

China's Greater Bay Area: The Essential

Summary

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Executive summary

We launch our inaugural joint policy research on China's Greater Bay Area (GBA) with the assistance from Joy Rich Securities Investment's Guangdong-Hong Kong-Macau Greater Bay Area Academic Research Group. Here we highlight what comprises GBA, timeline, comparison against major economies and other bay areas, deep-dive research into key industries and policies toward each part of GBA. China is a Policy-induced story and GBA is in the Chinese government's interest to prosper. We believe the composition of 9 cities and 2 special administrative regions, together with policy support by the Chinese government provides a backdrop for rising credit growth backed by productivity. We will continue to monitor credits which either are based in GBA or will benefit from the GBA scheme (EXHIBIT 9).

Background

The total area of the Greater Bay Area of about 56,000 km² is only 0.45% of the area of China but its 2018 GDP exceeded RMB10trn or, 12% of the whole country. The population of the residents in the Greater Bay Area is about 70 mn people and is about 5% of China. We see GBA as one of the most prosperous economic zones in China.

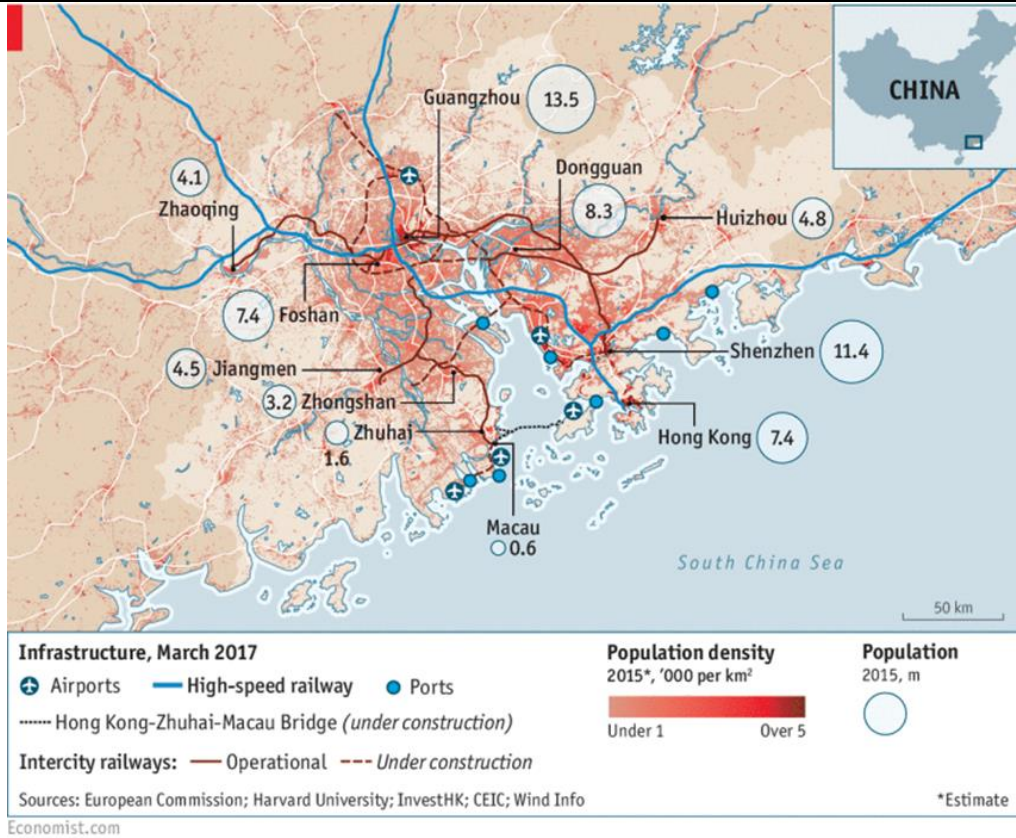
The official development plan for the Guangdong-Hong Kong-Macau Greater Bay Area, issued by the Central Committee of the Communist Party of China and the State Council on February 18, 2019, was published and the goal of building a world-class city cluster in the Guangdong, Hong Kong, Macau Greater Bay Area was officially put on the agenda. The development of the Greater Bay Area is not only a new attempt of implementing the principle of "one country, two system", but also deepening the cooperation among the Mainland, Hong Kong and Macau. It further enhances China's supporting and leading role in its opening up and development of economy and plays a significant role in integration of Hong Kong and Macau into the development of the country.

