



Connecting opportunities in the Greater Bay Area

*Perspectives from Hong Kong's
international business community*

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Foreword

Commerce, trade and reinvention have always been at the heart of Hong Kong's success. Just as important is the city's trusted position in the international marketplace, and the important role it continues to play as China increasingly opens up to foreign investment and pursues further globalisation. This provides Hong Kong with a significant opportunity to maximise the benefits from the Greater Bay Area (GBA) Initiative, which aims to economically integrate Hong Kong, Macau and the nine cities in Guangdong's Pearl River Delta, and to create a globally competitive business region.

With a population of more than 69 million and a total GDP of USD 1.53 trillion (similar to that of Russia and slightly larger than Australia), the continued development of the GBA offers Hong Kong an opportunity to leverage and scale its strengths and competitive advantages.

For example, Hong Kong's role as an international finance centre and offshore RMB hub leaves it well-placed to be at the centre of investment, financing, deal and venture capital activity.

In addition, the city can be at the forefront of the development of the GBA as a technology and innovation hub by helping to create the funding ecosystem that is essential to fostering innovation and entrepreneurship, as well as greater business-to-business engagement and collaboration.

The key to Hong Kong's continued economic success will be the preservation and extension of its economic freedoms, the rule of law and an independent judiciary, its favourable tax environment and the overall ease of conducting business in the city. Such significant advantages can be preserved under the principle of "one country, two systems," while at the same time embracing the commercial potential of greater collaboration within the GBA – these goals are not mutually exclusive.

As one of the world's freest economies, business has always played a central part in Hong Kong's success. Australia's largest international chamber, the Australian Chamber of Commerce in Hong Kong – together with the new Australian Chamber in Macau and the Australian Chamber in Southern China – is pleased to partner with KPMG in Hong Kong to present ideas from our international business community which paint a bold and ambitious view of the future offered by the GBA Initiative. We firmly believe that Hong Kong's international business community has a significant opportunity to take the lead and help shape the development of the GBA.

We interviewed around 30 business leaders and entrepreneurs in late May and June and have sought to reflect the wide variety of recommendations across a range of industries in this paper. The purpose of the publication is to stimulate discussion and debate around how best to leverage Hong Kong's strengths and maximise business opportunities to deliver mutually beneficial growth across the GBA.

Some other key themes we seek to address in this paper include how rules and regulations might be reframed to allow for greater efficiency and collaboration in the GBA, the barriers for Hong Kong and international companies wishing to do business in the region, and the ways in which the GBA can serve as a springboard for China's ongoing internationalisation.

It is our hope that our ideas deliver a strong commercial contribution to discussions and plans on the way forward for the GBA, which has thus far been driven primarily by governmental and public authorities.

KPMG and AustCham would like to express their gratitude to all the executives who kindly participated in interviews for this report.



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Executive summary

The Greater Bay Area (GBA) is a collaborative initiative and a significant opportunity to shape the future of Hong Kong and the ten other cities within the Pearl River Delta. With a combined population of over 69 million and a GDP of USD 1.53 trillion as at the end of 2017, the region is well-positioned to play a leading role in advanced manufacturing, technology and innovation, transportation, trade and finance.

Furthermore, the ability to rapidly adapt and reinvent, as well as the sheer scale of the China market, are helping to foster innovation and propelling economic growth in the region. With the transformation of the GBA into an innovation and technology hub highlighted as a key objective, this presents a number of opportunities for businesses – including small and medium-sized enterprises – to invest in R&D, develop and test their ideas, nurture technology talent, forge strategic partnerships and drive growth. The development of the Lok Ma Chau Loop into the Hong Kong-Shenzhen Innovation and Technology Park (HSITP) on the border of the two cities is one example of this transformation, aimed at providing 87 hectares of dedicated space for start-ups, technology companies, higher education institutions and other innovation elements of an ecosystem.

The creation of a ‘quality living circle’ within the GBA – providing an ideal place for living, working and travelling – is also a key opportunity. This involves the development and enhancement of new and existing lifestyle facilities around sports and recreation, arts and culture, tourism and hospitality. Coupled with this is the ongoing expansion of the region’s transport and logistics network to enhance connectivity and the flow of goods, people and resources between cities. New transport infrastructure – including the Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Zhongshan-Zhuhai-Macau intercity railway – will dramatically reduce travel times between GBA cities, creating greater opportunities for closer cooperation and partnerships, while enhancing the liveability of the region.

However, incorporating three separate tax jurisdictions – mainland China, Hong Kong and Macau – can create challenges for both businesses and workers in the region. The provision of a mutual tax exemption for certain professionals – including academics and researchers – and for frontier workers could help address these challenges and facilitate the free movement of people in the GBA.

To realise the full potential of the GBA, the cities in the region must leverage their diverse range of competitive advantages to create significant business opportunities and drive economic growth. The GBA is able to draw on a strong manufacturing base in Dongguan, Guangzhou, Foshan and Huizhou, Shenzhen’s advanced manufacturing, IT, technology and innovation strengths, and Macau’s status as a global tourism and leisure centre.

This is supported by Hong Kong’s role as an international centre for finance, asset management, transportation, trade, arbitration and legal services. Indeed, much of Hong Kong’s success as a global financial centre stems from the fundamental bedrock of the common law system. In addition, Hong Kong’s professional and financial services community represents a deep and diverse talent pool with international experience. Hong Kong’s unique position as a gateway between the international market and mainland China remains a major advantage.

For Hong Kong, the business leaders we spoke to believe the key to maintaining the city’s economic success and its role as an international financial centre lie in continuing to leverage its competitive advantages, while at the same time embracing the mutually beneficial commercial potential of greater collaboration within the GBA.

This report reflects the opinions and findings from interviews with around 30 business leaders and entrepreneurs in Hong Kong on how to leverage the city’s strengths and maximise business opportunities to deliver mutually beneficial growth across the GBA.

In addition, this report adds a compelling voice from the international business community to discussions around the GBA which have primarily been led by governmental and public authorities. It aims to stimulate debate around core challenges, and proposes possible solutions supported by some of Hong Kong’s business leaders.



Many of the ideas presented in this paper on behalf of the international business community are ambitious and visionary. Some are preliminary, and are offered to encourage robust debate around this important initiative. Some ideas have been discussed within sectors previously, while others may be new.

This is an examination of the GBA from a commercial perspective alone and does not attempt to canvas the many additional complex issues which we acknowledge are an intrinsic part of this initiative.

As the GBA continues to develop, close cooperation between local governments and regulators will be key in helping to facilitate the seamless movement of goods, capital and people, as well as encouraging innovation and entrepreneurship in the region. However, it is also important that local governments and regulators within the GBA prioritise close relationships with the private sector to build confidence around this initiative. Fostering collaboration rather than competition can only be achieved by listening to all stakeholders, including the international business community.

Key recommendations

The views of the Hong Kong business leaders interviewed for this report reflect a wide variety of recommendations across a range of industries and services, including financial services, tax, technology and innovation, data management, construction and infrastructure and arbitration. Some ideas have also been generated within the AustCham Committee network. A number of key recommendations are highlighted below, and many more are proposed and explored in further detail in this report.



Technology and innovation

1. Just as Stanford is to Silicon Valley, Hong Kong's universities can be aligned with Shenzhen to enhance the GBA's innovation ecosystem.
2. Establish a "GBA Innovation Commercial Planning Office" in Hong Kong, within the existing framework of the Hong Kong Government, to assist businesses based in the city with innovation-related opportunities in the GBA, and to ensure a coordinated approach to the development and operation of technology and science parks within the region.



Data management and connectivity

1. Define a GBA data privacy standard, addressing storage, control and access.
2. Build on Hong Kong's existing position as a regional telecommunications and data hub, integrating and enabling data flow within the GBA.



Infrastructure and construction

1. Leverage complementary strengths, such as Hong Kong's supply chain management capabilities, and readily utilise increasingly connected transport links.
2. Revolutionise Hong Kong's ageing construction industry, addressing labour force constraints and adopting new digital technologies.



Financial services

1. Enable reciprocity of bank accounts and KYC/AML standards across the GBA.
2. Promote easier transfer of payments across the region, using electronic payment systems such as Alipay and WeChat Pay.



Arbitration services

1. Maintain Hong Kong's role as the arbitration centre for the GBA.
2. Mainland China and Hong Kong's legal associations should continue their active exchange of information and close collaboration.



Small and medium-sized enterprises

1. Seek closer alignment and establish clarity between mainland China and Hong Kong on standards regarding customs, trade and compliance within the GBA.
2. Replicate InvestHK for the GBA with a focus on providing SMEs with clarity around regulations, market entry and advice.



Tax

1. Provide a mutual tax exemption for researchers and academics, as a first step towards establishing closer tax regimes or incentives.
2. Hong Kong should undertake a detailed study on the implementation of the frontier workers mutual tax exemption clause.



Additional key recommendations

1. Promote cross-border commuter belts and the creation of a 'quality living circle' in the region.
2. Increase co-ordination on tourism policy, infrastructure planning and marketing through the establishment of a Greater Bay Tourism Promotion Office, drawing on Hong Kong's well-developed tourism marketing expertise.



Technology and innovation

A key focus of the GBA is the transformation of the region into an innovation and technology hub. This presents a number of opportunities for businesses, entrepreneurs and other key stakeholders to develop and test their concepts, nurture technology talent, forge strategic partnerships and drive creativity and growth.

Hong Kong's traditional competitive advantages as a trading port remain relevant, and combine with its strengths in creativity, design, venture capital, capital management and financial services. Together with mainland China's existing wealth of talent (including technology and software engineers), the GBA presents a significant opportunity for collaborative software development and innovation.

Given the city's vibrant capital market, legislative and IP protection frameworks, and its experienced international workforce, Hong Kong is ideally placed to support the GBA's ongoing transformation into an innovation powerhouse. The city also plays a key role in helping the GBA to develop as a venture capital investment and financing hub, creating the funding ecosystem that is essential to fostering innovation and entrepreneurship.

As the GBA continues to develop and the region's cities strengthen collaborative partnerships, Hong Kong could be a key driver. The city's leading technology companies and academic institutions are already connected with their mainland Chinese counterparts on cutting edge innovation projects. A May directive from the Central Government allowed for higher education and research institutions in Hong Kong to apply for funding under the Central Finance Science and Technology Plans program, paving the way for Hong Kong innovators to be funded directly from the mainland.

