

**CHINA'S PLAN FOR PROMOTING
FINANCIAL CONNECTIVITY WITHIN
THE GUANGDONG-HONG KONG-
MACAU GREATER BAY AREA**

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Executive Summary

1. In May 2020, China unveiled a bold plan, “Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macau Greater Bay Area” (the Plan), to intensify financial cooperation and strengthen cross-border financial connectivity in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA).
2. Beijing’s aim for promoting inter-city financial connectivity is to enhance the overall development of the GBA and strengthen its competitiveness both domestically and globally.
3. The GBA is one of China's most important financial hubs. While Hong Kong is an established international financial centre, Shenzhen is an emerging national financial centre being home to the Shenzhen Stock Exchange and many leading high-tech and fintech firms.
4. The complexity in governance structure, legal systems and currencies in the GBA speaks for the very challenging task faced by the Chinese central and local authorities in their push for cross-border economic integration and financial connectivity across the GBA.
5. The Plan is a coordinated top-down working plan for pursuing financial market and infrastructure connectivity across the GBA. It aims to rectify regulatory issues arising from conflicting policy measures introduced by different regulators.
6. Local and foreign financial enterprises operating in the GBA have to follow different regulatory regimes and comply with the respective financial rules in Guangdong, Hong Kong and Macau. The compliance costs are high and, more importantly, the effect on their business efficiency could be serious.
7. Among the five policy areas outlined in the Plan, the opening up of the financial service sector across the GBA and promoting inter-city connectivity of financial infrastructure and products are the two priority areas.

8. If these measures are fully implemented, Hong Kong-based and Guangdong-based investors will benefit from the increased access across the financial markets.
9. The new policy measures will help to widen the flow of cross-border investments between the Mainland and Hong Kong and potentially strengthen the competitiveness of the GBA's wealth management and asset businesses in the international arena.

CHINA'S PLAN FOR PROMOTING FINANCIAL CONNECTIVITY WITHIN THE GUANGDONG-HONG KONG-MACAU GREATER BAY AREA

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State Plan for Cross-Border Financial Connectivity of the GBA

- 1.1 To mitigate the dampening effects of the coronavirus outbreak, the Chinese financial regulators had released a bold plan titled “Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macau Greater Bay Area”¹ (hereafter referred to as the Plan) in May 2020.
- 1.2 The major goal is to deepen financial cooperation and accelerate cross-border financial connectivity within the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) in the coming decade.
- 1.3 Compared to Hong Kong, the other cities in the GBA (Shenzhen and Guangzhou) lack the connectivity required to become major global centres. Developing strong linkages with other business and financial centres and fostering financial business clusters will provide greater impetus to the region’s financial sector.
- 1.4 The GBA is not merely a local development plan but part of China’s long-term development strategy. From the perspective of the Chinese central authority in Beijing, promoting inter-city financial connectivity is essential for the overall development of the GBA and strengthening its competitiveness both domestically and globally.

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¹ “Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macau Greater Bay Area”, 14 May 2020, available at http://www.cnbayarea.org.cn/policy/policy%20release/policies/content/post_258474.html (accessed 16 June 2020).

- 1.5 The Chinese central government's push for financial connectivity across the GBA is also partly driven by an attempt to draw Hong Kong closer to the Mainland, financially and economically. Beijing has been uneasy about the escalating social protests and rising pro-independence sentiment in Hong Kong over the past few years.
- 1.6 The concept of state-led regional economic integration of Guangdong, Hong Kong and Macau was first proposed in 2016 when the State Council of China issued the "13th Five-Year National Plan (2016-2020)". The concept of regional economic integration has since gained traction with the Chinese central government and highlighted in work reports, official documents, as well as the domestic media.
- 1.7 Under China's President Xi Jinping, the "Outline for Development of the Guangdong-Hong Kong-Macau Greater Bay Area"² was formulated in February 2019. This Outline shows how the concept of the GBA region will be put into practice.
- 1.8 The GBA as a whole, with around 70 million in population, is a major economic powerhouse and manufacturing hub for China. In 2019, the combined gross domestic product (GDP) of the GBA was US\$1.95 trillion, representing 13.8% of the nation's total GDP (US\$14.14 trillion). In addition to the two Special Administrative Regions (Hong Kong and Macau), nine Guangdong cities are involved: Guangzhou, Shenzhen, Foshan, Huizhou, Zhuhai, Dongguan, Jiangmen, Zhongshan and Zhaoqing (hereafter referred to as the nine mainland cities).
- 1.9 While many previous policy measures were issued by individual central financial regulators, the Plan was jointly released by four Chinese central financial regulators, namely, the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and State Administration of Foreign Exchange. This suggested the significance of the GBA in China's national financial development strategy.

