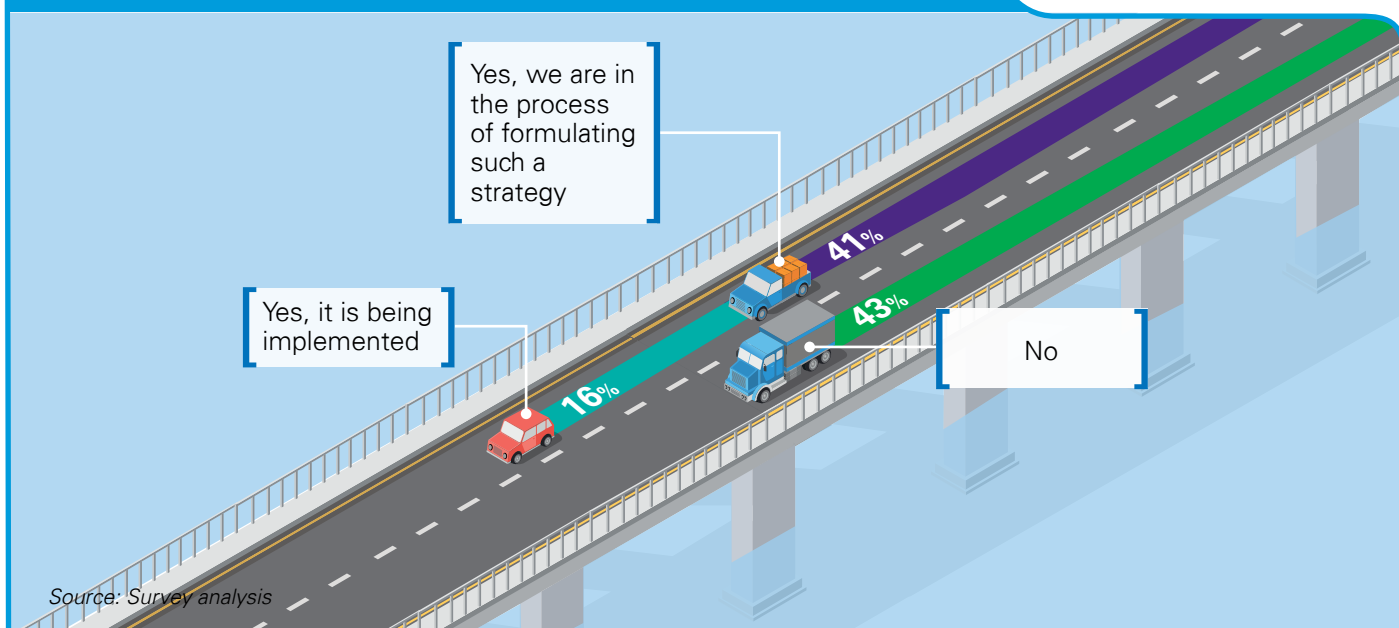
# Looking forward



Overall, executives are optimistic about the growth of the GBA and the benefits that this can bring to their companies. As our survey shows, a majority of respondents are expecting developments in the region to significantly boost their business growth, and are also seeking greater regulatory clarity.

Already, some 57 percent of those we polled say their companies either have a GBA strategic plan in place or are in the process of formulating such a plan. Leading the way are financial services firms, with 72 percent of the executives from this sector saying their company has or is formulating a plan, followed by healthcare/life sciences (67 percent) and technology and innovation (66 percent).

## Does your company have a strategic plan for the GBA?







**We welcome the recent policy relaxation on residence**

**permits, which will make it easier for Hong Kong citizens to live, work and study in the mainland. However, we think more needs to be done to facilitate the free movement of people. For example, a visa system modelled on the APEC Business Travel Card scheme could be considered for selected categories of GBA residents to enter Hong Kong – and vice-versa – for business purposes.**

**Shirley Yuen**

Chief Executive Officer  
HKGCC

Physical connectivity has seen heavy investment in recent years – notably the extension of the mainland’s high-speed rail network to Hong Kong and the completion of the 30-kilometre bridge linking Hong Kong, Macau and Zhuhai. However, other aspects of integration need further attention. Going forward, companies singled out three issues in particular as requiring priority attention if they were to fulfil their GBA aspirations: manpower solutions (45 percent), legal advisory/services (42 percent) and financing (38 percent).

