



# PLMR CHINA BRIEFING THE GREATER BAY AREA: BACKGROUND

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# PLMR CHINA BRIEFING

## THE GREATER BAY AREA: BACKGROUNDER

In our sixth China Report we look at the plans and outlook for the Greater Bay Area (GBA). Like the rest of China, the GBA has seen a dramatic transformation in the past forty years. In the late 1970s, then known as the Pearl River Delta, it was best known as being ‘the world’s factory’ leading the world in low cost manufacturing. It is now a highly productive, agile and competitive district for advanced manufacturing and research and development. Huge investment in the overall infrastructure and an ambitious Five-Year Plan could see it become one of the most important coastal areas in the world.

When Deng Xiaoping’s reforming leadership began in 1978 China lagged its economically booming neighbours such as South Korea and Japan. Since then decades of robust growth has seen China become the second richest country on Earth. Development in the Greater Bay Area forms part of China’s growth plans for the next decades.

Britain’s history with China is long, close and occasionally fractious. However, since the turn of the century China has been an increasingly important trading partner for the United Kingdom. China is now the UK’s sixth largest trading partner accounting for around 6% of exports, rising to nearly 8% with the inclusion of Hong Kong. As the UK for the first time in more than a generation is focussing on trade outside of Europe it is hoped that this figure will rise.

Recent interactions between Beijing and London typify the importance of this relationship. In June the Chinese ambassador to the Court of St. James Liu Xiaoming spoke warmly of a new Golden Age of bilateral relations. Liu invited the possibility of Britain bringing its world leading regulatory expertise to China’s vital Belt and Road Initiative (link [here](#)). This came in the same month as the launch of the historic Shanghai-London Stock Connect. This scheme, four years in the making, will enable eligible companies on the London stock exchange to access Chinese investment, and granting international investment access to Shanghai listed entities.

The value of this relationship was brought home during the 10th UK China Economic and Financial Dialogue between Chancellor Phillip Hammond and Deputy Premier of China Hu Chunhua. An estimated £500 million worth of new deals between British and Chinese businesses was announced at the summit. These varied from the opening of a representative office of the China Industrial Bank in London, to a collaboration between arboreal tourist attractions in Cornwall and Beijing. The wide range of collaboration underlines the symbiotic and varied relationships at stake.

Importantly, last month’s G20 Summit saw a thawing in Sino-US relations and a relaxation in proposed restrictions on the operation of Huawei, which has removed potential pressure from the UK as it seeks to work with both its allies.

As this report sets out the ambitious proposals for the Greater Bay Area form a crucial new thread in China’s on-going growth. China is an increasingly vital trading partner a bullish outlook for the GBA represents good news for British businesses and investors - notwithstanding the immense challenges posed by the current situation in Hong Kong which we can only hope soon find peaceful and settled resolution.

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### EXECUTIVE SUMMARY

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- The Greater Bay Area is a development initiative in the Pearl River Delta region of south China
- China's urbanisation plans focus on the creation of integrated clusters of cities
- The Greater Bay Area city cluster is one of China's most economically productive regions, the plan seeks to turn it into a world-leading economic and business hub with a strong specialism in innovation and technology
- The Greater Bay Area development plans are based on leveraging and further developing the existing strengths of each city in order to create a complementary economy in the region
- New infrastructure and regional cooperation are the backbone of the plan which also seeks to turn the Greater Bay Area into an ideal place to live, work, and travel
- The Greater Bay Area sits within national development plans and is politically significant
- Navigating the integration of Hong Kong and Macau with the mainland needs careful calibration
- The business outlook for the region is bullish