² The Outline lays out the specific development goals for the GBA based on mid-term and long-term targets. See details in https://www.bayarea.gov.hk/filemanager/en/share/pdf/Outline_Development_Plan.pdf (accessed 14 June 2020).

- 1.10 The Plan proposes comprehensive policy measures targeting all financial sectors across the GBA. Many previous policy measures and initiatives had encountered setbacks or difficulties in their implementation due to barriers including lack of inter-agency consultation and coordination, inconsistency and contradiction in central policy direction, as well as resistance from vested interest groups.
- 1.11 These vested interest groups include central ministry/agency that is unwilling to forgo its regulatory or supervision power to local GBA governments which have been granted more autonomy on managing industrial and economic affairs concerning local development.
- 1.12 They also consist of certain groups from local communities in Hong Kong who oppose further integration of Hong Kong with mainland China for fear of the loss of Hong Kong's privileged status with the implementation of the Plan.
- 1.13 The Plan is intended to provide a coordinated top-down working plan for pursuing financial market and infrastructure connectivity across the GBA. It thereby seeks to eradicate regulatory problems arising from conflicting policy measures introduced by different regulators.
- 1.14 The Plan shows that a cross-border communication mechanism involving the financial regulators of Hong Kong, Guangdong and Macau will be set up to strengthen cross-border supervision and liquidity monitoring.
- 1.15 The GBA is one of China's most important financial hubs. While Hong Kong is an established international financial centre, Shenzhen, as the home of the Shenzhen Stock Exchange and many leading high tech and fintech firms, is only gaining attention as a national financial centre.
- 1.16 The Plan is state-led. In contrast to the economic decentralisation since the era of Chinese paramount leader Deng Xiaoping, the Chinese government under Xi

Jinping has attempted to re-consolidate governance over regional development by employing plan-making as a tool.³

- 1.17 The Chinese central government has played a decisive role in the formulation of the Plan. The establishment of the Central Leading Group on Promoting GBA Development under the Chinese Communist Party Central Committee, the top decision-making body for overseeing the Plan, reflects the Chinese state's forceful and active role in the formulation and implementation of the Plan. Han Zheng, a standing member of CCP Politico Bureau and China's executive vice premier, serves as the chair for the central leading group, flanked by members such as Guangdong province's governor, Hong Kong's chief executive and Macau's chief executive.
- 1.18 However, Beijing has also granted certain autonomy to the local authorities in Guangdong, Hong Kong and Macau on policy implementation. The local governments in the cities involved in the GBA are not passive receivers of Beijing's orders but active players in the implementation of the Plan through interaction with Chinese leaders and bargaining with central financial regulators.⁴

Understanding the Plan

- 2.1 As mentioned earlier, in contrast to the issuing of policy initiatives by individual ministries/regulators, the "Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macau Greater Bay Area" was presented by four central financial regulators with the aim of promoting holistic and coordinated financial development across the GBA.
- 2.2 The Plan could kick-start the GBA's journey towards greater financial connectivity of infrastructure, markets and products across Guangdong, Hong Kong and Macau.

