

The Development of the Guangdong-Hong Kong-Macau Greater Bay Area and the Chinese Economy

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粤港澳大湾区的发展 与 中国经济

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*以下仅代表个人观点, 与所属机构立场无关。

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Introduction 引言

- ◆ The GBA consists of nine contiguous cities in the Pearl River Delta region of the Guangdong Province--Guangzhou, Shenzhen, Dongguan, Foshan, Huizhou, Jiangmen, Zhaoqing, Zhongshan, and Zhuhai, and the Hong Kong and Macau Special Administrative Regions.
- ◆ The eastern part of the Pearl River Delta is much more developed than the western part.
- ◆ However, with the completion of the Hong Kong-Zhuhai-Macau Bridge and several other east-west crossings, there will be significantly increased connectivity amongst these eleven cities, providing an engine of growth for the entire GBA. Increased connectivity can create trade in goods and services and investment that do not exist before. The western part of the Pearl River Delta region should begin to develop rapidly as well.

The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Initiative



粤港澳大湾区倡议



The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Initiative



粵港澳大湾区倡议



The Guangdong-Hong Kong-Macau Greater Bay Area (GBA) Initiative

- ◆ The vision
- ◆ Opportunities and challenges
- ◆ Sharing of infrastructural facilities
- ◆ Cooperation, coordination, division of labor and specialization

粤港澳大湾区倡议

- ◆ 愿景
- ◆ 机遇与挑战
- ◆ 基础设施共享
- ◆ 合作，协调，分工与专门化

The Greater Bay Area Initiative 大湾区倡议: The Vision 愿景

- ◆ In 2016, the total population of the eleven cities within the GBA were 68 million, with a combined GDP of US\$ 1.39 trillion and an average GDP per capita of US\$ 20,412. The U.K., as of 2016 the world's fifth-largest economy, has a population of 65.1 million, a GDP of US\$ 2.63 trillion and a GDP per capita of US\$ 40,399.
- ◆ Although these two regions have similar sizes of population, the GDP of the U.K. is almost twice that of the GBA.
- ◆ However, based on the current real growth rate of the GBA, its economy will at least double in size after a decade. As the U.K. economy has slowed down, together with the negative impact of Brexit, it seems increasingly likely that the economy of the GBA will overtake that of the U.K. by 2027 to become the world's fifth-largest economy.
- ◆ The GBA has the potential to eventually become an enormous international metropolis, with an average GDP per capita exceeding US\$ 40,000.

The Greater Bay Area Initiative 大湾区倡议: Opportunities and Challenges 机遇与挑战

- ◆ The cities within the GBA should move towards closer economic integration to make more efficient use of their resources, give full play to their complementary economic structures and realize the advantage of economies of scale, with the objective of creating an outcome that benefits everyone.
- ◆ In order to integrate the economic activities in the GBA, it is imperative to consider establishing a pilot GBA free trade zone for trial implementation. A pilot GBA free trade zone can be eventually expanded to include the entire Guangdong Province.
- ◆ Economic integration requires the free flow of four major elements in the GBA: (1) goods and services; (2) people; (3) capital; and (4) information.
- ◆ The role models for the GBA are the bay areas of San Francisco, New York and Tokyo, which all allow the free flows of the four major elements within them. The GBA has to achieve the same, but it will not occur overnight. It will require a long transition period of at least five to ten years.

The Greater Bay Area Initiative 大湾区倡议: Sharing of Infrastructure 基础设施共享

- ◆ The infrastructural facilities within the GBA should be shared among the GBA cities. The different GBA cities should coordinate among one another in their development plans, promote the division of labor and specialization, and avoid duplication of construction and waste of resources.
- ◆ For example, the GBA can follow the examples of New York and New Jersey to establish a GBA (or Hong Kong-Shenzhen) Airport Authority to manage all the civil airports in the area. As a first step, the Hong Kong International Airport and the Shenzhen Baoan International Airport should consider operating jointly, through the linkage by high speed trains, to achieve a division of labor. Flights between Hong Kong/Shenzhen and Mainland cities can take off and land in the Shenzhen Baoan International Airport, whilst international flights from Hong Kong/Shenzhen take off and land in the Hong Kong International Airport. As part of this arrangement, Air China can enjoy Hong Kong's air traffic rights, while Cathay Pacific can enjoy Shenzhen's air traffic rights. Hong Kong and Shenzhen will jointly share the revenues from the two airports according to a pre-agreed formula.

Cooperation, Coordination, Division of Labor & Specialization 合作，协调，分工与专门化

- ◆ Guangdong, Hong Kong and Macau may also consider coordinating with the People's Liberation Army and establish a GBA air traffic control district to manage all the civil aviation activities in the GBA, and open up cross-border civil helicopter business in the GBA so as to strengthen ties and facilitate travel among the GBA cities.
- ◆ For another example, after the opening of the Hong Kong-Zhuhai-Macau Bridge in 2018, the Macau International Airport can be used exclusively for serving private and business aircrafts in the GBA, so that the landing and taking-off of private aircrafts will be shifted from Hong Kong International Airport to the Macau International Airport. Zhuhai International Airport can be developed into a transnational air cargo express delivery hub within the Eastern Asian region (similar to the FedEx America Center in Memphis, Tennessee, U.S.A.) for serving Northeast and Southeast Asia.

Cooperation, Coordination, Division of Labor & Specialization 合作，协调，分工与专门化

- ◆ For another example, Hong Kong and Shenzhen together can build the GBA into a global innovation, venture investment and financing hub, combining the Silicon Valley, Route 128, New York Stock Exchange and NASDAQ into one, serving not just the GBA but the entire Mainland and also the whole Belt and Road (including East Asia) region.
- ◆ The excess savings of Mainland China and the East Asian economies are the sources of the risk capital for the venture investments in the GBA.
- ◆ Other Belt and Road countries can also provide the venture capital as well as the new markets for innovative products, supporting the GBA's development into a global innovation hub.

The Role of the GBA in the Chinese Economy

粤港澳大湾区在中国经济中的角色

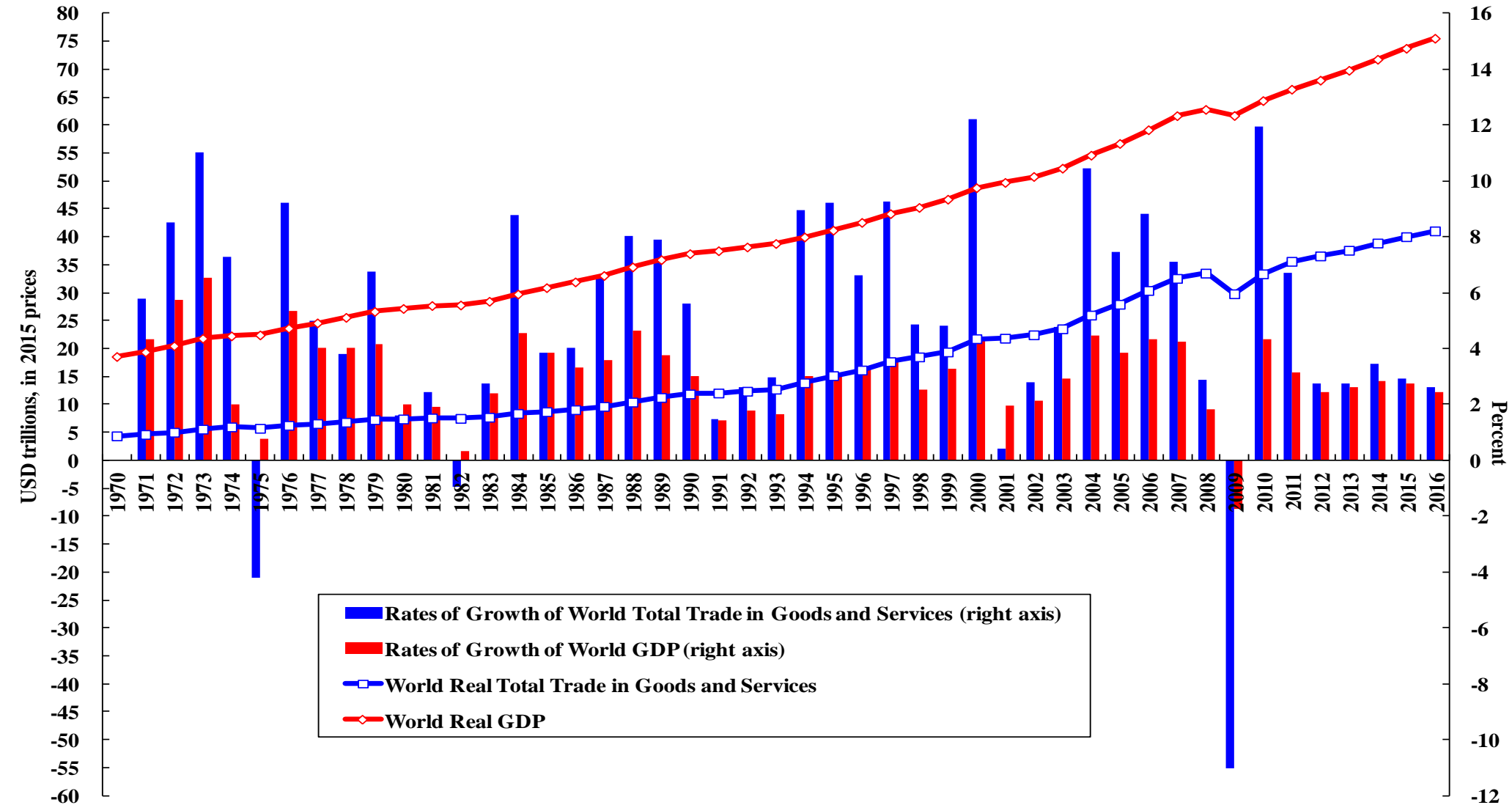
- ◆ Global and Mainland economic trends
- ◆ The GBA as an international hub for innovation, venture capital and start-ups
- ◆ The GBA as a full-service international financial center
- ◆ The GBA as the eastern terminus of the “Maritime Silk Road”
- ◆ The GBA as a major cosmopolitan metropolis