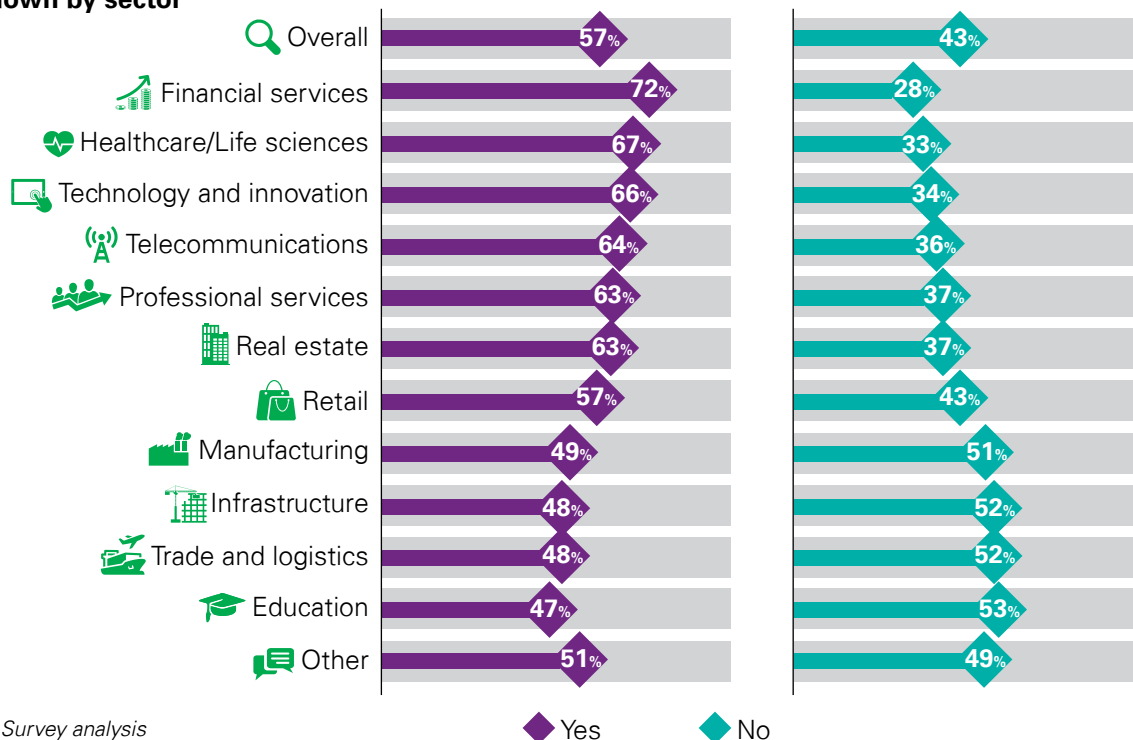
One key challenge noted across all sectors and company sizes is the need for regulatory harmonisation. The business community looks forward to greater clarity from regulatory and government authorities in order to turn opportunities into reality.

Closer partnerships between the GBA’s cities in talent management policies can help foster the development of the GBA’s new economy in particular. HSBC’s Helen Wong highlights the importance of businesses developing skills in educating, training and getting the best talent pool across the region. Greater mobility within the region would also help businesses address skill shortages by attracting talent, and facilitate cross-border collaboration.

Harmonising laws and regulations across the GBA will be another crucial goal. Protecting intellectual property and recognising patents in all jurisdictions will be essential for the long-term growth of an innovation-based economy. One possible way forward would be a greater use of arbitration services drawing on Hong Kong’s experience in this area.