³ Hong Yu, "The Guangdong-Hong Kong-Macau Greater Bay Area in the Making: development plan and challenges", *Cambridge Review of International Affairs*, DOI: 10.1080/09557571.2019.1679719.

⁴ Hong Yu, "The Guangdong-Hong Kong-Macau Greater Bay Area in the Making: development plan and challenges".

The Plan consists of 26 measures in total (Table 1), focusing on five particular policy areas:

- i) Expediting cross-border trade and investment, and financial convenience in the GBA;
- ii) Expanding the openness of the financial sector, potentially to provide more investment opportunities for Guangdong, Hong Kong and Macau residents;
- iii) Expediting the connection of financial markets and financial infrastructure;
- iv) Raising the innovation level within the GBA financial services sector; and
- v) Pragmatically mitigating and preventing cross-border financial risk.

2.3 Among the five policy areas, the opening up of the financial service sector (banking, insurance, securities and wealth management) across the GBA and promoting the inter-city connectivity of financial infrastructure and products are the two priority areas.

2.4 Raising RMB-denominated funds to support the Belt and Road Initiative (BRI) is also encouraged. In pushing for the expansion of the BRI worldwide and across neighbouring countries in Asia in particular, Chinese firms are expanding their business activities abroad. Currently, Hong Kong, with its superior legal system for foreign investment, still plays an indispensable bridging role to connect the GBA with the rest of the world.

2.5 Under the encouragement of the Chinese government, qualified Hong Kong and Macau financial institutions and non-financial firms could issue financial bonds, corporate bonds and debt financing instruments in the Mainland via their branches in the GBA.

2.6 China will announce specific measures to support Macau's transformation into a hub for the provision of financial services between Portuguese-speaking countries and China to attract their financial institutions to use Macau as a platform to do business and access the financial markets in the GBA.

TABLE 1 MAJOR MEASURES OF THE PLAN

Enhance the Shenzhen-Hong Kong stock ⁵ and bond connect;
Expand the channels for mainland and Hong Kong residents to invest in financial products in each other's financial markets;
Spur cross-border financial services, transactions and investment within the GBA;
Grant Hong Kong-based firms and professionals national treatment in more financial sectors for practising, investing and doing business in the Mainland;
Permit Hong Kong and Macau RMB settlement banks to participate in the mainland interbank lending market;
Support investment institutions in Hong Kong to raise RMB (Chinese currency) funds for investing in the capital market in Hong Kong;
Allow the use of forex and RMB for carbon emissions transactions in the GBA;
Set up an exchange in Guangzhou;
Push for cross-boundary wealth management connect between Hong Kong and the Mainland;
Allow Guangdong residents to purchase wealth management products sold by Hong Kong and Macau banks, as well as Hong Kong and Macau residents to purchase wealth management products sold by mainland banks;
Promote the integration of wealth management across Hong Kong, Macau and the nine involved Guangdong cities through establishing cross-border wealth management connection mechanisms;
Open up onshore/offshore RMB bond insurance;
Allow banking institutions in Hong Kong and Macau to develop RMB-related derivative business;
Permit Hong Kong and Macau institutional investors to invest in privately offered equity investment funds and venture investment funds in the nine mainland cities via the Qualified Foreign Limited Partnership programme;
Drive the Qualified Domestic Limited Partnership and Qualified Domestic Investment Enterprise trials to support overseas investment by domestic privately offered equity investment funds;
Support the establishment of foreign-invested share-controlled personal insurance enterprises in the nine mainland cities;
Allow Hong Kong and Macau insurance firms to establish insurance aftersales service centres in the nine mainland cities under the Closer Economic Partnership Agreement, allowing purchasers of insurance products in Hong Kong to enjoy insurance services in the Mainland; and
Expand both the scope and scale of the cross-boundary usage of RMB in the GBA, and permit investments in domestic private equity funds and venture capital funds.

Source: "Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macau Greater Bay Area", May 2020.