Global and Mainland Economic Trends: 全球与内地经济趋势

- ◆ Slowdown of the growth of world real GDP and trade
- ◆ The transition of the Chinese economy to a new normal

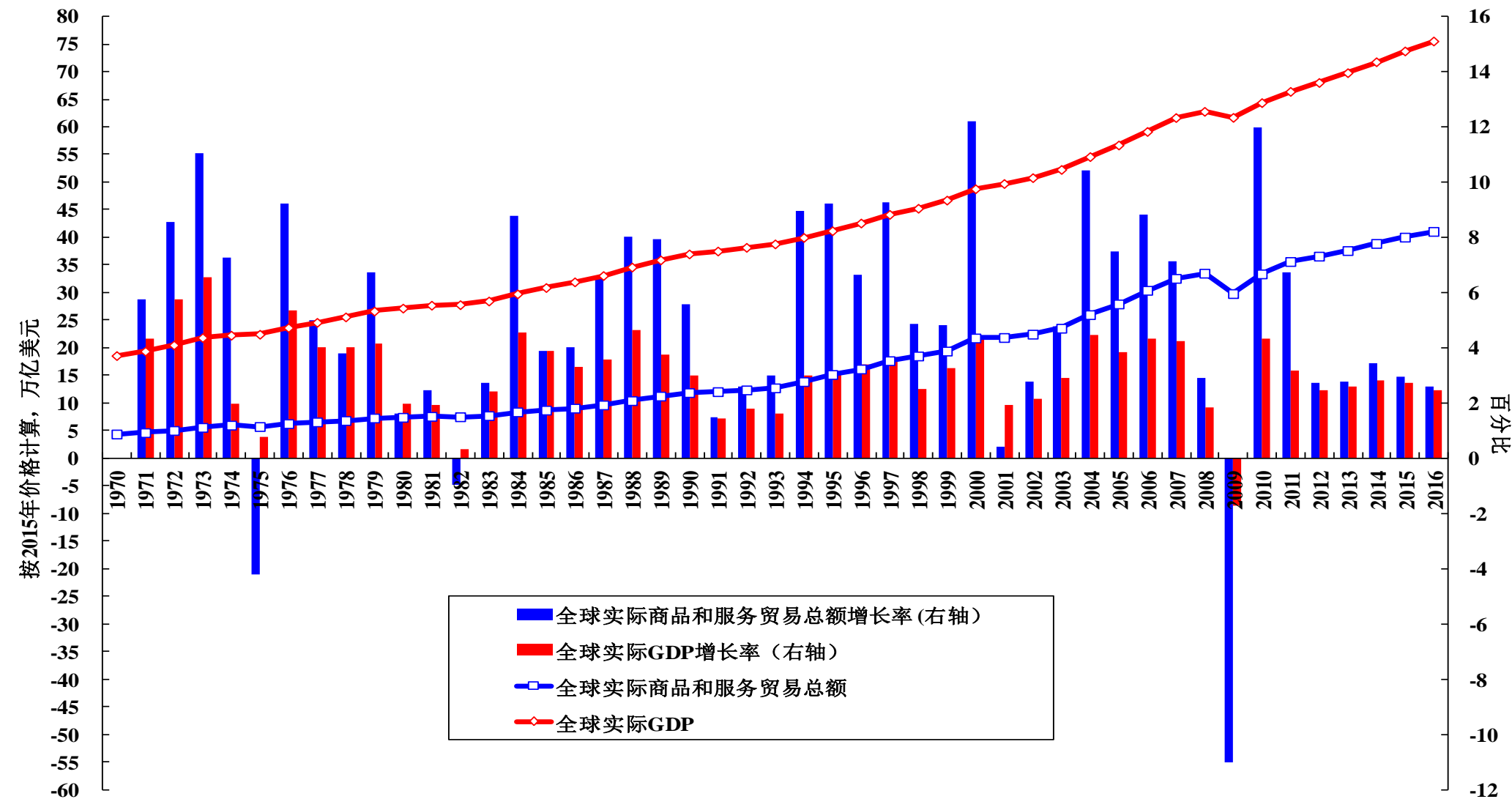
Real World GDP and Trade in Goods and Services and Their Growth Rates (2016 prices)