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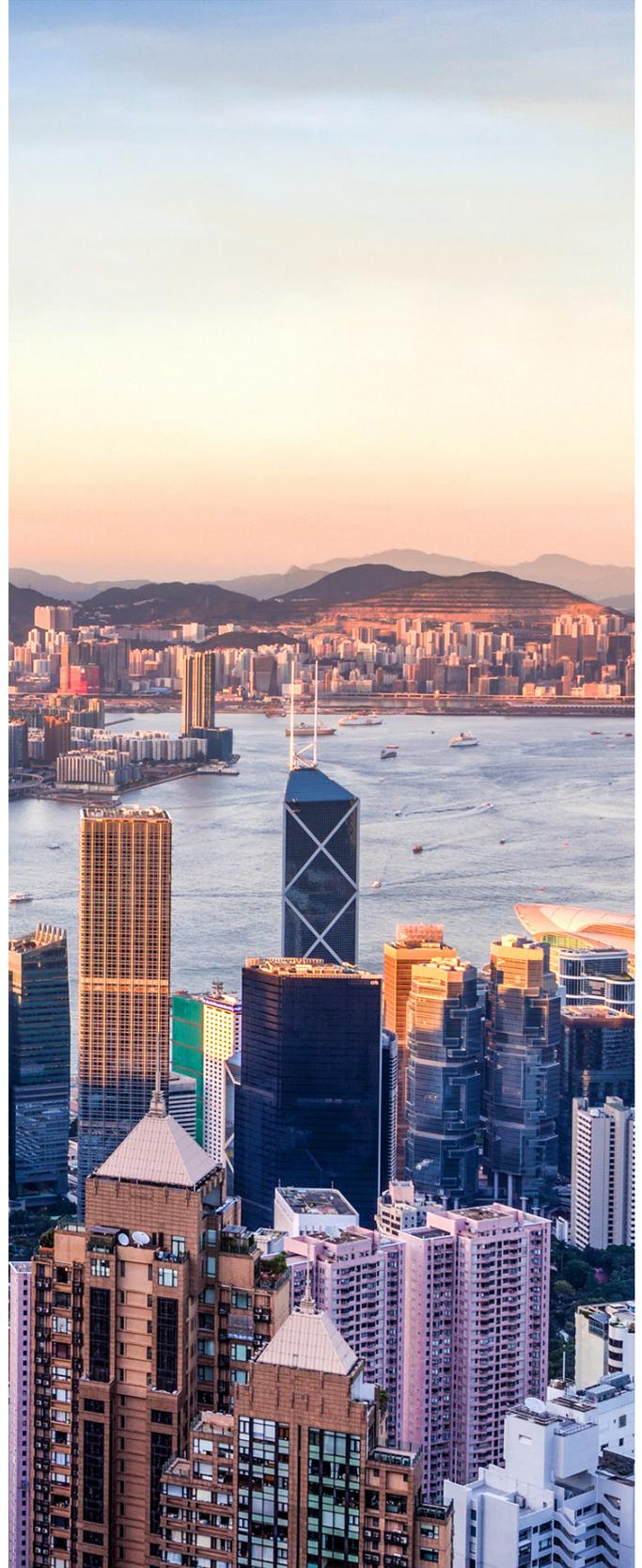
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### THE GREATER BAY AREA

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Beijing has openly and often expressed the view that connectivity, both internationally and domestically, is key to China's success and to global growth. The Greater Bay Area (GBA) initiative, a development project focused on improving links and synergies in the economically productive south of China, is one of President Xi Jinping's flagship projects with this message at its core. Already one of the most open and economically vibrant regions in China, the GBA plays a significant strategic role in plans for the overall development of the country.

