

The Guangdong-Hong Kong Macau Greater Bay Area as a Pilot for the Rest of the Country 粵港澳大灣區作為試點

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2021 Understanding China Conference

Session: ““Pilot Areas” with Chinese Characteristics
and Redoubled Efforts of Reform and Opening-up ”

Guangzhou, China, 3 December 2021

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The Guangdong-Hong Kong-Macau Greater Bay Area as a Pilot Area

- ◆ China's dual circulation strategy of economic development, as announced by President XI Jinping, has as its principal focus the domestic circulation, but with both the domestic and international circulations mutually reinforcing each other.
- ◆ The adoption of the dual circulation strategy is a clear indication that China has no intention to retreat from economic globalisation, even though its economy is no longer export-driven. Instead, China will continue its economic reform, remain open to the rest of the world, and aim at a balanced international trade in goods and services combined.
- ◆ An open economy will allow the Chinese economy to specialise in accordance with its comparative advantages as well as enhance competition in its markets and help reduce domestic monopoly power and monopolistic practices.
- ◆ The Guangdong-Hong Kong-Macau Greater Bay Area can serve as a pilot area for new economic reform and opening measures. If these measures prove successful, they can be gradually extended to the rest of the Mainland.

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

- ◆ The GBA has a total population of more than 86 million, slightly more than 6% of the total Mainland population.
- ◆ It has a GDP of US\$ 1.74 trillion, or more than 11% of Mainland GDP, and a GDP per capita of US\$20,215, almost doubled the GDP per capita of the Mainland.
- ◆ Currently, three currencies—the Renminbi (Chinese Yuan), the Hong Kong Dollar, and the Macanese Pataca—are used by the residents of respectively the Guangdong cities of the GBA, Hong Kong and Macau.
- ◆ There are also three different sets of laws governing respectively the Guangdong cities, Hong Kong and Macau.
- ◆ The Guangdong cities, Hong Kong and Macau also have different applicable import and export rules and regulations and the Guangdong cities have, in addition, capital controls.

The Cities of Guangdong-Hong Kong-Macau Greater Bay Area (GBA) 2020 Statistics

City/SAR	GDP ranking	GDP (US\$ billion)	GDP per capita ranking	GDP per capita (US\$)	End 2020 Population (million)
Total		1,741		20,215	86.1
Shenzhen (深圳)	1	423	3	24,113	17.6
Guangzhou (广州)	2	383	5	20,499	18.7
Hong Kong (香港)	3	347	1	46,349	7.4
Foshan (佛山)	4	166	6	17,425	9.5
Dongguan (东莞)	5	148	7	14,109	10.5
Huizhou (惠州)	6	65	9	10,691	6.0
Zhuhai (珠海)	7	53	4	21,841	2.4
Jiangmen (江门)	8	49	10	10,209	4.8
Zhongshan (中山)	9	48	8	10,916	4.4
Zhaoqing (肇庆)	10	35	11	8,599	4.1₄
Macau (澳门)	11	24	2	35,730	0.7

The Sum is Greater Than Its Separate Parts:

$$9 + 1 + 1 > 11$$

- ◆ Why is the sum greater than its separate parts? The closer economic integration of the GBA works like a mini version of economic globalisation. Every city in the GBA will be better off with the new opportunities in its expanded choice set, because it always has the option of continuing with the status quo ante. If any city does anything different from before voluntarily, it must be better off.
- ◆ The increased economic connectivity, whether due to improvements in the inter-city basic infrastructure or to the elimination of legal and other barriers to the free flow of factors, goods and services, makes possible new economic activities that are not possible previously, thus adding new value and increasing both GDP and employment.
- ◆ However, while closer economic integration will make every city in the GBA better off as a whole, it will also create both winners and losers in each city. The market rewards the winners but cannot and will not compensate the losers, so it is up to the government of each city to compensate any losers created by the closer economic integration of the GBA. To finance the compensation, each city may₅ have to impose new taxes and offer new subsidies.

Free Flows of Factors, Goods and Services within the GBA

- ◆ The benefits of the closer economic integration of the GBA can be fully realised if the price of a factor, good or service is the same in the entire GBA. (If there is any price differential, a profit can be made by moving the factor, good or service from the lower-price city to the higher-price city.)
- ◆ This means, for example, the same product imported into Hong Kong or Shenzhen will cost the same, which should put an end to smuggling. “One price” is possible only with free flows within the GBA.
- ◆ Ideally, the following four factors should be allowed to flow freely within the entire GBA:
 - ◆ (1) Goods and services;
 - ◆ (2) People (Human capital);
 - ◆ (3) Capital; and
 - ◆ (4) Information.