The Greater Bay Area is located in the southeastern coastal area of China (EXHIBIT 1 & 2) and consists of three major areas: (1) Nine mainland cities of Pearl River Delta (Guangzhou, Foshan, Zhaoqing, Shenzhen, Dongguan, Huizhou, Zhuhai, Zhongshan and Jiangmen) known for advanced manufacturing and foreign trade, (2) Hong Kong known for global finance, shipping and trade, and (3) Macau known for a gaming industry. As a result, GBA is explained by the Chinese government to have a structure of 9+2 (9 cities and 2 special administrative regions). EXHIBIT 3 shows GBA by size, GDP, and population.

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EXHIBIT 1: Detailed location of the Greater Bay Area



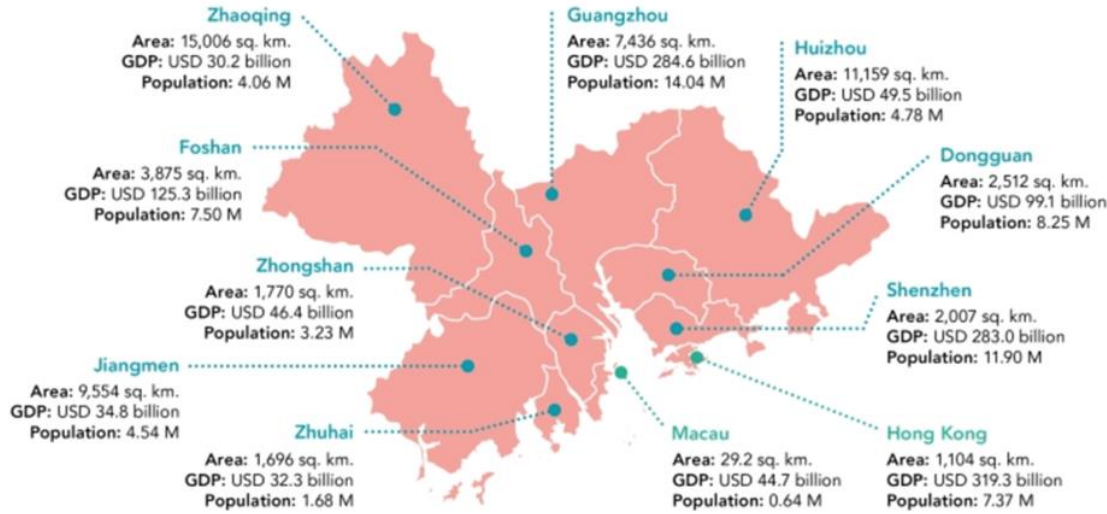
Source: The Economist

EXHIBIT 2: The 9+2 cities of the Greater Bay Area



Source: Lin Fujiang Guangdong Geography

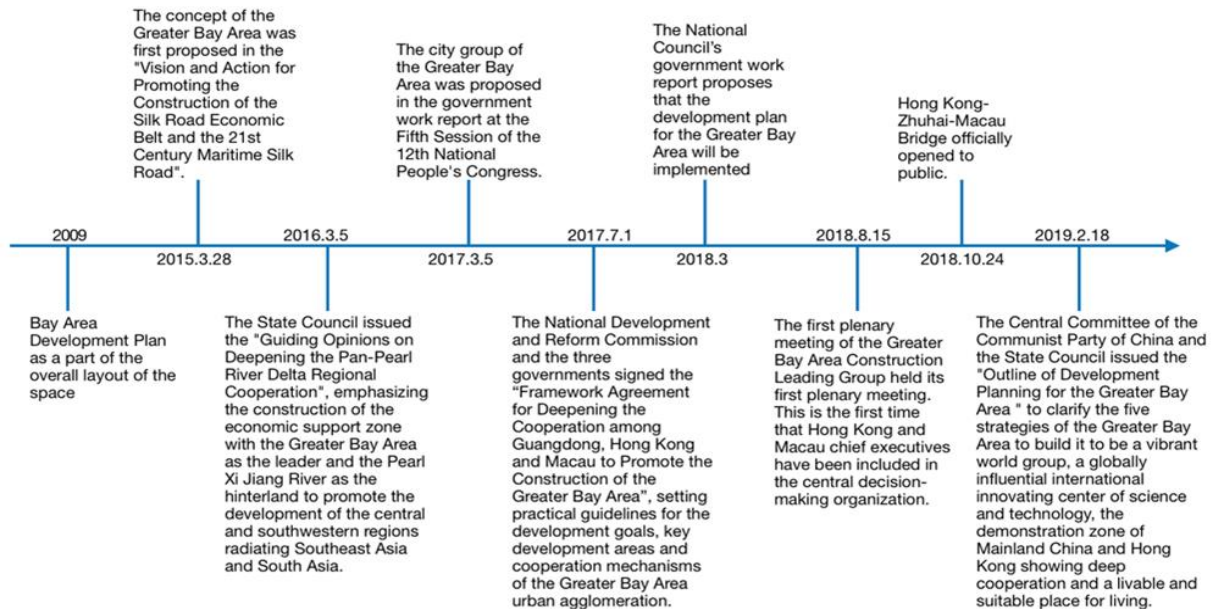
EXHIBIT 3: GBA size by area, GDP, and population