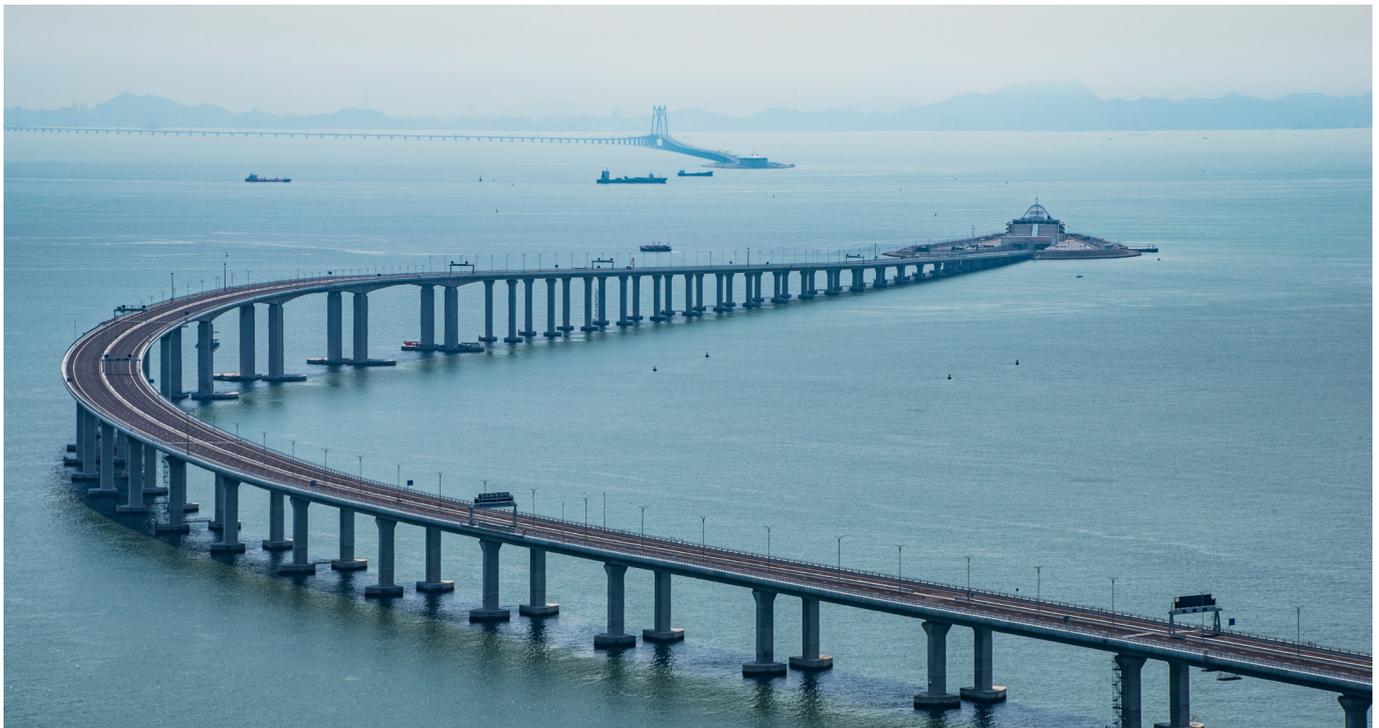


### SOCIO-ECONOMIC AND GEOGRAPHIC BACKDROP

Urbanisation has been a key component of China's economic growth in the years since Deng Xiaoping's reforms in the 1980s, and China's urban population has seen dramatic growth from just under 18% in 1978 to around 59% in 2017. It is expected to continue to grow to 67% by 2030. A key facet of China's urbanisation plans has been a drive to encourage relocation from rural areas to the country's small cities, but this ambition has not been effectively realised. China's largest cities have continued to see their population sizes grow and there is evidence that a number of smaller and medium sized cities in China are shrinking – this is symbolised by the existence of an abundance of empty housing in these cities. Since the 13th Five Year Plan took effect in 2016, China has moved into a new phase of urban development. Mega cities and projects aimed at grouping cities together to form clusters<sup>1</sup> through deeper levels of connectivity are driving China's urbanisation trend in this new phase.

The Greater Bay Area (GBA) is one such cluster of cities and, via a plan to turn it into a leading economic and business hub, it has found itself at the heart of a cornerstone national strategy. The GBA covers an area of 56,000 square kilometres and is comprised of the Special Administrative Regions (SAR) of Hong Kong and Macau, first tier cities Guangzhou, Shenzhen, and Dongguan, second tier cities Foshan, Huizhou, Zhongshan, and Zhuhai, and third tier cities Jiangmen and Zhaoqing. Together these cities will form the world's largest bay area.

The GBA has a population of 70 million and although it accounts for less than 1% of the country's land mass, it already contributes 12% of China's GDP. The GBA boasts a high number of private businesses and is China's most innovative region. Over half of China's new patent applications come from the area. The objective of the GBA development initiative is for these cities to further leverage their unique advantages and maximise opportunities through deeper integration in order to improve their own economies and enhance the broader regional economy.