Free Flows of Factors, Goods and Services within the GBA

- ◆ Free flows within the GBA also imply free flows between the GBA and the rest of the world, given that Hong Kong and Macau are essentially free ports and have no capital control. However, this in turn necessitates the regulation of the flows of the four major factors between the 9 Guangdong cities of the GBA and the rest of the Mainland. Otherwise, the entire Mainland will also become effectively totally opened up.
- ◆ It is possible for goods destined for the rest of the Mainland to arrive through GBA ports and then trans-shipped among bonded carriers to the rest of the Mainland.

The Dual Circulations in the Guangdong-Hong Kong-Macau GBA

- ◆ All circulations within the Guangdong-Hong Kong-Macau Greater Bay Area are considered “domestic circulation”, meaning, these flows of factors, goods and services should not require any further inspections, permits and tariffs.
- ◆ Circulations between the GBA and the rest of Mainland China will be considered “international circulation”, meaning, these flows may require further inspections, permits, tariffs and value-added taxes as necessary.
- ◆ In order to make all circulations within the GBA domestic circulations, three things are necessary.
- ◆ First of all, all three currencies—the Renminbi, the Hong Kong Dollar, and the Macanese Pataca—should be allowed to circulate freely, seamlessly, and simultaneously within the GBA. This can be made possible by multi-currency electronic payment platforms such as Alipay or WeChat Pay, linked to bank accounts of individuals, with settlement at the closing exchange rates at the end of the business day.

Harmonisation of Tariffs on Imports

- ◆ Second, the cities of the GBA must also have a common tariff rate with respect to imports from outside the GBA. It is proposed that at the beginning the lowest existing tariff rates among the three jurisdictions (The Mainland part of the GBA, Hong Kong and Macau) for each specific good be used. This is the simplest way to implement a common tariff rate. No jurisdiction has to raise tariff rates and no country can object to a reduction in the tariff rates. Thus, for example, the tariff rate on wine may have to be lowered on the Mainland part of the GBA and the “tariff” on automobiles in Hong Kong may also have to be lowered.
- ◆ Non-tariff trade barriers will also have to be dismantled within the GBA.
- ◆ However, customs and inspection stations will have to be established at the boundary between the GBA and the rest of Mainland China. They will also be required at airports, seaports and train stations within the GBA that have direct connections to and from the rest of the Mainland.

Equalisation of the Cost of Capital

- ◆ Third, capital should be allowed to flow freely within the GBA, so that, within the GBA, the cost of capital is the same.
- ◆ However, funds remitted from Hong Kong or Macau to the Guangdong cities of the GBA should undergo a waiting period (of say 12 months) before being allowed to be further remitted into the rest of the Mainland. Similarly, funds remitted from the rest of the Mainland to the Guangdong cities of the GBA are allowed to enter freely. However, they cannot be further remitted to Hong Kong or Macau without undergoing a similar waiting period.
- ◆ In lieu of the waiting periods, one can also require a “Tobin”-like tax of say 1% upon entry into or exit from the rest of the Mainland.
- ◆ These requirements are enforceable only if each fund flow can be uniquely and readily identified as to ultimate origin and date.

The Digital Currency for Electronic Payment (DCEP) of the People's Bank of China

- ◆ Central bank digital currencies can play an important role within the GBA, for example, the “Digital Currency for Electronic Payment (DCEP)”, developed by the People's Bank of China (PBoC), the central bank of China, as well as the digital currency to be developed by the Hong Kong Monetary Authority (HKMA).
- ◆ The DCEP always has the same identical value as the regular paper currency issued by the PBoC and is under its centralised control and management. Moreover, its ownership records are transparent to the commercial banks involved and the PBoC. It has a real-name requirement for the owner/user and uses a block-chain as a ledger record. Furthermore, it does not require the internet for transactions.
- ◆ Finally, the data on the users of DCEP will be kept confidential and will not be used by PBoC for profit-making purposes.