World Real GDP and Real Total Trade and Their Growth Rates, in 2016 prices



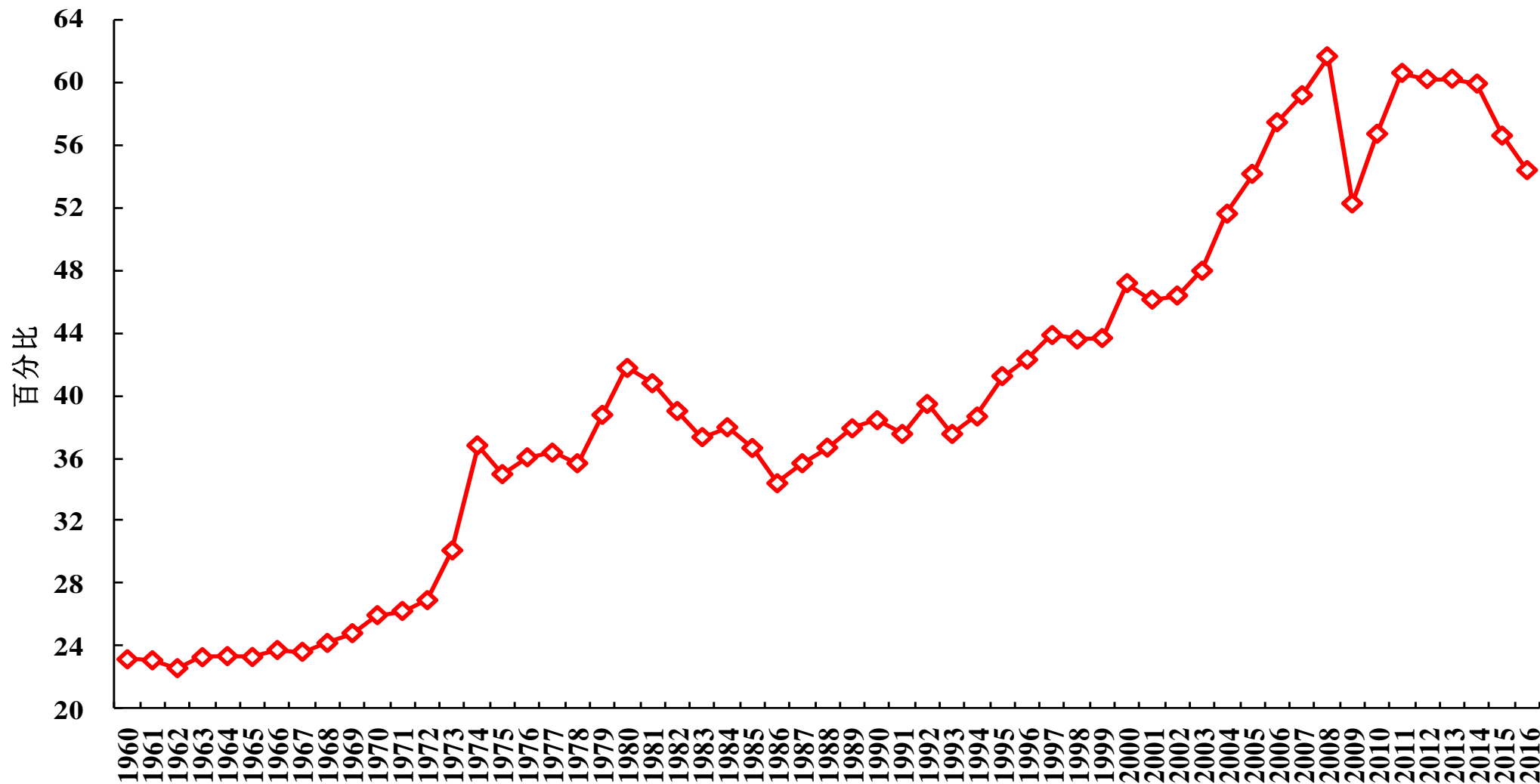
全球实际GDP、实际商品和服务贸易总额及其增长率（按2016年价格计算）

全球的实际GDP和实际商品和服务贸易总额及其增长率（按2016年价格计算）



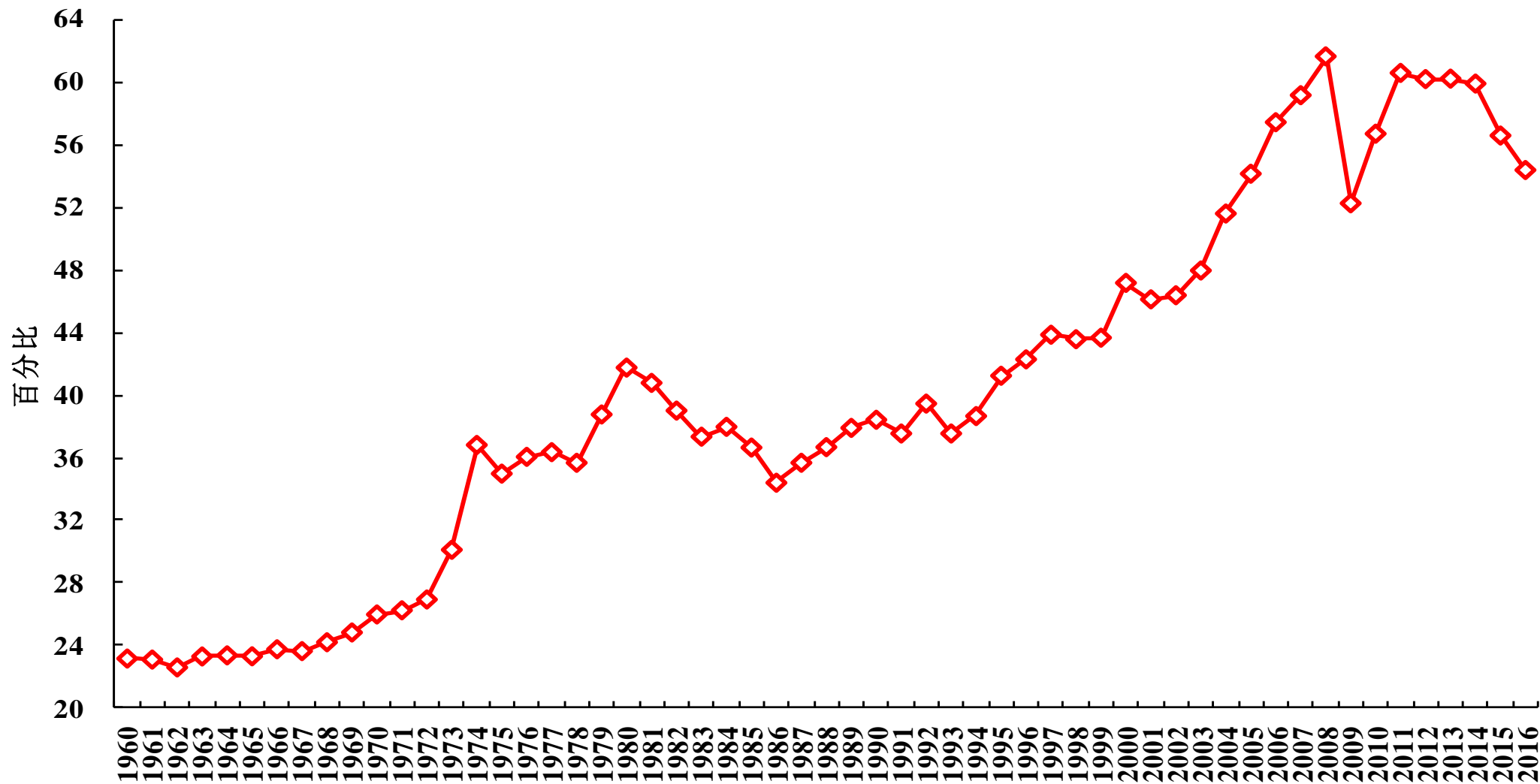
Total World Trade in Goods and Services as a Percentage of World GDP since 1960

Total World Trade in Goods and Services as a Percentage of World GDP since 1960



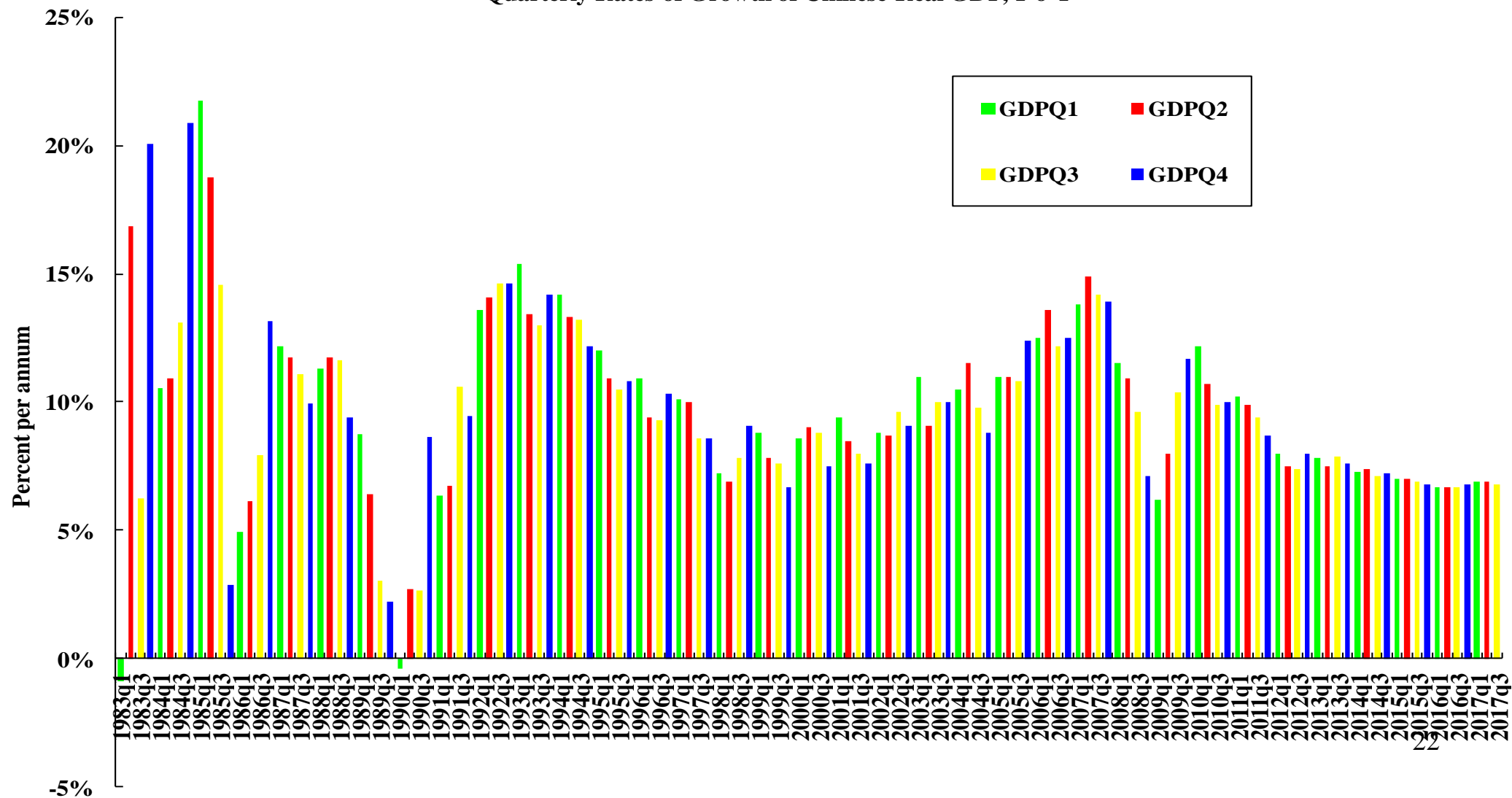
1960年以来全世界货物和服务贸易总额占全世界GDP的比重

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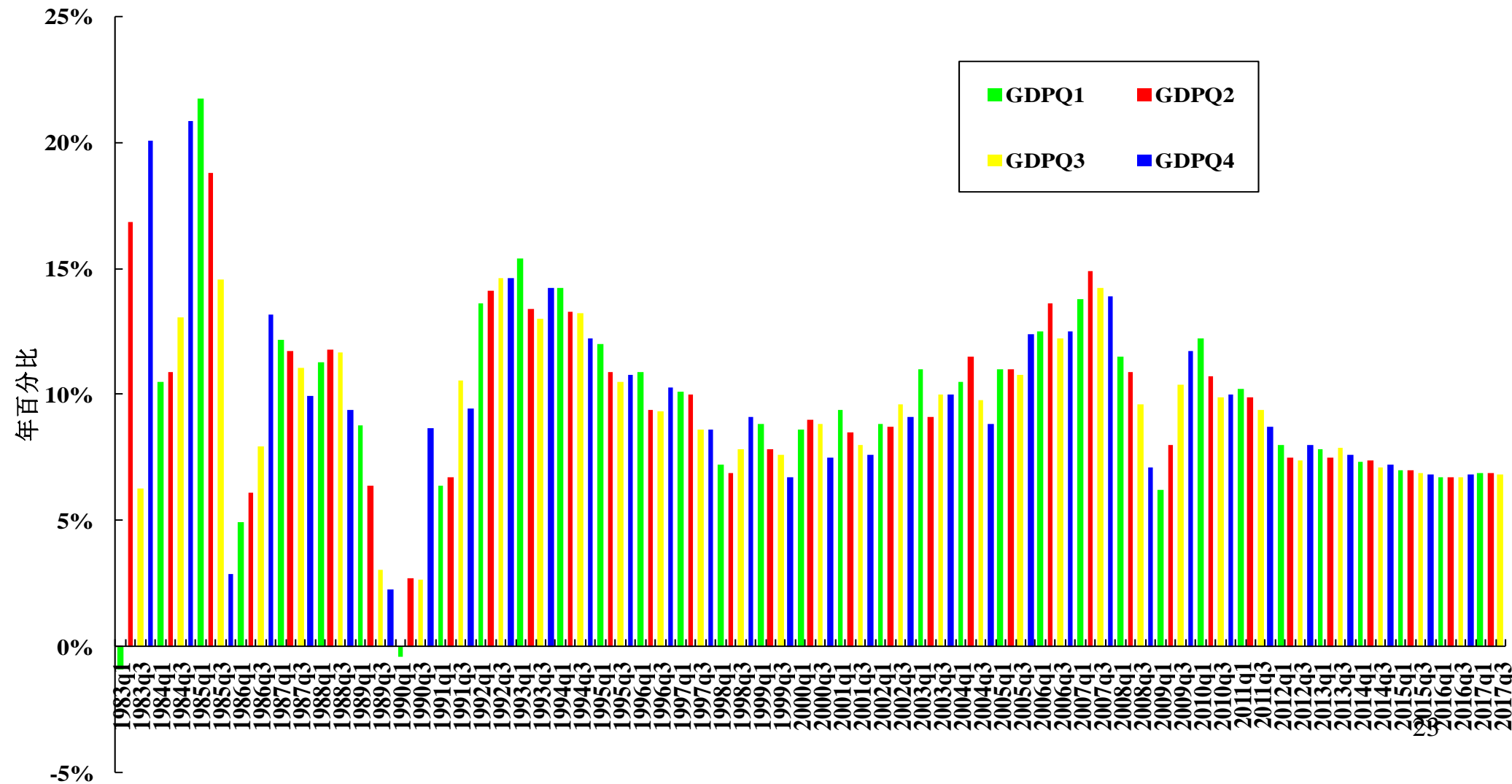
Quarterly Rates of Growth of Chinese Real GDP, Y-o-Y

