



The Greater Bay Area Initiative

A survey on key drivers for success

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Foreword

We are living in exciting times for Southern China. Nowhere is this seen more clearly than in the ambitious plans being drawn up for the Greater Bay Area initiative, and its goal of building a world-class city cluster across the Guangdong-Hong Kong-Macau region. By 2030, the region is expected to play a leading role in advanced manufacturing, innovation, shipping, trade and finance.

The proposed initiative is a testament to the region's economic development and significance. Last year, the combined GDP of the 11 cities in the area reached US\$1.4 trillion, or 12 percent of the national economy, even though it is home to only 5 percent of the country's population.

As the area develops, its influence is likely to extend beyond the geographical boundaries of its city cluster to play a key role in China's Belt and Road Initiative, serving as a key link connecting countries along the 21st century Maritime Silk Road.

The purpose of this report is twofold: to highlight the key issues confronting the Greater Bay Area's development, and to offer a market view of the Greater Bay Area. This was gathered from a survey of 614 business executives at companies operating in the region that was jointly devised and conducted by KPMG, the Hong Kong General Chamber of Commerce (HKGCC) and YouGov.

In addition to the survey, KPMG and HKGCC conducted several interviews with companies operating in the region for their viewpoints. The interviewees are from diverse backgrounds, including both state-owned and privately-owned enterprises, as well as small and medium-sized companies.

We would like to express our gratitude to all our survey respondents for their input, and to the executives who kindly agreed to be interviewed for this report. We hope that our findings will prove useful to understanding the challenges and opportunities facing the Greater Bay Area and its development in the coming years.



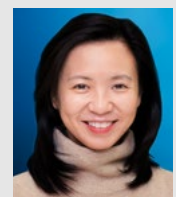
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Executive Summary

Businesses overwhelmingly support China's Greater Bay Area initiative, according to a YouGov survey commissioned jointly by KPMG and the Hong Kong General Chamber of Commerce.

The two-month survey was conducted in June and July 2017 and received responses from 614 business executives in Hong Kong (410), Guangzhou (91), Shenzhen (82) and other GBA cities (31). Of the total respondents, close to 65 percent were at a senior management level, while around 35 percent were middle management or below. The companies they represent were from a wide range of industries, including manufacturing (157), distribution (143), e-commerce (73), retail (70), logistics (58), and others.

The idea of Hong Kong, Macau and Guangdong working together to create GBA resonated with the survey respondents with 80 percent indicating their support for integrated development across the region.

The strongest backers were those working in Shenzhen, with 85 percent of those polled supporting the project, followed by Macau (83 percent), Hong Kong (80 percent) and Guangzhou (78 percent).

In addition, the respondents highlighted improved corporate synergies, a freer flow of talent and enhanced abilities to penetrate markets as the leading benefits to arise from the initiative. Many respondents (37 percent) believed the GBA will be able to rival the Greater Tokyo Metropolitan Area in terms of economic scale in a decade's time. Fewer see it rivalling San Francisco Bay (32 percent) or Greater New York (28 percent).

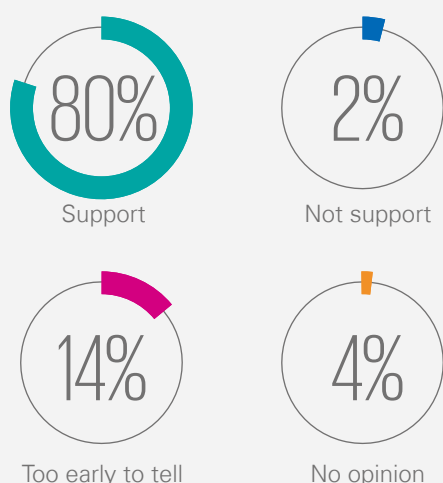
Hong Kong respondents are the most optimistic about the GBA's competitiveness. More respondents with Hong Kong-based operations – 41 percent of those surveyed – believed that the GBA would be on par with the Greater Tokyo Area in a decade's time compared to those with operations based in mainland China – 34 percent of the total.

The sectors seen as most likely to benefit from the area's development are trade and logistics (68 percent), financial services (62 percent) and R&D in innovative technologies (60 percent).

There are, however, challenges to be overcome in order for the GBA to fulfil its ambitions. Those surveyed identified protectionism and other measures that hinder cooperation as the biggest hurdle to the area's development, followed closely by silos between and within GBA governments.

On the other hand, companies also see government support as the most important factor for the region's success, followed by the rule of law and infrastructural support. As a result, how governments choose to participate and be involved will be crucial in determining the future of the Greater Bay Area.

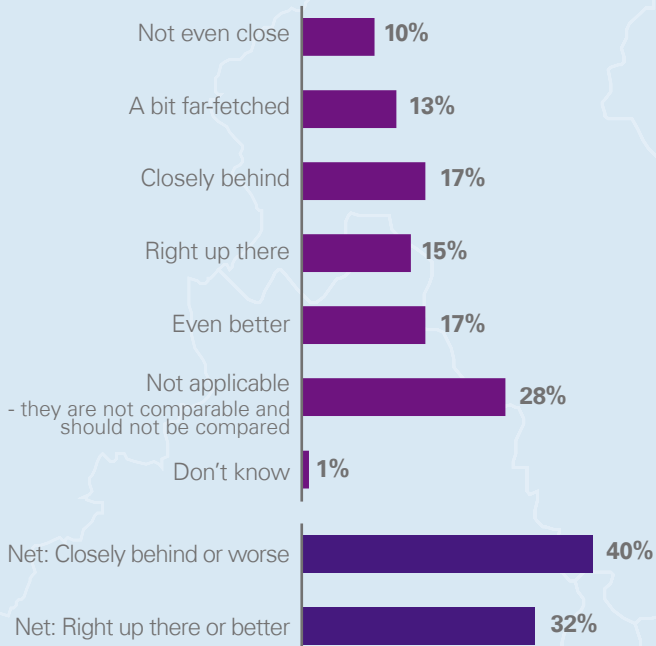
Level of support for integrated development across Hong Kong, Macau and Guangdong



Source: Joint KPMG and HKGCC survey

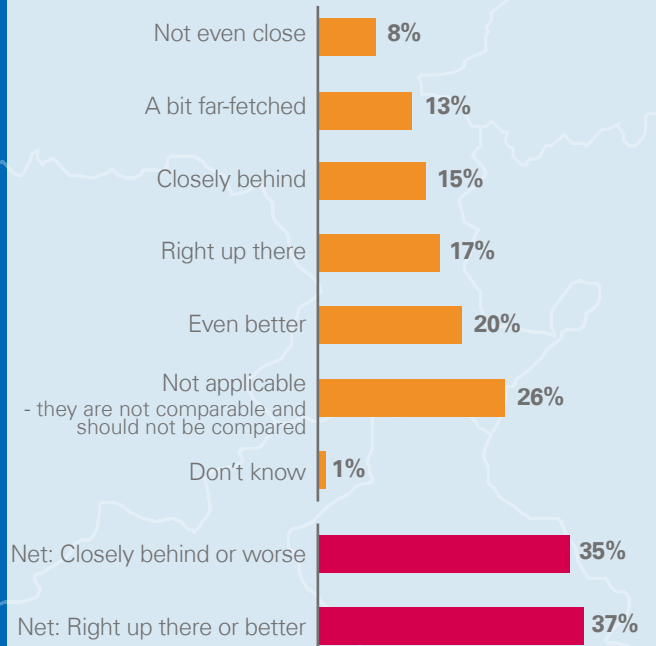
The GBA's level of competitiveness in 10 years' time compared to:

San Francisco Bay Area



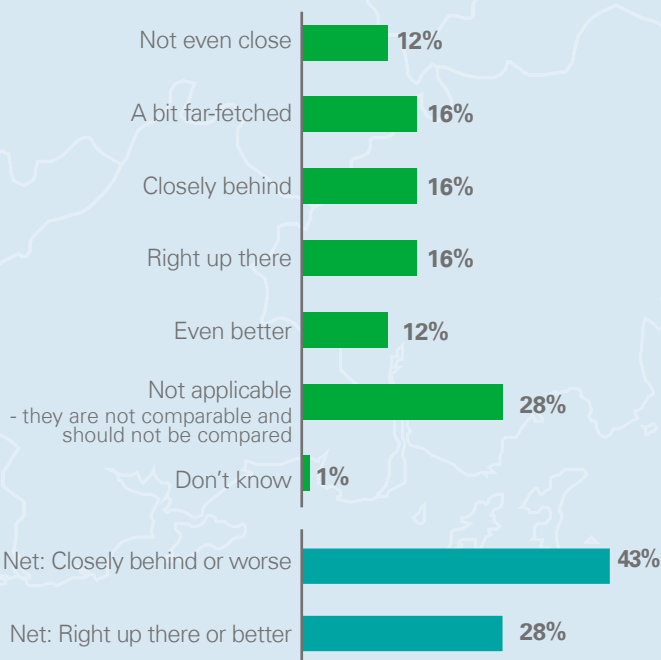
Source: Joint KPMG and HKGCC survey
 Note: Percentages do not add up to 100 due to rounding

Greater Tokyo Area



Source: Joint KPMG and HKGCC survey

New York Metropolitan Area



Source: Joint KPMG and HKGCC survey
 Note: Percentages do not add up to 100 due to rounding

Greater Bay Area Overview

The Greater Bay Area (GBA) initiative's goal is ambitious: combining Hong Kong, Macau and the cities of Guangdong's Pearl River Delta to create a region with the economic heft that is comparable to the San Francisco Bay Area, Greater New York and the Greater Tokyo Area. To succeed, the relevant infrastructure, policies and regulations will all have to be in place to ensure people, goods and services are able to flow freely within the region.

China's transformation from an agricultural economy into a manufacturing powerhouse over the past few decades has been nothing short of phenomenal. The country is in the midst of another major shift towards a service-driven economy and nowhere is this truer than in the Pearl River Delta, where Shenzhen, for example, is one of the world's leading high-tech innovation centres.

The region is also at the heart of a network of supply chains that link Guangdong to the rest of the world and is able to draw on a strong manufacturing base. Last but not least, the region is also supported by Hong Kong's world-class financial and professional services industries.

The further growth of the region, however, calls for greater coordination of financial, material and human resources – hence China's decision to push for the establishment of GBA.

This landmark initiative aims to bring together the key cities of the Delta region to build a new powerhouse – one that is comparable to other city clusters such as Greater Tokyo Area, San Francisco Bay Area and Greater New York.



The right numbers

The GBA's eleven cities have a total population of nearly 67 million, which is greater than the Tokyo Metropolitan Area - the world's largest city cluster with a population of 44 million. The GBA also has a combined GDP of US\$1.34 trillion, which is lower than the US\$1.61 trillion of Greater New York and US\$1.78 trillion of Greater Tokyo.

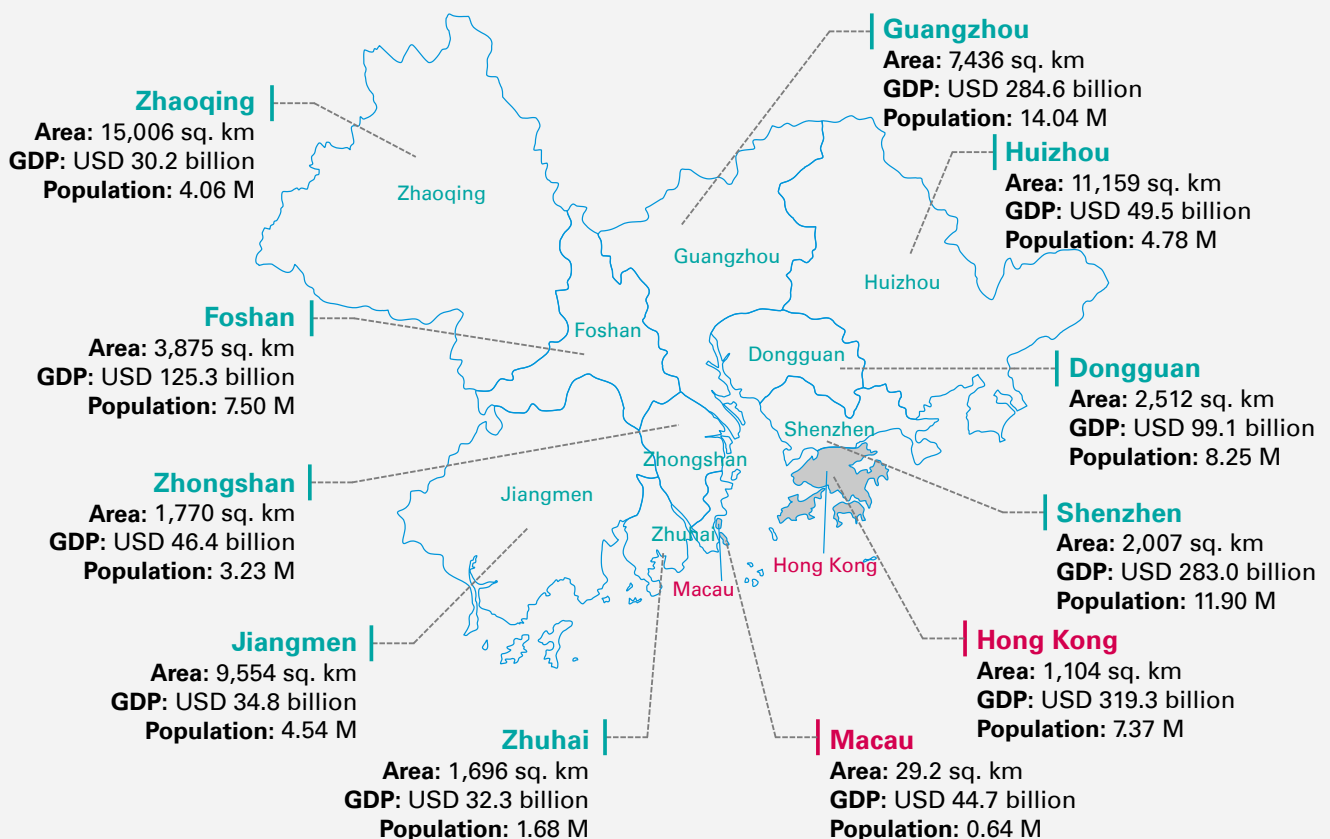
Hong Kong remains the single biggest economy of the area, but only just. Its GDP, at US\$319 billion in 2016, is likely to be overtaken by Guangzhou (US\$285 billion) and Shenzhen (US\$283 billion) in the foreseeable future.

Table 1: A Comparison of Global Bay Areas

	Greater Tokyo	Greater New York	San Francisco Bay Area	GBA
Population, million	43.5	23.4	7.2	66.7
Per capita GDP, US\$	41,000	69,000	99,000	20,000
Area, '000 sq km	36.8	17.4	17.9	56.0

Source: Fung Business Intelligence

Greater Bay Area Cities Comparison



Source: Fung Business Intelligence. Data as at 2016

High-level backing

The concept of GBA dates back to 2011 with a study called “The Action Plan for the Bay Area of the Pearl River Estuary¹” that was jointly prepared by officials from Hong Kong, Macau, Shenzhen, Dongguan, Guangzhou, Zhuhai and Zhongshan. The idea of a city cluster in Southern China was reinforced when the 13th Five Year Plan (2016-2020)² was endorsed in March 2016. Premier Li Keqiang subsequently announced in the annual government report in March 2017 that the authorities were going ahead with the initiative.

