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The GBA in China's new development pattern

Priorities for the Guangdong-Hong Kong-Macao
Greater Bay Area during the 14th Five-year Plan period

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Content

Summary	1
1 The GBA's roles in China's new development pattern	3
2 Promoting the construction of an international innovation hub	5
3 Green transformation to drive high-quality growth	10
4 Building a world-class supply chain and logistics industry	15
5 Establishing a platform for high-level opening up	19
Conclusion	24
Footnote	25
Contact us	26

Summary

The Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has made substantial progress over its nearly four years of development. The "one-hour living circle" comprising Hong Kong, Macau, and nearby cities in Guangdong has been formed, and major cooperation platforms such as Qianhai and Hengqin have become innovation carriers. The GBA's three regions are deepening synergies in systems, tariffs, and jurisdiction, invigorating the regional economy through financial interconnectivity and financial services innovation, and empowering overall development during the 14th Five-year Plan period (2021-2025) through digital transformation.

The GBA has a pivotal role in China's new development pattern during the 14th Five-Year Plan period. It is a platform for strategic initiatives in science and technology, a driver of China's high-quality development, a basis for synergistic regional development, and a facilitator of the integration of Guangdong, Hong Kong, and Macao into national development. With these roles, and its existing advantages, the GBA's development will have four main goals: build an international innovation center, become a benchmark for green transformation, explore new models for coordinated supply chain development, and establish a national platform for high-level opening-up.

Innovation

In becoming an international innovation hub, the GBA will maximize Hong Kong's and Macao's advantages in open innovation and the Pearl River Delta's edge in industrial innovation, strengthen the region's ability to attract international innovation resources, accelerate the formation of an open, interconnected innovation system, and radiate its influence nationally and globally. The GBA has a mass of leading science and technology enterprises, abundant talent, and research capacity that is tailored to economic requirements. However, it still needs to expand its global influence, strengthen industrial synergy, and enhance enterprise innovation.

The GBA's global influence can be expanded by attracting international resources and combining the scientific and technological advantages of Guangdong, Hong Kong, and Macau; industrial synergy can be strengthened by creating high-end systems and emphasizing the collaborative development of city clusters; and enterprise innovation can be enhanced through scientific and technological breakthroughs as research and innovation drive regional economic development.

Green transformation

The green transformation of the GBA will benefit from regional advantages in policy, market mechanisms, and infrastructure. The governments of the three regions should create a collaborative governance mechanism and unify green standards, establish government-backed green industry funds and demonstration projects to attract green industries and support enterprise decarbonization, and build a green financial center by meeting the financing needs of green industries in Hong Kong and the Chinese Mainland. Enterprises, meanwhile, can transition to low-carbon and zero-carbon by using digital technologies and overcoming carbon accounting challenges, and promote sustainable business development by meeting regulatory requirements in areas like ESG.

Supply chain transformation

The GBA is a global manufacturing hub. Backed by Hong Kong's status as an international financial center, the region's leading-edge research and innovation capabilities and advanced industrial network make it a strong competitor in new global supply and industrial chains. However, the GBA still needs to enhance policies on supply chain logistics integration; more deeply combine the resources and advantages of surrounding areas; further integrate core and node cities and develop a logistics platform that supports their separate development; and upgrade traditional logistics enterprises to form a closed loop supply chain ecosystem backed by artificial intelligence (AI) and Internet of Things.

Opening-up

The opening up of the GBA will not only strengthen the integration and development of Hong Kong, Macao, and the Chinese Mainland, but also enhance the region's overall capacity to attract innovation resources. The GBA should, therefore, enhance cooperation by focusing on finance and using technology to enhance regulatory coordination and interconnectivity; optimize institutional innovation on major cooperation platforms; organize a task force to enhance regulatory compatibility; give full play to the extension of the free port system; and combine origin accumulation and other rules of the Regional Comprehensive Economic Partnership (RCEP) to build a flexible overseas layout and a digital "trade bank" based on local advantages in cross-boundary e-commerce.

1

The GBA's roles in China's new development pattern



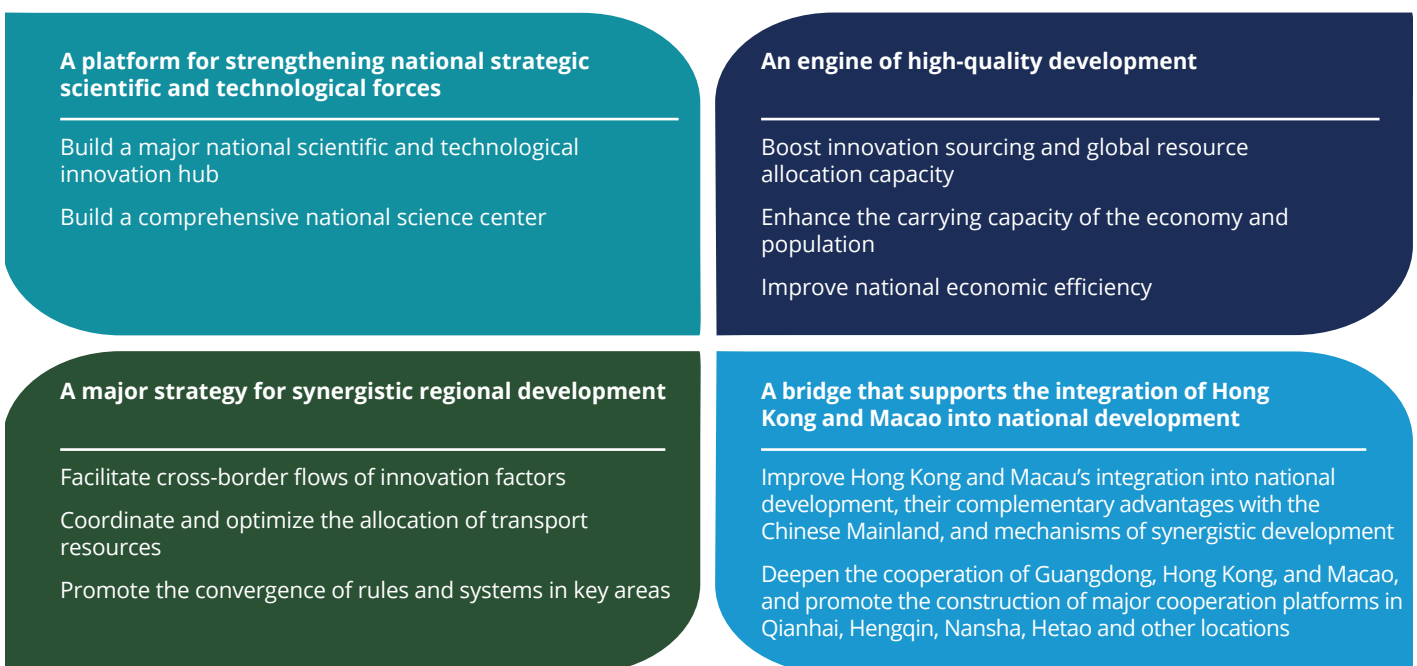
The GBA is moving from an idea to implementation, becoming one of the most economically dynamic and globalized regions of China while retaining the foundations of a top international bay area.