Quarterly Rates of Growth of Chinese Real GDP, Y-o-Y



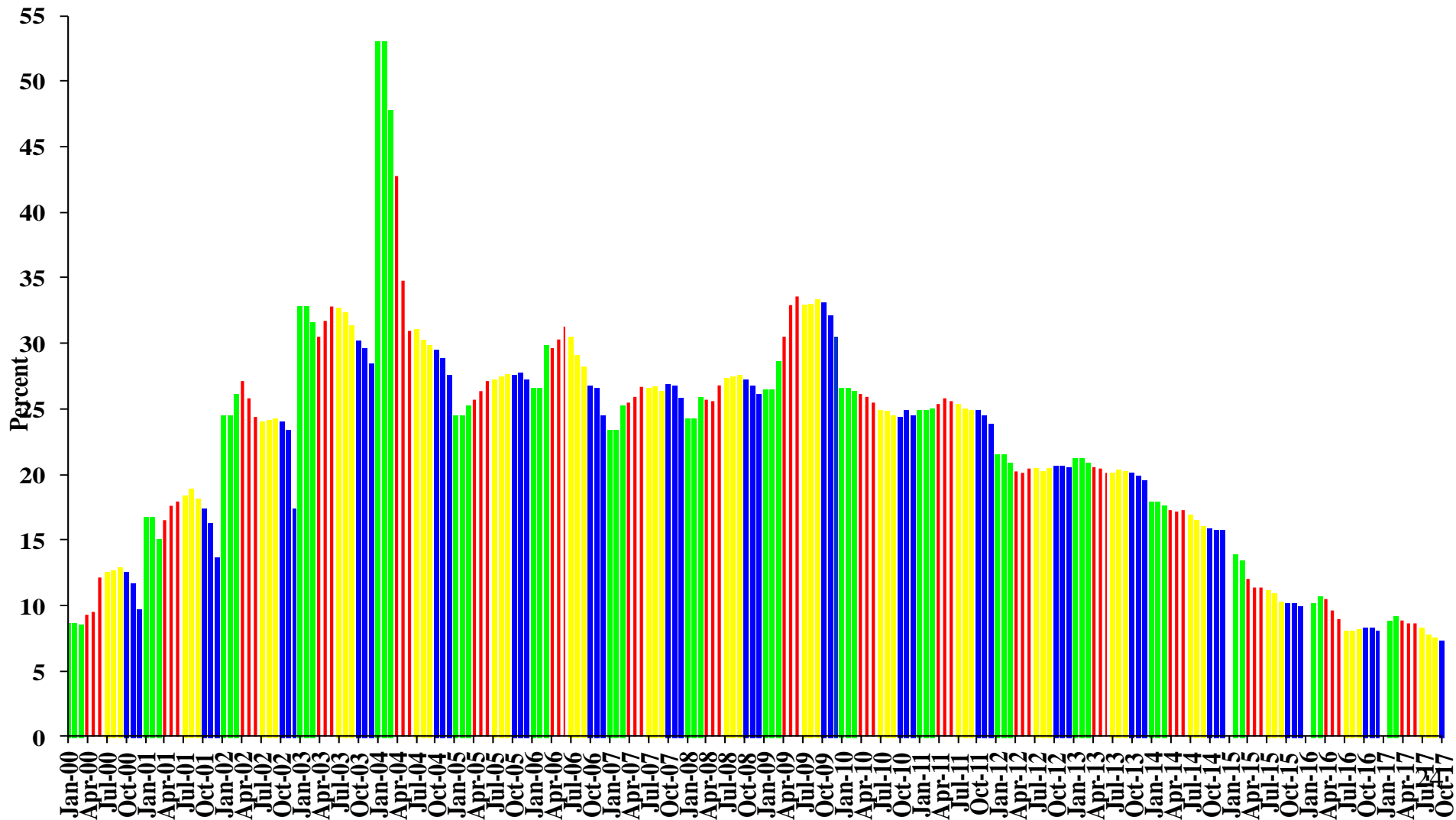
中国大陆季度实际GDP的年同比增长率

中国季度实际GDP的年同比增长率



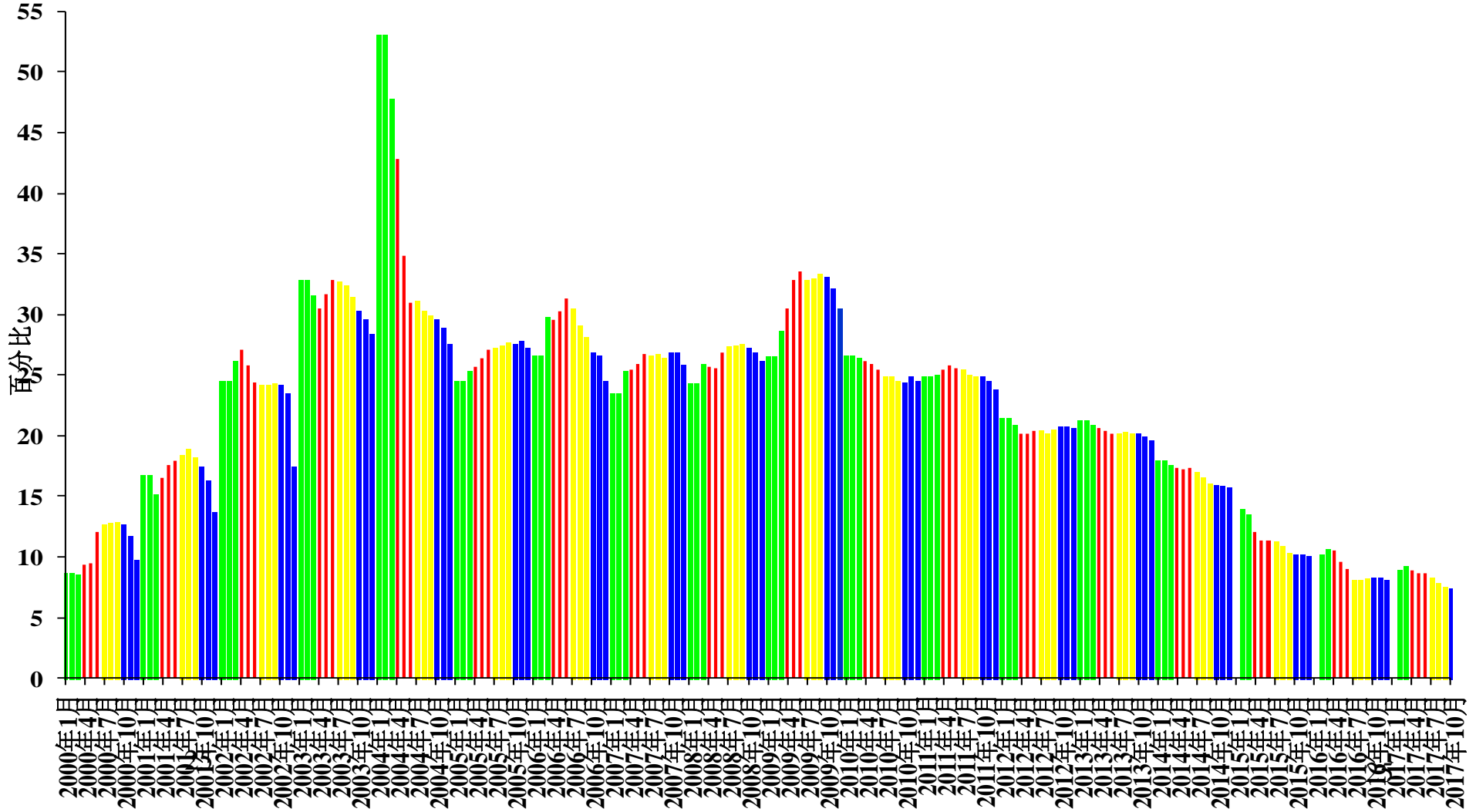
Monthly Rates of Growth of Chinese Fixed Assets Investment, Y-o-Y