This led to a framework agreement³ in July 2017, which was signed by China’s top policy-making body, the National Development and Reform Commission (NDRC) and the governments of Guangdong, Hong Kong and Macau.

One of the GBA’s key objectives is to improve the level of cooperation within the region. This includes

identifying the core competitive advantages of the cities within GBA and exploring ways for them to complement one another. One example of this is to build on the strengths of Hong Kong’s financial and professional services sectors, Shenzhen’s high-tech manufacturing and innovation skills, and the manufacturing strengths of Dongguan and Guangzhou.

Within China, the GBA has the potential to extend its reach beyond the Pearl River Delta to the nearby provinces of Fujian, Jiangxi, Hunan, Guangxi, Hainan, Guizhou and Yunnan. Beyond China, it will be aiming to reach markets in Southeast and South Asia.

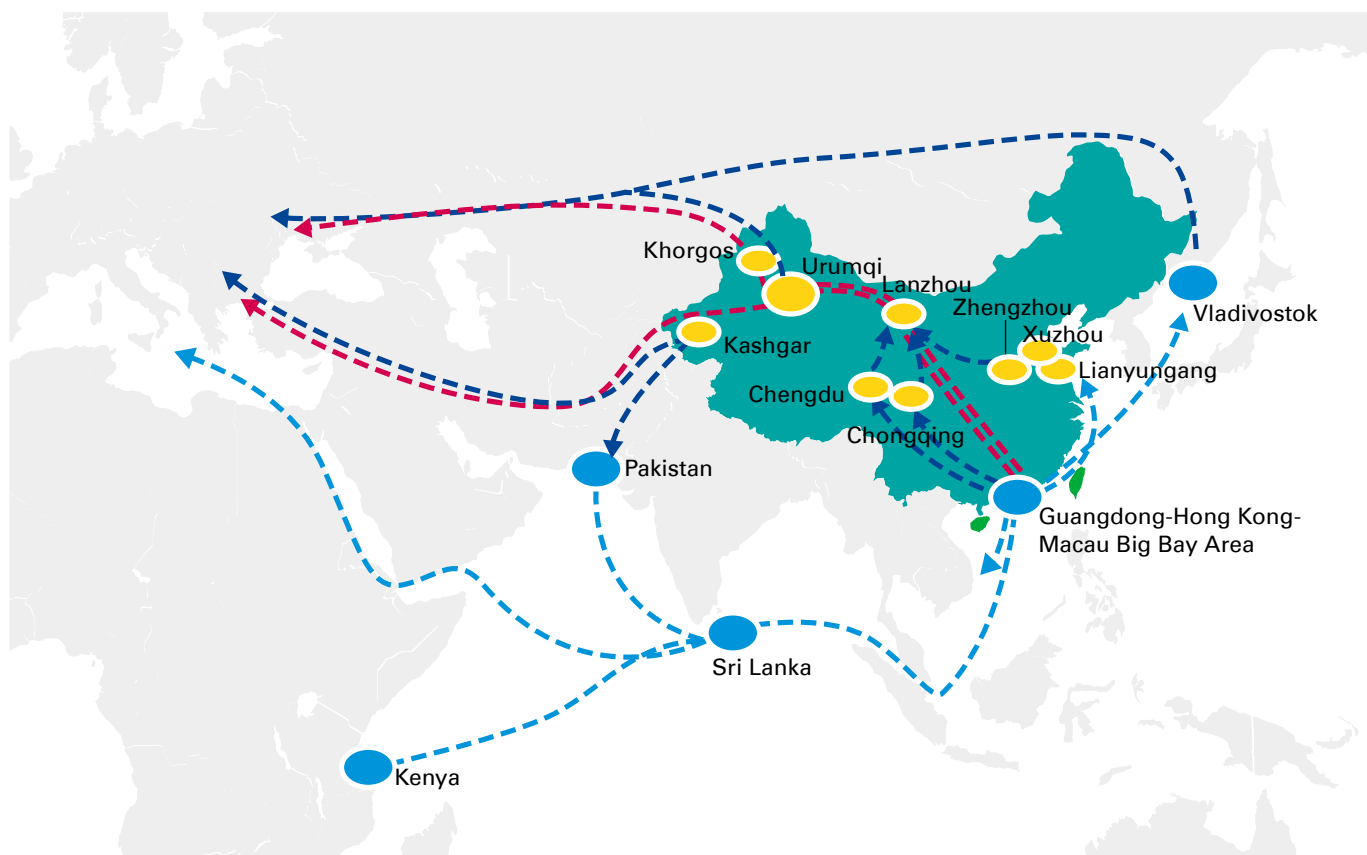
The development of the area should also act as a catalyst for China’s Belt and Road Initiative - an ambitious strategy that aims to link the economies along the Silk Road Economic Belt (Central Asia to Europe) and the Maritime Silk Road (South Asia to Africa and the Middle East) together.

1. www.epd.gov.hk/epd/english/resources_pub/policy/files/qla_consult_eng.pdf
2. en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf
3. <http://www.info.gov.hk/gia/general/201707/01/P2017070100409.htm>

The GBA’s Belt and Road links

Promoting connectivity:

Greater Bay Area and the 21st Century Maritime Silk Road



Source: Hong Kong Trade Development Council

The cities of the area offer a wide range of skills and services, and they should develop according to their comparative advantages. One possible approach would be for R&D to be conducted in Shenzhen, Hong Kong or Guangzhou and manufacturing to be carried out in Dongguan and other cities across the Delta.

Companies can take advantage of Hong Kong's "one country, two systems", which makes it a part of China but with its own legal and financial regimes. They can also tap into Hong Kong's status as the gateway between China and the world and as an international financial centre for fundraising, asset and risk management, corporate treasury services, insurance and re-insurance and, more recently, offshore renminbi services.

In addition, the region already possesses some of the most efficient supply chains in the world as well as a well-developed talent pool fluent in English and Chinese.

Next steps

Enhanced cross-border movements of capital, people, goods and services within the GBA are essential for the region's successful development. As cities in the GBA fall under different customs zones as well as legal and administrative systems, improvements in cross-border

movements are highly dependent on cross-institutional cooperation and efforts.

The most pressing issue is for local governments within the region to collaborate on a broad range of topics. This includes economic policies, environmental and transport issues, and regulatory harmonisation.

There is evidence that officials are looking for ways of making progress in all these areas. One example is the Guangdong free-trade zone, which was launched in 2015 across 60 square kilometres of the Nansha New Area in Guangzhou, 28 square kilometres of the Qianhai and Shekou areas in Shenzhen and 28 square kilometres of Hengqin in Zhuhai.

This was followed by the proposed development of the Lok Ma Chau Loop when Hong Kong and Shenzhen signed an agreement in January 2017 to transform a stretch of land on the border between the two cities into an innovation and technology park.

Moreover, the completion of the Zhuhai-Hong Kong-Macao Bridge and the Express Rail Link will improve land connectivity and induce more cooperation among GBA cities. These projects, in combination with many other initiatives, will make the GBA a key contributor to the further opening up of the Chinese economy.





Yu Zhong Liang

*Senior Deputy Chief
Strategy Officer*

The GBA's promise is already shaping the way investments are flowing into the region with companies starting to turn their attention towards new economy industries.

At the head of this trend is China Resources, a state-owned conglomerate headquartered in Hong Kong. Its investment in the region stands at US\$48 billion, spreading across both old and new economy sectors such as healthcare, pharmaceutical, real estate, food and beverage, retail, technology, and utilities.