Given its unique advantages, Hong Kong should seize the opportunity to play a key role in defining the technological and innovation framework of the GBA. Furthermore, the creation of an innovation hub in the region will help to nurture next-generation 'new economy' innovative businesses, and strengthen the region's position as a centre to develop and test new ideas.

A global leader in the energy sector, CLP is actively driving innovation in the region. It is one of the first companies to establish a major joint venture in the GBA with the commissioning of the Guangdong Daya Bay Nuclear Power Station in 1994. Austin Bryan, Senior Director of Innovation at CLP, sees the GBA as an exciting opportunity for deeper commercial integration and effective linkage between mainland China and Hong Kong. "We see ourselves as digital infrastructure, not just power supply, and as deeply immersed in enabling smart commerce and enabling greater business-to-business collaboration," says Bryan.

Create a bigger and broader, longer-term vision

For Hong Kong to share in the growth of the GBA, some in the business community believe that it needs to be more outward-looking when it seeks to develop a deeper culture of innovation, and that the city should create a better, more vibrant ecosystem which will allow start-ups and entrepreneurs to thrive. To do this, the city needs to look for opportunities beyond its borders and its population. There are more than 69 million people in the GBA, Bryan notes, adding that scaling up solutions for a much larger population than just Hong Kong provides a far more compelling springboard for global innovation. "For example, if you want to solve electric vehicle charging globally, go across the border and become a de-facto standard in a region in mainland China."

Dr. Allan Zeman, Chairman of the Lan Kwai Fong Group, agrees: "With a population of 1.4 billion people in China, Hong Kong cannot become complacent. It has to solve problems on a large scale."



Paul Abfalter, Telstra's Head of North Asia & Global Wholesale, believes that the traditional competitive advantages Hong Kong possesses around trade remain relevant. It also has innovative strengths around creativity, design, venture capital, capital management and financial services. Together with mainland China's wealth of talent, the GBA presents an opportunity for collaborative software development and innovation.

CLP's Bryan sees Southern China as essential to any company's strategy. "I can't imagine that if I was trying to do business with China or out of China that the GBA wouldn't be at the top of my list. I look at the GBA and think, why would you not be there?" He compares its development with that of Silicon Valley over the past 35 years. "You want to have been part of that ecosystem early on to get yourself in on the ground floor," he says.

Bryan also argues that the GBA's inherent innovation and commercial strengths and its relative access to greenfield development (when compared to developed markets wrestling with outdated legacy infrastructure) are ripe for smart system design.

Increase technological capabilities or risk being marginalised

Collaborating on innovation within the GBA offers Hong Kong the opportunity to focus on the areas in which it has a competitive advantage, such as fintech, drawing upon the city's role as a major international financial centre. The business community notes that Hong Kong should be encouraging its entrepreneurs and vibrant ecosystem to look beyond the immediate problems to solve for Hong Kong. Instead, the city should leverage its world-class educational institutions and global financial services expertise, together with the leading AI, data science and technical expertise in Shenzhen, to create a powerful force on innovation globally.

In addition, the HSITP at Lok Ma Chau could play a central role in establishing the GBA as a global centre for innovation and technology. The HSITP will provide 87 hectares of facilities to start-ups, technology companies, universities and other elements of an innovation ecosystem. It has the potential to be a significant driver of future economic growth and commercial activity for local industries, while providing a platform for technology companies to participate in China's Belt and Road Initiative and to go global.

Zeman adds that Hong Kong risks becoming marginalised if it does not step up on innovation around core areas of focus. He cites the example of Hong Kong's Octopus card introduced in 1997. "Because Hong Kong is small and everything is relatively easy here, Hong Kong became complacent and twenty years later, the use of the Octopus card remains mostly unchanged," he says. This contrasts sharply with payment systems and e-commerce just north of Hong Kong, where most transactions are increasingly cashless. Now everything is connected in China; there is an app for everything, accessible on your smartphone. That greater convenience has a profound wider social impact. "Things work when people have an easier life, and technology has taken care of that," he concludes.

Replicate the Silicon Valley model

Another competitive advantage Hong Kong stands to enjoy through GBA collaboration is that the extraordinary innovation that is occurring in mainland China is right on Hong Kong's doorstep. This gives the city a significant advantage, not just in geographic accessibility but potentially in terms of deeper immersion in this ecosystem through the "collaboration not competition" prism of the GBA. Hong Kong stands to benefit significantly, with its position akin to the "Stanford to Silicon Valley" model.

The Silicon Valley ecosystem which gave rise to some of today's global tech giants is well-known, and offers a blueprint for Hong Kong within the GBA.

KPMG China's Managing Partner for Hong Kong, Ayesha Lau, says that research funding at the universities should be significantly increased, and adds that a closer industry-driven research model should be institutionalised. "Stanford University is at the heart of Silicon Valley. Hong Kong universities can become to Shenzhen what Stanford is to Silicon Valley," she says.

A culture which fosters entrepreneurship and innovation is vital to this scenario. Hong Kong's world-class universities and centres of research excellence should receive increased government funding to ensure that a vibrant and independent R&D culture thrives in Hong Kong and the GBA.

Lau suggests that universities in Hong Kong, Shenzhen and Guangzhou could focus on basic research, while enterprises – especially those in Shenzhen – could focus on applied research, development, pilot manufacturing and commercialisation. Companies such as CLP are one of the Hong Kong businesses pioneering such collaboration.

Ultimately, the GBA could see R&D flourish within Hong Kong's universities, applied and tested in Shenzhen and then taken to the global market through several cities in the GBA.



Provide tax incentives for academics and researchers

Many in the business community believe that tax incentives should be created to encourage greater collaboration between the universities. Hong Kong academics and researchers should be encouraged to engage in collaborative research with academic and research institutions in mainland China, particularly those within the GBA. At the same time, mainland Chinese researchers should be welcome to collaborate with their counterparts in Hong Kong. This would enable Hong Kong to draw on a much broader knowledge and research base, increasing not only the volume of R&D, but also its quality. Once again, the opportunities of scale present significant advantages.

Lau notes that this could be easily achieved by including a clause in the double taxation agreement (DTA) between mainland China and Hong Kong that would enable researchers and teachers to pay home taxes for a period of three years. There is precedence for this between mainland China and Macau and many other jurisdictions (see Tax chapter on Page 42).

Sustain coordination and collaboration between research and industry

Collaboration is central to fostering innovation in the GBA. The complementary roles of Cyberport, the Hong Kong Science and Technology Park and the proposed HSITP need to be clearly defined and understood within the broader context of the GBA. From a Hong Kong perspective, it is critical that they accelerate engagement within the broader ecosystem.

“There is an extensive network of experts that supports entrepreneurs at every step of the process,” says Bryan. He notes that international examples of this network and support exist, where innovation has been successfully systemised for commercial value creation, and with a purpose and intensity that could be seen at Cyberport or the Science and Technology Park.

Zeman agrees, adding that the Lok Ma Chau Loop could see companies from Shenzhen open up R&D centres in Hong Kong, taking advantage of the generally business-friendly environment in Hong Kong.

There is also expected to be closer collaboration between financial institutions and fintech firms, as banks continue to digitise and adopt advanced technologies to grow and improve their product and service offerings. There is also scope for collaboration between several cities in the GBA that are looking to develop different aspects of the fintech value chain.

Overall, Zeman argues that constructive tension is important in economic value creation for the GBA and China as a whole. He says that the GBA’s development should be complementary, creating what he calls “a constructive challenge champion” approach. “If you think about the high-speed rail and the connectivity that will surely follow in every form, Southern China, Shanghai and Beijing are going to be increasingly connected in every way. I don’t see competition, but rather the lifting of all,” says Zeman.

Establish a GBA Innovation Commercial Planning Office

Given the development of large-scale public sector innovation, technology and science parks, the international business community stresses the need for seamless co-ordination and collaboration between the various entities. This paper therefore proposes the establishment of a “GBA Innovation Commercial Planning Office” in Hong Kong to assist businesses based in the city with innovation-related opportunities in the GBA, and to ensure a coordinated approach to the development and operation of technology and science parks within the region. Working within the existing framework of the Hong Kong Government, this “Planning Office” should build on the core complementary centres of excellence that exist within the region as well as the bureau and other Mainland co-ordinating entities.

Importantly, for the GBA to cement its place as a world-leader in innovation and commerce, it must attract the best and brightest talent from around the world – the talent cannot be limited to the local talent pool only. International talent has contributed to Hong Kong’s unique competitive edge, and this global approach should be applied to the GBA.

In addition, this planning office could draw on the Hong Kong Trade Development Council model, aspiring to more cohesive decision making and unified operations and communications – a one-stop shop solution to benefit the innovation ecosystem. And further, global search could be enabled to attract the best talent with successful track records in creating start-up cultures and collaborative engagements between universities and technology and innovation hubs similar to those in Silicon Valley, Tel Aviv and Tokyo.



Recommendations

1. Hong Kong must commit to be a cornerstone of defining the innovation hub capability of the GBA, be clear of the intrinsic value of Hong Kong and encourage collaboration from cities across the region.
2. Hong Kong should leverage its global financial services expertise by strengthening collaboration with industry to commercialise and enable global growth. Priority areas should be on data-driven capabilities, notably AI and robotics.
3. Just as Stanford is to Silicon Valley, Hong Kong’s world-class educational institutions and universities can be positioned with Shenzhen to enhance the GBA’s innovation ecosystem.
4. Tax incentives should be created to encourage greater collaboration between Hong Kong and Mainland academics/researchers and institutions.
5. A GBA Innovation Commercial Planning Office should be established to facilitate a coordinated approach to the science parks and innovation clusters within the region. It should seek to source the best global talent to help further transform the region into a technology and innovation hub.



Data management and connectivity

In our increasingly digitally connected world, questions of data harvesting, personal privacy and data protection are becoming important topics of discussion. The implications for these issues in a more interconnected GBA are an important consideration in any future plans for the region.

Following recent global scandals involving the use of personal data, there is a growing awareness among governments and corporations about the need for stringent data privacy standards. In May, the EU passed the GDPR (General Data Protection Regulation); a new data protection law that affects how companies in the 28 member states collect, store and process information about residents of the EU, and expands the scope of what constitutes as personal data. Similarly, the implementation of the Cyber Security Law on 1 June 2017 has created a major change in the landscape of personal data protection in mainland China. It is envisaged that these changes will signal a rollout of similar regulation in other markets, and has implications for international companies operating within the GBA.