Monthly Rates of Growth of Chinese Fixed Assets Investment, Year-over-Year



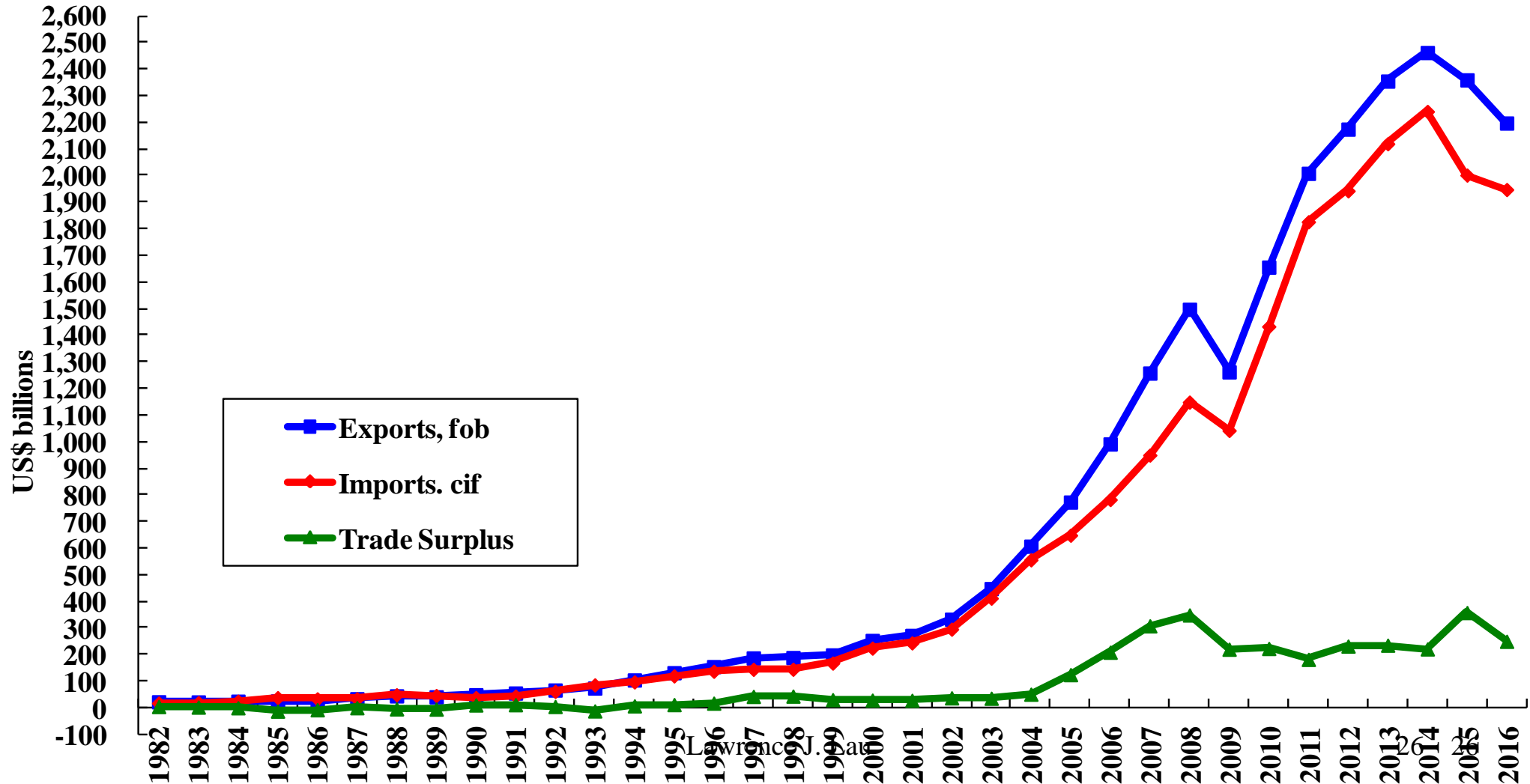
月度固定资产投资的年同比增长率

月度固定资产投资的年同比增长率



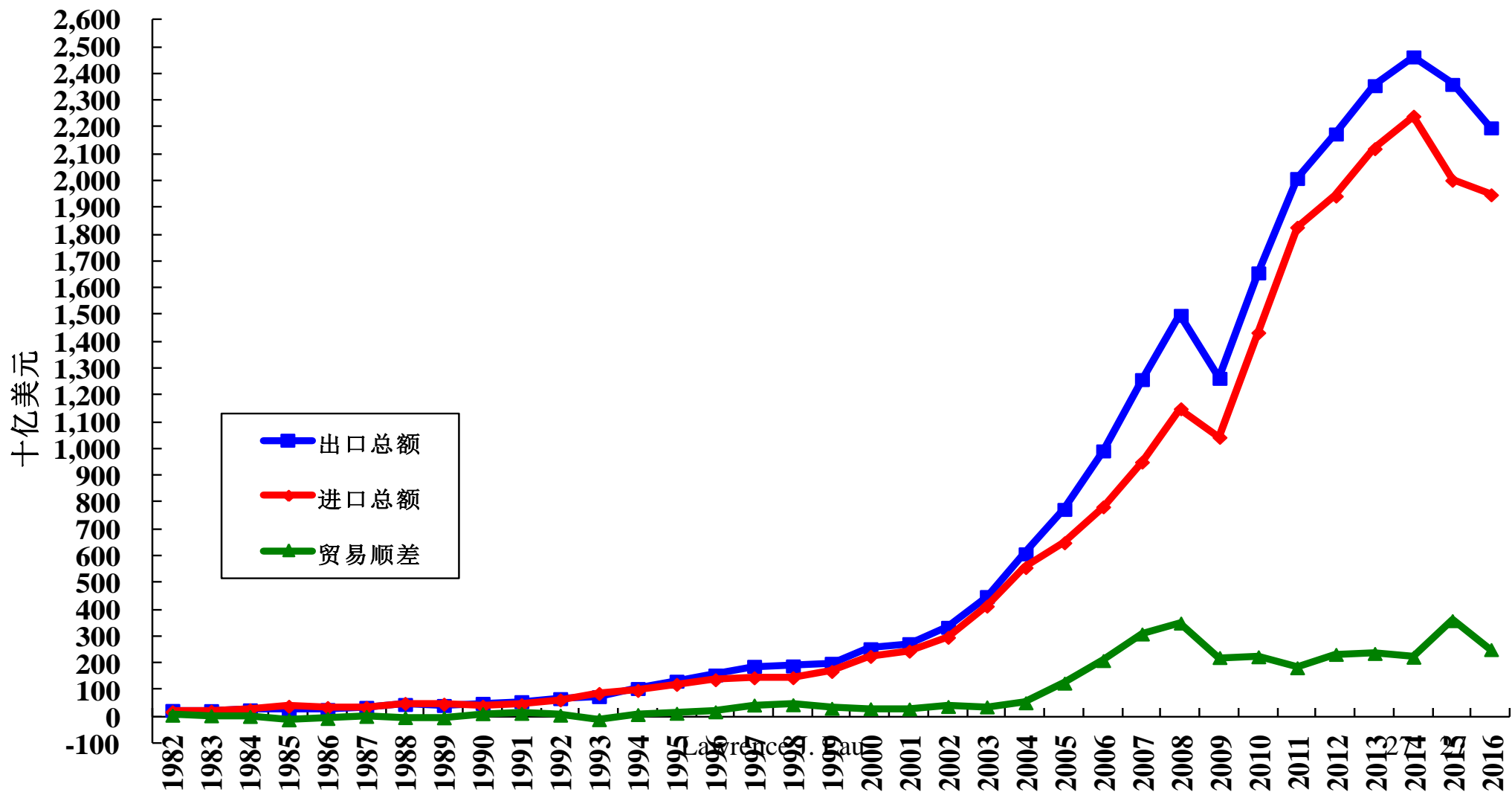
Annual Chinese Exports, Imports and Trade Balance of Goods and Services

Annual Chinese Exports, Imports and Trade Balance of Goods and Services, in US\$ Billion



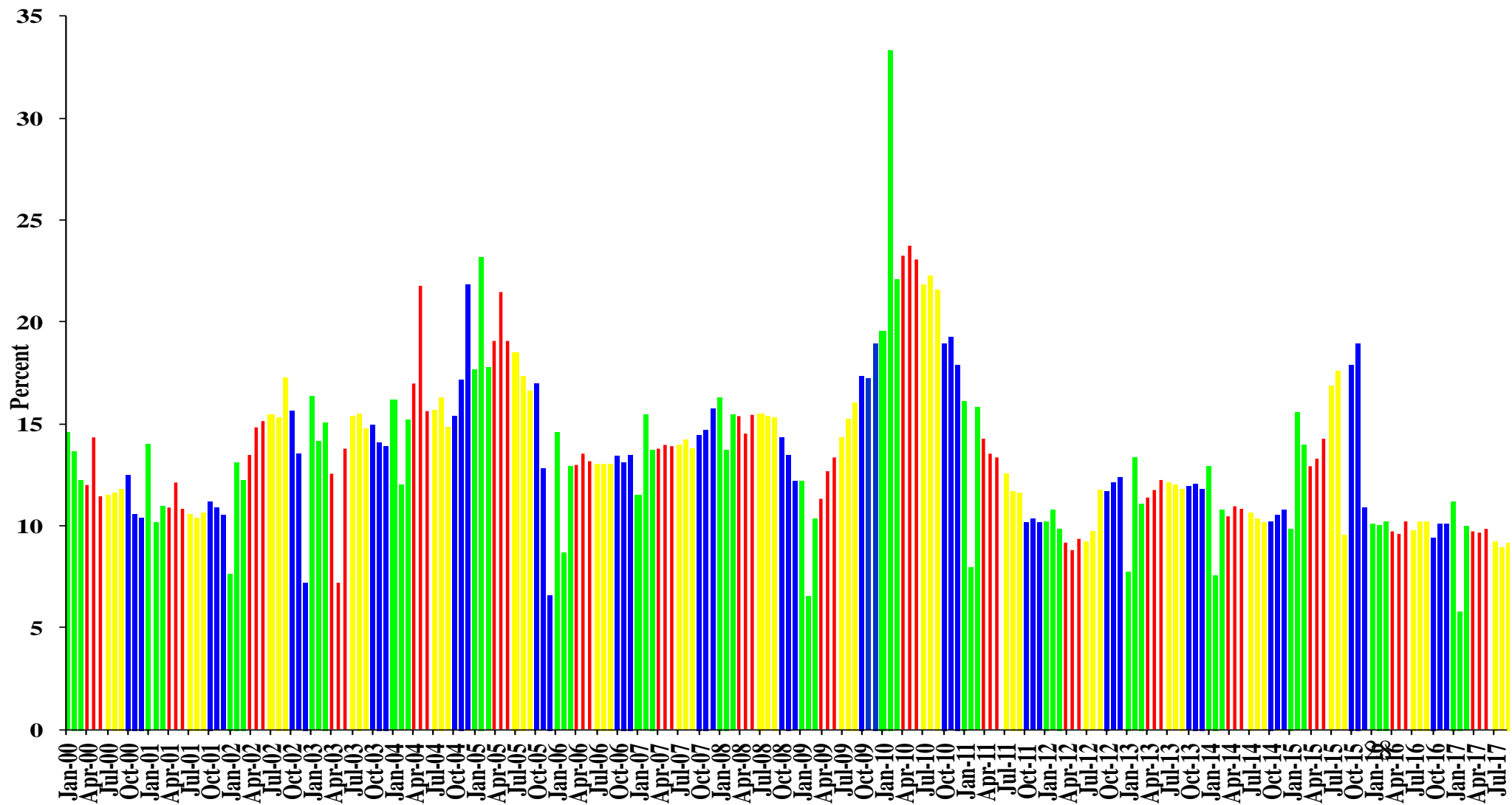
中国商品与服务出口总额、进口总额与贸易顺差 (十亿美元)