<sup>1</sup> Beijing's plans outline 19 city clusters in total

### DEVELOPMENT STRATEGY

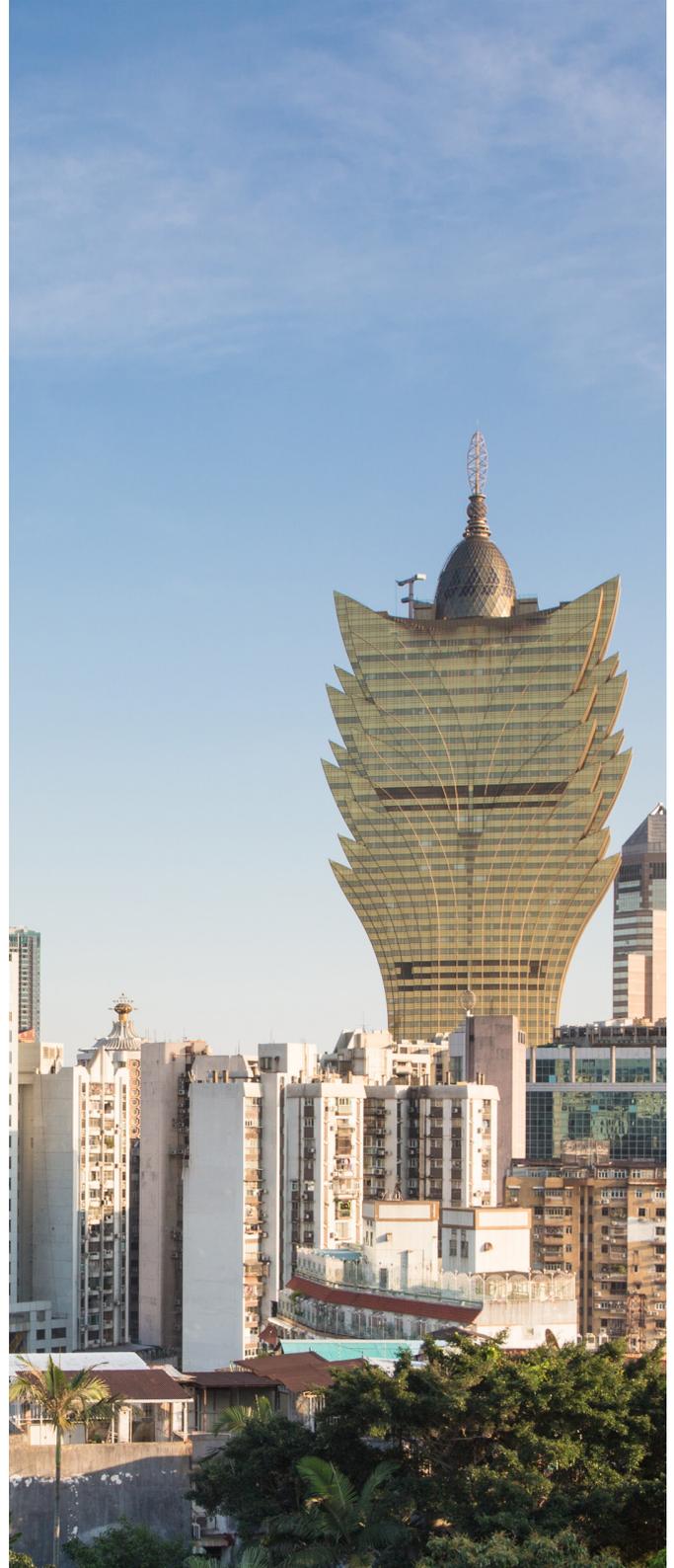
The initiative aims to turn the GBA into world-leading research and development (R&D), innovation and technology, and modern industrial hub. The GBA city cluster is centred around four core cities, Hong Kong, Macau, Shenzhen and Guangzhou, each intended to play specific roles utilising and improving on their existing strengths. These areas of strength include Hong Kong's financial, trade and professional services capability, tourism in Macau, Shenzhen's position as a leader in innovation and high-tech manufacturing, Guangzhou's trade and logistics expertise. These will be consolidated by the manufacturing and support capacity of the other GBA cities.

Under the GBA development plans, Hong Kong's status as an international financial, transport and trade centre will be enhanced through value-added services, by leveraging its position as a global offshore Renminbi hub as well as by continuing to develop in the areas of technology and innovation, and by becoming a centre for international dispute resolution in Asia Pacific.