## Does your company have a strategic plan for the GBA?

### Breakdown by sector





***Within China, the GBA has the potential to extend its reach beyond the Pearl River Delta to the nearby provinces of Fujian, Jiangxi, Hunan, Guangxi, Hainan, Guizhou and Yunnan. The development of the area should also act as a catalyst for China's Belt and Road Initiative.*** ”

**Ayesha Lau**

*Managing Partner, Hong Kong,  
KPMG China*

Tax is another key area of focus. The differences between the tax regimes of mainland China, Hong Kong and Macau can pose a challenge for businesses operating throughout the GBA as complying with the different tax rules and regulations can significantly increase a business's operating costs. As a result, the harmonisation of tax rules and regulations – where feasible – to reduce the extent of the differences between the respective taxing jurisdictions will be an important factor going forward.

Governments in the GBA also need to streamline customs and immigration procedures to facilitate the movement of people across the region, devise ways of ensuring healthcare coverage can be made more widely available in all areas, and look at ways of ensuring educational achievements and qualifications are adequately recognised.

Taking the time to think through appropriate policies for all these issues will be more important than trying to accelerate measures through. In healthcare, for example, Taikang Community Investment's Fan Zhen Zhong notes: "Unlike some other sectors, creating a complete ecosystem is a long process. A lot of it has to do with education because of the length of time it takes for students to complete medical school and then gain a few years of practical experience."

Moreover, many companies from all parts of the GBA have yet to take on the full magnitude of the knowledge and skills they will need to acquire to prosper in the region. "Based on our experience, even some of the large, established corporates do not yet have a clear grasp of the cultural, regulatory and operational differences between mainland China, Hong Kong and Macau," says Jackson Kam, Talent Strategy Practice Leader for Asia, Middle East and Africa at human resources consulting firm Mercer.

With the region set to grow at a faster pace than China as a whole, and an increasing number of companies already demonstrating that it is possible to tap into the different strengths and skill sets of different parts of the region, the time has come for more companies to devise and implement a strategic plan for the region, and take the crucial next step in their GBA development.



## Viewpoint

**Ayesha Lau**

Managing Partner, Hong Kong

KPMG China

The GBA Initiative represents a significant opportunity to shape the future of Hong Kong, Macau and the nine other cities within the Pearl River Delta, according to Ayesha Lau, KPMG China's Managing Partner for Hong Kong.

At the heart of the GBA Initiative is the ambition to create a 'quality living circle' – an ideal place for living, working and travelling – and to promote the free flow of capital, goods and people within the region.

The increased connectivity from the expansion of transportation networks is making great strides towards achieving these objectives – in particular, facilitating the free movement of people. As this trend continues to develop, with more individuals seeking to travel and work in the GBA, businesses need to ensure that they develop robust people policies and strategies to attract and retain talent in the region, says Lau. "This includes adequate training and upskilling, and creating the right opportunities for employees, with competitive remuneration a key factor," Lau adds.

Ensuring that the people policies and strategies comply with local immigration and tax requirements is also essential, especially as many businesses highlight the coordination between the respective governments in the region on these issues as a key success factor.

"This is evident in this year's survey findings, where the respondents highlight 'tax incentives' as the most important factor to facilitate the free movement of people within the GBA, and one of the key drivers for the successful development of the region," says Lau.

Unlike other global bay areas in San Francisco, New York and Tokyo, the GBA comprises three separate tax jurisdictions – mainland China, Hong Kong and Macau – which can give rise to some challenges for businesses in the region. "As a result, the harmonisation of tax rules to reduce the extent of the differences between the respective taxing jurisdictions will be an important factor going forward," says Lau.

As an example, Lau suggests that tax incentives should be created to facilitate greater collaboration between Hong Kong and mainland institutions and academics and researchers. "A mutual tax exemption for academics and researchers would help increase both the volume and quality of research and development, and encourage the movement of people within the region," she says.

Another way to facilitate the free movement of people is to provide a mutual tax exemption to 'frontier workers', and reference could be made to the frontier workers tax clause commonly adopted in the EU. The term 'frontier worker' is loosely defined as anyone who works in the frontier territory of a state, and resides in the frontier territory of another state to which he/she returns on a daily or a specified regular basis.

