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China Economic Quarterly Q2 2017

Another good quarter might guarantee the economic goal of the year

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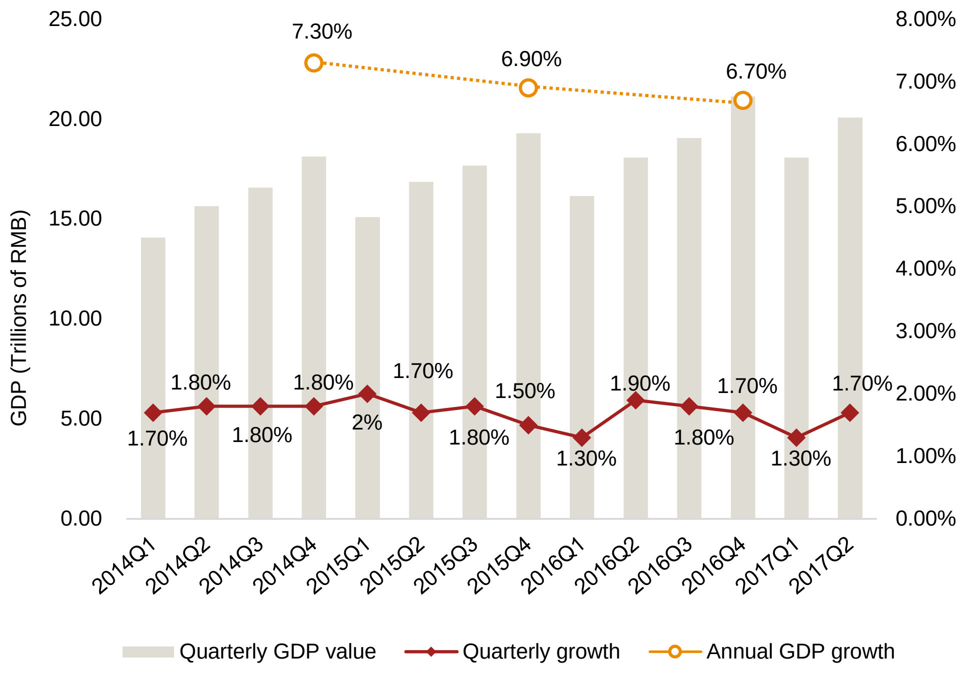
I