2.7 The fast expansion of cross-boundary transport and financial infrastructure connectivity throughout GBA cities, concurrently linked by the high-speed railway, Hong Kong-Zhuhai-Macau sea bridge and other forms of infrastructure, has laid the foundation for financial connectivity and enabled more efficient movement of professionals, capital and information across the region.

⁵ Stock Connect permits foreign investors to invest in China's A-Shares through brokers in Hong Kong (referred to as northbound trading) and mainland Chinese investors to invest in Hong Kong stocks through brokers in mainland China (referred to as southern trading). Under the Stock Connect scheme, it provides foreign investors with market access to the stock exchange market in mainland China. To boost Hong Kong's financial sector, the Shenzhen-Hong Kong Stock Connect was launched in 2016. From May 2018, the North's bond daily quota has increased to RMB52 billion and the South's bond daily quota has increased to RMB42 billion.

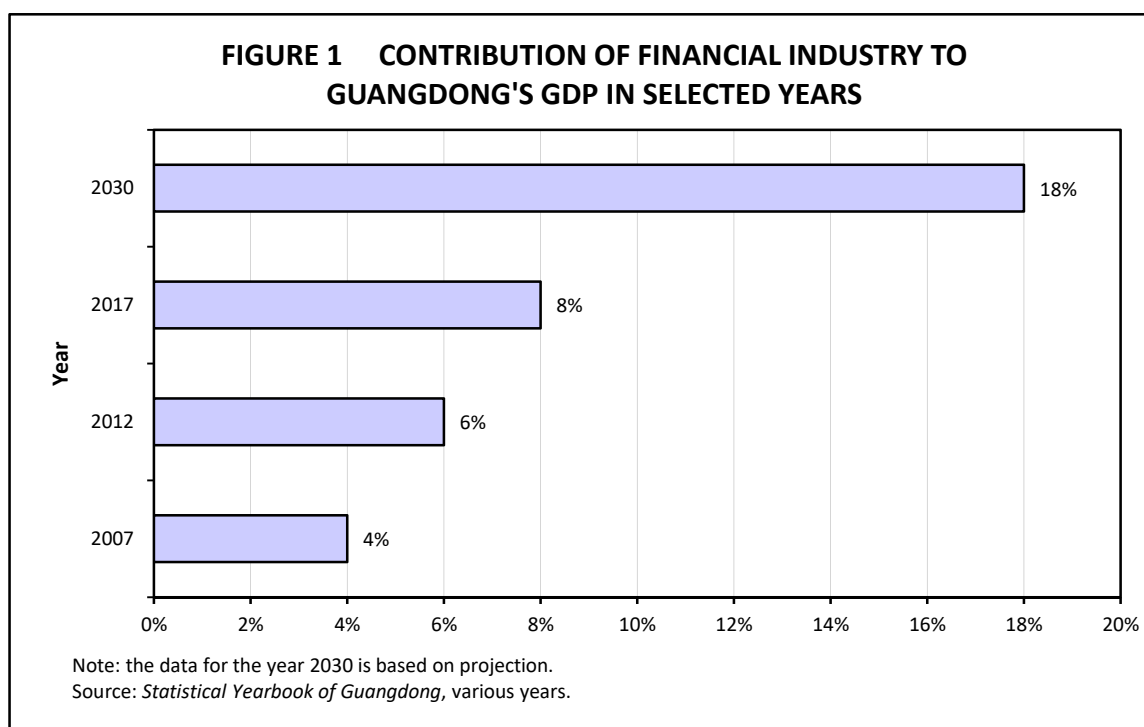
- 2.8 The 26-policy measures unveiled in the Plan aim to ease China's tight controls of foreign exchange and foreign currency remittance in order to boost cross-border capital flows across the GBA.
- 2.9 In addition, financial firms and professionals based in the GBA could capitalise on the new business opportunities arising from the insurance sector, electronic payment systems, wealth management products, carbon emission trading and other green financial products, securities and privately domestic funds. The financial communities across Hong Kong, Macau as well as mainland cities involved in the GBA will explore the most effective way to capitalise on government plans for business expansion and profit maximisation.
- 2.10 Financial institutions operating in Hong Kong are likely to benefit most from the financial connectivity within the GBA through further opening up of the financial sector in Guangdong. They could either set up new operational branches or expand their existing operations in the GBA.
- 2.11 Hong Kong's insurance companies could benefit from the new business opportunities brought about by cross-border motor vehicle, medical and RMB reinsurance businesses. Together with the banks, they will be allowed to operate in Shenzhen's Qianhai area, Guangzhou's Nansha and Zhuhai's Hengqin area. Nevertheless, the GBA has little to offer to ordinary Hong Kong folks who continue to face day-to-day living pressures, for example, in terms of housing, living costs and employment.
- 2.12 When fully implemented, Hong Kong-based and Guangdong-based investors will benefit from increased access to each other's financial markets. The new policy measures will help to widen the flow of cross-border investments between the Mainland and Hong Kong, and potentially strengthen the competitiveness of the GBA's wealth management and asset businesses in the international arena.