In 2020, the GBA benefited from greater openness, enhanced internal economic integration and cooperation, and policy support, maintaining its economic strength despite the impact of COVID-19. All nine cities in the Pearl River Delta, except Hong Kong and Macau, achieved positive GDP growth, with the GBA's overall GDP reaching RMB11.4 trillion, or more than 10% of the Chinese economy.

In addition to this economic resilience, the flow of talent, technology, capital, and other factors in the GBA has accelerated. The "one-hour living circle" allows all parts of the region to take full advantage of its talent and education advantages. The four cooperation platforms – Qianhai, Hengqin, Nansha, and Hetao – have become innovation carriers. The construction of high-tech industrial clusters, including a biomedicine hub and a pilot zone for new generation mobile communications, AI, and the digital economy, is advancing. Increased connectivity and services innovation have invigorated the GBA's financial industry and enhanced its capital market's global influence.

2021 is the first year of China's 14th Five-year Plan, which proposes a new national development concept based on innovation, coordination, greenness, openness, and sharing. This concept will guide the future role and development of the GBA. From a strategic perspective, the 14th Five-year Plan puts the GBA at the center of China's economic development as the region becomes a platform for strategic science and technology, drives high-quality development, creates a major strategy for synergistic development, and supports the integration of Guangdong, Hong Kong, and Macao into national development (Figure 1). Given this status and its role in China's new development pattern, the GBA is tasked with developing an international innovation hub, becoming a national benchmark for green transformation, exploring pioneering models for coordinated supply chain development, and becoming a platform for high-level opening-up.

Figure 1: The GBA's roles in China's new development pattern



Source: Deloitte Analytics

2

Promoting the construction of an international innovation hub



The GBA is an international innovation center of strategic importance, with development goals clearly defined in 2019's *Development Outline of the Guangdong-Hong Kong-Macao Greater Bay Area*. By 2035 the GBA should have formed an economic system and development model founded on innovation, improved its economic, scientific, and technological strength, enhanced its international competitiveness and influence, and cemented its status as a first class international bay area where people can live, work, and visit.

To play its role in China's national economic strategy, GBA development should focus on fully utilizing Hong Kong's and Macau's advantages in open innovation and the Pearl River Delta's edge in industrial innovation, strengthen the region's ability to attract international innovation resources, accelerate the formation of an open, interconnected regional innovation system with a rational layout, and radiate its influence nationally and globally.

The GBA has the foundations to become a world-class city cluster, with a vibrant economy, plentiful research resources, and outstanding achievements in inventions and patents. Unlike the world's other three major bay areas (Tokyo, New York, and San Francisco), the GBA also has the advantage of a strong manufacturing cluster, which enables it to advance and

implement scientific and innovation achievements. The GBA also needs to explore the innovation potential and new dynamics in its international influence, industrial synergy, and enterprise innovation.

2.1 International influence: absorb international resources and enhance the integration of Guangdong, Hong Kong, and Macau's scientific and technological advantages

Hong Kong is a vital platform for China to maintain connectivity with global scientific and technological developments. Shenzhen and Hong Kong typically cooperate on the basis of the former's plentiful industrial capacity and the latter's abundant research resources. This model needs to be developed further. In his speech at the celebration of the 40th anniversary of the establishment of Shenzhen Special Economic Zone, China's President Xi Jinping called for "planning and construction of the Hetao-Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone" from a national strategic perspective, stronger cross-boundary cooperation in science and technology, and the formation of an "international science and technology special zone".

Based on these requirements, we recommend that China's Central Government broaden

the scope of the GBA's core innovation area and continue to promote the connectivity of Guangdong, Hong Kong and Macao's scientific research policies, mechanisms, and standards. At the same time, given Hong Kong's advantageous location, local authorities should seek to advance international cooperation, absorb more international innovation resources, and support the participation of institutions from different countries and industries in scientific and technological projects in the GBA. By promoting the joint planning and construction of international science and technology innovation centers and national science centers in Guangdong, Hong Kong, and Macao, and deeper sharing of scientific and technological resources, authorities will accelerate the aggregation of science and technology resources, supported by the advantages of Hetao, Hengqin, and other cooperation zones.