Source: South China Morning Post

We believe the Chinese academics aimed to model GBA after San Francisco 20 years ago and the region has gone through many academic discussions, creation of new local policies and the proposal of national strategy (EXHIBIT 4). The Bay Area Economy has received the support from the government strategy from 2009. The GBA economic development is not only fast but also with quality projects, in our view. The implementation of the development plan for the Guangdong-Hong Kong-Macau GBA in 2019 has officially become the national supporting and development target.

EXHIBIT 4: The Policy development history of the Greater Bay Area



Source: Industrial 4.0 Club

GBA by comparison

In 2017, the GDP of Greater Bay Area exceeded USD1.5trn, ranking 13th among the world's major economies, which is comparable to South Korea (EXHIBIT 5).

EXHIBIT 5: GBA versus major economies

| Ranking | Economy | GDP (USDtrn) |
|-----------|------------|--------------|
| 1 | US | 19.39 |
| 2 | China | 12.24 |
| 3 | Japan | 4.87 |
| 4 | Germany | 3.68 |
| 5 | UK | 2.62 |
| 6 | India | 2.6 |
| 7 | France | 2.58 |
| 8 | Brazil | 2.06 |
| 9 | Italy | 1.93 |
| 10 | Canada | 1.65 |
| 11 | Russia | 1.58 |
| 12 | Korea | 1.53 |
| 13 | GBA | 1.51 |
| 14 | Australia | 1.32 |

Source: The World Bank

We note that GDP of Shenzhen, Hong Kong and Guangzhou has exceeded RMB 2trn in 2017. We consider GBA as one of the four major bay areas in the world, alongside San Francisco, New York, and Tokyo). GBA's GDP is closer to Tokyo's and New York's (EXHIBIT 6), and was higher than that of San Francisco. GBA has an advantage in land area, resident population, port container throughput, number of international airports, and airport passenger throughput.

GBA's land is nearly twice the size of Tokyo bay area and more than three times as the size of the San Francisco bay area. The number of residents in GBA is more than 1.5 times of Tokyo's. However, the proportion of the tertiary industry located in GBA is much lower than those in other bay areas. The per capita GDP was only 1/2 of the Tokyo's, 1/3 of the New York's, and even less than 1/5 of the San Francisco's but that means the potential to grow is much higher than other bay areas, in our view.

EXHIBIT 6: GBA versus 3 other bay areas

| | GBA | Greater Tokyo Area | New York metropolitan area | San Francisco Bay Area |
|--|---|--|---|--------------------------|
| Land area (km ²) | 5.65 | 3.67 | 2.14 | 1.8 |
| Total GDP (USDtrn) | 1.38 | 1.86 | 1.45 | 0.82 |
| permanent residents (10,000 people) | 6,765 | 4,347 | 2,340 | 715 |
| Tertiary industry share (%) | 62% | 80% | 89.5% | 82% |
| Port container throughput (10,000 TEU) | 6,520 | 766 | 465 | 227 |
| Per capita GDP (Ten thousand U.S. dollars) | 2.04 | 4.28 | 6.20 | 11.47 |
| Airport passenger throughput (100 mn) | 2.01 | 1.24 | 1.03 | 0.76 |
| Number of international airports | 5 | 2 | 2 | 3 |
| Major Industries | IT, financial service, Manufacturing | Advanced manufacturing, wholesale and retail | Financial service, Real estate industry, Healthcare | IT, professional service |

Source: Forward-looking Industrial Research Institute, China Council for the Promotion of International Trade

GBA as a vision

GBA encompasses different industries in the area which lead to diversification and more recurring revenues from the region (EXHIBIT 7), in our judgement. EXHIBIT 8 summarizes what the Chinese government envisions what each city's role will be. We would see the focused industries receiving more support from the government.

