Guangdong-Hong Kong-Macau Greater Bay Area unleashes unlimited potential

The official opening of “the Project of the Century", namely, Hong Kong-Zhuhai-Macau Bridge and the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link in this fall, has marked a new era in the interconnection between cities in the Guangdong-Hong Kong-Macau Greater Bay Area, forming a “one-hour travelling circle” surrounding the Greater Bay Area city cluster. This region consists of 11 cities with a combined population of 70 million people and a geographical size exceeding the areas of the New York, Tokyo, and the San Francisco Bay Areas combined. With this historic achievement to networking between the cities, we now wonder what will be the next steps for development and what investment opportunities may there be?

Yan Yang, Fund Manager of Atlantis Investment Management, shared with us her latest interpretation and outlook on the Guangdong-Hong Kong-Macau Great Bay Area

The concept of a Guangdong-Hong Kong-Macau Greater Bay Area has been around for a long time. It was first proposed in 2009, but it had not been elevated to the level of strategic importance. The Greater Bay Area’s rise to national strategic level was first proposed in the annual government work report in March 2017. For the first time, the government has shown its ambition to benchmark the Greater Bay Area with the world’s three major Bay Areas: the Tokyo, San Francisco and New York Bay Areas. Shenzhen in Guangdong is where China's economic liberalisation began 40 years ago, and this year marks the 40th anniversary of China’s reform and opening-up. President Xi Jinping also recently visited local private enterprises in Guangdong Province and presided over the opening ceremony of the Hong Kong-Zhuhai-Macau Bridge. We believe that this opportunity may be the beginning of real synergies in the Greater Bay Area.

In the future, the Greater Bay Area will be the most promising Bay Area in the world. This is because it has China's demographic dividend as well as policy advantages and manufacturing infrastructure; the Greater Bay Area occupies less than 1% of the country’s geographic area, with less than 5% of the country's population, but produces a staggering 13% of nationwide GDP. The current regional GDP has reached US$1.5 trillion, which has already surpassed those of the New York and San Francisco Bay Areas. At the same time, this region is also the place where China's advanced manufacturing and financial industries (that is, capital) are most closely connected. By the end of 2017, there were more than 550 A-share-listed companies in Guangdong, accounting for a whopping 16% of the total number of A-shares listed companies. The existing industrial base is also crucial for the formation of the entire industrial cluster in the future.

Source: Hong Kong Trade Development Council

Infrastructure is the next step in development

The economic development in the Greater Bay Area is unbalanced. The development of the east bank of the Pearl River East Coast is much faster than that of the west bank. At the same time, Hong Kong, Macau and mainland China have not achieved true economic synergy. Therefore, interconnection has not been fully realised. Whenever we go deep into Guangdong, except for Shenzhen and Guangzhou, infrastructure facilities lag far behind the Yangtze River Delta urban agglomeration. After cost pressures pushed the first wave of industrial transfer, Hong Kong and Macau's economic development have become homogeneous and stagnant. Therefore, the development of the Greater Bay Area has encountered a bottleneck, and the only way to resolve it is to raise the planning of the Great Bay Area to the national level. After that, the focus will be the enhancement of the physical connection. In the next five to ten years, the infrastructure investment of the Greater Bay Area will be the primary focus. The Hong Kong section of the high-speed rail and the Hong Kong-Zhuhai-Macau Bridge is just the beginning. In the future, transportation infrastructure within the province still has great potential to improve.

Throughout history and looking into the future, I believe that true interconnection and collaboration can be divided into three steps. The first step is that in the past 20 years, since the return of Hong Kong in 1997, a large number of central enterprises and state-owned enterprises have firstly entered Hong Kong. Under the market-oriented system and competition, the vitality of central enterprises and state-owned enterprises with substantial business is obviously better than that of domestic peers. After 2007, the first wave of private enterprises entered Hong Kong. The Shanghai-Hong Kong Stock Connect launched in 2014 provided an avenue for the orderly flow of funds between the two regions. The second step is the real physical connection, which is the convenience and efficiency of traffic and transportation flow. The opening of the Hong Kong-Zhuhai-Macau Bridge is only the beginning. What I see as the third step in the next 20 years is an institutional integration. The economic and market system of the Greater Bay Area can benefit from the experience of Hong Kong. For long, Hong Kong has institutional advantage, economic freedom, fair market structure, as well as low tax rates which complements the high efficiency of the government. Greater Bay Area for sure can promote and leverage the advantages of these systems in the future. 40 years ago, Shenzhen was a China's window on the world. In the future, the entire Greater Bay Area could be the window. The expansion of the window is also an important part of the opening of the domestic financial system.

Open-door policy is the only way out

For Hong Kong, the development in the past two decades has been relatively slow, and the GDP growth rate has dropped from 6.6% in 1977-1997 to 3.2% in 1997-2017. The fundamental reason is that after benefiting from the rapid development of China's economic transformation and opening up, Hong Kong reached a plateau in pursuing continuous development. On the one hand, the cost is high, and on the other hand, the government has not actively encouraged innovation. Therefore, the only advantage of Hong Kong is the market-oriented system and its free capital market. We believe that after the conceptual and physical connection with mainland China, the Greater Bay Area will be one integral region that will not distinguish between Hong Kong, Macau and Guangdong in any significant manner. This includes the circulation of capital, the flow of people, and the mobility of industries. The result is mutual benefit. At the same time, the strengthening of connectivity will also reduce the cost of some industries in Hong Kong. Individual talents are already interconnected. It has become very common for mainlanders to work in Hong Kong in the past ten years. I believe that many Hong Kong people will go to work in the Greater Bay Area in the future. For example, there are many funds in Qianhai of Shenzhen that now enjoy the Hong Kong Tax Incentives. Hong Kong and Macau residents do not need to apply for employment permits to work in Qianhai, and there are many other preferential policies.

In terms of sectors, in the Greater Bay Area, the overall potential for infrastructure, real estate and manufacturing sectors will be quite promising in the future, and more companies will be doing business in both Hong Kong and the mainland in the future. For example, Hong Kong property developers used to go to the mainland to do business. Now mainland developers have gradually come to Hong Kong to do business. Online shopping in Hong Kong has also seen a certain improvement in the past few years after Alipay and WeChat Pay was introduced. I believe that no matter whether the policy is good or bad, the only way is to open up. The Greater Bay Area provides an opportunity, and in the future, it will become a large-scale experimental field for China's innovation in different administrative, economic, monetary policies amid the country's deepening reforms.

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Yan is the manager of Atlantis China Healthcare Fund. With ten years' experience in roles of increasing seniority in equity research and portfolio management, her responsibilities include making investment decisions and leading Atlantis's research team.

Prior to joining Atlantis in 2017, she was employed by the Hong Kong firm Value Partners where she served as a fund manager. She was previously a property analyst with SWS Research and CLSA. In 2011, Yan was recognised by The Wall Street Journal as one of the world's leading Asia analysts. Yan holds a Bachelor's degree in Economics from the Shanghai Institute of Foreign Trade, and earned an MBA from China Europe International Business School.