2.2 Industrial synergy: create a high-end industrial system and emphasize synergistic development of city clusters

A new era of industrial transformation and transfer has begun in the GBA, shaped by the region's main cities. Authorities should further guide GBA cities to integrate their industrial sectors, create a new pattern of cross-regional industry chain distribution, promote the development of high-end industries, and

support the cultivation of new-generation, data-driven sectors, biomedicine, new materials, new energy vehicles, and other high-tech industry clusters.

In semiconductors, the Guangdong Provincial Government is planning to build a globally competitive chip design and software development cluster in the Pearl River Delta, including support for talent introduction, financial incentives, and the expansion of industrial parks. China's State Council recently released the *Overall Plan for the Hengqin-Guangdong-Macao Deep Cooperation Zone Construction*, which proposes that Macao should accelerate the construction of a microelectronics industrial chain comprising distinctive chip design, testing, and inspection. Authorities can promote the benefits of synergies throughout the GBA's industrial chain to encourage more cooperation with research institutes on equipment and component development and manufacturing, and reward the integration of industrial and academic research projects where possible. This would encourage breakthroughs and advance chip design beyond local application scenarios, eventually improving the efficiency of the GBA's high-end chip industry.

As a high-end industrial system is built in the GBA, it will be necessary to consider the synergistic development of city clusters and create a compensation mechanism that balances the interests of each city. At present, the GBA faces obstacles to synergistic development, including differences in management systems, logistics integration, information sharing, and talent attraction policies. Authorities can promote synergistic innovation in the GBA in key areas:

Administration: promote the digitization of government functions, simplify processes, and reduce the transaction costs and administrative burden of independent innovation by science and technology enterprises.

Infrastructure: accelerate the improvement of transportation and logistics links between Shenzhen and Hong Kong; improve the efficiency and ease of customs clearance for scientific researchers, equipment, and materials; reduce innovation factor flow costs; and speed up the construction of 5G base stations and large data centers in special locations including industrial parks and industry clusters, and at large enterprises, to support intelligent upgrading.

Funding: consider emulating Singapore's scientific research management and project evaluation system; improve cross-boundary funding mechanisms for scientific research projects; and establish a special channel for the entry and exit of investment funds from science and innovation enterprises.

Law: synergize cross-boundary protections in the adjudication and arbitration of intellectual property rights to provide a quality environment for the development of science and innovation enterprises.

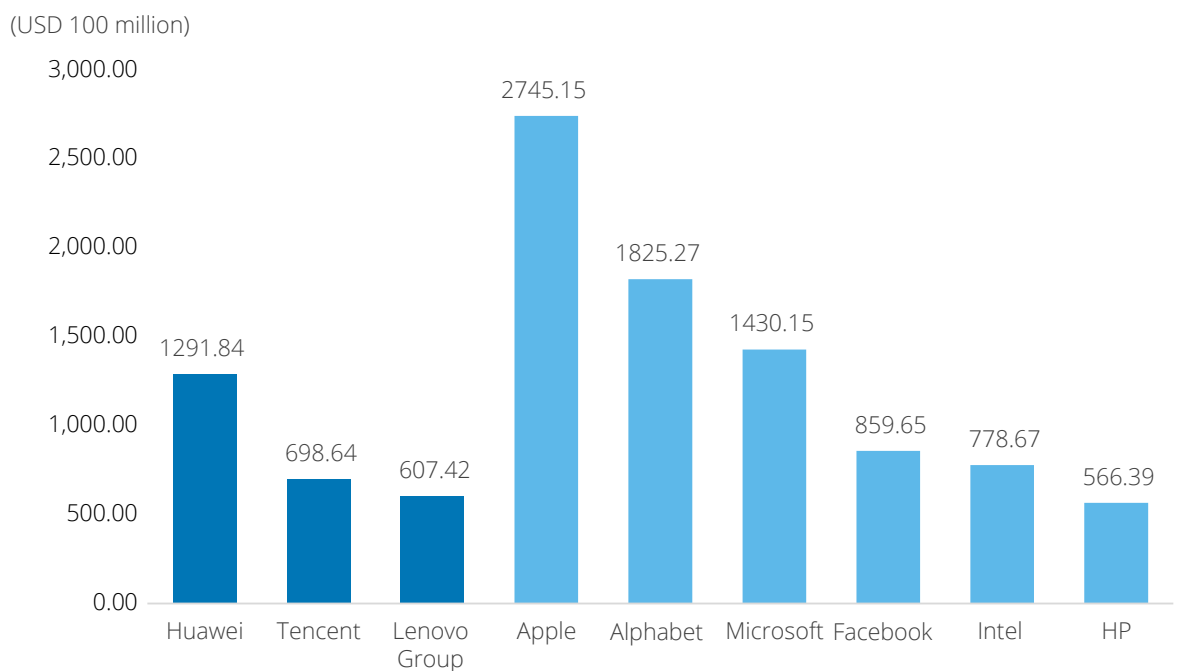
2.3 Enterprise innovation: lead regional economic development through research innovations to achieve breakthroughs

A complete science and technology innovation chain requires both basic and applied research, technology development, the industrialization of results, and financial backing. Basic research is the vital factor. The innovation clusters in Shenzhen, Hong Kong, and Guangzhou have advantages in total Patent Cooperation Treaty applications, but are less competitive in scientific publications and basic invention patents. This indicates that the GBA is strong in research and industry innovation, but lacks basic research and original innovation, which is why it has fewer, less profitable high-tech enterprises than there are in other global bay areas like San Francisco. To further enhance its innovation capability and achieve breakthroughs, authorities in the GBA must heed the importance of basic research and original innovation.

