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ECONOTE No. 100 : The Greater Bay Area in 10 easy steps

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Summary	Investment Conclusions
The Greater Bay Area (GBA) has been an important item the economic and policy news from China as well as frequently taking center stage in Hong Kong's headlines. What the area truly is and does, is not easy to pin down and to define. Chinese official statements on GBA tend to be extremely long on exhortation, encouragement and expectations and very short on facts and numbers and specifics. In this report we itemize 10 short sections (steps), which show clearly that the GBA consists of loosely formed initiatives rather than hard designs and plans. The communist party of China has, evidently, no master plan as to the timeframe and development of the GBA. It has, however, some broad ideas as what the GBA could and should be doing, relying, on equal measures, on the initiatives of the local governments and of the private sector, both Chinese and foreign as appropriate.	The GBA is not under the direct control of the central government in terms of planning and of allocation of investment funds and resources, but it relies on the tried and tested method of the local authorities "working towards the center from the periphery". This is combined with a wide degree of independence primarily because of the importance of the private enterprises in GBA and their exceptional role in the high tech sector. Hence HK's role will fit into this through the political initiatives of HK's own government. But this will not involve the forcing and direction of investments but primarily in terms of exhortation and encouragement combined with the understanding that the forces of the domestic competition, both within HK and the GBA, will create the opportunities for HK's private sector.

Steps 1 to 5: Basics, organisational and structural

STEP 1

The GBA is a policy concept promulgated by the communist party involving the close economic, financial, social and cultural cooperation of 11 Chinese cities in the Pearl River Delta plus Hong Kong and Macau. (Fig. 1). Fig.2 shows the comparative size of the 9+2 cities and the predominance size-wise of HK, at least, for now.

STEP 2

There is no official organizational structure of the GBA, or economic plan and quantitative directives as to where and how the GBA is going to, let alone when. There is no formal coordinating body. The GBA was not established in a specific date but is the morphing of the geographical area, the Pearl River Delta. There is, at least, the Feb. 18th 2019 party document "Outline Development Plan for the Guangdong-Hong Kong-Macao GBA" of 11 chapters and 59 pages but which does not contain any statistics, quantitative plans or forecasts but only broad directives and exhortations.

STEP 3

The 9+2 cities are meant to drive their own comparative advantages in terms of local industries and expertise but in coordination with the other cities in GBA especially in transportation links, and always in the context to nation-wide considerations and of global trade. The main drivers of the investment and related developmental activities (actual as well planned) are the local governments and the SOEs. However the sectoral importance of the private sector cannot not be underestimated. (FactBox)

STEP 4

The role of high technology in GBA is continuously emphasized and continues to be in the domain of private enterprises. Major, and

Indeed global, **tech** companies such as Huawei, Tencent, ZTE, DJI and BGI are all based in GBA with Huawei contributing nearly 7.0% to Guangdong's GDP. (Fig.3)

STEP 5

HK is already participating in GBA through its Guangzhou-Shenzhen-HK Express infrastructure project on the HK-Zhuhai-Macau Bridge and the Guangzhou-Shenzhen-HK Rail Link. Up to 2019, 69,292 HK enterprises have invested and/or moved to GBA involving USD 342bl of investment with most of it in to Guangzhou, 48.0%, followed by Dongguan, 17.0% and Zhuhai, 11.0%. (SCMP 5/9/20)

Fig.1: The geography of the Greater Bay Area



Source: Wikipedia,

Steps 6 to 10: Finances, Climate ,HK and “One country, two systems”

STEP 6

Hong Kong's main contribution to GBA is perceived through its key position as a funding source for Chinese private enterprises and SOEs especially via IPOs (Fig. 4). This role could increase to the extent that the US continues to impose restrictions to the access to US financial markets for Chinese entities.

STEP 7

The main official policy statement referred to above contains extensive references to environmental policies and quality of life in GBA. HK's own climate and related policies are broadly tied to China's commitments to Paris 15 and the more recent “carbon neutral” pledge. More specifically HK's role in the Green Bond market and in fostering the development of globally accepted ESG standards for GBA firms has been emphasized. The latter is an essential requirement for participating in green funding and acceptability in the portfolios in of global institutional investors.

FactBox: Property ownership and structure, 2016-18

Overview of private enterprises in GBA

Economy underpinned by private enterprises: The added value of private economy in Guangdong Province was RMB5,261.159 billion with an increase of 7.3%, accounting for 54.1% of the regional GDP, 60% of investments, 75% of innovative achievements, over 80% of new jobs and 95% of market entities.

Large number of export-oriented enterprises: Guangdong's foreign investment in actual use in 2018 amounted to RMB145.09 billion, an increase of 4.9%, four percentage points higher than national average. Private enterprises are the largest trade entity, and foreign investment in actual use within the hi-tech manufacturing industry grew by over 80%. In 2019, the State Administration of Foreign Exchange decided to launch a pilot scheme to facilitate foreign exchange receipts and payments for trade in goods.