Adopt and implement standards to manage data protection

Hong Kong plays an important role as a global transaction and data hub, while also being at the forefront of regulation and industry best practice in data protection within the GBA. It also straddles both the GDPR and Cybersecurity Law requirements.

CLP's Austin Bryan says that system design and clearly defined industry standards are fundamental for data protection. Corporations are naturally drawn to the commercial opportunities of data use. However, to ensure this happens in a reasonably controlled way, a lot of that work has to be done now as the GBA continues to develop and become more connected.

"From a business perspective, there is always a risk around how you identify, share and leverage data," explains Bryan. "You must have a foundation and map how you protect and value data." This could be the basis upon which any integrated connectivity could occur across the border under the umbrella of the GBA.

The systems defining how data will be managed and protected need to build confidence and offer clarity around how information is used and how companies will protect an individual's interests. Bryan argues that a different starting point – beginning with data protection – ought to be the focus, rather than monetisation. "From a fiduciary obligation perspective, it's about making sure that we have done everything to the best extent possible to know about the data we are using, and to be able to clearly show how that data is being protected," he says.

While mainland China has a very different approach to data collection and its citizens are more open to sharing their data, millennials outside of China are also reasonably comfortable about sharing their data if they believe that companies intend to use it responsibly.



Build data architecture into the GBA DNA

Given the scrutiny and discussion around the issue of data, there is a need to treat system design almost as a manufacturing challenge, where agreed norms for the handling of data should be built into the DNA of the GBA's capabilities and services. Business and consumers will need to know what information is captured, where it resides, who has access and how that access is protected. The earlier in the design phase these questions can be addressed in the context of smart city infrastructure, the more likely success will be achieved.

Adopt best practices for smart city design

GBA planners should aim to design an ecosystem that brings together a world-class approach to data usage and data design in smart cities. However, business leaders need to be engaged early during the system design phase, and involved in discussing these issues now. Drawing on the experiences from the best smart city public-private partnerships around the world could help create "citizen-centric, public enrichment services" in the GBA. By pulling several state-based activities together, such as police, justice, health or education, an individual's data and social network could be used intelligently within the GBA with reduced congestion, and improved mobility, quality of living and services for individuals and communities.



Maintain Hong Kong's status as a telecommunications and data hub

Hong Kong has historically been a major hub for cable connectivity for Asia, and this is expected to continue. Telstra, Australia's largest telecommunications company, is one of two main carriers managing connectivity in the region and sees companies increasingly investing in North Asia using Hong Kong as their hub, then taking that connectivity further into mainland China. Plans are also underway for two new cable systems between North America and Hong Kong.

While Hong Kong's importance as a telecommunications hub is significant, maintaining physical data centre leadership can be problematic. Telstra's Paul Abfalter says that land premiums and the cost of power are the two primary constraints.

Hong Kong companies requiring greater data storage could look to mainland cities in the GBA such as Shenzhen and Guangzhou for the construction of new data centres. The demand for such centres is expected to grow exponentially, and the ability to identify and build appropriate sites nearby and under Hong Kong regulations is increasingly important for Hong Kong to remain differentiated in the GBA. However, this will require changes to data centre policy and telecommunications regulations in both Hong Kong and other GBA cities.

Abfalter suggests that a special arrangement could be made within the GBA. This could allow for data centre-to-data centre connectivity, where mainland China allows Hong Kong to build data centres throughout the GBA with a direct path to Hong Kong's data centre infrastructure, without data being filtered by mainland China's firewall. But the system would provide safeguards in the opposite direction with data moving out of mainland China potentially still contained within the firewall. Such initiatives could be piloted within the GBA and confined to Shenzhen with the first phase being in the Lok Ma Chau Loop.

The Lok Ma Chau Loop provides an ideal data centre location as it meets basic requirements such as access to water and reliable power sources. It is well-placed to meet the demand for additional capacity within the existing privacy protections provided by the Hong Kong legal and regulatory framework.

The flow of information - establish a GBA corporate VPN

“A free, fast and open internet has been fundamental to, and part of the history of how Hong Kong got to where it is now,” says Abfalter. This is particularly true for financial services which demands low latency performance. “Maintaining that freedom is necessary to cross-pollinate innovation, development and connectivity generally across Southern China, Hong Kong and Macau.”

For businesses operating within the GBA, the use of secure VPNs (Virtual Private Networks) will be essential, according to some senior business leaders interviewed for this report. This is important both for Chinese companies doing business abroad and for foreign companies doing business in China. One option suggested by the business community could be to establish a closed, officially-sanctioned GBA VPN with accredited commercial organisations to ensure efficient cross-border operations.



Recommendations

1. Define a GBA data privacy standard, addressing storage, control and access.
2. For GBA planners to create an ecosystem that leverages global data usage and data design best practice to smart cities, early engagement with technical experts should begin to ensure opportunities for system design are feasible.
3. The GBA to draw on the experience of leading smart cities around the world to create people-centred and public enrichment services, thereby enhancing the liveability and lifestyle appeal.
4. Position Hong Kong as a transaction and data hub to provide international businesses with the surety of data protection.
5. Consider a Shenzhen point-to-point data hub with Hong Kong that has Hong Kong data stored outside of mainland China’s firewall.
6. Establish a closed, officially-sanctioned GBA VPN with accredited commercial organisations to ensure efficient cross-border operations.





Infrastructure and construction

The rapid economic development in Southern China over the past two decades has been accompanied by a boom in construction which continues unabated. Ongoing large-scale transportation infrastructure projects will bring Hong Kong and the GBA closer together. The Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong-Zhuhai-Macau Bridge and Guangzhou-Zhongshan-Zhuhai-Macau intercity rail link will dramatically reduce travel times between major GBA cities, creating greater opportunities for commercial partnerships and trading between companies within the region.

These projects significantly enhance connectivity and lay the foundation for the faster more efficient movement of people and goods within the region. Ben Way, Head of Asia for Macquarie, a global diversified financial group, says significant infrastructure development projects – spanning transportation, real estate, IT and finance – will be key to integrating the cities in the GBA and boosting their economic growth.

Construction boom

The GBA stands on the verge of the next phase of rapid growth in construction. In addition to major infrastructure projects, large lifestyle, recreation and tourism projects in South China are also in the pipeline. There is a shortage of arts and cultural assets such as museums and galleries that is likely to be addressed, while ageing sports infrastructure is in need of rejuvenation. Simultaneously, the GBA vision calls for critical civic design and development. For designers, architects, builders, investors and operators, the GBA promises to develop as a significant tourism and entertainment destination, particularly if barriers are relaxed allowing easier movement between its increasing numbers of attractions.

Being different has its advantages

Hong Kong's competitive advantage goes beyond hardware and technology. For Lincoln Leong, Chief Executive of the MTR Corporation, the "one country two systems" principle remains one of Hong Kong's competitive advantages. "As long as we have that competitive advantage and that distinctiveness, Hong Kong will remain a desirable place to live, especially with increasingly easy access into the GBA," says Leong.

Improved transportation access and links with the high speed rail service and the Hong Kong-Zhuhai-Macau Bridge create opportunities to capitalise on that lifestyle and pave the way for commuter belts common in many other global cities. This concept of a 'quality living circle' with people commuting regularly across borders could be addressed through purpose-built Hong Kong-style developments. This could also make home ownership more affordable for Hong Kong residents.

MTR's Leong agrees that the Guangzhou to Hong Kong high-speed rail link will change the way people within the GBA work together. "I hope to see commuter belts opening up and the flow of people going both ways," he says. The rail link will see Hong Kong and Guangzhou South Station only 48 minutes apart, and 14 minutes between Hong Kong and Futian, Shenzhen. "Living somewhere along the alignment may make sense," he adds. A one-thousand square foot apartment near the Guangzhou South Station would cost an estimated HKD 2 million, with the development of schools, medical facilities, shopping centres and other lifestyle amenities making this much more liveable.

Indeed, the greater freedom of movement of people within the GBA will create new residential and commercial real estate dynamics. In particular, as talent from Hong Kong, Macau and overseas is granted greater access to Guangdong-based employment opportunities, it is expected that this will lead to higher investment in Guangdong residential accommodation, as well as increased commercial development in these cities.



Hong Kong as a global hub for supply chain management

The increased connectivity of the GBA and the resulting freer and faster movement of goods, capital and labour – coupled with aspirations to foster collaboration rather than competition in the region – will have a significant impact on infrastructure and supply chain management. The region provides the opportunity for one or more cities in the area to become a global trading and logistics hub. The ports in Guangzhou, Hong Kong and Shenzhen, as well as the airports and railroad links in the region form a powerful logistics network at the heart of a rapidly growing market. GBA leaders should look at how to make the most efficient use of this network.

KPMG China's Ayesha Lau says that the focus on innovation and technology should accelerate the move up in the manufacturing value chain of a number of GBA cities in Guangdong province. The GBA would remain an important high-tech manufacturing centre, importing more component products to feed into the system, selling products domestically and exporting globally. "This will increase the need for supply chain management, an area where Hong Kong has vast experience," says Lau.

An important function of supply chain management is quality assurance of products and exports. Hong Kong has a great deal of expertise and international credibility in product testing and can potentially serve the entire GBA in this area. Hong Kong's skills and capabilities around logistics can also be leveraged across the region.

Leveraging complementary strengths for the benefit of all

While Hong Kong continues to be essential as the gateway to mainland China, the GBA is expected to become increasingly competitive for businesses. "There is going to be lots of competition because the Guangdong Province that we know of today is very different from what it was just ten years ago. Playing off each other's strengths hopefully means 'one plus one equals three', and that is what it should be about," says Leong.

Leong also notes that uniformity of standards and regulations are not a prerequisite for success within one country, two systems, citing different transport systems worldwide, be it mainland China, Macau, Australia or Sweden. "We can still thrive despite the differences. The question we should be asking is: as a Hong Kong or international company, how can we leverage opportunities within the boundary of differences that exist in the GBA?"