中国商品与服务出口总额、进口总额与贸易顺差 (十亿美元)



Monthly Rates of Growth of Chinese Real Retail Sales, Y-o-Y

Monthly Rates of Growth of Chinese Real Retail Sales since, Year-over-Year



The GBA as an International Hub for Innovation, Venture Capital and Start-Ups

- ◆ Hong Kong and Shenzhen together can develop into an international innovation hub that combines “Silicon Valley/Route 128)” and NASDAQ into one, serving not just China but also the entire Belt and Road region. It will specialize in the creation of intangible capital and the capitalization of its commercial value through “Venture Capital”, “Initial Public Offerings (IPOs)” and “Mergers and Acquisitions (M&As)”.
- ◆ This requires a four-pronged approach: (1) increasing investment in human capital, specifically, in tertiary and research-based postgraduate education; (2) increasing investment in research and development (R&D) (in this regard Hong Kong is woefully inadequate); (3) creating a nurturing eco-system for venture capital; and (4) facilitating the IPO and M&A markets for successful start-up firms.
- ◆ The ultimate objective is to make Hong Kong-Shenzhen an international innovation hub, attracting inventors, entrepreneurs, venture capitalists and investment bankers to congregate to innovate, raise capital as well as to invest.

The GBA as an International Hub for Innovation, Venture Capital and Start-Ups

- ◆ Universities in Hong Kong and Shenzhen can focus on basic research, while enterprises, especially those in Shenzhen, can focus on applied research, development, pilot manufacturing and commercialization.
- ◆ Hong Kong can be developed into a hub of venture capital, while Shenzhen is already a hub of start-up businesses to attract inventors, entrepreneurs and venture investors. The Hong Kong and Shenzhen Stock Exchanges together can fulfil the function of the NASDAQ exchange in the U.S. capital market for new enterprises in the GBA seeking an initial public offering (IPO). Successful enterprises can obtain a listing to raise equity funds or issue corporate bonds on the Hong Kong Stock Exchange at a later stage.
- ◆ Perhaps ultimately the Hong Kong and Shenzhen Stock Exchanges can be merged into one.

The GBA as the Eastern Terminus of the “Maritime Silk Road”

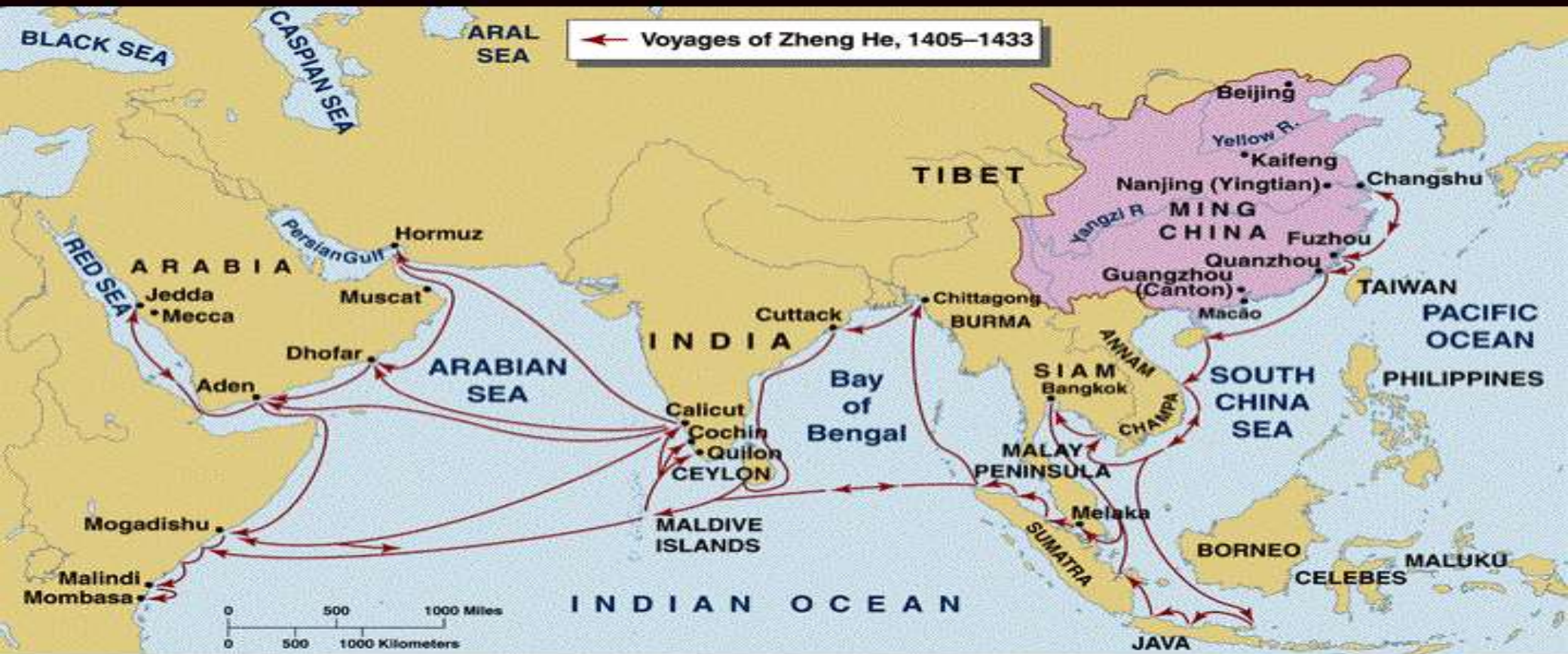
- ◆ The “Belt and Road” (B&R) Initiative, consisting of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, was launched by President XI Jinping in September 2013. It is a grand, multi-country (72 by last count), multi-decade development plan with the objective of linking and transforming the economies of Asia, Europe, Africa and Oceania.
- ◆ The “B&R” Initiative is a serious long-term commitment of China that has been written into the Charter of the Communist Party of China at its Nineteenth National Congress held in October 2017, indicating that it will remain a focus for China’s foreign policy and its international economic outreach even beyond the end of President Xi’s second term in 2022.

The GBA as the Eastern Terminus of the “Maritime Silk Road”

- ◆ The Silk Road Economic Belt, as the Old Silk Road which existed more than two millennia ago, links the continents of Asia, Europe and Africa together. It brings together China, Central Asia, West Asia, Middle East, North Africa, Russia and Europe. In particular, it will encompass new Eurasian Land Bridges.
- ◆ The 21st-Century Maritime Silk Road is designed to connect China’s coastal regions to Europe through the South China Sea and the Indian Ocean in one route, and through the South China Sea to the South Pacific and Oceania in the other. For both routes, the GBA is the natural eastern terminus in China.
- ◆ The GBA can become a trading and logistics hub for the entire Belt and Road region.

Voyages of Admiral ZHENG He (1405-1433)