Over the next five years, it is planning to invest at least US\$20 billion more, but with a significant shift in its investment direction. The company will mainly focus on new economy sectors, with every project involving innovation in one way or another, says Yu Zhong Liang, Senior Deputy Chief Strategy Officer in the company's Strategy Management Department.

The decision to concentrate on new economy sectors was taken before Premier Li Keqiang's unveiling of the Bay Area plan in March 2017. The announcement, though, helped reinforce the company's confidence in its regional investment mandate.

"It is clear that China is transitioning from a labour-intensive, manufacturing-based economy into a services-oriented society driven by a growing middle class," says Yu. "As a company, we always want to align ourselves with the trends we're seeing or expect to see."

An important aspect of this transition will be developments in e-commerce, financial technology (fintech), renewable energy, biopharma, waste

management, healthcare, medical equipment, and wealth management, all sectors which China Resources will be focusing on.

Yu points out that Guangzhou, Hong Kong and Shenzhen are already adapting well to the shift in the Chinese economy. Shenzhen, for example, has made itself the country's leading technology innovation hub, while Hong Kong is the natural candidate to be its professional services centre thanks to the strengths of its legal and financial services industries.

However, for the GBA to succeed as a whole, all of its eleven core cities will need to find or enhance their own strategic identities. "Some cities will be able to do this better than others, but at the end of the day, it should be up to market forces to decide," says Yu.

One area where the whole region needs to focus more on is education, in particular when it comes to promoting innovation. He believes the educational system in China is over-fixated on pushing students to achieve good grades.

"Our education system is too regimented. Not enough is done to promote creativity, innovation and thinking," he says. "The GBA can only become a true technology and innovation hub if we have the right culture and ecosystem in place."

Yu would like to see the GBA replicate the methods of Silicon Valley think tank Singularity University, which apart from offering educational courses also runs conferences and a business incubator for start-ups and corporates.

Key factors for success

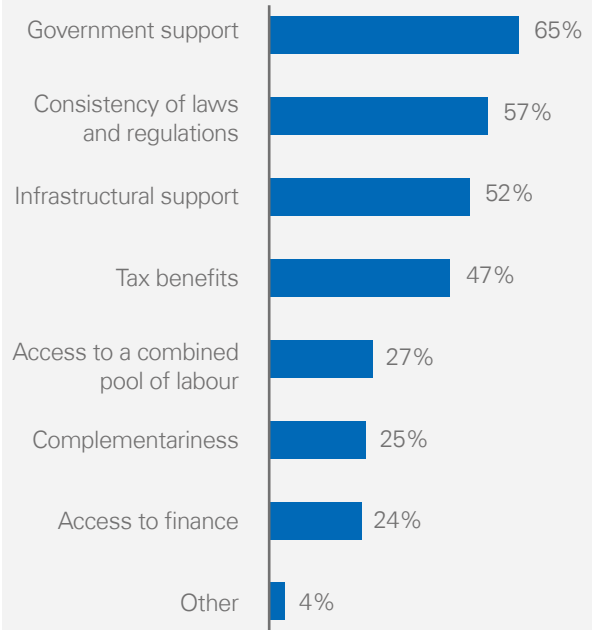
The three most important factors for the GBA's success are support from the government (ranked as the first, second or third most important factor by 65 percent of those surveyed); consistency of laws and regulations (57 percent) and infrastructure support (52 percent).

Local governments across the region will play a crucial role in ensuring the success of GBA. Having the right hardware will be vital and much of the road, rail, shipping and aviation infrastructure are already in place. The upcoming Hong Kong-Macau-Zhuhai Bridge will further strengthen the region's logistics infrastructure.

With the hardware established, an area GBA governments should focus on is to get the software right. This means harmonising laws and regulations to ensure the smooth flow of capital, goods, services and people.

Additionally, around 47 percent of respondents picked tax benefits as their first, second or third most important factor when it comes to the successful development of the GBA.

Topics crucial to the successful development of the GBA*



*Factors ranked first, second or third by respondents
Source: Joint KPMG and HKGCC survey





Arnold Cheng

*Director of Hong Kong
and Pearl River Delta*



James Tong

*Director of Public
Affairs*

John Swire & Sons (Swire) is one of the largest conglomerates in Asia Pacific with five core business sectors; aviation, real estate, trade and industry, food and beverage, and marine services. And the company is confident that the GBA initiative would further strengthen its footprint across all these sectors through the creation of new investment opportunities in the region.

Arnold Cheng, Swire's Director of Hong Kong and Pearl River Delta believes that re-positioning Hong Kong, Macau and the Pearl River Delta as a single entity (GBA) is likely to be a smart move as it would promote the growth of a bigger economic pie.

Compared with other city clusters globally, Cheng says the GBA's edge will come from its wider spectrum of industries – financial services (Hong Kong), innovation and technology (Shenzhen), entertainment (Macau) and manufacturing (Dongguan).

James Tong, Swire's Director of Public Affairs, is of the same opinion.

"As one economic entity, the GBA's strengths in financial and professional services, innovation and technological capability, and manufacturing support make it an economic force to be reckoned with in the global market," Tong notes.

A common element shared by the other bay areas is the role played by foreign investment and talent, especially in promoting innovation and technological development. Both Cheng and Tong suggest that border controls should be reviewed to facilitate better people flow between the GBA cities. In addition, an easing of customs procedures should be applied not just within the area but also to visitors from other parts of the

mainland and even overseas.

Cheng also suggests that the EU's Schengen arrangement, under which 24 EU and 2 non-EU countries abolished internal border controls for their citizens, could be used as a model for a GBA travel pass. Free mobility within the region would allow people to take full advantage of the increased connectivity provided by the region's various transport infrastructure projects due to be completed soon.

To further promote the growth of GBA, officials could also allow investment across all industries anywhere within the region. While many industries in the mainland are open to Hong Kong businesses under the Closer Economic Partnership Agreement (CEPA), several sectors are still closed to investment from Hong Kong. For example, Hong Kong airlines are considered as foreign firms when it comes to investing in the mainland aviation sector. Lifting such investment restrictions could enhance capital flows into the GBA.

Tong says that crucial to the GBA's success would be to demonstrate the initiative's benefits to stakeholders as early as possible. Creating the perception of a prosperous and growing GBA is crucial in attracting talent and investment from overseas and other parts of China, he adds. This could potentially come in the form of the Lok Ma Chau Loop, whose success would demonstrate the benefits of improved collaboration between Hong Kong and Shenzhen.

Both Cheng and Tong are confident that Hong Kong, combining the unique features offered by "one country, two systems", respect for intellectual property rights, expertise in financial and professional services, and international exposure, will play a key role in the GBA's development.

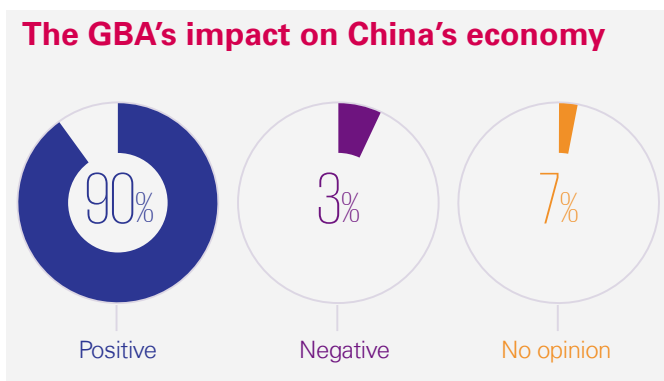
Economic impact

The Pearl River Delta region has long been one of China's top economic driving forces. Better integration and further opening the region to the rest of the world will be key in order for it to continue to play a leading role in the country's transition to a consumption-based economy.