Free Flow of Capital between the GBA and the Rest of the World

- ◆ By making use of the block-chain distributed ledger feature of the DCEP, it is possible to ascertain the ultimate origin of the funds for a remittance from a Guangdong city of the GBA to the rest of the Mainland. If the ultimate origin is Hong Kong or Macau, and the time elapsed is less than say a year, the remittance will not be allowed. A similar restriction applies to outbound remittances from a Guangdong city of the GBA to Hong Kong or Macau. If the ultimate origin is the rest of the Mainland, and the time elapsed is less than say a year, the remittance will also not be allowed.
- ◆ These controls are possible if all remittances from Hong Kong and Macau into the Guangdong cities of the GBA have to be in the form of DCEP. Similarly, all remittances from the rest of the Mainland to the Guangdong cities of the GBA will also have to be in the form of DCEP. Thus, the flows of these funds can be tracked and traced as to origin, destination and date.
- ◆ With these controls, capital can flow freely between Hong Kong and Macau and the Guangdong cities of the GBA, but not with the rest of the Mainland. Without these additional safeguards, free capital flows within the GBA will effectively mean free capital flows between the entire Mainland and the rest of the world.

The Digital Currency for Electronic Payment (DCEP) of the People's Bank of China

- ◆ The block-chain distributed ledger feature of the DCEP will come in handy for the PBoC in its enforcement of capital control between the rest of the Mainland and the rest of the world. It will also help in the detection and prevention of financial and other crimes.
- ◆ This feature means that each payment (receipt) made with DCEP can potentially be traced back to its ultimate origin, no matter how many times it has changed hands or has been sub-divided or combined until it is fully converted into physical cash.
- ◆ The block-chain feature thus enables the enforcement of capital control, if any, and facilitates the tracing of money laundering and terrorist financing as well as other criminal activities such as bribery, drug dealing, extortion and tax evasion.

Free Flow of Information within the GBA: Real-Name Registration with Authentication

- ◆ Uniform and timely access of accurate information on the part of all participants in a market is crucial for the efficiency of the market system. This means, in today's world, they must have ready and real-time unrestricted access to the internet.
- ◆ We propose that the Central Government consider allowing unrestricted information access to the internet through a special gateway for the 9 Guangdong cities of the GBA to all pre-registered qualified users under the conditions that
 - ◆ (1) A user must use verified up-to-date real-name registration; and
 - ◆ (2) A user must also agree and submit to multiple online real-time continuous biometric authentications including fingerprint, facial and retina recognition, and voice authentication every time he or she goes online.
- ◆ This should prevent an internet user from using the identity of another person. Moreover, since the servers can be monitored, users who visit forbidden websites or otherwise violate Central Government restrictions will have their access privileges rescinded either permanently or for a long period. Most users will not want to lose their internet access privileges by accessing forbidden websites.

Complementary Measures in Support of the GBA

- ◆ While the laws of the three separate jurisdictions will remain different, it is necessary to establish a common “commercial court system” within the GBA to handle all commercial disputes that may arise. (The U.K. and Continental Europe have been doing business for centuries even though they have different legal systems—the common law system of the U.K. and the continental law system of Continental Europe.)
- ◆ There will undoubtedly be permanent residents in one city of the GBA working in another city of the GBA. It is proposed that the governments of the cities of GBA adopt the “border-tax” arrangement used in European cities on the border of two countries. A permanent resident pays taxes and other social insurance charges (including contributions from his or her employer) to the government of his or her permanent residence in accordance with the local rules. He or she does not pay taxes or social insurance charges to the government of the city of his employment. He or she also cannot claim any benefits from the city of his employment.
- ◆ It is also necessary to harmonise the safety regulations on foods and drugs, toys, appliances, etc. in order to facilitate the free flow of goods and services. It is proposed that the goal should be to raise the standards to the most stringent of the existing regulations so as to protect everyone equally in the GBA.

A Vision for the GBA: A Leading International Centre of Finance, Innovation and Technology

- ◆ The GBA has sufficient economic mass—GDP, population, wealth, human capital, and the vast hinterland of a supportive China to compete with any other bay area in the world.
- ◆ The GBA, building on the foundations of Hong Kong, is the natural home of the “International Financial Centre” for East Asia. Future initiatives can include the development of an active, deep, liquid and wide bond market in both Renminbi and Hong Kong Dollar, the formation of an East-Asia-wide stock exchange, the establishment of a re-insurance market and a commodity exchange for East Asia.
- ◆ Within the GBA, Hong Kong and Shenzhen together can become a global innovation, venture investment, start-up 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 East Asia. Today, Silicon Valley has no commercial-scale manufacturing any more, but the GBA still has ample room for commercial-scale manufacturing.
- ◆ With all the first-rate universities in the GBA, and the desirable living conditions, the GBA can attract human capital from everywhere to become a leading centre of advanced basic research.