Major economic indicators

Quarterly GDP values and quarterly and annual GDP growth rate

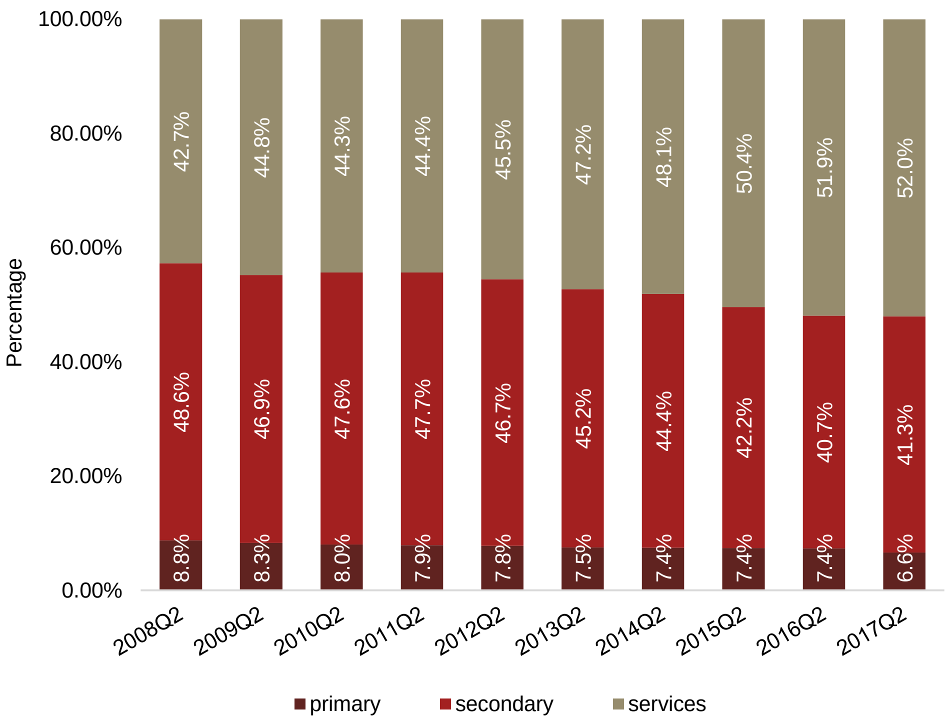


In spite of slightly tight monetary policy, China's economy has maintained higher growth than market expectations. The half yearly gross domestic product reached 38.15 trillion yuan with 6.9% growth in real terms. As a result, even if the growth were to slow down during the second half of the year, it is almost certain the GDP would meet the official target of no less than 6.5% in 2017.

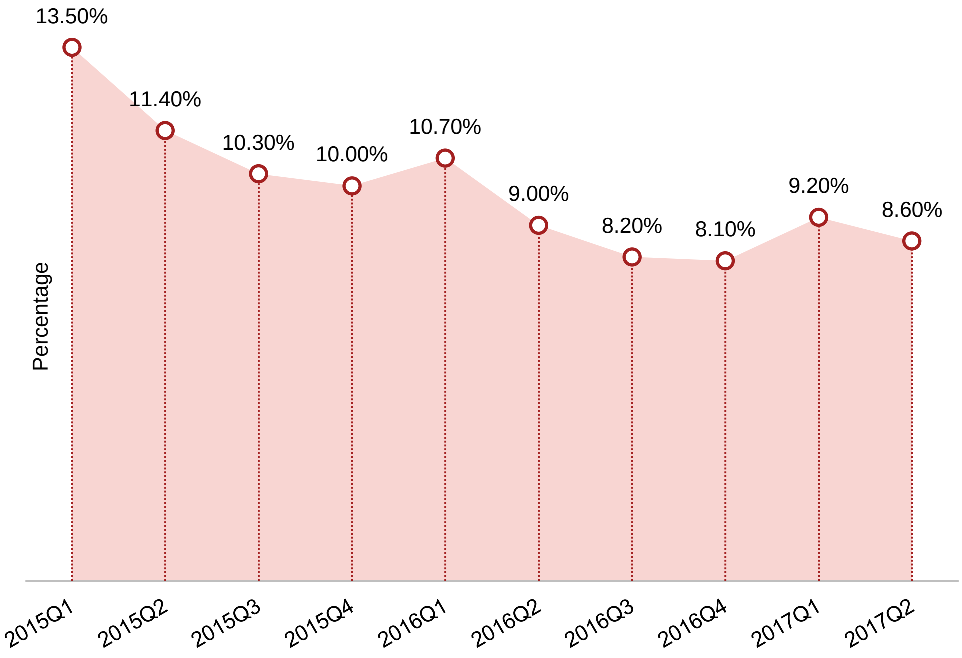
The International Monetary Fund (IMF) has recently upgraded its economic forecast for China to 6.7% and 6.4% for 2017 and 2018 respectively. This is the third time this year that the IMF has upgraded China's economic forecast.

In the first half of the year, the primary industry (2.20 trillion yuan), the secondary industry (15.30 trillion yuan) and the tertiary industry (20.65 trillion yuan) increased 3.5%, 6.4% and 7.7% respectively. Similar to the past quarters, services continued to be the largest driver of overall economic growth, but its GDP composition has dropped from 56.5% in the first quarter to 52% in the current quarter mostly because industries accelerated with higher growth. In the longer term, there is no doubt that services will continue to play the most important role.