Particularly important will be the GBA's ability to maintain its status as an innovation powerhouse. The area's networks of well-established manufacturing supply chains, increasingly well-educated work force and sophisticated consumer markets point to the region staying at the forefront of China's economic development.

Our survey found companies are confident of the GBA's benefits with the vast majority of respondents (90 percent) indicating that the GBA is likely to have a positive impact on China's economy.

Only those who either did not support the GBA initiative or thought it was too early to determine its impact were less likely to believe the initiative would positively impact the economy; of those who did support the initiative, 95 percent indicated it would have a positive impact.



Source: Joint KPMG and HKGCC survey

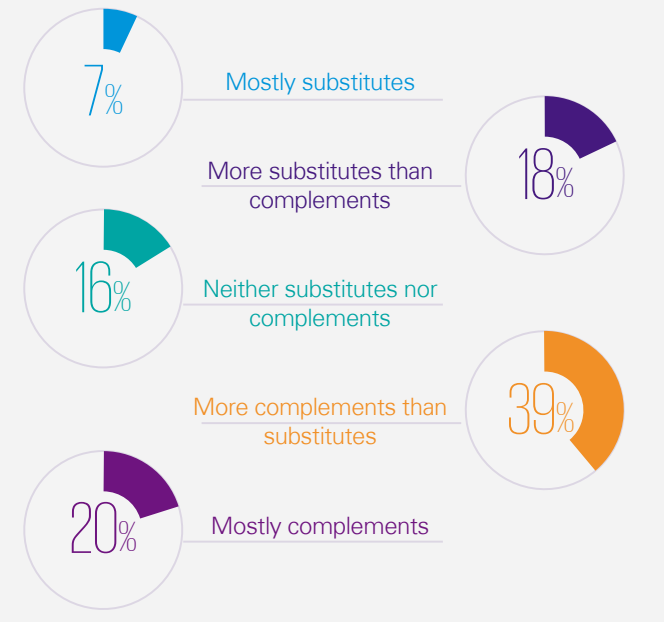
Inter-city relations and economic positioning

A key aim of the GBA is to establish a region where its main cities cooperate with each other and bring about better collaboration. Our survey revealed that 59 percent of respondents view the GBA cities as complementary to one another. Moreover, 64 percent of respondents said there is already a considerable level of overlap in terms of the economic role GBA cities play.

However, the same point also reflects a lack of regional coordination and collaboration over the past few decades as many GBA cities are often competing in the same industries.

This would explain why a quarter of respondents saw the cities as substitutes for each other, and 16 percent believed that GBA cities can neither complement nor substitute each other. On the other hand, over one-fifth of respondents saw the division of roles between cities as clearly or somewhat absent.

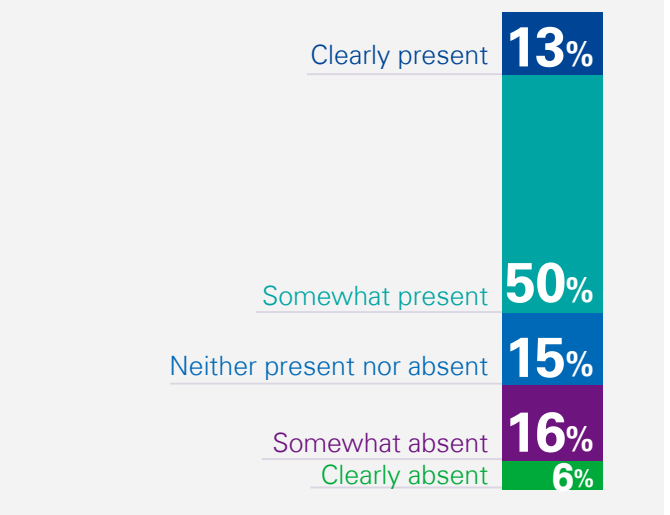
The existing relationship of GBA cities



Source: Joint KPMG and HKGCC survey

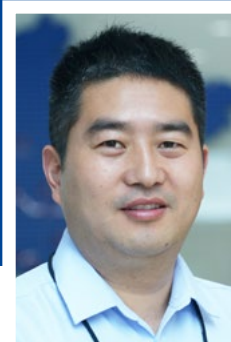
Work remains to be done to enhance the level of coordination and cooperation within the GBA with only 13 percent of respondents indicating that there is a clear division of roles among the various GBA cities. Half of the respondents said the division of roles is somewhat present.

The economic positioning of each GBA city



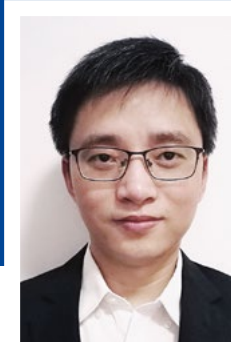
Source: Joint KPMG and HKGCC survey

Viewpoint SF Express



Frank Li

Director of Financial Management



Harry Peng

Vice Director of Strategic Management

Delivery services firm SF Express has few equals when it comes to the penetration of the Pearl River Delta. The Shenzhen - headquartered company is confident that the GBA will further boost the region although turning the concept into reality will hinge on the successful integration of Hong Kong and mainland cities.

Since it was founded in 1993, SF Express has expanded beyond Greater China to run international services around the world, including South Korea, Japan and the US. Despite this growing global prominence, South China continues to remain a core component of its business.

“Our roots are very much here [in the Pearl River Delta region] and the region remains a very important business and strategic component of SF Express” says Frank Li, the company’s Director of Financial Management. “Our headquarters are in Shenzhen, while Hong Kong is essentially our gateway to the world because of its state - of - the - art aviation and port infrastructure.”

As a result, Li is a big fan of the area’s development plan. In his eyes, the GBA’s underlying concept - fostering closer economic ties among the cities of the region - calls for integration along the same lines of the business model of a delivery services company: connecting people, companies, cities and regions.

For the GBA initiative to achieve its potential, local governments will have to focus on two areas - goods and talent integration, says Harry Peng, SF Express’s Vice Director of Strategic Management.

Goods integration will call for pooling customs administration, processes and standards across the GBA’s different jurisdictions. “We chose Hong Kong to be our transportation hub because it has been the

connector between China and the rest of the world for many years, so many aspects such as infrastructure and customs are world class,” Peng says. “Shenzhen and Guangzhou are catching up, but there is still a lot of work to be done for some of the other cities in the area.”

But the key to integration will not be just learning from Hong Kong. It will call for working with each city’s officials to establish a customs system that can resolve differences in border controls, currency and legislation. And achieving this will require the development of a regional talent pool.

There are obstacles to be overcome in the creation of a regional talent pool. First is to reconcile differences in taxes – which for salaries currently vary between Hong Kong’s maximum of 17 percent and the mainland’s 45 percent. Other issues include cultural differences and also the need to establish world-class medical and education facilities in order for the region to be able to retain top-level talent.

While universities in Guangdong see an increasing number of graduates every year, it remains hard for companies with global aspirations such as SF Express to find the right talent, says Peng.

“We like our candidates to possess a more global mentality, be able to think critically, and also be knowledgeable across various industries,” Peng explains. “Hong Kong has the talent pool with the characteristics we are looking for, but it’s not really feasible for a lot of these candidates to work in mainland China at the moment.

“Whether we will be able to bridge this gap will be essential to the success of the GBA.”

Biggest winners

Much of the excitement about the GBA's prospects centres on its potential as a high-tech manufacturing and innovation hub.

However, well-established industries such as trade and logistics will also continue to thrive in GBA. This is underlined by the fact that exports are likely to remain one of the region's core economic drivers for the foreseeable future.