- 2.13 An estimated 2,135 funds of US\$1.78 trillion of assets under investments authorised by the Hong Kong Securities and Futures Commission could stand to benefit if they are granted for sale throughout the entire GBA.⁶

Motivation behind China's Push for Cross-Border Financial Linkage of the GBA

- 3.1 Promoting cross-border financial connectivity serves as a new platform for pursuing strong economic linkages between the Mainland, Hong Kong and Macau. As unveiled in the Plan, Beijing seeks to accelerate cross-border financial connectivity in order to foster stronger bonds between the financial markets in the Mainland, Hong Kong and Macau.
- 3.2 To implement the Plan, Beijing expects greater coordination of the financial regulatory and supervisory framework across all financial sectors of the GBA.
- 3.3 One motivation driving the Plan is to pursue financial industrial development in the GBA, the mainland cities in particular. The Chinese state seeks to transform the GBA from a manufacturing-based to a service sector-driven economy, with the financial industry playing an important part in the process.
- 3.4 The mainland part of the GBA still has a predominantly manufacturing-driven economy, and its financial industry is underdeveloped. Excluding Hong Kong and Macau, the service sector accounts for barely 57% of GDP in the mainland part of the GBA.
- 3.5 Guangdong's financial sector accounted for 8% of its GDP in 2017, an increase of 4% from 2007 (see Figure 1). However, in the case of Shenzhen, the most developed financial city in the country, the financial industry contributed only 14% to its GDP in 2017. In contrast, finance-related industry accounted for 20% of Hong Kong's GDP in 2018.

