



Economic Development Leading Policy in Guangdong- Hong Kong- Macao Greater Bay Area

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ABSTRACT

The economy has grown tremendously since the completion of the Guangdong-Hong Kong-Macao Greater Bay Area, which may not be detached from the central and local governments' economic policy direction. This study analyses the Greater Bay Area's economic leading policies and recommends a route for future growth by separating out the associated economic policies and highlighting the supportive policies for SMEs. At the same time, the Greater Bay Area's economic policies contribute to the future creation of additional bay regions in China.

Keywords: Economic Policy, Greater Bay Area, Bay Area 1. Introduction

1. INTRODUCTION

The concept of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) was proposed in the national top-level strategy in 2017, which involves Hong Kong, Macao, and nine cities in Guangdong Province. This area comprises only 0.6 percent of the country, but it draws 5% of the population and creates 13% of the country's GDP. According to official government figures, the GBA's total population will approach 80 million by 2021, with a regional GDP of 12.6 trillion RMB. Furthermore, it has the world's fastest economic growth rate among the four biggest bay regions [10]. The Greater Bay Area boasts excellent prospects for development and growth as a newly developed area, which may not take away the glory of its superior geographical advantage. Besides this strategic location, this paper will focus on the economic policies that contribute to high-speed development in this area and also analyze the shortcomings of the current economic policy, finally offering potential suggestions.

2. ECONOMIC DEVELOPMENT SINCE INCEPTION

Before establishing GBA, the economic development of the other three bay areas was imposing [4]. The primary industries in distinctive bay areas are different. In the U.S., the New York Bay Area is a financial center that is brimming with top financial services corporations. The San Francisco Bay Area is positioned as a technology hub and is home to high-profile universities

and stellar IT companies, such as Apple and Intel. Basically, it is a typical case of a technology-led economy. Back to Asia, Tokyo Bay is famous for developing diverse industries. It is also the most densely populated area globally. Inferring from the former's successful experiences, the GBA intends to create a diverse economic body that covers finance, high-technology, and other industries' development. As the largest of the world's four largest bay areas, covering 56,000 square kilometers, the GBA has huge development potential. Compared with other bay areas, the Greater Bay Area has several core cities with five billion ton ports, including Guangzhou, Hong Kong, Shenzhen, Dongguan and Zhuhai. And land transportation is also very convenient, exceeding the New York living circle and Tokyo living circle. In addition, the demographic structure of the Greater Bay Area performs well, with the proportion of 15-59 year olds in the Greater Bay Area as high as 63.35% as of 2020. Based on these qualities and the corresponding policy guidance, the GBA has made significant progress in the last half-decade, based on the foresight strategy. According to the data, the total economic volume of the Guangdong, Hong Kong and Macao Greater Bay Area exceeded 10 trillion yuan in 2017. By 2021, despite the impact of the Covid-19 epidemic, the total economic volume of the GBA is about 12.6 trillion yuan, an increase of about 2.4 trillion yuan over 2017.

Talking back to the characteristics of the cities in the GBA, as the international financial center, Hong Kong is the crucial node for financial development in the area.

During these five years, Hong Kong has maintained close cooperation with mainland China and has played the role of the Global Offshore RMB Business Hub. As of March 2022, according to SWFIT's RMB Tracker [12], Hong Kong handles 74.46% of the global offshore RMB payment transaction volume. Besides, enhancing financial market interoperability in the Greater Bay Area is also a development priority. Financial products such as "Shenzhen-Hong Kong Stock Connect" and "Bond Connect" are currently issued within GBA. The "Shenzhen-Hong Kong Stock Connect" is actually the abbreviation of the Shenzhen-Hong Kong Stock Market Interoperability Mechanism, which refers to the establishment of a technical connection between the Shenzhen Stock Exchange and the Stock Exchange of Hong Kong Limited, enabling mainland and Hong Kong investors to trade stocks listed on the other exchange within the prescribed range through local securities companies or brokers. Moreover, the "Bond Connect" is an innovative cooperation mechanism for the interconnection of the Mainland and Hong Kong bond markets, including the "Northbound" and "Southbound." Such financial products and institutions' mushrooming has further promoted the development of the financial industry in the Greater Bay Area.