Upgrading Hong Kong's construction industry as the GBA booms

Not only will the GBA create significant demand for construction, but it also has the potential to revolutionise Hong Kong's ageing and inefficient construction industry. A recent survey by global construction firm Arcadis¹ noted that Hong Kong now ranks as the most expensive city in Asia in terms of construction costs, and third globally behind New York and San Francisco. The report found that the high costs stem from the ageing workforce coupled with a labour shortage, expensive imported building materials and costly work practices.

These challenges can also be attributed to the lack of digital technology and innovation in the construction ecosystem, from the design stage through to the build stage, according to industry experts. Hong Kong also suffers from statutory inefficiencies, including a relatively slow system for granting approvals and permits. Combined, these challenges can lead to some new buildings sitting empty for up to six months before they can be occupied and utilised. In a city where land is a precious commodity, this must be addressed.

Not only is age a concern – with the average age of workers in the Hong Kong construction sector at around 50 – but the industry has a shortage of technical expertise in middle management. More technologically-driven innovation would enable the construction sector to win more recruits from the younger generation from Hong Kong and potentially the wider GBA region.

How could the GBA provide a solution?

Addressing labour shortages on construction sites has precedent in Macau with a large number of workers coming to the city on mainland Chinese work permits and living on-site. The permit issuing system has effectively supported and contributed to the pace of Macau's construction boom.

In addition to labour, one of the ways that these issues could be mitigated is via a modular construction strategy – and this is where the GBA could provide a solution.

Prefabrication² is standard practice in many construction supply chains globally, but this off-site manufacturing requires land, posing a challenge for land-scarce Hong Kong. The answer to this issue could lie just across the border. Land in Zhuhai will become more accessible to Hong Kong with the completion of the Hong Kong-Macau-Zhuhai Bridge, and could be used for manufacturing and warehousing prefabricated materials. These modular units could then be transported across the new bridge and used on almost all construction sites in Hong Kong. Experts say the benefits to Hong Kong would be felt immediately and would significantly result in faster construction, shorter lead-times and increased site safety. Even more efficient might be improved access to existing modular off-site manufacturing facilities within the GBA, which could produce prefabricated modular units for Hong Kong's building industry.

¹ <https://www.arcadis.com/en/asia/our-perspectives/international-construction-costs-2018-asia/#>

² Prefabrication is the practice of constructing buildings in sections off-site at factory units. The sections are then brought to the site to be assembled into the completed structure.

Off-site manufacturing facilities would provide access for new construction projects deeper into the GBA, allowing for improved productivity and an opportunity to bring best practice to the construction sector across the whole region. This would draw on mainland China's expertise in this area, which has seen the mainland's standardised precast design for metro tunnels become a commodity, enabling the most cost-effective construction of metro tunnels in the world.

Dangerous site activities are potentially eliminated in a controlled environment off-site – a significant advantage for an ageing workforce. Moreover, modular construction would reduce the number of resources required on Hong Kong construction sites which are often in confined areas and difficult to access. Relocating these resources to a safe and controlled area off-site – either within an existing manufacturing facility within the GBA or on a greenfield site – would not only improve site logistics but also increase public safety and reduce impacts on surrounding traffic flows and built up areas in Hong Kong.

Consistent with this paper's overall premise arguing for common standards across the GBA, applying Hong Kong's existing practice of seeking on average three or four bids for all GBA major projects would be appropriate. This avoids the downside of too many bids resulting in a dilution of resources by contractors who would otherwise apply less effort and budget into the project tenders, constraining innovation and efficient design.

The GBA offers a real opportunity for Hong Kong to immediately address the pressing need for its construction industry to reboot – significantly boosting the industry's contribution to the economy. At the same time, standardising best practice across the 11 GBA cities using the highest and most productive as the benchmark would bring significant benefits throughout the region.



Recommendations

1. Improved infrastructure makes existing prefabrication manufacturing facilities in the GBA more accessible to Hong Kong's construction sector, allowing for the greater use of modular construction. Such infrastructure could also make available untapped land supply to enable the construction of new prefabrication manufacturing facilities. Parcels of land in Zhuhai could allow this to occur, with modular units transported easily and efficiently across the new bridge.
2. Establishing a programme of accessing much-needed construction labour from the GBA would help address Hong Kong's ageing workforce issue.
3. Accelerate the adoption of new digital technologies in Hong Kong's construction industry. This would potentially make the sector more attractive to younger more tech-savvy workers from the Mainland and supply much-needed technical middle management expertise.



Financial services

With the economic growth of the GBA expected to double within the next decade, the region – as a single connected market – offers investors and businesses a hub for both financing and the export of high-value goods and services. It is also likely to generate more demand for banking, insurance and financing, including the leasing of equipment and machinery for manufacturers, and green finance.

One of the world's leading financial centres, Hong Kong serves as a conduit for financing investment and trade activities within the GBA, for both MNCs looking to expand further in the region, as well as for Chinese corporates looking to establish a foothold overseas. Hong Kong boasts a vibrant capital market and one of the most developed asset management and insurance markets in Asia Pacific, if not globally.

The city, as an established private wealth and asset management centre, is well-placed to be the GBA hub to provide these services to the growing number of middle class and high net worth consumers in the region. The depth of the financial markets in Hong Kong provides access to asset pools required for diversification to properly service this group of customers whose options are currently limited.

In addition, Hong Kong is developing into a venture capital hub, with Shenzhen already a centre for start-up businesses attracting inventors and entrepreneurs, creating one large venture capital ecosystem. The Hong Kong and Shenzhen stock exchanges together could fulfil the function of NASDAQ, and successful enterprises could access international investors through either the Shenzhen-Hong Kong Stock Connect or via a Main Board listing in Hong Kong.

Home to hundreds of banks, asset managers, hedge funds, private equity and venture capital firms, as well as an international financial services community with an experienced and diverse talent pool, Hong Kong has significant opportunities to leverage these advantages in the GBA.

GBA opportunities for financial services and new innovative products

Macquarie's Ben Way says the demand for large scale infrastructure development projects means that the GBA will create investment opportunities requiring public and private capital. "The GBA possesses a deep pool of capital. Having a framework to deepen the connection of capital markets, as well as to facilitate the flow of capital within and into the region, would be important to enable these projects and hence drive connectivity within the GBA and between China and the rest of the world," he says.

Betty Rui Wang, ANZ Senior Economist and Kunal Dey, Head of Global Subsidiaries Group, ANZ, say that as more multinational customers invest in the region, it is creating more opportunities for financing, structuring, guarantees, tailored cash management and trade finance. "The GBA will present new business opportunities for our clients in Southern China, where we are already very active," says Dey.

Sue Kench, Global Chief Executive of King & Wood Mallesons (KWM), a global law firm with offices in Hong Kong and 11 mainland China cities, adds: "We are seeing the need for capital into the GBA, but coming out of listings through the Hong Kong capital market. It is therefore important for Hong Kong to remain the leading capital market and financial services centre."

The continued growth of the GBA is expected to increase demand for financial services – including lending, trade finance, capital and equity markets and insurance – and is likely to further relax restrictions on capital flows between mainland China, Hong Kong and Macau. This could lead to the creation of innovative products and the opportunity for foreign financial services companies to grow their presence into the wider GBA.

The GBA can also draw on lessons learned from the establishment of the Shanghai Free-Trade Zone (FTZ). Clear regulations on how financial institutions can conduct their business would be needed. Respective regulators in both Southern China and Hong Kong will need to agree on a set of regulations and protocols to enable financial institutions to operate within the GBA. Some in the industry see this as a natural progression in the internationalisation of financial services in China, and believe that the environment is continuously improving, with rules and regulations becoming clearer each day.

A financial services 'GBA licence' and reciprocal AML/KYC standards

ANZ's Wang and Dey suggest that the integration of the financial services sector may act as a pilot for GBA integration to determine if there is scope for further reciprocity between the varying rules across a broad range of sectors, rather than just financial services.

One way this might work is to introduce a 'GBA licence' for financial institutions. This could provide certain advantages to foreign banks located in any of the GBA's 11 cities; for example the ability to deal with cross-border RMB banking services. "Looking to move away from traditional US-HK Dollar trade into RMB should be one of the goals," adds Dey. This concept could also be applied to enable financial institutions to expand their business across the GBA. Reciprocity of regulations might allow a financial institution with a securities licence in Hong Kong to be able to expand that business into the GBA.

One key way to drive business efficiency across the GBA is to address the challenging issue of managing bank accounts. The business community believes that adopting one common set of rules governing the opening and operating of bank accounts within the GBA would immediately be a core driver of integrated business throughout the region. Applying a consistent standard on Anti-Money Laundering (AML) and Know Your Customer (KYC) compliance requirements would mean that if a bank account is opened in one jurisdiction it would allow for a streamlined opening of bank accounts elsewhere within the GBA, a critical driver of business.

Extend the use of WeChat Pay and Alipay

In addition, businesses and consumers would also benefit significantly from the ability to use electronic payment systems such as Alipay and WeChat Pay across the entire GBA. These payment accounts currently require both mainland Chinese and Hong Kong bank account links and do not permit dual currency wallets. Allowing these platforms to operate in dual currencies (HKD/RMB) linked to a single bank account in either Hong Kong or elsewhere in the GBA (under such guidelines) would achieve instant efficiencies and increased productivity. It is generally agreed that a system needs to be developed to enable the ease of use of these technologies across the GBA. The technology already exists to allow this to happen.



Hong Kong to maintain its status as the global offshore RMB hub

As Chinese companies continue to expand their global footprint, Hong Kong remains a key offshore hub for facilitating the internationalisation of the RMB. The city already facilitates large capital flows with mainland China. The Stock Connect schemes, Bond Connect and Mutual Fund Recognition have laid the foundations and could lead to further loosening of regulations, resulting in more RMB-denominated equity products and investment portfolios. ANZ's Wang believes there is plenty of room for financial markets to be further developed. "If investors sitting in Hong Kong could get greater access to RMB-denominated products, while at the same time those in mainland China could be given access to USD or other currencies, the financial market could be further developed. Hong Kong could continue to play an important role in introducing reputable investment products," she says.

In addition to equity products, large-scale infrastructure will need to be developed and funded, requiring long-term financing. The majority of this funding will need to be in RMB, which will enable Hong Kong to continue to play a significant role in the development of the offshore RMB market.

In light of the current challenge in capital controls between the regions, business leaders forecast future relaxation and suggest that the GBA could act as a pilot in many areas of mainland China's initiatives.