Macau's expertise in tourism and cultural diversity will be utilised to turn the GBA into a world-leading centre for tourism offering a diverse travel experience with innovative tourism products and a platform for trade services between China and Lusophone countries. This will be achieved by means of diversified economic development and through ongoing support for the coexistence of diverse cultures alongside Chinese culture.

As a leader in innovation and technology with a thriving start-up culture and a role as a Special Economic Zone which is crucial to the national economy, Shenzhen's transformation into a modern city will be expedited. The city will develop its high-quality manufacture capacity for sectors including consumer electronics and communications.

Guangzhou boasts a leading national role and a position as an integrated gateway to and from mainland China. According to the GBA blueprint, the city's existing expertise in international trade and logistics will be strengthened, as will transport integration with the wider region. Guangzhou's development will be underpinned by an upgrade to its capabilities in education, and manufacture.



The remaining cities are node cities, they are intended to elevate productivity in the region through enhancing connection. Thus, the GBA will effectively function as an integrated supply chain, the cities within the GBA will complement each other for their mutual benefit. A commonly used example of how this supply chain would work in practice is as follows.

1. A start-up in the region commissions a piece of research from a university in Hong Kong and wins Private Equity financing
2. A prototype based on the research is developed in Shenzhen
3. Mass production takes place in a GBA node city
4. The product is exported internationally, or transported domestically, from Guangzhou

Key infrastructure projects include bridges, rail links, ports and airports linking Hong Kong and Macau to the mainland, and linking mainland cities over the Pearl River Delta, drastically reducing travel time within the GBA. This transport network is already taking shape. In September 2018, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link opened to passengers, linking Hong Kong with 44 mainland destinations. The record-setting 55-kilometre Hong Kong-Zhuhai-Macau Bridge opened in October 2018. The Liantang/Heung Yuen Wai Boundary Control Point, a land crossing between Hong Kong and Shenzhen, is under construction with an expected completion date by 2020. The Nansha bridge between Guangzhou and Dongguan over the Pearl River opened in April 2018 in a boost to mainland to mainland connectivity. In addition, the Shenzhen-Zhongshan Bridge is set for completion in 2024.

The plan for the GBA seeks to take advantage of the increasing cooperation between Hong Kong and Macau with mainland cities that has been underway since the handover in 1997. In addition, it seeks to make the most of the suitable conditions that already exist in the region. These conditions include its geographical advantage as a key transport hub, its complementary economic circumstances with both developed service sectors in some cities and industrial capacity driven by strategic emerging industries in others, a development strategy that is innovation driven with exceptional research and development capabilities, and an internationalised business environment.



### DEVELOPMENT GOALS

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The initiative's key objectives address both the opportunities and the challenges posed by the region.

#### **Develop an international innovation and technology hub to drive the economy...**

- improve the facilities, systems and mechanisms for coordination in innovation with new R&D centres, science parks, and laboratories
- encourage regional cooperation and exchanges in higher education institutes and research centres to ensure research outcomes are commercially maximised
- foster the flow of talent and resource throughout the region
- upgrade coordination in the use of global technology and innovation resources in the region

#### **Expand infrastructural connectivity...**

- utilise Hong Kong's existing strengths as an international transport hub to create an integrated and modern transport system in order to improve transport links between mainland China and the SARs
- build key infrastructure in the region such as the Hong Kong-Zhuhai-Macau bridge, Guangzhou-Shenzhen-Hong Kong Express Rail Link and the New Guangdong-Macau Link
- enhance the region's port facilities and capabilities with high value-added maritime services
- enhance the information and communications network infrastructure in the region
- ensure stable and safe access to energy and water supplies

#### **Build a globally competitive industrial system...**

- Exploit existing advantages of the industries in GBA cities
- Promote a coordinated approach to industrial development to move up the global value chain

#### **Improve regional and international cooperation to accelerate opening up...**

- leverage the advantages of Hong Kong and Macau's systems to facilitate connections between domestic and international markets and resources
- jointly develop high-end, cross-boundary financial services and products
- deepen participation in international economic cooperation and competition