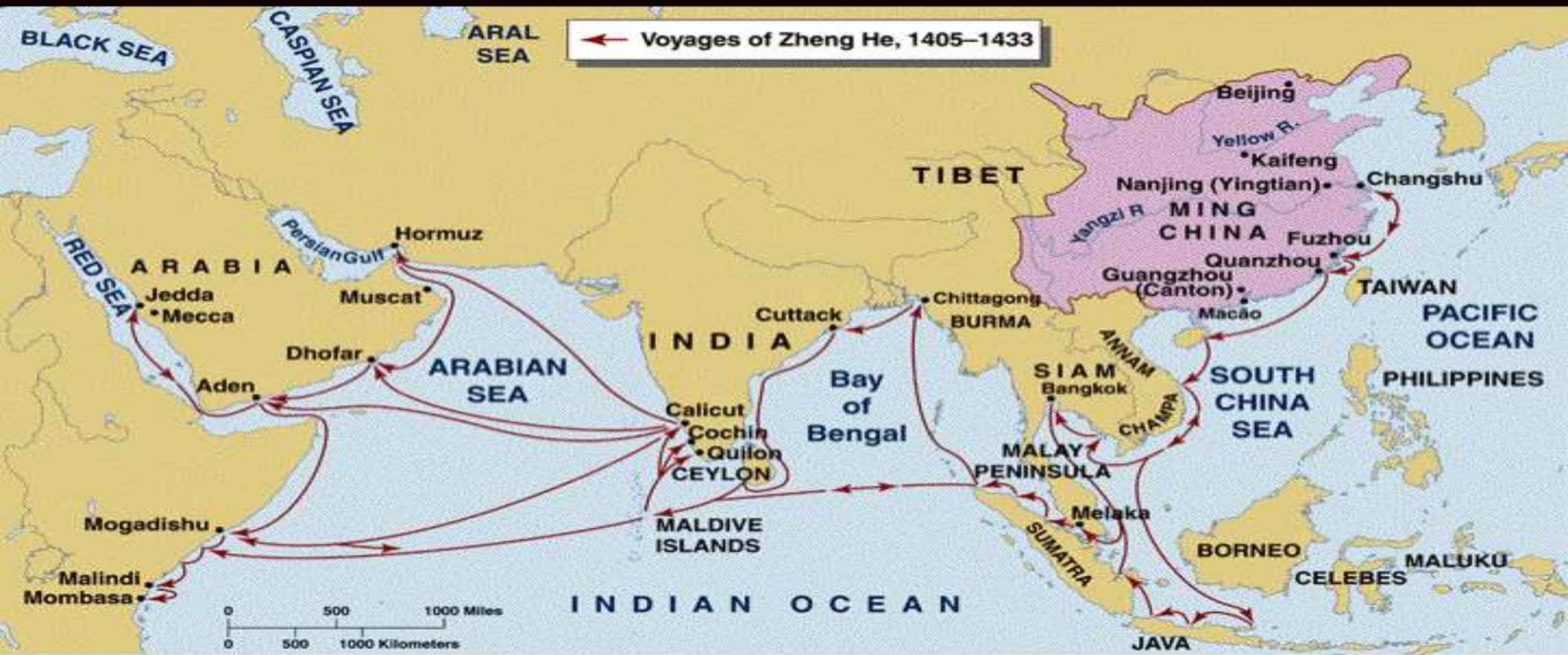
(map from www.history.ubc.ca)



MAP 2-6 VOYAGES OF ZHENG HE, 1405-1433

鄭和七下西洋 (1405-1433)

(地圖來自 www.history.ubc.ca)



MAP 2-6 VOYAGES OF ZHENG HE, 1405-1433

The GBA as a Full-Service International Financial Center: The Intern'l Bond Market

- ◆ China's own economic development experience confirms that both reform and openness are necessary for success. And infrastructure building is the indispensable first step for achieving effective openness.
- ◆ This is also true of the B&R. The Asian Development Bank (ADB) estimated that emerging Asian economies would need infrastructural investment totaling US\$1.7 trillion a year in order to maintain economic growth, but only about half the amount would be available.
- ◆ What role can the GBA play in the "B&R" initiative? Within the GBA there is Hong Kong, through which the GBA can provide much of the financing of the "B&R" infrastructural projects.

The GBA as a Full-Service International Financial Center: The Intern'l Bond Market

- ◆ Hong Kong does not currently have an active, deep and liquid sovereign and corporate bond (fixed income) market with both short and long maturities that both New York and London have. In fact, Hong Kong does not at the present time have much of an active bond market at all. This makes Hong Kong unsuitable as a location for raising long-term debt and asset management operations, including those of fixed income funds, insurance companies, money market funds, pension funds, sovereign wealth funds and treasuries of multinational corporations. (This is in addition to impediments raised by Hong Kong tax rules.)
- ◆ The financing of the Belt and Road and Guangdong-Hong Kong-Macau Greater Bay Area projects can help create an ample supply of different types of sovereign and quasi-sovereign as well as non-sovereign bonds for the Hong Kong bond market.

The GBA as a Full-Service International Financial Center: The Intern'l Bond Market

- ◆ The financing can also be done in multiple currencies, for example, the U.S. Dollar and the Renminbi. Since the revenue for most infrastructure projects is in local currencies, to the extent that there is demand for local currency-denominated bonds, either in the host country or internationally, they should be used. However, local currency-denominated bonds may have to be enhanced through indexing the rate of interest to the rate of inflation of the host country.
- ◆ Alternatively, for foreign currency-denominated debt, they may need to be secured with the expected proceeds of exportables—for example, oil and gas and iron ore. Hong Kong is uniquely able to put together a complex financing package that includes both equity and debt and short-and long-term bonds and notes and possibly in multiple currencies.

The GBA as a Full-Service International Financial Center: The Intern'l Stock Market

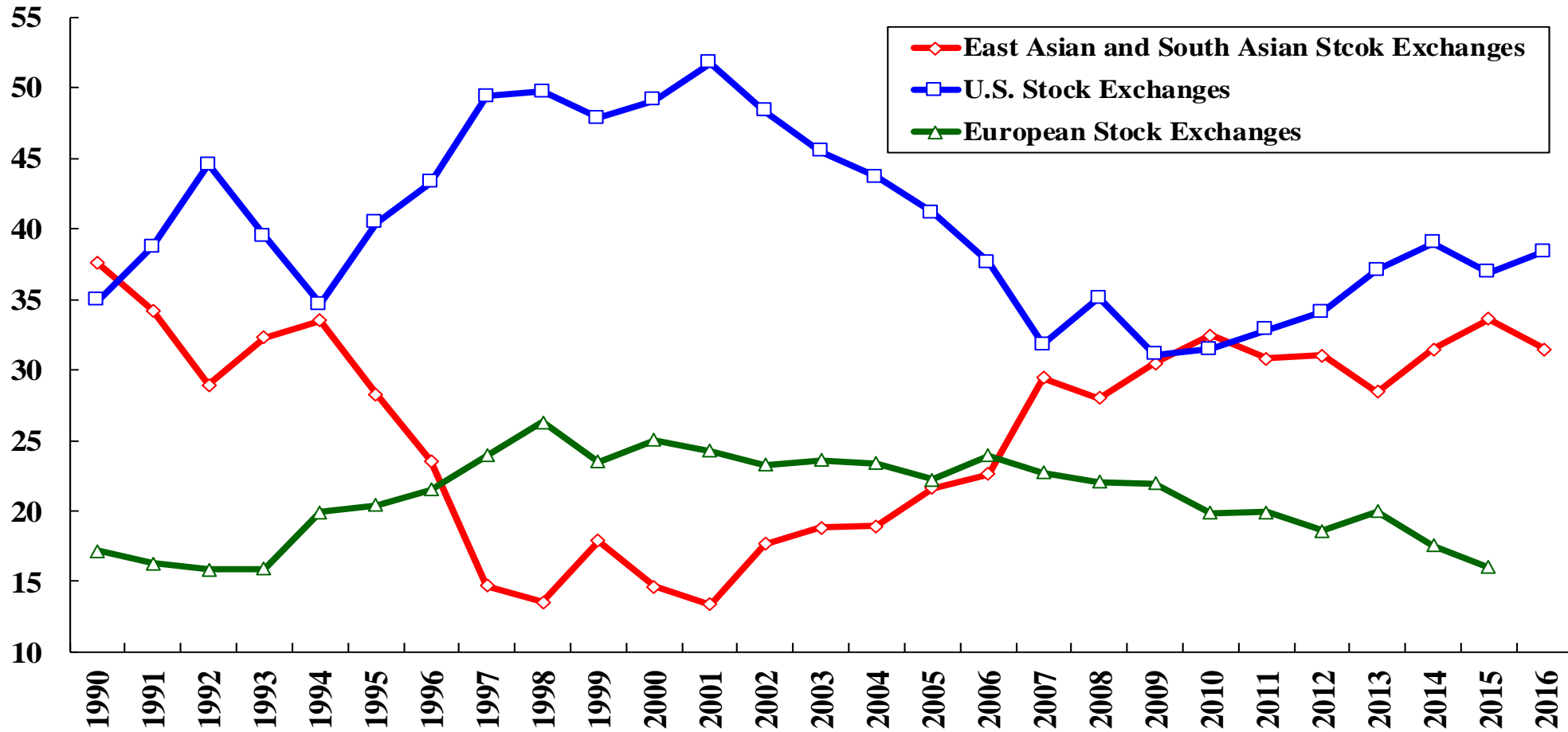
- ◆ At present, there is no single market in which the stocks of all major enterprises in East Asia (let alone the stocks of enterprises in the other Asian Belt and Road countries) are traded. Investors both inside and outside of East Asia would welcome a single stock exchange where they can buy and sell the equity and debt of all the blue chip East Asian enterprises (e.g., the MSCI Far East Index components) in US\$ or eventually in Renminbi, and without having to worry about foreign exchange conversions and restrictions on capital inflows and outflows.
- ◆ In addition, Mainland investors would also welcome the convenience of being able to buy and sell the equity and debt of blue-chip enterprises in developed economies (e.g., the Dow Jones 30 companies) in a single market, if and when they begin to re-balance their portfolios once capital controls are lifted on the Mainland. (Right now we already have Shanghai-Hong Kong Connect and Shenzhen-Hong Kong Connect.)
- ◆ It therefore behooves Hong Kong to encourage and solicit blue-chip enterprises around the world to do secondary listings on the Hong Kong Stock Exchange as Hong Kong Depositary Receipts (HDRs).

The GBA as a Full-Service International Financial Center: The Intern'l Stock Market

- ◆ The buying power of Asian investors has been growing very rapidly since 2000, driven by the rapid rate of growth of their GDPs and wealth as well as the high saving rates.
- ◆ The share of East Asian and South Asian stock exchanges in the total world market capitalization stood above 35% in 2016, compared to 38% for the U.S. and 17% for Europe.
- ◆ The average annual turnover of the Shanghai and Shenzhen Stock Exchanges combined was more than US\$41 trillion, higher than that of the New York Stock Exchange of US\$30 trillion in 2016. In contrast, the average annual turnover of the Hong Kong Stock Exchange was only US\$2 trillion. This demonstrates the potential stock-buying power of the Mainland investors. For the international stock market in Hong Kong to succeed, the buying power of the Mainland investors must be harnessed in addition to attracting the Mainland enterprises to list their shares in Hong Kong.
- ◆ Asian household wealth is projected to exceed European wealth within the next five years.