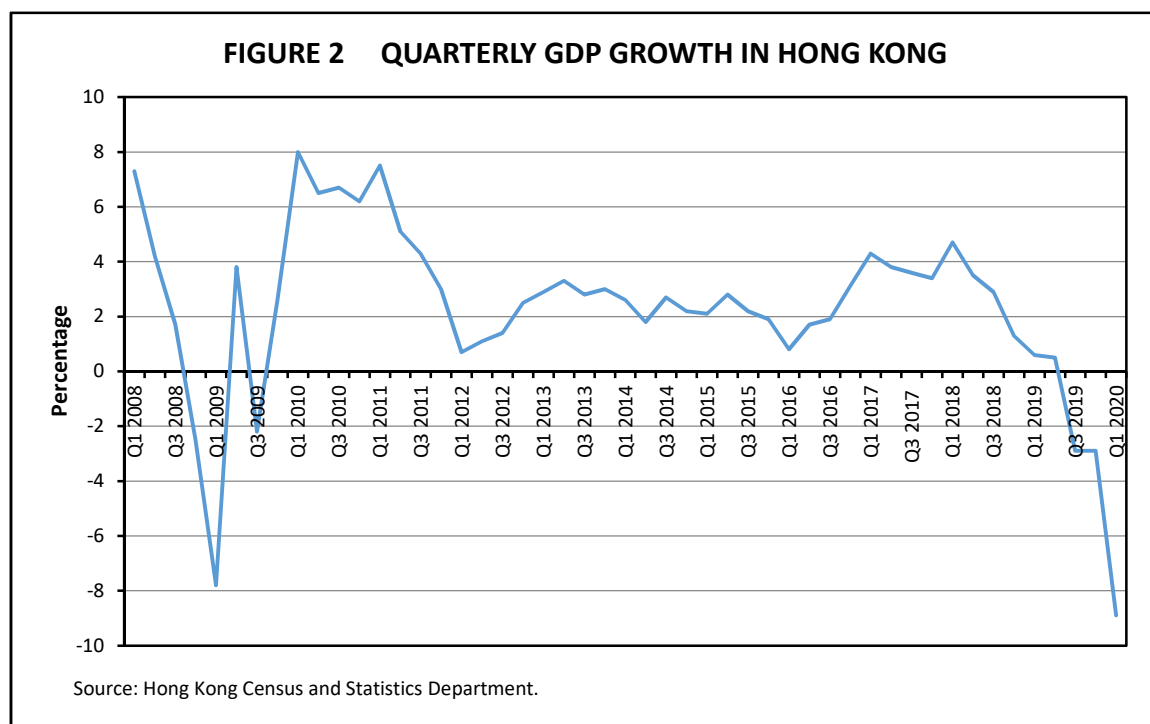
⁶ Enoch Yiu, "China unveils financial plan for Hong Kong, Macau to spur tighter embrace of GBA master plan", *South China Morning Post*, 15 May 2020, available at <https://www.scmp.com/business/banking-finance/article/3084576/china-unveils-financial-plan-hong-kong-macau-spur-tighter> (accessed 1 June 2020).



- 3.6 The Chinese government aims to support the development of financial and fintech industries in the two core cities of Shenzhen and Guangzhou. The state has set an ambitious target of achieving over 70% of GDP in the GBA (including Hong Kong and Macau) deriving from these industries by 2030.
- 3.7 A high quality regulatory environment and legal system is key to developing a thriving financial industry and building a recognised international financial centre. Compared to the domestic financial centres in mainland China, Hong Kong still enjoys competitive advantages, though the gap is narrowing.
- 3.8 Hong Kong could serve as a role model for financial development, offering lessons for Shenzhen and Guangzhou. The Chinese government seeks to shore up financial sector development in mainland GBA by capitalising on the strengths of Hong Kong as an established international financial centre with a sound regulatory regime and superior legal framework for the financial industry.
- 3.9 From the perspective of the seven smaller cities in Guangdong, their enthusiasm for the GBA financial connectivity plan lies in the prospect of benefitting from the financial hub in Hong Kong and gaining wider access to capital through the Hong Kong stock exchange market. Compared to the corresponding figures for Hong

Kong, the cities of Zhaoqing, Jiangmen and Zhongshan have received a relatively tiny portion of inflow of foreign direct investment for many years. These cities have set their sights on attracting more foreign investment and boost finance-related industrial development by leveraging on Hong Kong's status as an international financial hub.

- 3.10 The Plan also aims to shore up an ailing Hong Kong economy that has been hit by a series of serious external factors, the massive social unrest against the Chinese central and Hong Kong authorities, and the damage wrought by the ongoing trade war with the United States and the global coronavirus pandemic. Hong Kong's service sector has been hit especially hard by these crises. As shown in Figure 2, Hong Kong's economic growth has been decreasing over the past few years and its economy is not in good shape.



- 3.11 Hong Kong's economic growth is highly dependent on mainland Chinese markets, tourists and capital investment from China. Understandably, Hong Kong's long-held middleman role as China's gateway to the world has diminished given China's integration with the global economy. Against this backdrop, Hong Kong has to forge further collaboration with neighbouring mainland cities within the GBA to strengthen its competitiveness as a financial hub.