Authorities in the GBA need to promote new R&D models, accelerate the agglomeration of research, industry, and capital, and realize diverse investment, international standards, and market-oriented operations. Through innovation platforms, the Greater Bay Area's strengths in scientific research and education will be invigorated, more science and innovation resources will be developed, and the transformation and practical application of the combined science and innovation results of industry, academia, and research institutions will be strengthened. On this basis, the GBA should promote traditional enterprises to accelerate their intelligent, digital transformation, move higher up their industrial chains, make technological breakthroughs through cooperation, and lead research- and innovation-driven regional economic development.

Cross-industry research tends to create the most innovative breakthroughs. In biotechnology, for example, COVID-19 has prompted the international community to pay more attention to biomedical science related to living and health. Hong Kong has advantages in biomedical and medical technologies, including strong scientific research foundations, an internationally renowned intellectual property protection system, and the presence of global financial institutions, and Shenzhen has an edge in biopharmaceuticals, medical devices, biotechnology services, and AI. Their respective advantages hold great potential for cooperation on basic research, such as AI nanobots capable of transmitting data, unblocking blood vessels, and attacking diseased cells, whose commercial application could transform healthcare provision. Focusing on biotechnology would help improve the connectivity of scientific research systems, create an international platform for scientific and technological innovation, cultivate growth in strategic emerging industries, promote a new era of cooperation between Shenzhen and Hong Kong, and ultimately achieve breakthroughs in scientific and technological innovation in the GBA.

Figure 2: 2020 revenues of selected Fortune Global 500 enterprises in the GBA and San Francisco



Source: 2021 Fortune Global 500

3

Green transformation to drive high-quality growth



With its large economy and vast growth potential, total energy demand and carbon emissions in the GBA will continue to grow. The GBA's population is expected to increase to around 100 million people by 2035, and the value added of its manufacturing industry will continue to account for 30%-40% of China's total. The constraints of national goals for peak carbon by 2030 and carbon neutrality by 2060 dictate that the GBA should not only drive China's economic growth, but also promote growth that is sustainable and high quality. The GBA, as the first demonstration area for China's green transformation, is taking the lead in exploring green innovation in systems and technology. It has a leading edge here, albeit with some challenges, and is set to play a vital role in China's green transformation based on synergy and driven by digitalization.

3.1 Authorities should improve synergy mechanisms, drive the agglomeration of green industries, and utilize digital and financial tools

Synergy mechanisms: establish a green development community, implement synergy in green development goals, governance and technical standards, and realize the “9+2 =>11” concept

Although the GBA falls under the "one country, two systems, and three customs territories" framework, it is a community with common barriers to achieving green transformation. For example, energy infrastructure in Guangdong, Hong Kong, and Macao is under pressure to make a clean, low carbon transformation, and any adjustment would impact the regional economy and industrial development. Inevitably, they will have to make comprehensive arrangements and cooperate closely in considering regional and global market development trends, expanding the regional industrial chain, and planning green development layout.

First, Guangdong, Hong Kong, and Macao will need to agree green development goals, combine their short-, medium- and long-term plans for ecological and environmental management and carbon neutrality, and clarify their responsibilities and limitations.

Second, they will need to unify the region's fragmented governance by working together on laws and regulations, technical standards, information sharing, and joint law enforcement. The three regions should consider building a joint green development committee for the GBA that coordinates planning, environmental standards, financial support, construction, and environmental protection in the region's 11 cities.

A climate change and sustainable development research center and a green technology exchange should also be established to strengthen cross-regional and cross-boundary communication and synergy in areas like development planning, access to funds, and technical standards.

Operation: government to lead agglomeration of green industries and "green GDP" creation

Guangdong, Hong Kong, and Macao should establish government-guided green funds or green industry funds and demonstration projects, and promote a system of the kind already used by Guangdong for its strategic industry clusters, which includes lists of leading backbone enterprises, "hidden champions", and key projects, and promotes innovation mechanisms, a policy toolkit, and strategic consulting support for each cluster.

Authorities could also support the construction of green public infrastructure at industrial parks, export processing zones, and free trade zones, including power infrastructure that uses multiple energy sources, intelligent energy management systems, and mechanisms to promote the circular economy.

Consulting agencies can help the government establish planning models for green areas and parks to achieve peak emissions and carbon reduction goals. Authorities can systematically develop carbon reduction targets, and implement related strategies and pathways, financial performance measurement and monitoring.

Tools: regional green transformation empowered by green finance and digitalization

The green transformation of the GBA will rely on Hong Kong's advantages as an international financial center and demand for green investment and financing in the Chinese Mainland and Belt and Road Initiative (BRI) countries. As an international financial center, Hong Kong attracts global capital and has adopted international standards and regulations to develop a range of financial products and professional services. China's peak emissions and carbon reduction goals will strengthen demand for financing for green industries and emissions reduction projects in the Chinese Mainland and BRI countries, giving the GBA vast potential to develop green finance.

We suggest authorities in the GBA support green finance through:



Uniform standards: study and develop uniform standards and assessment systems for green finance projects, and encourage the development of third-party green finance certification agencies.



Information sharing: establish a platform for government departments, financial institutions, and third-party certification agencies to share information on green finance and green industries.



Product innovation: expand the available types of green financial products and the scale of green finance by exploring products like green bonds issued by SMEs and financial derivatives such as carbon emission rights pledges and carbon futures.



Talent cultivation: cultivate talent, particularly people with experience of formulating environmental policies, designing and managing green financial products, and evaluating green financial products and their effectiveness.



International cooperation: learn and draw on advanced international ESG investment concepts, environmental information disclosures, green finance laws and regulations, and best practices in carbon market development.