GDP composition



Fixed Asset Investment: Accumulated Growth



Fixed asset investment for April, May and June increased by 8.9%, 8.6% and 8.6% respectively. During the first half year, it reached 28.06 trillion yuan or went up by 8.6% year-on-year. However, real fixed asset investment growth continued to decline due to rising producer price index and fixed asset price index which rose 4.5% in the first quarter.

Private investment, which accounts for more than (17 trillion yuan) 60% of the total investment with an average growth of about 2.5% in 2016, rebounded this year to an average growth of 7%, making it one of the positive signs for overall economic recovery. We believe private investment will continue to grow further in the second half year.

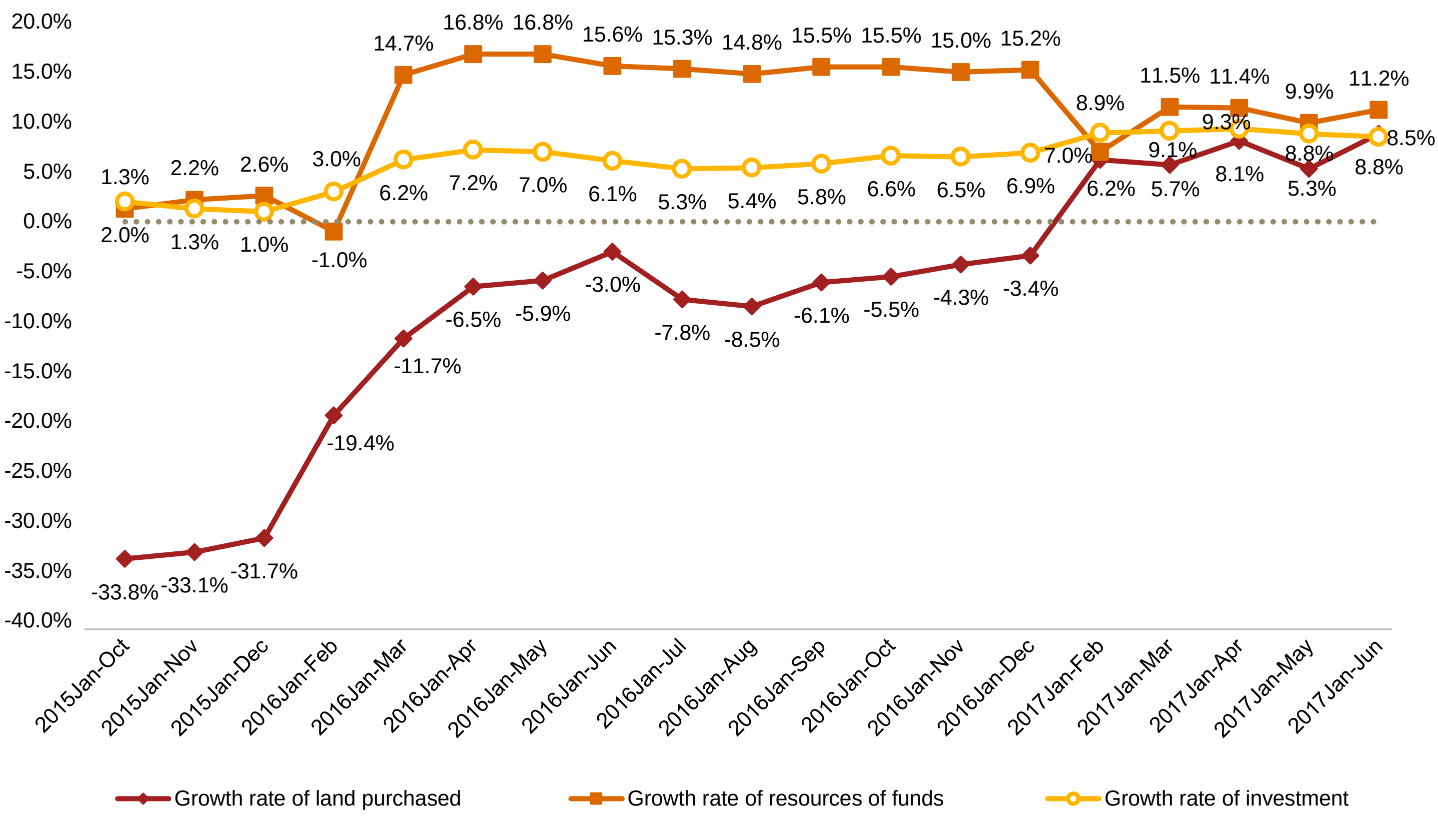
In terms of sectors, private investment in the primary industry, the secondary industry and the tertiary industry increased by 16.6%, 4.8%, and 9% respectively. In comparison, total fixed asset investment grew by 16.5%, 4.0% and 11.3% respectively. Investment in manufacturing increased by 5.5%, or 2.2% higher than the same period of 2016, and contributed 20.4% to overall investment growth.