In addition, the financial sector is also expected to thrive in the GBA. Hong Kong's status as an international financial centre and the world's largest offshore renminbi hub will play a crucial role in ensuring the sector's growth.

The survey findings reflect this with the top three sectors respondents feel are likely to benefit most from the development of the GBA being trade and logistics (ranked in the top three by 68 percent of respondents), financial services (62 percent) and R&D in innovative technologies (60 percent).

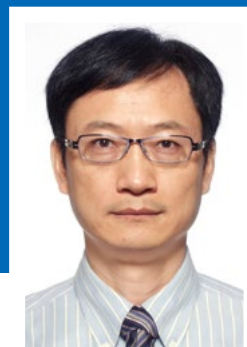
Mainland China respondents particularly believed the area's development will benefit R&D in innovative technologies. This was ranked first, second or third by 74 percent of mainland-based respondents compared with just 54 percent of respondents from Hong Kong. There is a similar gap when it comes to financial services with 72 percent of mainland China respondents picking it as one of their top three compared to just 58 percent of Hong Kong respondents.

This gap can be explained by the fact that Hong Kong-based respondents had the most varied answers, indicating that the GBA is likely to benefit a host of industries. The only industry that stood out was trade and logistics with 70 percent of Hong Kong-based respondents picking it as their top three.

Industries that will benefit the most from the development of GBA*



*Sectors ranked first, second or third by respondents
Source: Joint KPMG and HKGCC survey

**Ng Siu Wa**

*Deputy General Manager
Strategy and Development
Department*

China Merchants Group is a supporter of the GBA initiative as the Hong Kong-based conglomerate believes it would lead to better access to resources, wider talent pool as well as new business opportunities.

One of the GBAs inherent strengths is that it is one of the most economically open and market-oriented regions in China, says Ng Siu Wa, Deputy General Manager of China Merchants' Strategy and Development Department.

He believes the key to the GBAs success will be how the initiative would be able to build on the strengths of its eleven cities. Shenzhen, in particular, will be crucial thanks to its advances in technology innovation and improved export-oriented infrastructure, which makes it well-prepared for the opportunities offered by China's Belt and Road initiative.

Governments in the GBA can help to coordinate the area's development by reducing competition and building on existing strengths. This includes Hong Kong's expertise in financial services and high-end services, Shenzhen's technology innovation capabilities, and Guangzhou's manufacturing, commerce and cultural sectors.

Ng believes that while the central government plays a major role in establishing an overall framework for GBA,

it is up to the local governments and corporate sector to establish the ground rules and turn the framework into a reality.

One way forward will be through the establishment of pilot programmes aimed to facilitate better movement of people, goods, services and money within the region. CEPA and the Guangdong free-trade zone are examples of such programmes.

Officials will also have to concentrate on the further opening up of the region's economy. This includes the introduction of international standards across various industries and improving the region's ability to attract and retain world-class talent, Ng notes.

He also suggests developing measures to facilitate the development of innovation and technology in the GBA. Governments should offer more incentives and funding for this area although they also need to ensure that companies will not become over-reliant on such initiatives, Ng explains.

His vision is that the GBA will eventually transform into a sustainable innovation and technology-oriented ecosystem that revolves around R&D centres, application platform development, and production facilities.



Key benefits of GBA

Accompanying the economic gains of the GBA will be other, less tangible but equally important benefits. A freer flow of talent within the area will be one of these, allowing more people to find the work and lifestyle that suits them best.

Another major gain would be replacing inter-city competition with increased cooperation, which can be important in areas such as reducing pollution, offering more education opportunities, and broadening retirement options.

This notion of better regional ties proved to be the most popular in our survey with 42 percent of respondents indicating that beyond CEPA, closer and more harmonious development between Hong Kong, Macau and China as the key benefit of GBA.

Also seen as important, though to a lesser extent, are allowing the free flow of talent within the area (24 percent of respondents) and better market penetration (23 percent).

Respondents who viewed GBA cities as substitutes were more likely to identify market penetration as a benefit (32 percent) compared to just 19 percent for those who believed the cities are complementing one another.

Top challenges

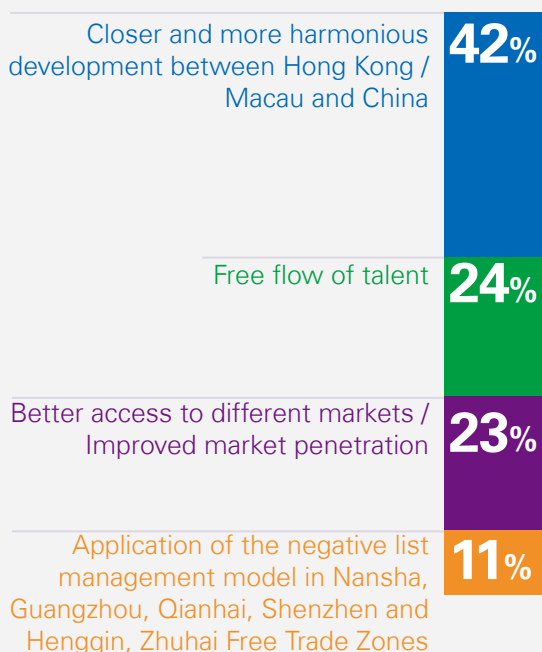
While the gains from greater cooperation between the different parts of the GBA are easily perceived, realising them may be harder. The top three challenges facing the development of the GBA identified in our survey are protectionism (ranked as first, second or third by 60 percent of respondents) and silos between and within governments (53 percent).

If the GBA is to live up to its potential, it will be important to overcome such challenges. Concerns as to whether this is possible or not were reflected in the third-ranked challenge - an over-dependence on governments' foresight and planning capabilities (ranked as first, second or third by 47 percent of respondents).

A greater number of Hong Kong respondents (34 percent) believed the fear of change to be a greater threat than their Chinese counterparts (18 percent) did. In addition, respondents who are at a senior management level or above (32 percent) were more concerned about the fear of change than those in middle management positions or below (21 percent).

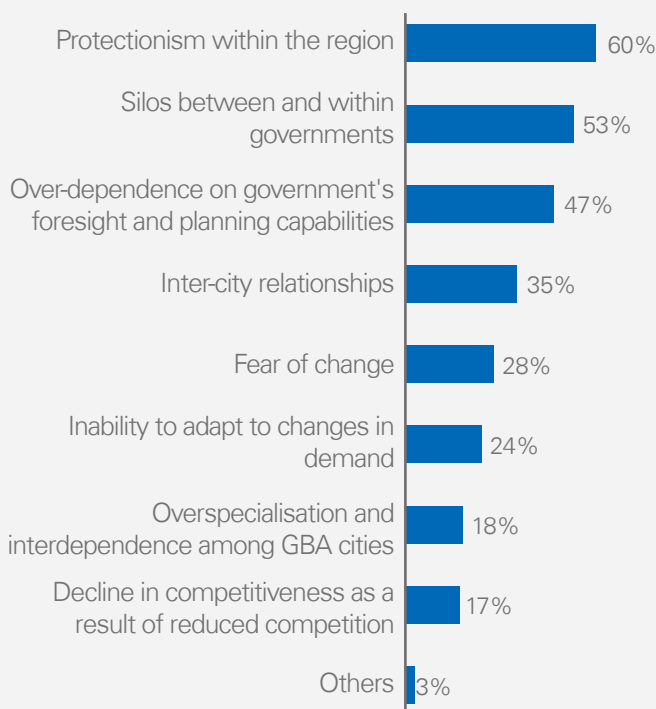
On the other hand, middle management respondents highlighted inter-city relationships (44 percent) as the GBA's greatest challenge compared to just 31 percent of senior management respondents.