Digital technologies can enhance carbon emissions management, support enterprise decarbonization, and manage EU carbon tariffs and global carbon trade barriers. For example, Guangdong, Hong Kong, and Macao could enhance their construction of green supply chains, analyze the impact of these supply chains, and develop solutions for emissions reduction and decarbonization through the digital management of carbon footprints, adding carbon emission modules to smart city and smart park applications and carbon accounting modules to enterprise resource planning. This would create opportunities for enterprises to accurately account for their carbon footprints and label their products as carbon neutral.

3.2 Enterprises can cooperate across boundaries to develop zero-carbon solutions, leverage their industry strengths to enhance carbon management, and meet regulatory requirements to achieve sustainable development

Enhance cross-boundary cooperation and develop digital zero-carbon solutions and market use cases by combining Shenzhen's and Hong Kong's technological advantages and potential application scenarios in the Chinese Mainland

Many cities in the GBA have fully embraced the digital economy by issuing or implementing related transformation plans and programs. The GBA already has a relatively complete digital industry chain, and supporting customers' zero-carbon transformations has become a source of growth for many businesses. For example, Huawei recently launched a suite of zero carbon network solutions and SenseTime introduced its SenseAutoPilot driving solution to support the green transportation industry. There is an urgent need for the GBA to shift its infrastructure, including energy, transport, construction, information, and communication, to a zero-carbon approach.

Infrastructure companies can accelerate their digital transformations and use digital technology to reach zero-carbon, and enterprises can cooperate to meet various needs and develop digital zero-carbon transformation plans and market use cases.

Improving enterprise carbon emissions management in the GBA through low-carbon equipment and digital technology

Emissions accounting is essential for enterprises to participate in carbon markets. The process involves identifying emissions sources, obtaining activity and emissions data, calculating carbon emissions from production, and aggregating total emissions. Carbon accounting is currently hindered by a relative lack of dynamic monitoring of emissions sources and data collection.

The GBA has a solid background in the environmental protection sector, including through nationally leading new technologies like big data, cloud computing, mobile internet, Internet of Things and AI. Enterprises can use low-carbon equipment and technologies to improve the efficiency of dynamic monitoring and collection of data from emissions sources for their carbon emissions accounting. The GBA is home to many startups, and if they adopt carbon emissions management and quantitative monitoring concepts from the outset, this will follow domestic and international policy trends and lay the foundation for these startups' sustainable development, with the initial investment eventually becoming a comparative advantage.

Adapt to changing ESG regulatory guidelines and promote sustainable business development

Regulators are enforcing mandatory disclosures of emissions data, with ESG reporting guidance from the Stock Exchange of Hong Kong requiring mandatory disclosures and 2020's revisions to Shenzhen Stock Exchange's Measures for Evaluation of Information Disclosure by Listed Companies for the first time requiring "active disclosure of ESG performance and complete and comprehensive reporting" of the information disclosure evaluations of listed companies. Given this trend, enterprises should incorporate ESG evaluations into their performance management systems, improve climate risk controls, and explore sustainable business models.

4

Building a world-class supply chain and logistics industry



With its strong manufacturing sector and highly developed research and innovation capabilities, coupled with the advantages of Hong Kong as an international financial center, the GBA is expected to become the strongest player in a new global supply chain and industrial chain ecosystem.

Historically, inconsistencies in management systems, production factor flows, and levels of technology have made logistics integration in the GBA difficult, which in turn has hindered intensive supply chain integration. Supply chain collaboration in the GBA will require the integrated reform and deployment of top-level policy and system design, factor flows, and resource allocation in the logistics industry, and intelligent upgrading of enterprises.

Figure 3: Suggestions for logistics supply chain development in the GBA



Source: Deloitte Research

4.1 Policy integration

Authorities need to accelerate reform of logistics management systems in the GBA, speed up policy integration, and formulate special plans for logistics infrastructure to promote the interconnectivity of GBA cities and facilitate collaboration by logistics providers.

Accelerate management system reform: The direction and speed of logistics industry development in the GBA depends on its underlying management systems. The GBA therefore needs systems that match international standards. An integrated market will be indispensable to the cross-boundary flow of logistics factors and the coordinated development and integration of the logistics industry in the GBA. Guangdong, Hong Kong, and Macau need to leverage the advantages of their logistics systems and find common ground for cooperation. In addition, mandatory system implementation will further improve execution capabilities and integrated logistics-related legal mechanisms using digital technology will enhance the quality and efficiency of system implementation.

In goods circulation, the GBA needs to develop a unified, cross-regional tariff policy, improve port inspection mechanisms in Hong Kong and Macau, and unify standards on inspection and quarantine, measurement, and quality accreditation. This, and measures to accelerate customs clearance, would facilitate the efficient flow of goods between different tariff zones, reducing administrative procedures and barriers and the cost of cross-regional goods transportation.

To improve capital flows, GBA authorities should further enhance the financial infrastructure and regulations that underpin cross-boundary supply chains, expand access to the logistics market, and simplify qualification requirements to facilitate investment. They should seek to eliminate or further reduce restrictions on Hong Kong and Macau investors' qualifications, shareholding ratios and industry access, and strive to diversify financing channels. They should also facilitate investment and cooperation among domestic and overseas investors to deepen the links between logistics enterprises in the GBA.

Collaboration mechanisms to build a logistics hub in the GBA: Integrate key highways, seaports, and airports into the GBA's supply chain layout, and create a practical mechanism for collaboration to promote the construction of a logistics hub in the GBA.

First, improve the competitiveness of the region's seaport cluster: GBA authorities should support the development of high-end shipping services, including shipping management, in Hong Kong; improve the international shipping functions of Guangzhou and Shenzhen, and enhance seaports, waterways, and other infrastructure to build a system with complementary advantages that enhances the international competitiveness of the GBA's seaport cluster.