The government still plays a key role in stimulating fixed asset investment as infrastructure accounts for 21.2% and contributed 46.5% growth in total investments in the first half year to 5.94 trillion yuan or increased 21.1% year-on-year. This is one of the Chinese characteristics we have often seen in the past where government and state owned enterprises take the lead to invest and spend when there is an economic down turn.

China has pursued an expansionary **monetary policy**, though in a more prudent manner. According to the People's Bank of China, RMB loans reached 7.97 trillion yuan in the first half of 2017, 436.2 billion yuan more than the same period last year. The balance of money supply (M2) at the end of June stood at 163.13 trillion yuan, which is 9.4% higher than a year ago. China's interest rates have remained at historical low levels after a few rounds of interest rate cuts since November 2014.

China's foreign reserves registered USD3.06 trillion at the end of June, the fifth consecutive month of recovery. Contrary to market expectations of continued depreciation, RMB has gained value against the US dollar, with exchange rate rising from 6.94 at the end of 2016 to 6.77 by end of June 2017. RMB appreciation will help stabilise the currency and reverse the trend of capital outflows, though it will raise the cost of exports. We expect RMB to resume its two-way fluctuation against the US dollar for the rest of the year, as situation changes in both China and the US.

Growth rates in real estate

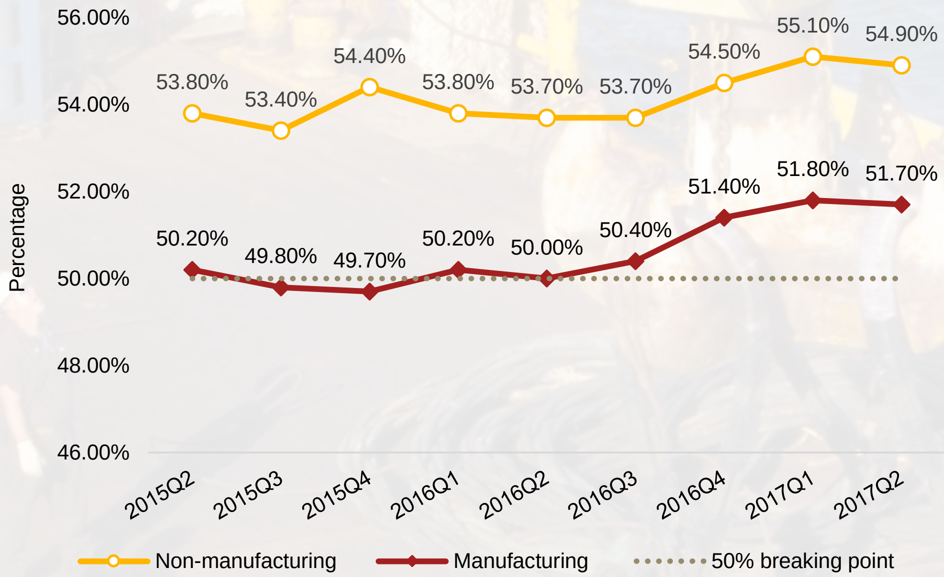


The **Real estate sector** experienced continued growth. For the first six months, total sales of commercial buildings went up by 21.5% to reach 5.92 trillion yuan, of which, residential building sales increased by 17.9% to 4.93 trillion yuan. Meanwhile, there were 5.06 trillion yuan poured into real estate development investment with a growth of 8.5%. Investment in residential buildings accounted for 67.8% of the total real estate investment.