Innovation and technology industries are the new driving forces of economic development in modern society. GBA caught this trend, and in the past several years, Guangdong Province, Hong Kong, and Macao have consolidated cooperation. As a result, countless science and technology parks and research platforms have been built. For instance, Hong Kong Science Park, a science and innovation business incubation park, is located near the Chinese University of Hong Kong, a world-renowned university with ample research resources. In addition, the government has supported the construction of several R & D centers. The policy attracts more talents to join the Greater Bay Area and stimulates the energy of development. The Greater Bay Area launched the Mainland-Hong Kong Joint Funding Scheme (MHKJFS) in April 2019 to encourage collaboration between Hong Kong and mainland research institutions with financial support. Through implementing these policies, the level of science and technology in the GBA would be raised even more.

Aside from the financial and technology industries, other industries, which include primary and secondary industries and service industries, are also being built at a mature stage in GBA. In particular, the tertiary industry is growing blossomly in each of GBA's four core cities: Guangzhou, Shenzhen, Hong Kong, and Macao. In 2019, the share of the tertiary sector in the Greater Bay Area once exceeded 65%, which counts as the inextinguishable contribution to the area, but the development has shrunk since the COVID-19 Pandemic breakout. However, manufacturing remains the pillar industry of the Greater Bay Area.

3. CURRENT ECONOMIC POLICY

The state has offered mighty economic policy support through GBA as a national-level strategy. At the macro level, fiscal policy is employed, which includes preferential tax policy and financial subsidy policy. Besides, unlike the common monetary policy, because there are three legal currencies in circulation in the Greater Bay Area—RMB, HKD, and MOP—and their respective systems are relatively independent, there is no specific monetary policy for the Greater Bay Area at the macro level. More often than not, the relevant regulations are presented in the form of financial policies. This work will give a brief introduction to the current economic policy in the GBA. It will take Guangzhou and Shenzhen as representatives of Guangdong Province, which are the two main core cities in Guangdong.

3.1. Guangdong Province—take Guangzhou and Shenzhen as examples.

Guangdong Province put out a series of flexible fiscal policies in terms of tax incentives and financial subsidies that derived from the state government guide [7]. Guangzhou is the capital city of Guangdong Province and even the Greater Bay Area, which keeps the trend of refining relevant fiscal policies. According to the Management Measures of Guangzhou Municipality on the Implementation of Financial Subsidies for Individual Income Tax Preferential Policies in the Greater Bay Area, Guangzhou provides personal income tax subsidies to various high-end talents. It continues to improve the operational process and links. Other industries, such as the technology industry or the agriculture innovation field, also benefit from the government policy. The government's policies to absorb human capital and introduce various tax incentives, especially for those enterprises in the Qianhai Bay Area, are geared towards attracting human capital. In 2018, the Shenzhen Municipal People's Government issued a notice on several measures to support the development of the financial industry and improve the financial support policy system further; a total of 23 measures have been put forward from 5 significant directions. This financial policy will be valid for five years from 2019, now that it is in the implementation stage.

The Greater Bay Area is similarly focused on collaboration. As previously stated, the GBA's financial development goal is to assist in the consolidation and strengthening of Hong Kong's status as an international financial hub. In order to achieve this goal, Guangdong Province launched many financial policies. For instance, the People's Bank of China Guangzhou Branch, the Central Sub-branch of the People's Bank of China in Shenzhen, the Guangdong Bureau of the China Banking and Insurance Regulatory Commission, the Shenzhen Bureau of the China Banking and Insurance Regulatory

Commission, the Guangdong Securities Regulatory Commission, and the Shenzhen Securities Regulatory Commission on issuing the "Implementation Rules for the GBA's 'Cross-border Wealth Management Connect' Pilot Scheme." These financial policies accelerate the connectivity between Hong Kong and mainland financial markets.