Paul McSheaffrey, Hong Kong Head of Banking & Capital Markets at KPMG China, says: "As the GBA strives to achieve freedom of movement of funds, the region – with Central Government support – will likely be a pilot for the opening up of mainland China's financial market. This includes the relaxation of capital controls and further opening up of financial services to foreign investors, which will create new opportunities in the sector."

Dr. Tse Kwok Leung, Head of Policy & Economic Research for the Economics & Strategic Planning Department of Bank of China (Hong Kong), does not see capital controls changing anytime soon. However, he notes that quota controls on the movement of capital could be piloted for cross-border transactions to match the current level of openness of China's capital account.

Introduce 'Insurance Connect', similar to the Stock Connect scheme

Another area of financial services where Hong Kong can leverage its expertise and experience to the benefit of the GBA, is in insurance with a large pool of people and businesses underinsured. Guy Mills, Chief Executive Officer for global insurer Manulife (International), says: "Drawing on its strengths in financial services and asset management, Hong Kong could share its expertise with the mainland Chinese insurers so that they could collaborate to create more internationally aligned products, giving Chinese consumers a broader range of products to choose from."

Mills suggests that one area to consider greater integration could be to allow large mainland Chinese insurers to sell products backed by an asset management company in Hong Kong, initially on some sort of quota system. This would be a significant step-change, but would allow mainland Chinese insurers – and their customers – to benefit from the expertise in one of the world's key asset management centres, and in turn allow Hong Kong asset management companies a chance to integrate further into the region. Ultimately, this would result in a greater range of choices for consumers in this growing region.

As a member of the board of The Hong Kong Federation of Insurers (HKFI), the representative body responsible for the administration of close to 90,000 registered insurance agents, Mills explains the main interests of the HKFI in the future development of the GBA: "We are exploring ways to provide better service to mainland China residents who are Hong Kong policy holders in the GBA," he says. One proposal is to allow Hong Kong insurers to set up service centres in certain cities in Guangdong to facilitate payments for claims and premiums, as well as providing other general customer services. A second proposal, called 'Insurance Connect', would enable Hong Kong insurers to offer health and medical insurance to GBA residents, being particularly useful for those who would frequently travel within the region. There has been some recent progress in allowing Hong Kong residents access to healthcare in the GBA.

Asked if he could envision a "GBA insurance scheme" offering the same services in all the region's cities, Mills believes this would require a convergence of regulations and would take some time, but adds that regulators are engaging in constructive dialogue.



Reinventing insurance

China's young insurance market, which is less than 20 years old, has its advantages. While global insurance companies founded in developed markets often struggle with legacy technology and infrastructure, new companies can be more nimble and adopt a more client-centred approach through insurance technology, or 'insurtech'. "If you look at the amount of insurtech investment globally, I would estimate that more than half is being spent in mainland China," says Mills.

Mills notes that technology in Manulife's mainland China insurance operations works much more efficiently than in Hong Kong. "Getting payment systems like WeChat to work across borders would greatly improve customer service," says Mills, echoing a similar sentiment highlighted by many executives involved in developing cross-border businesses.

Overall, it is clear that over time, as greater standardisation across the GBA cities takes place, the quality and variety of products and services available to consumers within Southern China will greatly improve, creating a mutually beneficial outcome for authorities, customers and markets alike.

Hong Kong as a hub for the Belt and Road Initiative

The development of the GBA is also expected to transform the region into a key hub for facilitating the Belt and Road Initiative (BRI). By leveraging the competitive advantages of the cities in the GBA – for example, Shenzhen's high-tech manufacturing and innovation capabilities, Dongguan, Guangzhou, Foshan and Huizhou's manufacturing strengths, and Hong Kong's position as an international finance centre and RMB hub – the region is well-placed to be at the centre of investment, financing and deal activity. This combination continues to create a solid foundation for businesses within the region to pursue outbound opportunities.

KPMG China's Lau further spells out how Hong Kong can play a prominent role in the delivery of the BRI.³ "The Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund and the New Development Bank – funding sources for the BRI – could be operated and deployed out of Hong Kong, taking advantage of the value companies place in Hong Kong's international financial services. Hong Kong should be the springboard for outbound investment," says Lau.

BRI projects offer the potential for cooperation in the GBA with many enterprises in Guangdong province ready to invest in projects. Hong Kong, as a successful international finance centre with a strong network and expertise with global experience, can jointly invest or collaborate with mainland Chinese enterprises on these projects.

³ The GBA was first mentioned in connection with the BRI. In 2015 in China's Action Plan on the Belt and Road, the GBA was mentioned as a key hub for the BRI.



Recommendations

1. Hong Kong's international asset management and private wealth capabilities could serve the population within the GBA, helping to promote a culture of longer-term investment coupled with asset diversification, which would assist as populations in mainland China and Hong Kong age and their wealth increases.
2. Introduce a financial services GBA licence, supported by the respective regulators to enable financial institutions to operate broadly across the GBA.
3. Enable easier access to and opening of bank accounts within the GBA, and the ability to use electronic payment systems such as Alipay and WeChat Pay across borders. Extend the use of WeChat Pay and Alipay for Hong Kong residents.
4. Closer cooperation between the mainly Hong Kong-based traditional financial services business and the growing fintech businesses in Shenzhen, with the aim to innovate global financial services markets from the GBA.
5. Hong Kong to maintain its status as a global offshore RMB hub.
6. Create standardised and reciprocal AML/KYC standards across the GBA.
7. Hong Kong to share its asset management expertise with mainland insurers, who could sell products backed by an asset management company in Hong Kong.
8. Create more integrated insurance products for the GBA, and develop a platform to enable GBA residents to buy insurance freely throughout the region while ensuring capital controls are met with regards to the repayment of insurance policies.
9. Introduce Insurance Connect, similar to the Stock Connect scheme, which would enable Hong Kong insurers to offer health and medical insurance to GBA residents.
10. Hong Kong to become a hub for the BRI, with the AIIB, the Silk Road Fund and the New Development Bank to be based out of the city.



Hong Kong's role as the dispute resolution centre for the GBA

Hong Kong has long been viewed as a leading international dispute resolution centre. The city is uniquely placed to serve as the dispute resolution hub for the GBA as it is already actively engaged in handling mainland Chinese-related disputes, and the use of arbitration is common in mainland China. There are two key advantages of Hong Kong as the arbitration centre for the GBA: Hong Kong's developed arbitration infrastructure; and the enforceability of Hong Kong awards in mainland China and internationally. Central to this is Hong Kong's common law system and its adherence to internationally recognised practice and codes.

Currently, Hong Kong arbitrations can either be administered by the city's three arbitration institutions – the Hong Kong International Arbitration Centre (HKIAC), China International Economic and Trade Arbitration Commission Hong Kong Arbitration Centre (CIETAC) or the International Chamber of Commerce (ICC) (Hong Kong) – or by the parties themselves.

Furthermore, Hong Kong has a large number of international and local law firms with Chinese-speaking practitioners experienced in international arbitration and with excellent knowledge of China, including its commercial, regulatory and legal environments. It is logistically accessible and easy for witnesses and company executives who are based in mainland China to travel to Hong Kong. The city also has visa-free access to some 150 countries.

The Hong Kong Arbitration Ordinance is also a key strength. It is based on the United Nations Commission on International Trade Law's (UNCITRAL) Model Law on International Commercial Arbitration, and is constantly updated to reflect best and modern practices in arbitration. These include recognising awards by 'emergency' arbitrators appointed on very short notice, and permitting third-party funding of arbitration, of which the latter has been enacted into law, but has yet to take effect.

Enforceability of Hong Kong awards in mainland China and internationally

The primary advantage of arbitration over court litigation is its enforceability: it is easier to get cross-border enforceability of arbitral awards as compared to court judgments. The HKIAC claims to maintain a strong record of enforcement within mainland China.

Hong Kong has a special arrangement with mainland China that enables the mutual recognition of arbitration awards between them, similar to the New York Convention. Similar arrangements are signed between Hong Kong and Macau, and between mainland China and Macau.

According to Paul Starr, Joint Head of International Arbitration at KWM, there are limited circumstances under which a mainland China court can refuse the application for enforcement of a Hong Kong arbitral award. Holders of arbitral awards made in Hong Kong, whether institutional or ad hoc, can apply for enforcement in mainland China under the arrangement.

In Hong Kong, for a commercial arbitration dispute, a binding decision is made by an arbitration tribunal, with no appeal, and enforcement is mechanistic. A party seeking to enforce an arbitral award in Hong Kong must apply to the court for the court's permission to enforce. Once permission is granted, usually upon the court being satisfied with the authenticity of the award, the award can be enforced as a court judgement. Another key advantage is confidentiality of court proceedings relating to arbitration.

China is one of 159 signatories to the New York Convention, an instrument for the enforcement of international arbitral awards. Pursuant to the Convention, China (including Hong Kong) will recognise and enforce a commercial arbitration award made in any of the other contracting jurisdictions. Similarly, awards from Hong Kong are enforceable pursuant to the New York Convention in foreign contracting states. This means that a Hong Kong arbitration award can be enforced against assets in Hong Kong, mainland China, Macau and other New York Convention contracting countries.

The Hong Kong Bar Association (HKBA) notes that the business community needs to be better educated about the advantages of including an arbitration clause when transaction documents are prepared. Businesses can normally choose what law applies to the contract (the governing law of the contract need not follow the place of the arbitration) and their choice of forum.

Promoting Hong Kong as the GBA arbitration centre

The HKBA adds: “Hong Kong as the seat of arbitration is very open. The city permits ad-hoc arbitration, which means that you can have an arbitration without resorting to an arbitration institute. Also, in Hong Kong arbitrations you can use any arbitrator from anywhere in the world. There is no requirement that you need to have a Hong Kong lawyer.” In a particularly specialised dispute, for example a maritime dispute, a generalist arbitrator might not be able to arbitrate as efficiently as an expert in that field, and there are no restrictions on using experts. They would need a work permit but Hong Kong’s Immigration Department is relatively accommodating.

The HKBA points out another advantage to Hong Kong’s legal system. As a fall back, courts in Hong Kong can intervene if arbitration gets bogged down. This rarely happens, but it is reassuring for businesses to have that safety net. It should also be noted that because Hong Kong as a jurisdiction is very arbitration-friendly, the courts rarely step in, except in extreme cases such as fraud.