However, eliminating the tax obstacle beyond academics and researchers – to apply to all professionals and workers – to allow them to move freely within the GBA may require more time to carefully design a system tailored for the GBA, notes Lau.

In addition to tax incentives, Lau says that the close cooperation between the respective local governments on immigration and economic policies, as well as healthcare, education and environmental issues, will further promote the GBA as an ideal place for living, working and travelling, and enhance the overall ease of doing business in the region.

## Viewpoint

**Jackson Kam**

Talent Strategy Practice Leader, Asia, Middle East and Africa

Mercer

Aligning human resources policies to avail of the Greater Bay Area talent pool has potential benefits, says Jackson Kam, Talent Strategy Practice Leader, Asia, Middle East and Africa, at global human resources consulting firm Mercer.

Given time, Kam hopes the area can emerge as a seamless place to do business, built around a single, integrated talent pool that can be drawn from by all companies, regardless of where they are from or where they are operating. "We have been receiving a lot more enquiries about the GBA and it is a theme that is getting stronger. For the GBA to be successful, there should not be any restrictions or hurdles when it comes to the free movement of talent. The ideal situation is that when a company sees an opportunity anywhere in the region, it does not need to spend much time or effort to think about differences in taxation, regulations, reporting lines or salary structures," he explains.

For now, however, the talent pool remains segregated. "Hong Kong has its own talent pool, Macau has its own pool, Shenzhen has its own pool, and so on," says Kam. "There are clear discrepancies in all of these areas, which impact the time and effort needed to implement a holistic GBA HR strategy."

Kam also highlights some of the practical difficulties. "When it comes to getting Hong Kong talent to work in the mainland, the main hurdles that we are observing are taxation, medical benefits/quality and education." In his mind, these are holding businesses back. In terms of the opportunities the mainland has to offer, the number of Hong Kong businesses which have made a major push across the border is not that high. "It is still mostly in a 'theoretical' stage – meaning a lot of talk, a lot of planning, a lot of strategising, but not enough action," says Kam.

Mainland companies coming to Hong Kong also experience some challenges. "A lot of mainland companies, for example, second staff from their mainland headquarters to their Hong Kong subsidiaries. Now, how do you align the job grades, salary structures, incentive schemes, job titles and employee benefits of the seconded staff? Do you align them with Hong Kong staff or do you keep them in line with the headquarters' practices? It is a delicate issue because there can be internal tension if the two sets of salaries/benefits/compensation are too different."

Securing visas for mainland staff to work in Hong Kong can also pose challenges. "It is common to have mainland staff who work in Hong Kong to be stuck in Shenzhen or Guangzhou for days or even weeks while they are waiting for their visas to be extended," says Kam. While this is not an enormous problem, it is inefficient, he notes. Multinational companies are increasingly hiring mainland graduates who studied in Hong Kong universities. These graduates are familiar with the culture of both markets, making them suitable to work on GBA assignments. "If internal HR procedures are well managed, the disruption caused can generally be minimised, but when you're talking about a few hundred staff, then it starts becoming tricky," says Kam.

He advises companies to research into and adopt operational models that are tailored to their business. "It is about striking a balance between competition and collaboration. Companies also need to consider lots of different business models – joint ventures, strategic partnerships and M&A. They need to assess the pros and cons of each model, and which one fits their business needs. Solutions must look to the long-term," he concludes.



## Viewpoint

**Shirley Yuen**

Chief Executive Officer

HKGCC

The GBA Initiative will help facilitate the flow of people, goods and capital via the further integration of Hong Kong and the other GBA cities. For Hong Kong, this would both provide a larger pool of resources for businesses to utilise and create a much bigger market for goods and services, says Shirley Yuen, Chief Executive Officer at the Hong Kong General Chamber of Commerce (HKGCC).