Furthermore during the second quarter, land purchased increased by 8.1%, 5.3% and 8.8% for the months of April, May and June respectively. Compared to the negative growth of the last two years, it has significantly improved indicating strong confidence from developers.

Due to slightly tight monetary policy and deleverage policy, similar to the first quarter, growth rate of sources of funds for developers shrunk to 11.4%, 9.9% and 11.2% for the last three months. Even though the growth is just a few percentage points lower than in 2016, the impact on developers would be huge. For instance, the recent enormous amount of assets transfer among China's largest developers might be the tip of an iceberg. Similar transaction would happen again in the second half year, if declining sources of funds for developers would not reverse.

Purchasing Managers' Index

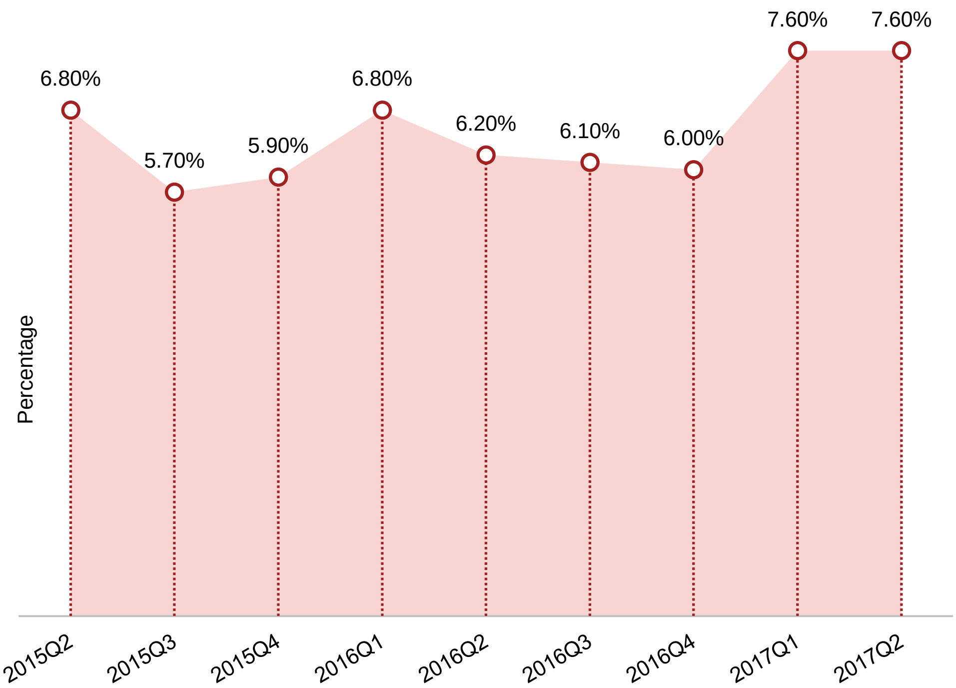


China's **Purchasing Managers' Index (PMI)** for manufacturing sector remained stable at 51.2%, 51.2%, and 51.7% for April, May and June respectively. It has stayed in the positive zone above 50% for more than one year. As China and the global economy is performing better than forecasted for the rest of 2017, manufacturing PMI is likely to remain positive in the coming months.

Similar to the past, PMI of large companies continued to perform better than small and medium sized enterprises. More specifically, PMI of large, medium, and small companies was 52.7%, 50.5%, and 50.1% respectively.