EXHIBIT 7: GBA's key industries

| City | Industries |
|-----------|---|
| Hong Kong | Finance, trade, logistics, education, law, tourism, IT |
| Macau | Gaming, tourism, finance |
| Guangzhou | Automotive, petrochemical, electronics, electrical machinery and equipment manufacturing, wholesale and retail, finance, real estate, leasing and business services, transportation |
| Shenzhen | Finance, trade, logistics, internet, electronic information, biomedicine, new energy, New materials, creative culture, technology services |
| Foshan | Furniture, home appliances, lighting, ceramics, machinery and equipment |
| Dongguan | Electronic information, electrical machinery, furniture, textile and clothing, paper, toys, chemicals, food and beverage |
| Huizhou | Digital, petrochemical, clothing, footwear, cement, automotive and parts |
| Zhongshan | Medicine, electronics, electrical appliances, chemicals, hardware, lighting, clothing, furniture |
| Jiangmen | Automobiles, motorcycles, ships, microphones, hardware sanitary ware, textiles, electronic information, petrochemicals, printing, new materials, shoes |
| Zhuhai | Electronic information, home appliances, biomedicine, petrochemical, machinery manufacturing, electric energy |
| Zhaoqing | Auto parts, electronic information, agricultural products, metal processing, food and beverage, chemical industry |

Source: The Greater Bay Area Research Institute, Local Government Statistics Bureau, CITIC Construction Research and Development Department

EXHIBIT 8: GBA's objectives for each city/SAR

| City | Objectives |
|-----------|--|
| Hong Kong | <ul style="list-style-type: none"> • Consolidate and enhance the status of international finance, shipping, trade centers and international aviation hubs. • Strengthen the status of global offshore RMB business hub, international asset management center and risk management center. • Promote the development of high-end, high-value-added industries such as finance, commerce, logistics, and professional services. • Vigorously develop innovation and technology, and cultivate emerging industries. • Build an international legal and dispute resolution service center in the Asia Pacific region to create a more competitive international metropolis. |
| Macau | <ul style="list-style-type: none"> • Build global tourism and leisure center, a business cooperation service platform between China and Portuguese-speaking countries, and promote moderate and diversified economic development. • Build a base for exchanges and cooperation in which Chinese culture is the mainstream and multiculturalism coexists. • Implement the construction of Chinese medicine technology industry development platform. • Build a financial service platform for Chinese-Portuguese-speaking countries, establish an export credit insurance system, and build a RMB clearing center for Portuguese-speaking countries; • Study and explore the construction of a Macau-Zhuhai cross-border financial cooperation demonstration zone. |
| Guangzhou | <ul style="list-style-type: none"> • Enhance an impact of leading the national central cities and comprehensive gateway city. • Enhance international business centers and integrated transportation hubs. • Cultivate and upgrade science and technology education and cultural center. Focus on building an international metropolis. • Achieve modern financial service system and build a regional private equity trading market. • Build a regional trading center for property rights and commodities to enhance the level of internationalization. • Support Guangzhou to build a green financial reform and innovation pilot zone to study and set up an innovative futures trading with carbon emissions as the first variety. |