It is crucial for the cities to draw upon each other's comparative strengths, work together and complement each other in order to build a world-class Bay Area for the 21st century, says Yuen. "Being a services economy, Hong Kong should offer its expertise in high-end, high value-added services to serve the entire GBA under the principles of 'complementarity and mutual benefit'. Meanwhile, specialisation would generally lead to lower costs and higher productivity. As such, sectors that could potentially benefit the most from the GBA's development are those that benefit from economies of scale – for example, trade and logistics," notes Yuen.

Innovation and technology as well as advanced manufacturing will also likely play a key role as growth drivers. "Furthermore, under the current atmosphere of international protectionism and trade uncertainty, the development of the GBA's consumer market could serve as a haven for manufacturers and traders in view of its size and soaring purchasing power," says Yuen.

In addition, it is understandable that more than three-quarters of the survey respondents expect the GBA's economic growth to exceed that of the rest of China over the next three years, states Yuen. The GBA has been growing faster than the nation in the recent past, and this trend is expected to continue in the near future.

"Many commercial and procedural hurdles could be removed, thereby reducing transaction costs of commerce within the GBA. This would create even more favourable conditions for economic development, which should further accelerate the region's growth. The GBA Initiative has strong support from the Central Government, and is also embraced by the local governments and a majority of the business community," says Yuen.

Instead of a fully fledged implementation plan, Yuen says the Central Government is expected to introduce measures one by one to shape the development of the GBA. "This is to ensure that the progress will be managed at a controllable pace. Realistically, we do not expect the overnight removal of all the hurdles to doing business within the GBA. It will take time to unlock the full potential of the GBA. Also, new challenges may emerge when the plan is being implemented. Although the changes are more gradual, we do consider the Central Government's policy a prudent approach."

To facilitate business strategy in the region, Yuen says that some alignments in taxation, intellectual property protection and business registration rules and regulations among the GBA cities should help create a more certain operating environment. Mutual recognition of a broader scope of professional qualifications would further allow businesses to save time and resources when managing operations across different GBA cities.

The ongoing development of the GBA and the diverse range of strengths across the GBA's cities provide significant opportunities for both companies that are looking to enter the market or expand their existing presence in the region. The geographical proximity, language similarities, familiarity with business practices and understanding of cultural differences gives GBA-based companies an edge over international businesses when it comes to exploring opportunities in the GBA, says Yuen.

"With deep knowledge and experience of both mainland and international markets, Hong Kong businesses can play the role of the super-connector to assist MNCs in entering the GBA market and other GBA businesses in going global," says Yuen.

For SMEs, their GBA business strategies, growth drivers and challenges would differ from those of larger companies because of the differences in scale, resources and market penetration, adds Yuen. "SMEs looking to expand within the GBA should keep an eye on the latest developments and policy announcements. In particular, they should be aware of favourable tax policies and other supportive measures that are available, which are sometimes sector-specific and city-specific."