- 3.12 The economic recovery of Hong Kong in the post-pandemic era will depend on the revival of its service sector, which is the backbone of the Hong Kong economy. The financial industry forms a central part of that service sector.
- 3.13 These latest measures seek to forge cross-boundary financial integration by connecting the Hong Kong financial market more closely to the mainland financial market. They will undoubtedly further reinforce Hong Kong's position as a global offshore RMB (Chinese currency) business hub.
- 3.14 The Plan supports the development of offshore RMB business in Hong Kong and Macau, and RMB fundraising from firms in mainland China, Hong Kong and Macau. They could help to reinforce Hong Kong's status as the top global offshore RMB hub and provide opportunities for Hong Kong to develop more offshore RMB businesses.⁷

The Push for Cross-Border Financial Connectivity across the GBA: A Challenging Task

- 4.1 Challenges faced by the GBA are manifold. First, compared to other renowned Bay Areas in the world, the GBA has the most complex governance structure. Guangdong, Hong Kong and Macau fall under different administrative regions and are separate customs territories. The GBA is governed by three distinct administrative and legal systems,⁸ and uses three different currencies of the Hong Kong dollar, RMB and Macau Pataca.
- 4.2 This complexity in governance structure, legal systems and currencies in the GBA speaks for the very challenging task faced by the Chinese central and local authorities in their push for cross-border economic integration and financial connectivity across GBA cities.

⁷ KPMG, "Interpretation of the Opinions Concerning Financial Support for the Establishment of the Guangdong-Hong Kong-Macau Greater Bay Area", 21 May 2020, available at <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2020/05/interpretation-of-the-opinions-concerning-financial-support-for-the-establishment-of-the-guangdong-hong-kong-macao-greater-bay-area.pdf> (accessed 8 July 2020).

⁸ Hong Yu, "The Guangdong-Hong Kong-Macau Greater Bay Area in the Making: development plan and challenges".

- 4.3 Local and foreign financial enterprises operating in the GBA will have to follow different regulatory regimes and comply with different financial rules in the respective jurisdiction of Guangdong, Hong Kong and Macau. The compliance costs are high and, more importantly, the effect on their business efficiency could be serious.
- 4.4 The city governments in the GBA have their own development interests, agenda and development strategy for boosting financial development and economic growth, which will complicate the pursuit of inter-regional policy coordination that is essential for achieving regional economic integration within the GBA.
- 4.5 Shenzhen's Qianhai New District is viewed as a pilot zone for forging close collaboration on finance and other modern service industries between mainland China and Hong Kong. By the end of 2019, over 12,000 Hong Kong-funded firms had registered in Qianhai. Qianhai received US\$19.2 billion or about 60% of inflows of foreign investment to Shenzhen in that year.
- 4.6 Although Qianhai has transformed dramatically to become a vibrant business and economic hub within Shenzhen, the Plan for cross-border financial collaboration overestimated the readiness of Hong Kong's financial institutions in opening another local branch or representative office in Qianhai.
- 4.7 Second, securing free and uninterrupted movement of capital, professionals and information throughout the GBA remains a daunting challenge. Although Chinese regulators encourage expansion of cross-border capital investment and mutual market access between Hong Kong and the Mainland, China has imposed measures to curb capital outflow since mid-2018.
- 4.8 China's main priority is to safeguard domestic financial and economic stability; the promotion of greater market access of financial products sales and cross-border financial connectivity across the GBA are permissible only if they do not jeopardise this endeavour.

- 4.9 Evidently, financial connectivity across the GBA could not be realised overnight. The Chinese authority will implement these opening up measures in a gradual and cautious manner to avoid imperilling national financial stability and curb capital flight.
- 4.10 Against this backdrop, only a limited range of financial products and number of qualified institutions will become available for sale and transaction at the initial stage; the intention is to gain experience before allowing the full opening of financial markets in the Mainland.