KWM’s Starr adds that historically, Singapore had an edge over Hong Kong by persuading overseas governments and entities to mandate Singapore within their infrastructure contracts as the arbitration forum. Now, with the increasing influence of mainland China and Hong Kong lenders involved in the GBA and a wider variety of BRI projects, there is a real utility in preferring Hong Kong. The additional protection regarding the enforcement of Hong Kong awards in mainland China via the special arrangement makes this even more compelling.

Intellectual property protection

IP protection and enforcement remains a key focus area for enterprises considering greater collaboration with the GBA. However, there is growing evidence that this is being addressed as China rapidly becomes one of the world’s most prolific filers of patents.

China continues to make significant strides in IP: Today ZTE and Huawei file more patents than most other companies, with ZTE filing 3,000-4,000 a year (4,123 in 2016⁴). In addition, along with Lenovo, the companies are three of the world’s top 10 patent filers. CLP’s Austin Bryan says that China is making concerted efforts around the protection of IP: “If Chinese companies become more circumspect about IP and we all become more commercially mature, all of our technologies and innovations are protected and properly valued where they were originated. That is a good thing for all of us.” IP protections will continue to be a central issue for international businesses seeking to do business within the GBA, and these developments should be encouraged.

⁴ http://www.wipo.int/edocs/pubdocs/en/wipo_pub_901_2017-exe_summary1.pdf

Johnson Kong and Michael Lin of The International IP Commercialization Council (IIPCC) agree. “All countries have gone through this economic evolution, and there comes a time where a tipping point occurs, where a country becomes a net IP generator versus an IP importer. It is then that it makes sense for stronger protection of one’s own IP,” says Lin.

In the course of three to four years, China has added 15 Specialised IP Tribunals to the original three IP Specialist Courts in Beijing, Shanghai and Guangzhou, suggesting that it is serious about its ongoing commitment to improving IP protection. Lin also notes that in disputes between Chinese and foreign firms, the foreign firms disproportionately win and receive larger awards of damages than their Chinese counterparts.

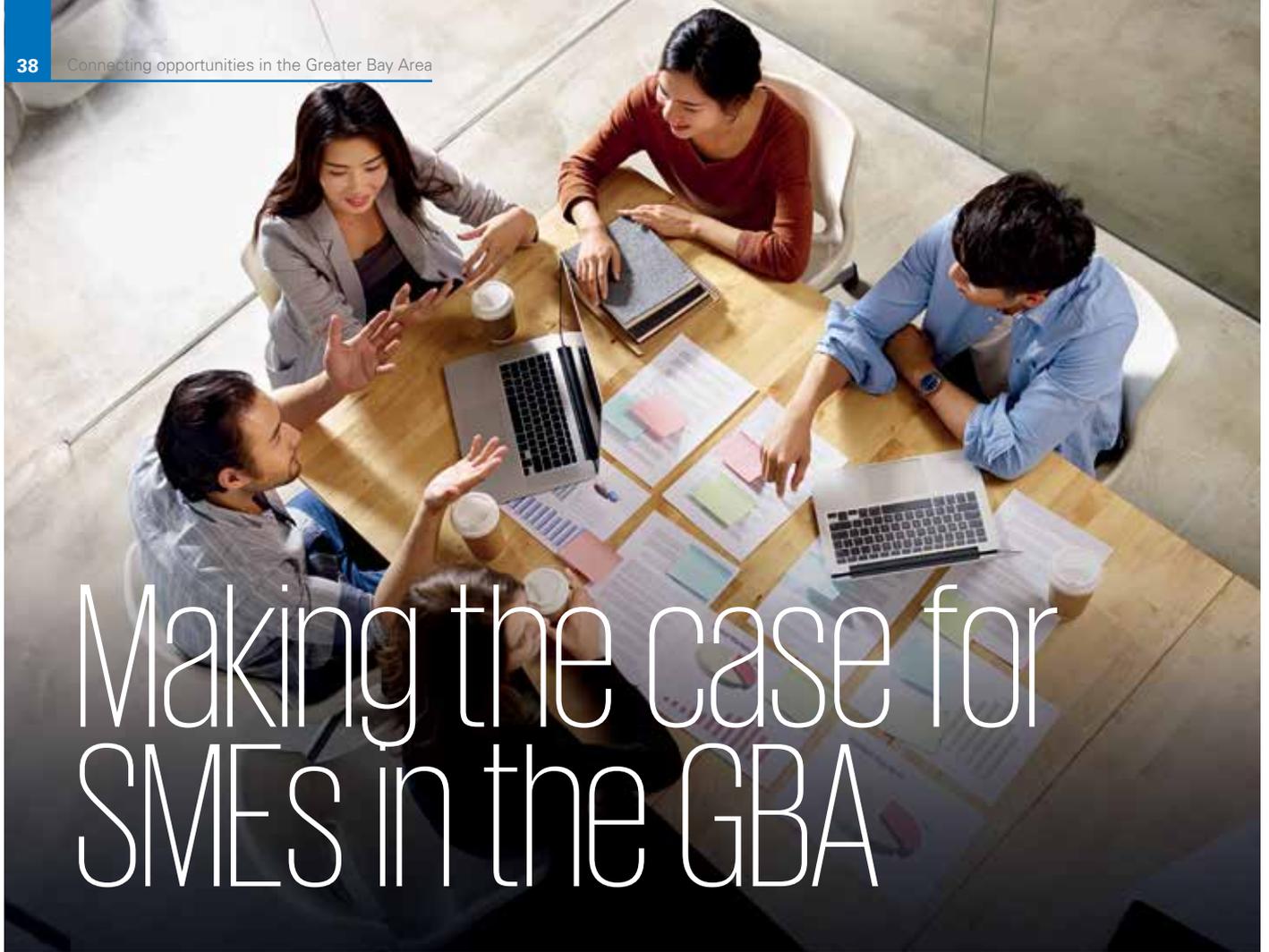
Standardising certain legal practices within the GBA

Other recommendations from industry leaders we spoke with concern standardising practices. For example, it has been suggested that Hong Kong could work with mainland China to help develop a more international approach to discovery in litigation in civil and commercial cases. Currently, there is no established procedure for disclosure or discovery. The Chinese government has expressed an interest in addressing this issue. Mainland China could therefore seek to introduce standardised rules for evidence in the GBA, based on Hong Kong’s strict evidentiary rules. The GBA could also be used as a means to establish a special set of enforcement rules that goes beyond what already exists to give companies more confidence.



Recommendations

1. Hong Kong should continue to proactively promote itself as the GBA arbitration centre.
2. Mainland China and Hong Kong’s legal associations should continue their active exchange of information and close collaboration.
3. In order to stay at the forefront of innovation and services as an arbitration centre, Hong Kong should proactively keep up with the latest global challenges and trends and should seek out best practices from other arbitration centres around the world.
4. Hong Kong must continue to attract top talent and expertise from around the globe.
5. Hong Kong could help mainland China to introduce standardised rules for evidence in the GBA, based on Hong Kong’s strict evidentiary rules.
6. The business community needs to be better educated about IP protection and about including a Hong Kong arbitration clause when transaction documents are prepared. Businesses can and should choose what law applies to the contract (the governing law of the contract need not follow the place of the arbitration) and their choice of forum.



Making the case for SMEs in the GBA

Small and medium-sized enterprises (SMEs) play an important role in any economy, often seen as the drivers of future growth. Dynamic and adaptable, and able to seize quickly on emerging opportunities, they can often enjoy advantages over larger competitors. They are especially suited to a business environment that is experiencing the impact of rapid technological change.

Hong Kong is home to 330,000 SMEs, employing around 45 percent of workers in the private sector. Around a third of these companies are involved in import/export and wholesaling, giving them a natural outward focus, and are clearly a segment for whom the prospect of greater access to the GBA is a tantalising one. However, being small can also be a disadvantage when faced with the challenge of dealing with regulations across different regimes and restrictive frontiers. The ease of doing business in Hong Kong, enabled through the help from government agencies specifically targeting overseas SMEs, makes the city an attractive business destination and a gateway into mainland China. Allowing SMEs to benefit from greater GBA integration poses its own set of challenges, but if these can be solved, it will open up significant benefits.

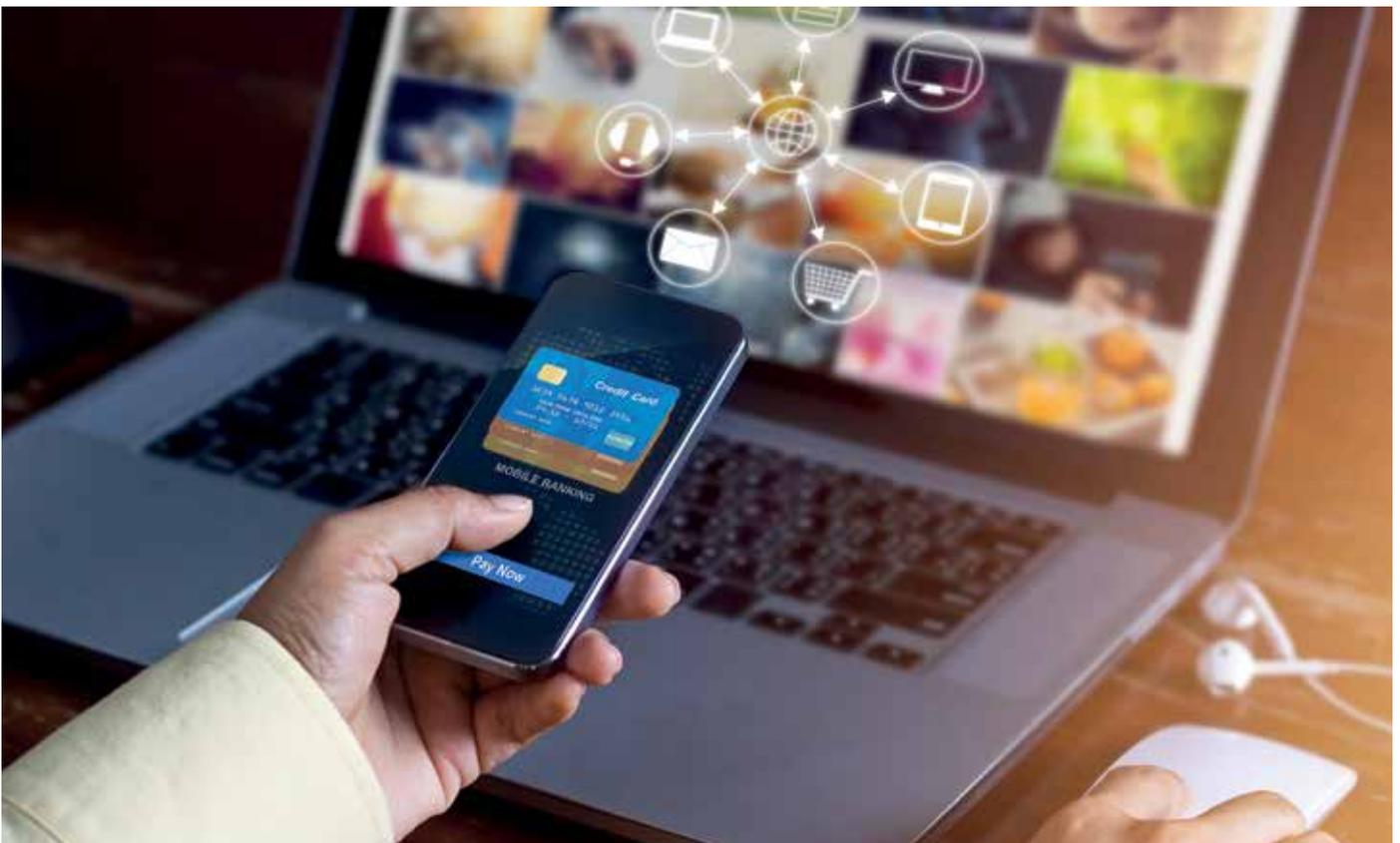
In order for the GBA to see international SMEs thrive within its ecosystem, the business community believes basic platforms such as banking and e-commerce need to move closer to standardisation. For small to medium-sized business operators, the requirement to “jump through hoops” to open bank accounts in both mainland China and Hong Kong could be a determinant of commercial viability. Similarly, the inability of consumers or SMEs to use dual currency e-commerce platforms such as WeChat Pay or Alipay is holding these smaller businesses back from meeting both consumer demand and growing their businesses.