Second, build a world-class airport cluster: To enhance the competitiveness of the logistics supply chain in the GBA, its airport cluster, already the busiest in China, needs to become world class. While the international competitiveness of Guangzhou and Shenzhen is strengthened, Hong Kong's position as an international aviation hub, and its development of high-end businesses such as high value-added freight transport and aviation financing, needs to be consolidated; coverage of the new airline network needs to be extended; regional business aviation services at Macau International Airport need to be developed; and airspace coordination and air traffic control collaboration need to be strengthened.

Third, expand the land transport network: There are plans to increase the length of railroads in operation and under construction in the GBA to 4,700 kilometers by 2025, covering key cities, node cities, and megalopolises (e.g. Guangzhou and Shenzhen), and then to 5,700 kilometers by 2035, covering every city above county level. In addition to implementing and optimizing its existing intercity rail network plans, the GBA should extend comprehensive transport routes to neighboring areas and step up efforts to build intercity railroads to create a more comprehensive modern transport system.

Co-build a supply chain system through negotiation and improve policy implementation and execution: When there are diverging views during the formulation of logistics policies and systems, market-oriented, law-based negotiations should be used to reach a compromise. While accepting different perspectives, consultation and collaboration should be strengthened to resolve any conflicts of interest arising from supply chain integration in the GBA.

4.2 Strengthen internal and external coordination

Improve support and collaboration: While leveraging the functions and advantages of logistics enterprises, GBA authorities should enhance support and collaboration through resource integration and process optimization. They should also rationalize upstream and downstream supply chain industries and encourage local enterprises, public technology platforms, universities, and research institutes to build a demonstration zone for logistics enterprise cooperation.

Promote cooperation in international supply chain logistics: The GBA should fully utilize its geographical proximity to South Asia and Southeast Asia to foster the mutual collaboration and development of GBA and BRI regions and countries.

Optimize the supply chain layout with freeports: Hong Kong and Macau, as international freeports where imports and exports are exempt from tariffs, are key links in the global supply chain for Chinese Mainland enterprises. These enterprises can factor in CEPA terms, and use rules of origin, to improve the added value of products in Hong Kong and Macau and optimize supply chains. These measures would reduce import and export taxes, lower operating costs, and enhance product competitiveness.

4.3 Accelerate the development of intelligent logistics

Accelerate development of an intelligent logistics platform: An integrated digital platform should be developed in the GBA for logistics enterprises, industrial parks, and government departments to create a smart logistics ecosystem. Government logistics departments also need to design an information sharing platform for business management, department planning, and resource allocation that guides regions and enterprises' reasonable allocation of logistics resources. Logistics enterprises need to develop an information service with shared resources and real-time access to provide information and business operation services.

Upgrade the traditional logistics industrial chain: Upgrade the traditional logistics industry, encourage logistics enterprises to develop a closed-loop supply chain ecosystem powered by AI and IoT technology, and integrate procurement, transportation, warehousing, and distribution into sales and customer systems to optimize processes. GBA authorities should also promote intelligent collaboration in the supply chain through AI and modern communications technology to informatize logistics management and improve data processing efficiency.

5

Establishing a platform for high-level opening up

5.1 Led by financial opening up, guided by innovation in cooperation zones, and supported by RCEP

Deepening finance-centered cooperation between the Chinese Mainland, Hong Kong, and Macau

The GBA has the highest level of opening up in China and plays a leading role in supporting national economic development and opening up. Major global financial institutions have established offices in the GBA and accumulated experience in regional capital markets. Further opening up, collaboration, and financial cooperation between the Chinese Mainland, Hong Kong, and Macau is a key task. In May 2020, the *Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao GBA* were officially released. Its initiatives to "promote investment and financing facilitation", "expand the opening up of the financial sector", and "enhance financial interconnection" have attracted considerable attention. They will help enterprises conduct cross-boundary investment or financing business in the Chinese Mainland and Hong Kong or Macau.

On 10 September 2021, the Cross-boundary Wealth Management Connect Pilot Scheme was launched in a positive attempt to open up individual capital accounts in an orderly way. Thanks to other opening-up measures, Hong Kong-funded banks now provide services to customers in every prefecture-level city

of Guangdong, and Guangdong residents can buy Hong Kong insurance policies. In financial interconnection, Southbound Wealth Management Connect was launched on 24 September 2021. It supports the development of offshore RMB business in Hong Kong and Macau and strengthens Hong Kong's position as an offshore RMB business hub.

Institutional innovation in Hengqin, Qianhai, and other major cooperation platforms

The GBA is seeking further breakthroughs in opening up through major cooperation platforms, including Hengqin and Qianhai. In September 2021, the Central Government issued the *General Plan for Building the Guangdong-Macao In-depth Cooperation Zone in Hengqin* and the *Plan for Comprehensively Deepening Reform and Opening-Up of the Shenzhen-Hong Kong Modern Service Industry Cooperation Zone in Qianhai*. Both plans highlight institutional innovation, with an emphasis on management mechanisms, factor circulation, and financial cooperation.

Hengqin's development is centered on the "promotion of Macau's appropriate economic diversification" and formulation of a new mechanism for "joint consultation, development, management and sharing" to create a leading metropolis that drives development of the entire GBA. Hengqin aims to promote extensive cooperation on reform of

key areas including economic management, the business environment, and market regulation. In cross-boundary cooperation, it will promote the free flow of factors, connectivity between technological facilities, and the coordination of innovation chains. Hengqin will also support cross-boundary financing, payments, financial management, and insurance.