| | |
|-----------|--|
| Shenzhen | <ul style="list-style-type: none"> • Take the leading role of special economic zones, national economic centers and national innovative cities. • Accelerate the establishment of a modern international city and strive to become an innovative and creative city with world influence. • Promote the construction of the “Guangzhou-Shenzhen-Hong Kong-Macau” science and technology innovation corridor • Build a large data center and international innovation platform for Greater Bay Area, and support the establishment of “one area” based on the Shenzhen National Gene Bank. All the way to the Life Science Promotion Alliance. • Build a technology innovation investment and financing system to provide diversified, international and cross-regional services. Give full play to the capital market and financial services functions of Hong Kong, Macao, Shenzhen and Guangzhou to promote the transformation of scientific and technological achievements, and cooperate to build a diversified, international and cross-regional technology innovation investment and financing system. • Introduce the world's high-end creative design resources, and vigorously develop the fashion culture industry. |
| Foshan | <ul style="list-style-type: none"> • Build the advanced equipment manufacturing industry belt on the west bank of the Pearl River, to support the in-depth pilot reform of the comprehensive transformation and upgrading of manufacturing industries. • (together with Nanhai) Promote high-level service and cooperation among Guangdong, Hong Kong and Macau, and build a bridge of economic interconnection among Guangdong, Hong Kong and Macau for the integration of its market, talent people and technology. • Put Foshan and Guangzhou together to form the “Guang-fo Metropolitan Circle”. |
| Dongguan | <ul style="list-style-type: none"> • Build a world-class advanced manufacturing industry cluster with global influence and competitiveness on the east bank of the Pearl River with Dongguan as its core area. • Promote the transformation and upgrading of traditional industries. • (Together with Hong Kong) Develop and construct the Dongguan-Binhai Bay area. It gathers high-level manufacturing headquarters, develops modern service industry and build a strategic emerging industry R&D base. |
| Huizhou | <ul style="list-style-type: none"> • Explore the sea tourism route of the Hong Kong-Shenzhen-Huizhou-Shanwei. • Build a high-level production base of Huizhou Guangdong, Hong Kong and Macau to provide green agricultural products. |
| Zhongshan | <ul style="list-style-type: none"> • Actively support Zhongshan in unearthing and promoting cultural resources related to Sun Yat-sen. • Promote Macau and Zhongshan's deep cooperation in economy, society and culture, and expand the new space for Macau's economy to develop moderately. |
| Jiangmen | <ul style="list-style-type: none"> • Support Jiangmen in developing into an important cultural exchange and cooperation platform for overseas Chinese. • Cooperate with Hong Kong and Macau to build the Daguang Bay Economic Zone to expand cooperation in the fields of finance, tourism, cultural creativity, e-commerce, marine economy, vocational education, and healthy life. • Accelerate the development of the coastal area of Yinhu Bay in Jiangmen and gather international energy-saving and environmentally friendly industries and become a platform for investment and entrepreneurship innovation for Hong Kong and Macau residents and the world's overseas Chinese. |



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| Zhuhai | <ul style="list-style-type: none"> • Cooperate with Macau to build a world tourism and leisure center. • Enhance airport functions and promote the misplaced development and benign interaction of the Dawan District Airport. • Deepen the reform of low-altitude airspace management, accelerate the development of general aviation, steadily develop cross-border helicopter services to build a comprehensive demonstration zone for general aviation industry in Shenzhen and Zhuhai. • Build a high-level construction International Leisure Tourism Island of Zhuhai Hengqin, put more coordinated research on the convenience of travelers to Hengqin and Macau and allow Macau tourism practitioners to provide related services at Hengqin. |
| Zhaoqing | <ul style="list-style-type: none"> • Create a high-level distribution base for green agricultural and sideline products in Huaiji, Zhaoqing. • The regional preliminary work on railway will be carried out from Guangzhou to Maoming, Zhanjiang to Haian and Liuzhou to Zhaoqing to measure the feasibility of further extension of Guangzhou-Qingyuan Railway. |

Source: The Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area

EXHIBIT 9: Fortune 500 in GBA

| Company name | Location | Ranking | Market Capitalization (as of 4 th April 2019) | Issuer Credit Rating (S&P/Moody's) |
|------------------------------------|-----------|---------|--|---------------------------------------|
| Ping An Insurance Company of China | Shenzhen | 29 | HK: HKD680bn Shenzhen: 1,466bn | A-/A2 |
| Huawei | Shenzhen | 72 | Not listed | NR/NR |
| China Resources | Hong Kong | 86 | 7 subsidiaries: HKD626bn | A-/A3 |
| China Southern Power Grid | Guangzhou | 110 | Not listed | A+/A1 |
| Amer International Group | Shenzhen | 111 | Not listed | NR/NR |
| Guangzhou Automobile Group | Guangzhou | 202 | HKD29bn | NR/NR |
| China Merchants Bank | Shenzhen | 213 | RMB898bn | BBB+/A3 |
| Evergrande Group | Shenzhen | 230 | HKD337bn | B+/B1 |
| Lenovo Group | Hong Kong | 240 | HKD84bn | NR/NR |
| China Merchants Group | Hong Kong | 280 | 5 subsidiaries in HK: HKD262bn 5 subsidiaries in CN: RMB1,298 | BBB+/NR |
| Midea Group | Foshan | 323 | RMB354bn | A-/A3 |
| Tencent Technology | Shenzhen | 331 | HKD3.6trn | A+/A1 |
| CHINA VANKE | Shenzhen | 332 | RMB364bn | BBB+/Baa1 |
| Country Garden | Foshan | 353 | HKD264bn | BB+/Ba1 |
| Cedar Holdings | Guangzhou | 361 | Not listed | NR/NR |

Source: Fortune, Bloomberg, S&P, Moody's, Various stock exchanges

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