Potential new elements of GBA that will benefit businesses the most*



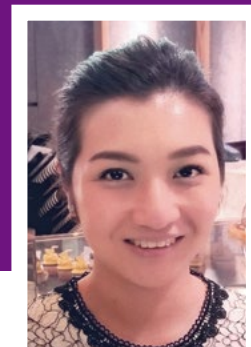
*Sectors ranked first, second or third by respondents
Source: Joint KPMG and HKGCC survey

Greatest challenge to the development of GBA*



*Sectors ranked first, second or third by respondents
Source: Joint KPMG and HKGCC survey

Viewpoint Twinkle Baker Décor



Coty Yip
Founder

As an international business centre, Hong Kong is likely to play a key role in the GBA's development, bringing a diversity of customers and ideas to the region, according to Coty Yip, founder of Twinkle Baker Décor.

Established in 2010, Twinkle designs, makes and sells bakery tools and ingredients, selling both to businesses and consumers in more than 20 countries, including the US and across Europe. Nearer to home, it runs three retail outlets in Hong Kong, offering bakery tools, ingredients and products, mostly cupcakes, and often organises bakery workshops.

At the heart of its operations, however, is a 140,000-square-foot factory in Huizhou - one of the eleven cities within the GBA.

"For now, Huizhou is better linked to the regional transportation hubs, such as Hong Kong and Shenzhen, than cities on the west bank [of the Pearl River] such as Zhaoqing. That's why we have our manufacturing base there," Yip says "But as the connectivity between these cities improves, will it bring more competition to our products? That's still a big unknown and could bring undesired outcomes to our business."

For Yip, the free flow of information and capital is crucial to the overall development of GBA.

"At Twinkle, we allocate quite a lot of resources to advertising on Facebook, Instagram and other social media platforms, as these channels are the most effective for reaching out to potential clients in the US and Europe," she explains. "Hong Kong is ideal for us because of its unrestricted internet access, which combines well with the city's close proximity with other manufacturing-focused cities in the GBA."

"Hong Kong provides a good platform for businesses, especially SMEs, to explore the overseas markets."

Yip also praises Hong Kong's established international transportation networks, which helps the distribution of her products. Enhancing infrastructure and communications links between the area's cities will

help Twinkle benefit from the GBA's emerging market potential.

"Once the Hong Kong-Zhuhai-Macau Bridge is completed, the improved connectivity will help reduce logistics costs. The bridge will be particularly important for us as we are expanding our market presence in Macau. The demand for high-end bakery products is growing rapidly there because of its strong and blooming leisure market," Yip points out.

Even though the GBA should, in theory, offer access to a larger labour market, finding the right type of talent can be difficult.

"We would love to introduce our retail stores in the GBA market, but one of our key concerns is not being able to find the right local pastry chefs and tasting experts," Yip says.

One solution would be to enlist the help of Hong Kong, which is home to many world-class restaurants and pastry shops, to train new staff across GBA.

As a manufacturer of food-related products, Twinkle has to cope with different food safety standards in the mainland, Hong Kong and other countries.

"Of all our business units, quality assurance has the highest headcount because of the number of regulations across different markets. For our business, any form of mutually recognised standards across the GBA's different markets would be helpful," Yip adds. "It would certainly smoothen our business operations if food safety standards in Hong Kong are recognised by the mainland and vice versa."

She also suggests that governments across the GBA could work together with business associations, schools and the media to raise both business and public awareness of the initiative. "When I talk to my business friends and partners, most of them are still not aware of what the GBA means, let alone how they can benefit from it."

Investment magnets

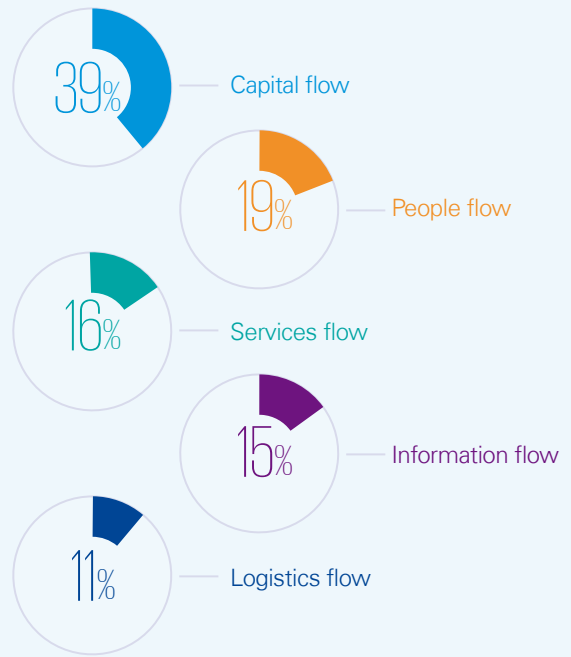
Capital flows (39 percent) was seen as the most important factor to attract investments into the GBA, followed by people flow (19 percent), services flow (16 percent) and information flow (15 percent).

To strengthen capital flows within and beyond the GBA, Hong Kong could, for example, utilise its established financial infrastructure to facilitate RMB internationalisation, expand the various cross-border share and bond trading schemes to include a “Commodity-Connect”, and bolster its status as the region’s asset management centre.

The development of Shenzhen’s Qianhai New District, which is scheduled for completion by 2020, is also expected to boost investment flows as it becomes the city’s principal finance, logistics and IT hubs.

Those working in companies with Hong Kong operations were more likely to cite capital flow as the most important factor (42 percent), compared to just 32 percent of respondents who are from companies with operations elsewhere.

Key to attracting investments into GBA



Source: Joint KPMG and HKGCC survey

Greater Bay Area



Source: InvestHK

Viewpoint Tencent



Chaney Chen

Senior Policy Researcher

Regional integration is key to the success of the GBA. That's according to Chaney Chen, Senior Policy Researcher of tech giant Tencent.

To create a city cluster to rival bay areas in New York and Tokyo is ambitious. However, Chen believes the GBA has the potential to not only compete, but also become the most diversified bay area in the world.

His view is that GBA is able to draw on Hong Kong's leading financial services sector, Macau's status as a leisure hub, and Shenzhen's technological expertise. They are, in turn, supported by the strong manufacturing capabilities of the other mainland cities in the region such as Dongguan and Guangzhou.

"The biggest advantage of GBA is that we're not building from scratch as a lot of the infrastructure and capabilities are already in place," Chen says.

Regional integration in terms of infrastructure and policies, however, will be crucial for the GBA to achieve its ambitions.

For the GBA to succeed, having the proper financial, logistical, manufacturing and technological infrastructure in place is only one side of the story. Relevant policies and regulations also need to be enacted in order to ensure people, goods and services are able to flow freely within the region.

Better regional collaboration was one of the issues discussed at a recent GBA forum hosted by Tencent earlier in the year.

"It will take time for collaboration to improve and for protectionism to decline," Chen notes. "It's unrealistic to think that just because GBA has been announced and everything will suddenly automatically click into gear."

"The key is for everyone to come together and try to find a middle ground on different issues."

Given the sheer scale of the GBA, Chen's view is that local governments should start by focusing on core issues such as customs and taxation.

However, he believes such discussions should not be confined within the government-level. What he would like to also see is greater collaboration between academics as well as the private sector.

One possible approach to bring all the participants together would be the creation of a GBA working group or a public policy think tank.

"Input from the private sector is important because most of the time it's the people on the ground that are able to pinpoint exactly what needs to improve," Chen says. "But there's only so much a single company can do, which is why a working group is beneficial because it would create a voice for the market."