High proportion of hi-tech enterprises: GBA has 1,800 listed companies, of which 456 are listed in Shenzhen. Hi-tech companies account for over 70%, and strategic emerging companies take up 50%, higher than that of the entire market which stands at 40%. Average R&D investment of Shenzhen-listed companies is 50% higher than that of the entire market.

Private enterprises to drive the building of new infrastructure: GBA will lead the 5G commercial applications, and step up their involvement in new infrastructure through PPP based on the strengths of its private enterprises in AI, industrial internet and IoT.

Source: Deloitte Research, data for 2017-18

STEP 8

Fears that the GBA will “replace HK”, even as a finance center, are unrealistic. For more than 20 years Shanghai's financial markets (not in GBA) developed under state protection and subsidies and still can not match HK's position, including that of, repeatedly, being number one in global IPOs. (Fig. 4) There is little doubt that HK will be matched in absolute terms of economic size in GBA, but this is not the same as saying that it will be forced to shrivel and fade away.

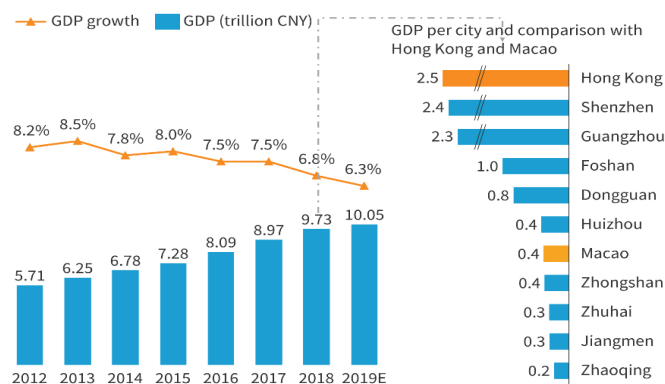
STEP 9

The HK authorities will continue to have a major problem in the PR aspect of GBA in HK, as greater integration of HK in the GBA has been perceived in HK as one more step by China is reducing HK's own **economic** identity. This contradictory perception flies in the face of HK's long-standing total dependence of its tourism and hospitality industry on Mainland as well as the crucial role of China in HK's commercial and residential property market. There is also the continuous development of links over decades with what is now GBA at a time that GBA, as concept, did not exist.

STEP 10 In sum, GBA will continue to develop in a quasi-organic manner with the addition of Hong Kong and Macau to the mix with emphasis on the “one country two systems” mantra. The latter has now become, in the case of Hong Kong, far more a political issue of its degree of autonomy following the passing of the National Security Law rather than just a fear of a plot to absorb Hong Kong's economy into the GBA. HK's own success in integrating with GBA will continue to rely on a combination of its long term advantage as a free financial and capital market with a fully convertible currency plus the financial success of HK's own direct investment flows in the GBA.

Fig.2

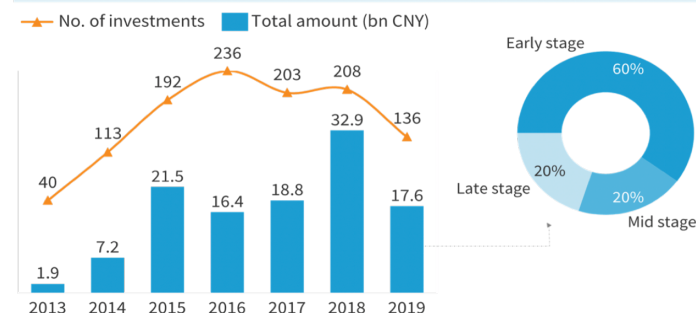
EqualOcean | Annual GDP and growth of Guangdong province



Source: Bloomberg

Fig. 3: Investment in technology

EqualOcean | PE/VC investments of smart manufacturing industry in Guangdong



Note: Early stage includes Seed to Series A; Mid stage includes Series B-C; Late stage includes Series D and above.

Source: ITJuzi, EqualOcean analysis

EqualOcean.com

Fig. 4 The role of HK in global IPOs, 2019

Top 10 largest global IPO markets in 2019*		
Rank	Stock Exchanges	Total IPO raised in 2019 (US\$ million)
1	Hong Kong	34,047.5
2	Nasdaq	24,728.9
3	New York	22,589.9
4	Shanghai	12,273.3
5	Shanghai Star	8,058.0
6	London	6,191.0
7	Shenzhen Small & Medium Enterprise	4,281.5
8	Frankfurt	4,199.0
9	Shenzhen ChiNext	3,877.6
10	OMX Stockholm	3,804.1
		Number of IPOs
		127
		126
		34
		47
		55
		14
		21
		5
		47
		7

Source: Refinitiv

* Until November 21, 2019

SCMP