#### **Develop cooperation platforms between the mainland and Hong Kong and Macau...**

- make use of commercial developments in Free Trade Zones (FTZ) and Special Economic Zones (SEZ) in Guangdong such as the Qianhai Modern Service Industry Cooperation Zone (Shenzhen), Nansha FTZ (Guangzhou) which is focused on the financial sector, and Hengqin SEZ (Zhuhai) focused on tourism
- progress joint platforms such as the Hong Kong-Shenzhen Innovation and Technology Park, Daguang Bay Economic Zone, and Guangdong-Macau Comprehensive Cooperation Demonstration Zone

### **Create an ideal place for living, working, and travelling – “a quality living circle”...**

- adopt a people-centred development philosophy to improve livelihoods and quality of life through smart city management and modern technology
- enhance convenience for residents of Hong Kong and Macau living on the mainland and strengthen cultural integration in the region

### **Improve environmental conservation...**

- put ideas on ecological innovation into practice using modern information technology to build a beautiful bay area that is sustainable, stable and vibrant
- encourage the development of industries related to conservation including new energy



### STRATEGIC STATUS AND THE NATIONAL STRATEGY

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In its former guise as the Pearl River Delta, the GBA was known as “the world’s factory” – a low-end manufacture zone. The current GBA development initiative seeks to upgrade capability in the region to better serve a new phase of economic development. These plans are aligned with China’s broader strategic economic initiatives to move from fast-paced to high-quality growth and to move up the global value chain. Beijing has aspirations for the GBA to serve as a role model for the high-quality development that is crucial to the Party’s future.

Central to the vision of China’s economic future and its political prospect held by Xi Jinping and the Party, the GBA plans have been influenced by a number of official bodies and political figures. The Guangdong Provincial Development and Reform Commission and government affiliated think tanks, including the China Centre for International Economic Exchanges (CCIEE), contributed to the early thinking around the GBA development initiative. The concept of a city cluster in South China was included in the 13th Five Year Plan<sup>2</sup>. Premier Li Keqiang announced the GBA as a formal plan in his government work report at the 12th NPC in March 2017.

On 18 February 2019, an official blueprint plan<sup>3</sup> for the GBA was issued by the Central Committee of the CPC and the State Council. Xi has shown support for the project both publicly, on numerous occasions starting with the 19th National Congress of the CPC in 2017, and behind closed doors. He has been personally engaged in driving the project forward with actions that range from weighing in on crucial decisions to promoting the GBA as a national strategy. The GBA converges with other key initiatives, policies and strategies spearheaded by Xi such as the Belt and Road Initiative (BRI) and Made in China 2025. That the GBA initiative sits within the purview of Vice Premier and Politburo Standing Committee member Han Zheng signifies its position of political significance.

In the heart of central government there is a view that in addition to economic outcomes, the GBA development plan will also deliver social and political outcomes. Experts suggest that the expectation that the GBA will enhance synergies between the mainland and its SARs which operate under differing legal and social systems is a central tenet to Beijing’s plans. The leadership feel that Beijing’s best bet for bringing these SARs closer into the fold means employing a mix of economic and social strategies over the use of pure politics. Experts suggest that officials in Beijing are displaying signs of increasing engagement in staffing key roles in crucial public institutions in Hong Kong, the hope for candidates with a friendly stance to Beijing is palpable. Plans for the GBA to provide economic but also social incentives for Hong Kong and Macau to assimilate with the mainland are being built into plans.

China’s leadership believe that the region presents opportunities for deeper reform and opening up as well as for greater international cooperation and competition. However, for the GBA to work as an integrated region, more synchronised policies and regulations will be necessary and barriers on the movement of people, capital, and information must be lowered. This must be carefully navigated as Beijing hopes to reap rewards based on Hong Kong’s international and market-oriented business environment which is based on the rule of law while simultaneously bringing it into the jurisdiction and legal framework of mainland China.

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2 The 13th Five Year Plan is the current plan accounting for the years 2016 - 2020

3 The document is titled *Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area*

### BUSINESS OUTLOOK

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The outlook for business in the region is optimistic. There is strong positivity among the business community with experts suggesting that the economy of the GBA is set to grow at a higher rate than all other parts of the country. The ongoing US-China trade conflict is acting as a catalyst for development in the region as China increasingly looks to domestic production and consumption to drive growth. Technology and innovation underpin the plans for the region and related industries are expected to thrive, as are logistics and transport businesses. In addition, prospects for the professional services, healthcare, and education sectors also look encouraging.