Looking Ahead

The development of the GBA is a key priority for Hong Kong. To take full advantage of the opportunities this initiative presents, Hong Kong must focus on three key areas. First, the sectors with the biggest competitive advantages: international finance, shipping and logistics, offshore renminbi transactions and dispute resolution. Second, the unique features offered by the “one country, two systems”, notably Hong Kong’s adherence to the rule of law. Thirdly, the city’s strength in combining its proximity to the GBA’s manufacturing base with its connectivity to the rest of the world.

The key to developing the GBA will be finding ways of cooperation that unify and optimise the region’s city economies. With the cities of the GBA falling under different customs zones and legal and administrative systems, improvements in cross-border movements will depend very much on efforts to strengthen institutional cooperation and collaboration across the region. Success, however, will allow the region to move towards enhanced – preferably seamless – cross-border movements of capital, people, goods and services.

Over the past few decades, the GBA cities have each developed their own unique advantages, economic structures and needs. To help companies become more aware of these, the Hong Kong government should set up a GBA Office to formulate proposals, strategies and policy directions. The GBA Office will be responsible for defining Hong Kong’s potential participatory role in the area’s development and economic growth, coordinating with relevant governments in the region, and disseminating official GBA information to the public.

Hong Kong should develop an overall development

strategy with the goal of drawing up a comprehensive region-wide plan aimed at strengthening cooperation with Shenzhen and other cities across the GBA.

To strengthen capital flows within and beyond the GBA, Hong Kong should utilise its established financial infrastructure to facilitate RMB internationalisation, expand the various cross-border share and bond trading schemes to include a “Commodity-Connect”, and bolster its status as the region’s asset management centre.

The government should use the Lok Ma Chau Loop to test a range of pilot schemes, such as providing special work visas for GBA residents and ensuring that research funding sourced from Hong Kong and the mainland can be used by research institutes established there.

With the completion of the Zhuhai-Hong Kong-Macao Bridge and the Express Rail Link in sight, ways to improve the cooperation between the region’s airports for both passengers and cargo should be explored.

GBA cooperation can also help Hong Kong achieve breakthroughs in areas where the city has encountered bottlenecks in recent years. This includes waste management, housing, education and opportunities for young people, and elderly care.

As Asia’s most dynamic economic region, the GBA will be an important growth engine for mainland China in the coming years.

Success, however, will depend on mutual collaboration and cooperation.

About KPMG China

KPMG China operates in 16 cities across China, with around 10,000 partners and staff in Beijing, Beijing Zhongguancun, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG International is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 189,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.



About HKGCC

Established in 1861, the Hong Kong General Chamber of Commerce is the oldest and most represented and influential business organisation in Hong Kong. The Chamber is the Voice of Business with a strong corporate membership, covering more than half of the Hang Seng Index's flagship corporations, about one-fifth of Fortune Global 500 companies, hundreds of multinational corporations and numerous thriving SMEs. Together, Chamber members hire about one-third of the workforce (over one million) in Hong Kong.

For the past 156 years, the Chamber has grown together with Hong Kong and the business community. The Chamber's mission is to promote, represent and safeguard the interests of the business community in Hong Kong. At the same time, the Chamber also provides support, networks, training and business services to help the business community grow.

Through its advocacy work, the Chamber lobbies governments, legislators, policy makers, public bodies and other organisations to make it easier for the

business community to do business. The Chamber has representatives on over 40 Government and non-Government Advisory Boards, as well as the SAR's Executive Council and Legislative Council, plus several of its members serve on the CPPCC Standing Committee of the PRC.

The Chamber organises some 300 events every year, more than 100 policy meetings, and welcomes over 100 visiting delegations from Mainland China and around the world. It also provides a full range of services, from business document services, conference room rental, training programmes, event management, to advertising.

Despite being the oldest business organisation in Hong Kong, the Chamber remains the most dynamic and progressive with its sights fixed firmly on the horizon, constantly searching for new opportunities and ways to help its members.



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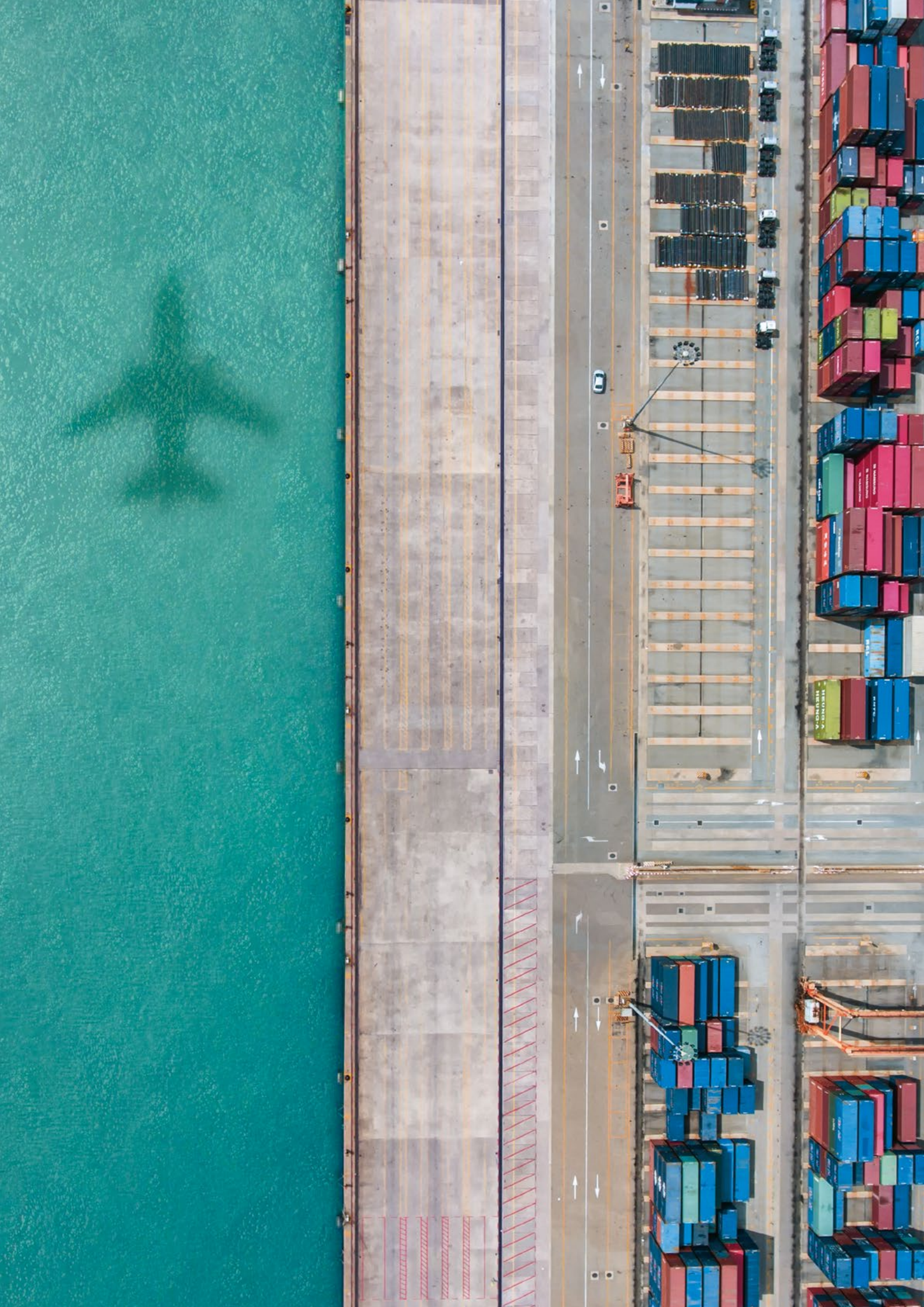
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