# What does the GBA offer to the region's SMEs?

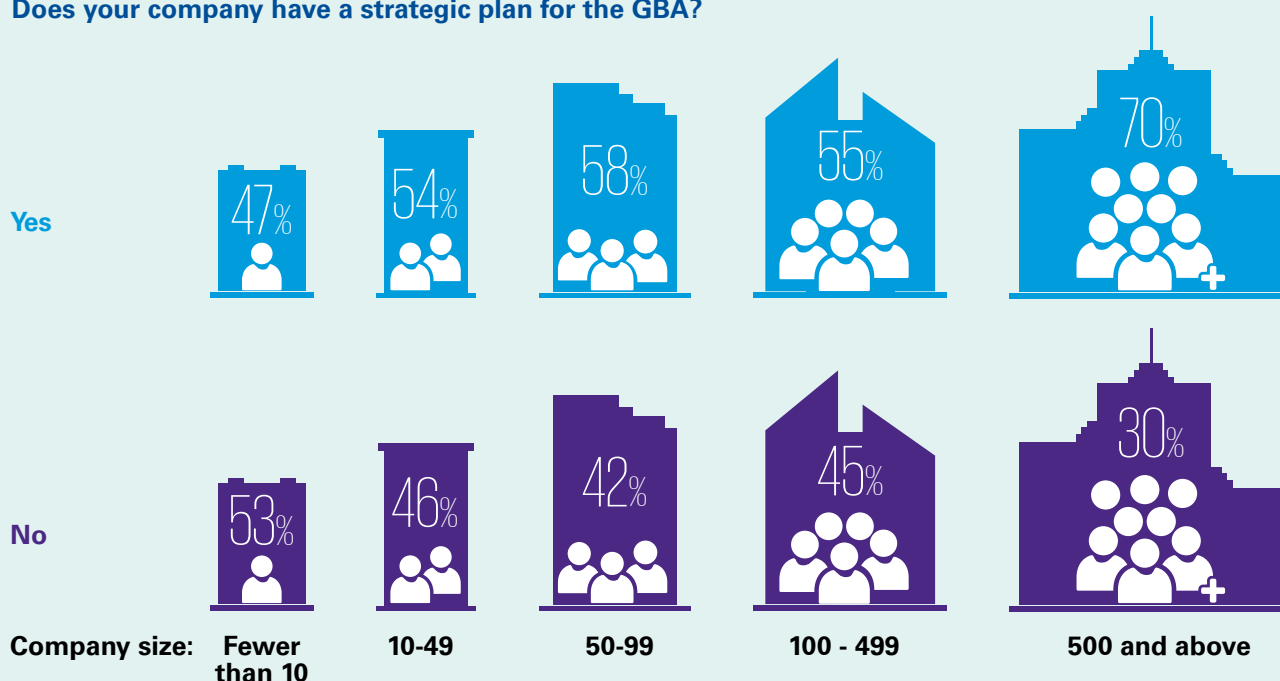
The development of the GBA is not only about big business. The GBA's focus on tech and innovation, supported by a growing number of accelerators, incubators and regulatory sandboxes in the region, is also about fostering a vibrant small and medium-sized enterprise ecosystem that promotes entrepreneurship.

So far, policies within Guangdong look to be generating success, with the number of high-tech companies increasing exponentially over the last five years.

However, the survey results indicate that fewer SMEs than larger businesses currently have a GBA strategy. Of the companies we surveyed, 49 percent of those with less than 50 employees say they currently have no strategic plan for the GBA; in contrast, of those with more than 500 staff, 70 percent say they are either implementing or drawing up a plan for the region.

Clearly, nurturing an ecosystem which not only encourages would-be entrepreneurs to launch start-ups but also supports them in preparing for the opportunities likely to be generated by the GBA should be a priority of policy makers across the region.

## Does your company have a strategic plan for the GBA?



Source: Survey analysis



## About the survey

For this report, KPMG China, HSBC and HKGCC commissioned YouGov to conduct a survey of 714 business executives in mainland China, Hong Kong and Macau, using both online and pen and paper questionnaires.

The survey was conducted in June and July 2018. Some 433 (61 percent) of respondents are from companies whose principal base of operation is in Hong Kong; 89 (12 percent) are from Shenzhen, 58 (8 percent) from Guangzhou, 54 (8 percent) from other cities in the GBA, and 80 (11 percent) from outside the GBA.

The business executives are from a wide range of industries, including trade and logistics (151 respondents), professional services (104), manufacturing (103), financial services (92) and technology and innovation (47).

Among the respondents who disclosed the turnover of their companies, 189 work for companies with annual revenues of more than US\$100 million. The rest work for companies with revenues of US\$10 million to US\$100 million (140 respondents), US\$2 million to US\$10 million (111), and US\$2 million or less (122).



# About KPMG

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In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China 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 office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.

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# About HKGCC

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

For the past 157 years, the Chamber has grown together 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 also 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 organizations 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 SAR's Executive Council and Legislative Council, plus the CPPCC Standing Committee of the PRC.

Every year, the Chamber organizes 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 the Mainland 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 organization 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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