Qianhai aims to "serve the Mainland and interact with international markets via Hong Kong to build a new international metropolis". According to the Qianhai plan, it will promote free trade in services with Hong Kong, and unify professional qualifications, service standards, and certification and accreditation. This will drive the development of a modern services industry ecosystem in Qianhai that connects with Hong Kong's financial market and meets international standards. The cooperation zone will also pilot financial market integration with Hong Kong, which should stimulate RMB internationalization and consolidate and strengthen Hong Kong's status as an international financial center. The plan also proposes a significant expansion of the area to attract Hong Kong enterprises and talent, which will drive industrial development and ease space constraints.

RCEP leads to a more open, competitive market environment

In November 2020, China signed the RCEP Agreement. Entering into force on 1 January 2022, RCEP promotes trade and investment facilitation, with China promising to eliminate tariffs on more than 90% of goods, reduce non-tariff barriers, and step up its commitments in sectors including finance and telecommunications.

Given the large number of processing trade enterprises in the GBA, RCEP will enhance utilization of foreign investment in the region and introduce leading-edge machinery and equipment, which will benefit the advanced processing trade sector. Given the GBA is adjacent to most RCEP member states and imports and exports between Guangdong and ASEAN countries account for more than 20% of China's total trade, the GBA will boost the interconnectivity of supply, demand, and production factors among RCEP members.

However, competition is expected to intensify in the GBA as trade barriers are eliminated. Japan, South Korea, Singapore and other developed countries have leading innovators in science and technology, advanced manufacturing, modern services, and the business environment, while Vietnam, Thailand, Malaysia, and other emerging countries have notable cost advantages in labor-intensive industries. Although RCEP creates a more open environment, it will also heighten industrial chain competition.

5.2 Two-way integration and external cooperation

Promote finance-centered two-way integration

The GBA is set to expand financial opening up and business implementation based on successful pilot programs. For example, it could allow integrated RMB and foreign currency pooling in more pilot cities to further facilitate cross-boundary capital coordination and its use by multinationals. It should then promote innovative, integrated cross-boundary financial regulations, rules, and standards, establish institutions to coordinate cross-boundary regulation, build intelligent regulatory information platforms, and create “sandboxes” for financial innovations. It should also expand technology application scenarios to enhance interconnectivity, including using blockchain for encrypted cross-boundary account opening and supply chain finance, AI for transaction reviews and small credit, and accelerate the construction of the cross-boundary ecosystem, facilitating more efficient transaction pairing and calculations.

Enhance and leverage the institutional innovation advantages of major cooperation platforms

Smooth cross-boundary flows of resource factors are a prerequisite for the construction of the Guangdong-Hong Kong-Macau cooperation and development platform, because the different social institutions, legal, and tax systems in the three regions currently create major barriers to integration. GBA authorities should establish special teams to rapidly negotiate solutions to emerging issues in factor flow activities including development planning, legal services, and mutual accreditation. They should also give full play to the favorable systems of freeports to build a trade channel with Hengqin for intermediate products.

The Guangdong-Macao In-depth Cooperation Zone in Hengqin exempts all materials “with a value-added of 30% or more” from tariffs. This allows entities in the GBA to import raw materials into the cooperation zone for preliminary processing. The resulting intermediate products, including basic parts and materials, can then be transported back to other regions of the GBA for advanced manufacturing, with manufacturers having benefited from the cost advantages of zero tariffs on the imported raw materials.

Improve industrial layout and digital trade with RCEP

Enterprises in the GBA can strengthen cooperation with their counterparts in Southeast Asian countries, enjoy more flexible overseas operations based on RCEP rules, including cumulative rules of origin, and refine their raw materials procurement, industrial chain construction, and outbound investment. GBA entities can also use Guangdong's advanced cross-boundary e-commerce system, which contributes 60% of China's total imports and exports and nearly 80% of exports alone. They can also leverage Hong Kong's status as the primary offshore business center for mainland e-commerce companies, to improve support services and build digital trade centers.

Based on the above suggestions, the major cities in the GBA will play different roles in China's opening up. Guangzhou can play an active role in deepening factor flow-oriented opening up as a connecting hub between Chinese Mainland and international markets; Shenzhen, as a pilot demonstration area for institutional opening up, can promote free trade in services with Hong Kong and Macau via Qianhai; Hong Kong can deepen cooperation with the Mainland in finance-based modern service industries while remaining a major international financial center; and Macau could build a financial and trade services platform targeting Lusophone countries and promote diverse economic development via Hengqin.

Conclusion

Today's GBA is a world-class bay area with a vibrant economy, high levels of inclusion and openness, and leading innovation capabilities. It is recognized as one of the four major centers of global economic growth alongside the New York, San Francisco, and Tokyo bay areas. Under the 14th Five-year Plan, China's new pattern and philosophy of innovative, coordinated, green, open, and shared development can shape the GBA's future as an international innovation hub, benchmark for green transformation, and world-leading platform for supply chain coordination and economic opening-up. The outlook for the GBA during the 14th Five-Year Plan period is bright.