3.2. Macao and Hong Kong

Unlike the complex and expensive tax policies in mainland China, the tax system in Hong Kong and Macao is more straightforward and has lower tax rates. Since the establishment of the Greater Bay Area, both Hong Kong and Macao have actively participated in the development strategy of the Greater Bay Area. The State Ministry of Finance and the Taxation Bureau have clarified that the tax differential is subsidized, i.e., Hong Kong and Macao residents working in the Greater Bay Area still enjoy the personal income tax rate of Hong Kong and Macao.

Furthermore, the Hong Kong government encourages innovation [5]. It has set up some innovation and technology funds, technology start-up incubation programs, and other supportive funds for technology enterprises and micro and medium-sized start-ups. However, Macao has a smaller economy [1], and it is more crucial to promote its economic development by getting rid of the situation of industrial homogeneity. So the Macao government has also set up many subsidies for industrial transformation and development, actively distributing electronic consumption vouchers and implementing an active fiscal policy to boost domestic demand, especially under the COVID-19 pandemic.

4. SME DEVELOPMENT BASED ON FISCAL POLICY IN THE GREATER BAY AREA

On April 2, 2022, the Guangdong Provincial Department of Finance and the Guangdong Provincial Taxation Bureau of the State Administration of Taxation implemented a tax reduction policy for small and medium enterprises, which further supports them. In fact, in addition to national strategic projects, SMEs account for the economic development of the Greater Bay Area and may solve the employment problem to some extent. The Guangdong government's policies for SMEs are broadly divided into four categories: cultivating market players; reducing the burden on enterprises; improving the service system; and focusing on policy implementation. Moreover, these specific policies are inseparable from the support of Guangdong Province or national fiscal policy. In all cities of the Greater Bay Area, the share of SMEs has exceeded 90% for many years, although it has declined in some cities due to the epidemic. A high percentage of SMEs means a more vibrant market economy. Through the various

preferential policies for SMEs, the government fully recognizes SMEs and provides powerful financial policy support.

On the mainland side, in addition to encouraging local SMEs, the government enacted a number of policies to encourage Hong Kong and Macao residents to establish businesses in Guangdong [6]. Especially in various free trade zones and economic regions, such as the Nansha Free Trade Zone and Hengqin New Area, so on. Other cities, like Foshan and Zhaoqing, have proposed many municipal financial policies to support Hong Kong and Macao residents starting a business, primarily based on subsidies. For example, transportation subsidies in GBA, business start-up subsidies, etc. Since the outbreak in 2020, it has had a fateful impact on business transactions within the GBA. The Guangdong government also opened online registration channels to facilitate Hong Kong and Macao residents' starting businesses in Guangdong.

Hong Kong and Macao also have their own strategies to follow. Hong Kong aims to provide promotional funding for eligible SMEs. Moreover, the government also set up the Youth Development Fund to help the local young people create their own businesses [3]. Besides, the government also has special loan offers for SMEs. The government announced that repayment relief or loan interest deduction would be granted for those SMEs that suffered a tremendous hit from the COVID-19 pandemic. The Macao government values the role of SMEs in economic development [2], which plays a vital role in changing the status of Macao's single economic industry (tourism and gaming). The Macao SAR has a well-established interest-free financial assistance plan for the local SME [9]. Businesses that meet the criteria can receive interest-free financial assistance for operations, renovations, promotions, etc. The government provides financial assistance to companies in financial difficulties due to force majeure events. The amount of assistance can be repaid over a maximum of eight years. For those companies that have already repaid the grant, the government offers a second chance to reimburse it. Basically, Hong Kong and Macao have more robust support policies for SMEs, but they are constrained to local companies.

There are more than 6.3 million SMEs in Guangdong Province, and the number of private economic units, added value, total import and export, and number of employees rank first in China. The number of Hong Kong's SMEs exceeds 340,000, accounting for 98% of the total number of enterprises [10], and Macao has about 55,000 SMEs, accounting for 99.2% of the total number of enterprises in Macao. Supporting SMEs in the Greater Bay Area will remain the focus of fiscal and financial policy coverage.