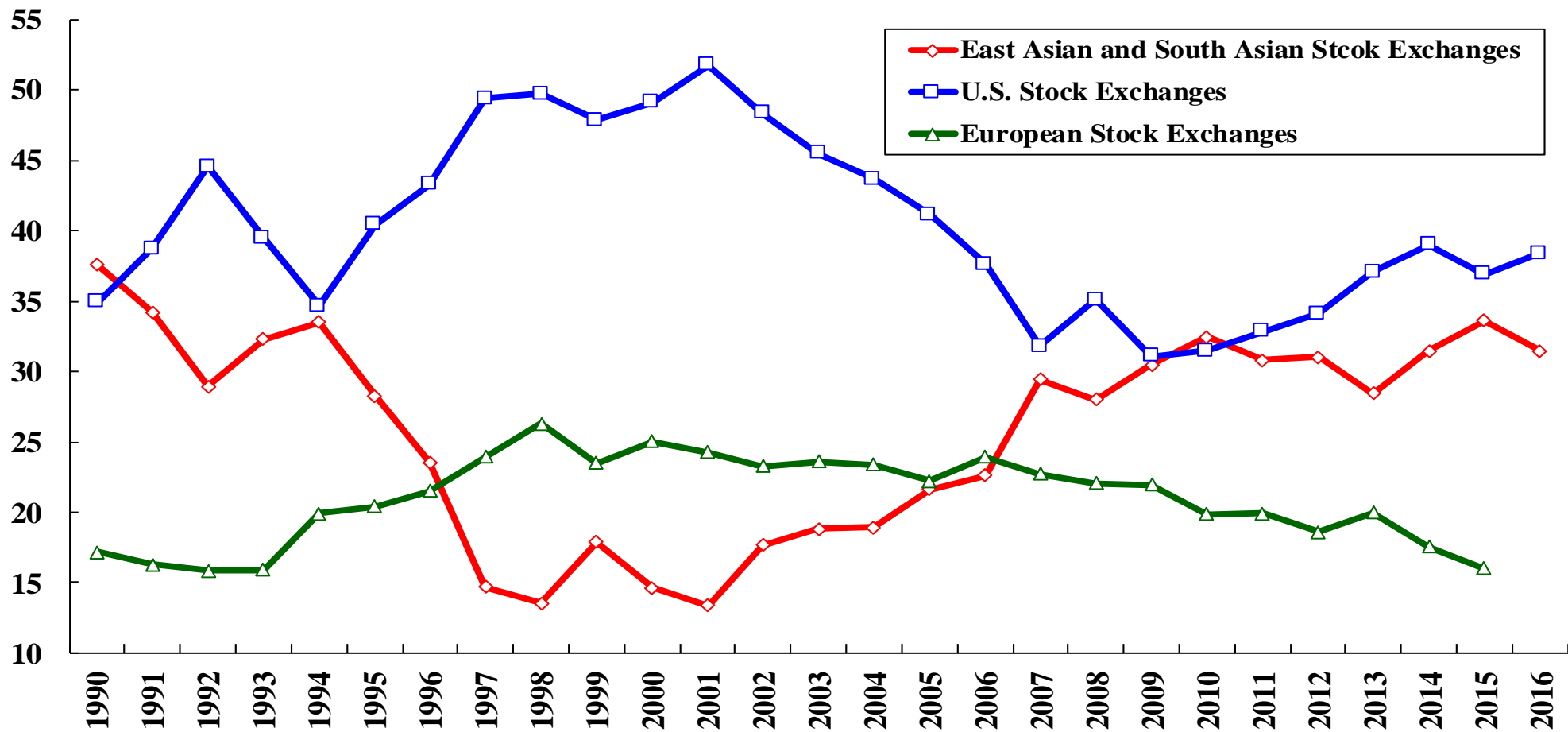
The Distribution of the Market Capitalization of World Stock Exchanges by Region, percent

The Distribution of the Market Capitalization of World Stock Exchanges by Region, percent



世界股票市場總值按地區的分配（百分比）

The Distribution of the Market Capitalization of World Stock Exchanges by Region, percent



The GBA as a Full-Service International Financial Center: The Intern'l Stock Market

- ◆ Hong Kong is an ideal location for the establishment of an East Asian region-wide and eventually Belt-and-Road-wide stock market because of its location and time zone, its efficiency, its free mobility of capital, rule of law, stable currency (fixed peg to the U.S. Dollar), and no tax on dividends and capital gains.
- ◆ Once such an international securities market gets going, it should start a virtuous cycle of more trading volume leading to more listing, and more listing in turn leading to more trading volume, thus feeding on each other.
- ◆ Hong Kong and Shenzhen should allow differential voting rights with appropriate safeguards to attract the listing of private Mainland enterprises still actively managed by their founders. Such safeguards can include the expiration of super-voting rights upon sale or transfer of these shares and advance notice of sales of the super-voting shares.

The GBA as a Full-Service International Financial Center: The Re-Insurance Market

- ◆ As the demands for casualty, property and life insurance have been increasing by leaps and bounds in the East Asian region, including the Mainland, so do the derivative demands for re-insurance. Similarly, the demands for insurance and hence for re-insurance will also grow in the other Belt and Road countries.
- ◆ In addition, the Mainland, the other East Asian and the oil-rich Middle Eastern economies, with their high saving rates, are potentially major sources of risk capital for the re-insurance business.
- ◆ Re-insurance, like insurance, is a scale business, and the East Asian economies have now grown sufficiently large to realize the economies of scale of re-insurance based on their own demands alone.
- ◆ Moreover, once sufficient scale and expertise are achieved, insurance companies worldwide will also want to re-insure with re-insurance companies in the GBA, so as to diversity and share the risks.

The Four Necessary Requirements of an International Re-Insurance Market

- ◆ First, there must be an abundance of investors and capital willing and able to assume risks. The appetite for risks in East Asia is clearly demonstrated by the booming casino business in Macau and the A-share markets in Shanghai and Shenzhen.
- ◆ Second, there must complete freedom of capital flows to and from everywhere, so that insurance premia can be received and claims can be paid expeditiously worldwide. The insurance policies themselves can be denominated in different currencies so as to match those of the insured and re-insured assets.
- ◆ Third, there must be political stability, a tradition of adherence to the rule of law, and a credible, efficient, fair and transparent judicial system that is ready to adjudicate and enforce insurance contracts and claims in a timely manner.
- ◆ Finally, there must be a large supply of highly seasoned professional expertise in accounting, actuarial sciences, law and risk assessment.
- ◆ The GBA (Hong Kong together with Qianhai in Shenzhen) is uniquely suited to become an international re-insurance center for the Asian region, including all the Belt and Road countries. What is needed is some concerted governmental action to encourage and facilitate the establishment of one or more large re-insurance companies that are licensed to do business everywhere in East Asia and in Belt and Road countries.

The GBA as a Full-Service International Financial Center: The Renminbi Center

- ◆ Hong Kong is currently by far the largest and most active offshore center for Renminbi clearing, settlement, trading and financing, with an average daily volume of transactions approaching 1 trillion Yuan.
- ◆ The GBA can become the leading Renminbi center both onshore and offshore, taking advantage of the unique position of “One country, two systems”. With the Renminbi expected to become increasingly internationalized during the next decade or two, this will turn out to be a huge advantage.
- ◆ One may ask: Would Hong Kong continue to be an important Renminbi center after the Yuan becomes completely freely convertible?
- ◆ Hong Kong would continue to be an important Renminbi center, perhaps even more important, for tax and many other reasons. One only has to look at the Euro Dollar market in London to realize that an offshore Renminbi market can continue to prosper even after all capital controls are lifted on the Mainland.

The GBA as a Major Cosmopolitan Metropolis

- ◆ The GBA as an international art, cultural and educational center
- ◆ The GBA as an international professional services center
- ◆ The GBA as an international leisure-time activities center
(including tourism)

Concluding Remarks 結語

- ◆ The GBA definitely has the potential to become the world's leading international innovation, venture capital and start-up hub. Once the GBA achieves this status, it cannot be easily displaced or replaced.
- ◆ In order to become an international innovation hub, the GBA must vigorously promote higher education, R&D and venture capital within the GBA.
- ◆ The GBA is also uniquely able to support the “B&R” Initiative as an international financial center. However, it must work hard to develop an active and liquid long-term bond market (including Islamic bonds) as well as an international equity market, serving the entire Belt and Road region.
- ◆ The GBA can also become one of the world's leading international re-insurance centers, like London and Zurich.
- ◆ However, to realize these goals requires the GBA governments, the enterprises and the public to work together. Moreover, they must also seek the help and support of the Central Government.

Concluding Remarks 結語

- ◆ It is necessary to promote the freer flow of goods and services, among the 11 cities of the GBA. There should be a pilot Guangdong-Hong Kong-Macau Greater Bay Area Free Trade Zone.
- ◆ It is also necessary to promote the freer flow of people—the simplification of entry/exit and customs formalities and the mutual selective recognition of academic degrees and professional qualifications.
- ◆ It is also necessary to facilitate the cross-border two-way flow of capital within the GBA.
- ◆ Finally, it is necessary to facilitate the cross-border two-way flow of information within the GBA.
- ◆ If the pilot GBA Free Trade Zone turns out to be successful, it can be a model for the extension to the entire Guangdong Province and ultimately to the entire country.