While the technology exists to enable this to occur, structural regulations and capital controls are currently quite restrictive. SMEs believe the GBA could provide an opportunity to address this by piloting e-commerce dual currency trading. Todd Atkinson of Australink, an SME enabling Australian companies access China through distribution and marketing services, believes the GBA could potentially open up distribution from e-commerce platforms in Hong Kong and Macau, extending their markets.

One dynamic market in China in recent years has been the wine industry. Wine merchants using Hong Kong as a springboard to mainland China also speak of the expertise and world-class wine storage facilities which can be found in the city, making it the premier regional wine hub. The Hong Kong administration has, together with industry and the Hong Kong Quality Assurance Agency, launched the Wine Storage Management Systems Certification Scheme, the first of its kind in the world. As of November 2016, the Scheme had more than 65 fine and commercial wine storage facilities, and/or wine transportation service providers accredited. This best practice standard could be easily replicated in the GBA. Combining such standards and industry expertise with greater ease of cross-border banking and e-commerce would allow consumers across the GBA to tap into that local knowledge and for wine exporters to better meet demand.

Wine, a major product imported from Australia to China by a number of SMEs, has received a major fillip from the China-Australia Free Trade Agreement (ChAFTA), which has resulted in extraordinary growth. Australian wine exports to mainland China grew to \$520 million by a 40 percent growth rate in ChAFTA's year of introduction (2015), and 38 percent in the following year, whereby this figure a decade ago was only \$27 million.⁵ Tariffs of 14 and 20 percent on wine, and tariffs of up to 65 percent on alcoholic beverages and spirits will be eliminated by 1 January 2019. Arriving at closer standards and rules for importing wine into mainland China and Hong Kong would give this sector an even bigger boost.

⁵ <https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/China/Industries/wine>;
<https://www.wineaustralia.com/whats-happening/marketing-programs/china-market-programs>



Giving SMEs the tools they need

SMEs believe replicating the role of InvestHK throughout the GBA would bring significant benefits to smaller organisations that do not have the resources or networks to navigate the complexity of different rules and regulations. A similar source of assistance and regulatory support for the GBA would aid SMEs in assessing issues such as dispute resolution, customs, compliance and regulatory requirements. Establishing a company in Southern China can take up to a year compared to Hong Kong, which is widely recognised as one of the world's most efficient places to do business. Combining the best of both systems could significantly benefit SMEs and promote entrepreneurship within the GBA.

A move towards greater standardisation on a range of issues relating to trade, registration of companies, customs and transparency would open up business opportunities for SMEs across the region. Reciprocity of company registration within the GBA would be a major leap forward.



Recommendations

1. Seek closer alignment between mainland China and Hong Kong on standards regarding customs, trade and compliance within the GBA.
2. Replicate InvestHK for the GBA with a focus on providing SMEs with clarity around regulations, market entry and advice.
3. Pilot programme – the GBA as a free trade wine hub: Under ChAFTA, establish a pilot programme for the movement of wine into the GBA using Hong Kong's rules and regulations as a benchmark. GBA residents and consumers would gain access to a much wider variety of product, and competition and quality would increase dramatically.





Tax

A key aim of the GBA is to integrate the economies of Hong Kong, Macau and the nine cities in Guangdong's Pearl River Delta so as to create a globally competitive economic powerhouse. With a combined GDP of USD 1.53 trillion at the end of 2017, the GBA's economic influence will match some of the world's largest economies, and will be similar in size to the world's other leading bay areas such as San Francisco, New York and Tokyo. However, unlike these other global bay areas, the GBA region comprises of three separate tax jurisdictions – mainland China, Hong Kong and Macau – which gives rise to some unique challenges.

Three separate tax regimes in the GBA

Hong Kong and Macau are Special Administrative Regions of the People's Republic of China with their own tax, regulatory and legal systems under the "one country, two systems" principle. The Hong Kong tax regime is enshrined in the Basic Law under which Hong Kong shall continue to operate its own tax jurisdiction for a period of 50 years post-handover. Further, Hong Kong operates a sourced-based system of taxation whereby only Hong Kong sourced profits are generally taxable. Capital gains are also not taxed in Hong Kong, and there is no value added tax or other indirect taxes on goods and services.

In contrast, the tax regime in mainland China is more complex than that of Hong Kong (and Macau), with higher corporate and individual tax rates, a comprehensive value added tax regime applying to a broad range of goods and services and customs duties on the importation of goods.

The differences between the tax regimes of mainland China, Hong Kong and Macau can therefore be a challenge for businesses operating throughout the GBA as complying with the different tax rules and regulations can significantly increase a business's operating costs. It can, at times, also give rise to situations of double taxation.

Harmonising tax rules and tax regulations

One of the desired goals of many businesses operating throughout the GBA is, where feasible, the harmonisation of tax rules and regulations so as to reduce the extent of the differences between the respective taxing jurisdictions. Several of the business leaders we interviewed for this report highlight the idea of adopting a more uniformed approach to taxing businesses operating within the GBA. Allan Zeman commented that creating a Free Trade Zone (FTZ) concept within Guangdong Province would dramatically reduce the compliance burden on businesses operating throughout the GBA and would facilitate the free flow of capital, goods and people within the borders of GBA.

This idea was shared by many of the business leaders we interviewed, although they acknowledged the significant practical challenges that this would entail. When discussing the issue of further harmonisation of tax rules and regulations, there was an implicit understanding that this would need to involve the tax rules in Guangdong somehow achieving greater alignment with those of Hong Kong (and Macau) in order to foster the integration hoped for under the GBA. However, AustCham also acknowledges that this idea would be very difficult to implement in practice.

While creating an FTZ within Guangdong province may be technically feasible, in practice it would be difficult to align some of the tax rules in Guangdong province with those of Hong Kong as this would make them vastly different to the rest of mainland China. Although there is precedence in establishing similar zones in China – such as those in Shanghai, Guangdong, Shenzhen, Zhuhai and Qianhai – these have all been of a much smaller scale compared to that of the GBA. Nonetheless, the response by some of those surveyed is that if some of these practical challenges could be overcome, it would provide a significant opportunity for the seamless integration and linkage between the GBA cities.

Customs duties

Ideally, the respondents called for the creation of a single regional market to facilitate a freer flow of goods, services, investment, capital and skilled labour within the GBA.

Enhanced cross-border movement of capital, people, goods and services within the GBA are essential for the region's success. As the GBA cities fall under different customs zones as well as legal and administrative systems, improvements in cross-border movement are highly dependent on the cooperation of the three governments. In particular, both Hong Kong and Macau apply customs duties only on a very limited range of goods – and are essentially tax free ports – international trading of goods via these free ports may be beneficial as it removes the barriers to trade. However, mainland China has a general VAT system and a broad-based customs system.

A GBA FTZ could operate to remove the barriers to trade caused by customs declarations and filing procedures. An FTZ that removes trade barriers created by customs duties could facilitate efficient trade and movement of goods and services across the GBA. Customs declarations (and potential payment of VAT and customs duties) would need to be imposed only when goods are moved from the FTZ to other areas in mainland China or vice versa.

Furthermore, the GBA region encompasses the Guangdong pilot FTZ which has been in place prior to the GBA Initiative. There is therefore an opportunity for businesses operating in the GBA to further utilise the Guangdong pilot FTZ as cross-border trade transactions increase in the region.

Free movement of people

The free movement of people is also a key factor for the success of the GBA. Greater mobility within the region would help businesses address skill shortages by attracting talent, and facilitate cross-border collaboration. Recent announcements have gone some way to addressing this.

Hong Kong's fundamental role and purpose is centered on its strength and offering as a financial and professional services hub. However, one of the fundamental issues for individuals from Hong Kong (and Macau) working in mainland China is the higher personal income tax burden. The higher personal tax cost currently acts as a disincentive for Hong Kong and Macau residents to work within the rest of the GBA. Solutions are therefore needed to narrow the gap or remove this obstacle.

The key challenge is to enable people to travel and work freely within the GBA without facing an increased tax burden or compliance costs from working across borders in the region. To encourage the free movement of people in the GBA, business leaders interviewed for this report also propose a mutual tax exemption for academics and researchers, and a tax exemption for frontier workers. If this could be achieved, this would provide unprecedented career opportunities, attracting skilled labour not only from Hong Kong but also globally.