Contact us

Edward Au

**Southern Region Hong Kong
Managing Partner**

Tel: +852 2852 1266

Email: edwau@deloitte.com.hk

Tom Kwok

**Southern Region Mainland
Managing Partner**

Tel: +86 755 3353 8666

Email: tokwok@deloitte.com.cn

Sidney Cheng

**Macao SAR
Managing Partner**

Tel: +853 8898 8898

Email: sidcheng@deloitte.com.mo

Freddie Chui

**Lead Partner, Financial Services and
Markets & Global Network Leader**

Tel: +852 2852 1046

Email: fchui@deloitte.com.hk

Lydia Chen

Partner, Deloitte Research

Tel: +86 21 6141 2778

Email: lydchen@deloitte.com.cn

Norman Sze

**China Government & Public Services
Industry Leader**

Tel: +86 10 8512 5888

Email: normansze@deloitte.com.cn

Edison Zuo

**Guangzhou Deputy
Managing Partner**

Tel: +86 20 2831 1309

Email: ezuo@deloitte.com.cn

Robert Lui

**Lead Partner,
Southern Region Government Affairs**

Tel: +852 2852 6324

Email: rolui@deloitte.com.hk

Gerry Yuan

**Southern Region Mainland Central Business
Development Leader**

Tel: +86 20 2831 1022

Email: geyuan@deloitte.com.cn

Jill Qu

Director, Deloitte Research

Tel: +65 9111 1540

Email: jjqu@deloitte.com.cn

Office locations

Beijing

12/F China Life Financial Center
No. 23 Zhenzhi Road
Chaoyang District
Beijing 100026, PRC
Tel: +86 10 8520 7788
Fax: +86 10 6508 8781

Changsha

20/F Tower 3, HC International Plaza
No. 109 Furong Road North
Kaifu District
Changsha 410008, PRC
Tel: +86 731 8522 8790
Fax: +86 731 8522 8230

Chengdu

17/F China Overseas
International Center Block F
No.365 Jiaozhi Avenue
Chengdu 610041, PRC
Tel: +86 28 6789 8188
Fax: +86 28 6317 3500

Chongqing

43/F World Financial Center
188 Minzu Road
Yuzhong District
Chongqing 400010, PRC
Tel: +86 23 8823 1888
Fax: +86 23 8857 0978

Dalian

15/F Shenmao Building
147 Zhongshan Road
Dalian 116011, PRC
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297

Guangzhou

26/F Yuexiu Financial Tower
28 Pearl River East Road
Guangzhou 510623, PRC
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121

Hangzhou

Room 1206
East Building, Central Plaza
No.9 Feiyunjiang Road
Shangcheng District
Hangzhou 310008, PRC
Tel: +86 571 8972 7688
Fax: +86 571 8779 7915

Harbin

Room 1618
Development Zone Mansion
368 Changjiang Road
Nangang District
Harbin 150090, PRC
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056

Hefei

Room 1506 Tower A China Resource Building
No.111 Qian Shan Road
Shu Shan District
Hefei 230022, PRC
Tel: +86 551 6585 5927
Fax: +86 551 6585 5687

Hong Kong

35/F One Pacific Place
88 Queensway
Hong Kong
Tel: +852 2852 1600
Fax: +852 2541 1911

Jinan

Units 2802-2804, 28/F
China Overseas Plaza Office
No. 6636, 2nd Ring South Road
Shizhong District
Jinan 250000, PRC
Tel: +86 531 8973 5800
Fax: +86 531 8973 5811

Macau

19/F The Macau Square Apartment H-L
43-53A Av. do Infante D. Henrique
Macau
Tel: +853 2871 2998
Fax: +853 2871 3033

Mongolia

15/F, ICC Tower, Jamiyan-Gun Street
1st Khoroo, Sukhbaatar District
14240-0025 Ulaanbaatar, Mongolia
Tel: +976 7010 0450
Fax: +976 7013 0450

Nanjing

40/F Nanjing One IFC
347 Jiangdong Middle Road
Jianye District
Nanjing 210019, PRC
Tel: +86 25 5790 8880
Fax: +86 25 8691 8776

Ningbo

Room 1702 Marriott Center
No.168 Heyi Road
Haishu District
Ningbo 315000, PRC
Tel: +86 574 8768 3928
Fax: +86 574 8707 4131

Sanya

Floor 16, Lanhaihuating Plaza
(Sanya Huaxia Insurance Center)
No. 279, Xinfeng street
Jiyang District
Sanya 572099, PRC
Tel: +86 898 8861 5558
Fax: +86 898 8861 0723

Shanghai

30/F Bund Center
222 Yan An Road East
Shanghai 200002, PRC
Tel: +86 21 6141 8888
Fax: +86 21 6335 0003

Shenyang

Unit 3605-3606,
Forum 66 Office Tower 1
No. 1-1 Qingnian Avenue
Shenhe District
Shenyang 110063, PRC
Tel: +86 24 6785 4068
Fax: +86 24 6785 4067

Shenzhen

9/F China Resources Building
5001 Shennan Road East
Shenzhen 518010, PRC
Tel: +86 755 8246 3255
Fax: +86 755 8246 3186

Suzhou

24/F Office Tower A, Building 58
Suzhou Center
58 Su Xiu Road, Industrial Park
Suzhou 215021, PRC
Tel: +86 512 6289 1238
Fax: +86 512 6762 3338 / 3318

Tianjin

45/F Metropolitan Tower
183 Nanjing Road
Heping District
Tianjin 300051, PRC
Tel: +86 22 2320 6688
Fax: +86 22 8312 6099

Wuhan

Unit 1, 49/F
New World International Trade Tower
568 Jianshe Avenue
Wuhan 430000, PRC
Tel: +86 27 8538 2222
Fax: +86 27 8526 7032

Xiamen

Unit E, 26/F International Plaza
8 Lujiang Road, Siming District
Xiamen 361001, PRC
Tel: +86 592 2107 298
Fax: +86 592 2107 259

Xi'an

Room 5104A, 51F Block A
Greenland Center
9 Jinye Road, High-tech Zone
Xi'an 710065, PRC
Tel: +86 29 8114 0201
Fax: +86 29 8114 0205

Zhengzhou

Unit 5A10, Block 8, Kineer Center
No.51 Jinshui East Road
Zhengdong New District
Zhengzhou 450018, PRC
Tel: +86 371 8897 3700
Fax: +86 371 8897 3710



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HK-036EN-21



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