5. BRIEF ANALYSIS AND RECOMMENDATIONS FOR GBA ECONOMIC POLICY

Economic development has made tremendous progress, guided by the economic policies of the Greater Bay Area. In addition to actively supporting industries directly related to economic development through fiscal policies, there is also a great deal of financial support in terms of talent training and platform construction. Moreover, financial policies are also associated with developing many types of industries and enterprises, laying the policy foundation for the overall economic development of the Greater Bay Area. This chapter will briefly evaluate the current economic policies of the GBA and try to give some future policy recommendations [8].

5.1. Benefits and Features

The development of the Guangdong-Hong Kong-Macao Greater Bay Area is a national-level strategy. Every year, China introduces several policies that facilitate the development of cooperation in the Greater Bay Area, with economic policies accounting for more than half of them. Based on this guidance, Guangdong province still has room for policy development and implementation. National and provincial fiscal policies are mainly based on tax and financial policies. Because of the priority of the development of the GBA, related economic policies are being designed and implemented at a rapid pace. In addition, each city in the GBA will also develop economic policies according to its situation, and these policies are mainly based on financial subsidies. Besides, the local government is very flexible and will make timely adjustments according to different situations, which is a significant advantage of their policies.

Turn to Hong Kong and Macao -- these two places have access to economic policy support at the national level on the one hand and enjoy a high degree of freedom to develop local economic policies on the other based on the guide of "One Country, Two System". Indeed, Hong Kong and Macao may actively adopt tax and financial policies to regulate the local economy. In addition, the cooperation of Guangdong cities with Hong Kong and Macao is also optimizing the economic development environment of the entire GBA. Generally speaking, the fiscal level of each city in the Greater Bay Area is high, especially in the core cities, which can support substantial financial subsidies to promote economic development.

5.2. Disadvantages and recommendations

The most considerable difficulty facing economic policy in the GBA is the discrepancy in systems. There are three legal tender currencies with different exchange

rate regimes in the Greater Bay Area, creating high foreign exchange settlement costs and financial transaction barriers. Besides, differences in tax policies can also affect economic flows and the establishment and development of businesses. Turn to the Guangdong side since the fiscal policy of municipal governments is implemented through a policy of financial subsidies. Competition between cities will make the differences between them gradually increase. For instance, Guangzhou and Shenzhen's fiscal policies are comprehensive and cover a wide range of financial subsidies, which has the potential to be more attractive. The further development of the surrounding cities will be affected. Besides, such competition may waste development resources, especially through the fragmentation of financial industry resources. This phenomenon may result in a waste of financial resources for individual cities and the GBA. Besides, because of the epidemic, coupled with the different political systems, has dramatically affected the movement of people between the Greater Bay Area and Macao, which has hit the tertiary sector very hard, especially Macao, a region supported by the gaming industry. Although the inconvenience in getting to and from (Guangdong, Hong Kong and Macao) will not be a permanent situation, now that it is not known when the Covid-19 epidemic will end, economic policies should be put in place to prevent the economic impact from further deepening based on different anti-epidemic strategy.

In the future fiscal and financial policy development, how to overcome the obstacles brought by different systems and currencies is the focus of policy development. In the cities of Guangdong, the policy experience of Guangzhou and Shenzhen can be taken into account. At the same time, each city should establish its own positioning and development priorities, such as developing specific industries, to avoid further homogenization of competition. For example, it is time to eliminate subsidies for business relocation among the nine cities to avoid wasting fiscal resources. In addition, Guangzhou and Shenzhen should provide policy guidelines to other cities to conduct spillover effects. In the case of Hong Kong and Macao, in addition to maintaining the region's economic development, they should also strengthen their ties with the mainland and provide related financial subsidy policies to facilitate exchanges. Overall, as a national-level strategy, policies at the national level should play a coordinating role, focusing on the advantages of each region, avoiding duplication, and providing support.

6. CONCLUSION

The Greater Bay Area has experienced remarkable economic development and has shown excellent growth potential. The current economic policies are generally effective, covering a wide range of industry sectors, and

there is specific financial support for SMEs. Hong Kong and Macao are also responding positively to the development policies of the Greater Bay Area. However, in the future, the state and the cities should adjust their economic policies and maximize their resources to push GBA economic development to a higher stage. At the same time, the mapping of economic policies in the GBA provides good inspiration for the construction of the new Bay Area, such as the Long River Delta, in the future.

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