Mutual tax exemption for academics and researchers

One proposal is for a mutual tax exemption for certain professionals, beginning with those in the research and development (R&D) industry. KPMG China's Ayesha Lau says one effective way to augment R&D in Hong Kong is through cross-border collaboration, with removing the personal tax barrier acting as a key driver. Hong Kong academics and researchers should be encouraged to engage in collaborative work with academic and research institutions in the mainland, including those in the GBA. At the same time, mainland researchers should be welcome to travel and collaborate with their counterparts in Hong Kong. "This would enable Hong Kong to build on a much broader knowledge and research base and form a sustainable network, increasing not only the volume of R&D but also its quality," says Lau.

However, a current obstacle to Hong Kong academics and researchers working in the mainland is the higher income tax burden which they have to bear compared to their lower income tax cost in Hong Kong. A common international practice is to include in a double tax agreement (DTA) a specific article exempting from personal income tax academics and researchers who are present in the other jurisdiction for the primary purpose of teaching or conducting research up to a specified period (usually three years). In the 106 DTAs which China has signed with treaty partners, 86 contain this exemption clause, including that signed with Macau. However, this clause is not included in the DTA between mainland China and Hong Kong.

"We recommend that the HKSAR Government initiate a request with the mainland authorities for the addition of this clause. Since this clause is already included in the vast majority of the mainland DTAs, it is clearly a commonly accepted practice, and we expect that Hong Kong would receive a positive response," says Lau.

This proposal applies to academic and research activities conducted anywhere in the mainland, and would not be restricted to the GBA. However, it would be limited to the type of taxpayers, namely academics and researchers.



Frontier workers tax exemption

Another proposal to facilitate the free movement of people is to provide a mutual tax exemption to frontier workers. While the proposal for the mutual tax exemption of academics and researchers should be a “quick win”, eliminating the tax obstacle for all professionals and workers to move freely within the GBA would require a solution to be designed, and reference could be made to the frontier workers tax clause commonly adopted in the EU. However, since this is a new concept to China, with possible implications for its other frontiers with foreign countries, more time may be required for the negotiation and design of a system tailored for the GBA.

The term ‘frontier worker’ is loosely defined as anyone who works in the frontier territory of a state, and resides in the frontier territory of another state to which he or she returns on a daily or a specified regular basis. A frontier workers tax clause is included in many of the DTAs of EU states generally to provide an exemption from personal tax for non-residents who work within the designated frontier zone of the state in which they work (individuals remain liable for income tax in their own resident state). Alternatively, the DTA may grant the taxing right to the state of employment and exempt the same employment income from taxation in the resident state. Either way, this would help avoid double taxation. “However, since the income tax rate in Hong Kong is lower, it is probably more advantageous for the city’s residents to pay Hong Kong income tax – the tax of the state of residence,” says Lau.



Recommendations

1. Development of a GBA FTZ to encourage efficient trade and movement of talent, goods and services across the region

As the GBA comprises three separate tax regimes, a harmonised tax regime could reduce the different tax compliance obligations and operating costs for businesses operating in the region. However, in the absence of being able to do so, the creation of a GBA FTZ may eliminate this obstacle by removing the barriers to trade. A GBA FTZ would likely encourage rapid economic growth and attract foreign investment into the region.

2. Mutual tax exemption for researchers and academics

Introduce a specific article to the existing DTA between mainland China and Hong Kong – which draws upon experience from many other China DTAs – to exempt academics and researchers from personal income tax who are present in the other jurisdiction for the primary purpose of teaching or conducting research up to a specified period.

3. Hong Kong should undertake a detailed study on the implementation of the frontier workers mutual tax exemption clause

A pilot frontier zone could be initially implemented between Shenzhen and Hong Kong as a trial frontier zone to cover the geographic area of these two cities. This may involve having frontier workers from Hong Kong moving freely to and from Shenzhen and vice versa, without incurring additional personal tax costs. The pilot frontier zone would serve as an opportunity to identify and resolve any issues, and subsequently expand the zone to include other cities in the GBA.

A hand pointing at a glowing star among a row of stars. The background is a blurred blue and white scene with a row of white stars. One star on the right is illuminated, and a hand is pointing at it.

Additional recommendations

A 'quality living circle'

One of the key opportunities of the GBA Initiative is to build a 'quality living circle' – to provide an ideal place for living, working and travelling. Creating a quality living circle requires the further transformation of the region into innovative digital, well-connected smart cities. It will also require the development of new lifestyle facilities such as sports venues, recreational and community centres, arts and cultural spaces, exhibition and convention centres, theme parks, tourism attractions, shopping malls and hotels.

Focusing on this key objective of creating a quality living circle, the Business and Professionals Federation of Hong Kong has proposed the building of Hong Kong-style private residential areas in the GBA, providing affordable housing, schools, amenities, and elderly and medical care. Such Hong Kong-style cities could be appealing to Hong Kong residents who work within the GBA, wanting to purchase homes at affordable prices. However, more needs to be done to improve the quality of medical care and elderly care services offered across the border to make such commuter cities more appealing to Hong Kong residents.

GBA Negative List

Some business leaders interviewed for this report note that the GBA could use China's existing FTZs' Negative List policy which would allow businesses and industries to operate freely (with a few specific exceptions where foreign investment might otherwise be prohibited or restricted). Foreign investment is currently not permitted in current FTZs in industries such as those relating to publishing and national security.

Under this policy, foreign investors would need to obtain special approval, meet a higher threshold or enter into a joint venture with a Chinese partner.

All other businesses run by foreign investors within the GBA should enjoy the same domestic treatment as it relates to areas including legal representation (via arbitration), enforceability of judgements, capital requirements and ownership proportions in joint ventures. The Negative List could also include reciprocal measures for establishing companies and opening bank accounts within the GBA. China has indicated it wants to improve its Negative List to establish an open, fair and orderly market, increase transparency, simplify procedures and reduce bureaucracy.⁶ The GBA therefore provides an excellent opportunity to demonstrate this commitment.

GBA Business Card regime

The introduction of a GBA Business Card regime, administered by the respective governments, could help to facilitate business travel within the region. A GBA Business Card might be an easy first step along the way to greater opening up, and could be modelled on the successful APEC Business Travel Card which gives business travellers pre-cleared, visa-free, facilitated short-term entry within selected markets. This aligns with recent announcements of a 'smart card' for Hong Kong residents to work in the GBA.

Registry for GBA corporate accounts

Another suggestion from the business community is that a new registry for GBA corporate accounts could be established by banks in mainland China, Hong Kong and Macau. Such accounts could be linked and allowed through the GBA Business Card Scheme. This would enable much more efficient settlement across the region and would significantly lessen the burden of administering, establishing and managing separate bank accounts across jurisdictions. This would not only benefit large companies, but would also bring significant advantages to SMEs and individuals, providing seamless banking within the GBA.

The GBA Business Card regime would permit higher levels of cross-border capital movement and allow for the regulation of flows through a system of caps. Importantly, it would allow businesses to draw upon the regulatory due diligence in one jurisdiction across the GBA. Procedures could be put in place requiring mainland Chinese and Hong Kong banks carrying joint accounts to follow the same reporting requirements when transferring funds, as is currently in place in mainland China. This would allow for much greater efficiency and ability to settle payments while preserving domestic financial stability in China.

⁶ <https://www.ft.com/content/0fa8e644-6488-11e8-90c2-9563a0613e56>;
<https://www.reuters.com/article/us-china-economy-market-access-idUSKCN0RF16320150915>

GBA tourism strategy

We applaud the creation of the Tourism Federation of Cities in Guangdong, Hong Kong and Macao Bay Area at the end of last year, linking the tourism bodies of nine cities in the region. This tourism body can facilitate a coordinated master plan of complementary and international quality tourism, lifestyle and leisure attractions in the GBA.

This body should seek to identify and foster genuine and authentic tourism drivers across the region that complement rather than compete with each other. Robust research into authentic tourism experiences within the broader GBA region with potential international appeal should be undertaken to build a sustainable and comprehensive tourism plan. A Greater Bay Tourism Promotion Office should also be created, drawing on Hong Kong's well-developed tourism marketing expertise. Hong Kong could continue to act as the global tourism gateway for international visitors into the GBA, offering a unique experience as one of the world's most popular tourism destinations.



Recommendations

1. Promote cross-border commuter belts and the creation of a 'quality living circle' in the region.
2. Use China's existing FTZs' Negative List policy which would allow businesses and industries to operate freely, with a few specific exceptions where foreign investment might otherwise be prohibited or restricted.
3. Introduce a GBA Business Card regime (similar to an APEC card) to facilitate business travel.
4. Increase co-ordination on tourism policy, infrastructure planning and marketing through the establishment of a Greater Bay Tourism Promotion Office, drawing on Hong Kong's well-developed tourism marketing expertise and unique international positioning.



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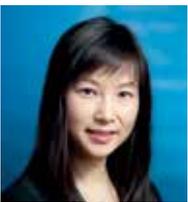
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About AustCham Hong Kong



The Australian Chamber of Commerce in Hong Kong is the largest international Australian Chamber and among the largest and most influential international business organisations in Hong Kong. Established more than 30 years ago, the chamber represents approximately 500 companies and 1400 members. While many of our members are Australian companies or individuals with business interests in the region, an increasing number of our members are Hong Kong corporates with business interests in Australia. Our diverse membership is a cross-section of start-ups, SMEs, NGOs and large corporates across all industries and expertise.

WHERE BUSINESS, PEOPLE AND IDEAS CONNECT

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Independent of government, the chamber is an active member of Support Australia Group which exists under the auspices of the Australian Consulate-General in Hong Kong and aligns the interests of over 100,000 associates.

AustCham Hong Kong provides members with access to senior industry executives, thought leaders and decision makers in Hong Kong, Greater China and Australia. In a rapidly changing environment, we provide members with insight on emerging business trends and major developments that are shaping the future. Through programs such as our Emerging Tech series, our CEO Forums and our highly-sought after Mentor Program, AustCham Hong Kong continues to deliver programs which are highly relevant, informative and provide critical tools in today's business environment.

Although an independent chamber, AustCham Hong Kong works closely with Australian chambers in Beijing, Macau, Shanghai and Southern China as well as the Asia and global network of international Australian business organisations.

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