During the same period, non-manufacturing PMI became even more bullish than the past quarters, hovering between 54% and 55%. This can be verified through the outperformance of the services sectors as compared to others. By sectors, PMI of air transport, telecommunications, Internet and software services, information technology services, financial services and insurance was above 60% with rapid business growth.

Growth of Industrial Added Values (for companies over certain scales)



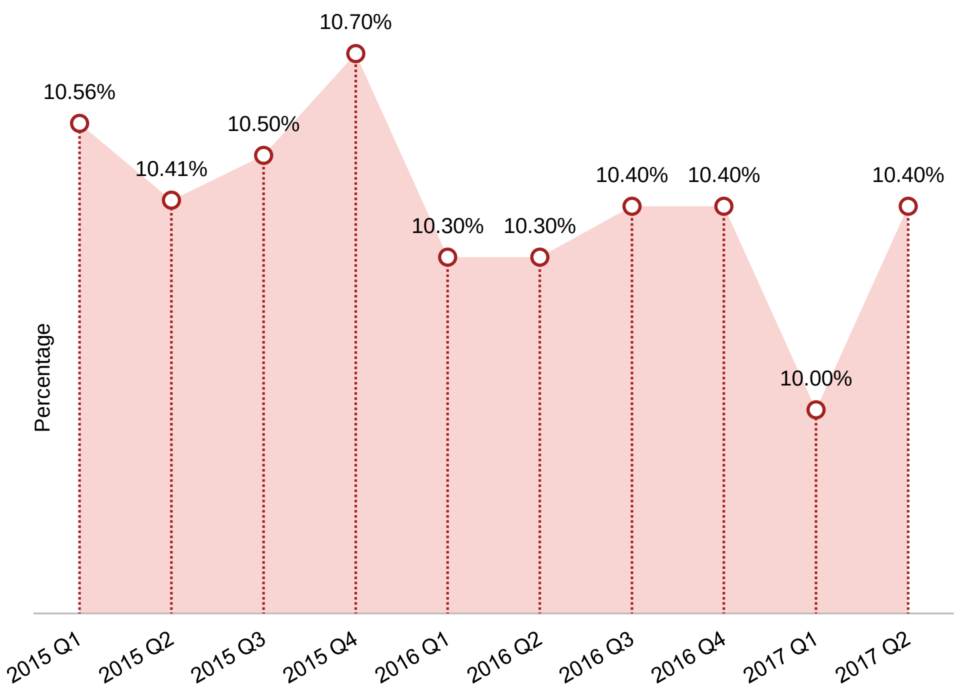
The growth of **industrial added value** for enterprises above certain scales went up by 6.5%, 6.5%, 7.6% in April, May and June respectively, in real terms (after deducting price factors). The first half year average was 6.9%, slightly higher than the same period last year. This indicates the overall performance of industrial enterprises has improved.

By sectors, while the value added of mining and quarrying fell by 0.1% in June, manufacturing value added increased by 8.0%, and production and distribution of energy (power, gas), water increased by 7.3%. By ownership, similar to the past, foreign owned enterprises continue to have the highest value added growth of 8.0%, while state holding enterprises have 6.8% growth.

It is particularly important to note that automobile manufacturing went up by 13.1% in June, driven by sport utility vehicles (SUV) and new energy vehicles. Higher automobile production means demand is strong which indicates buyers' optimistic economic outlook.

Meanwhile, **industrial profits** for enterprises above certain scales reached 3.63 trillion yuan in the first half of the year, 22% higher than a year ago. By sectors, profits for the mining industry stood at 243.6 billion yuan, 13.4 times higher than last year, manufacturing sector up by 18.5% to 3.2 trillion yuan, and power, heating, gas and water sector down by 28.2% to 185 billion yuan.

Retail Sales of Consumer Goods: Accumulated Growth Rate

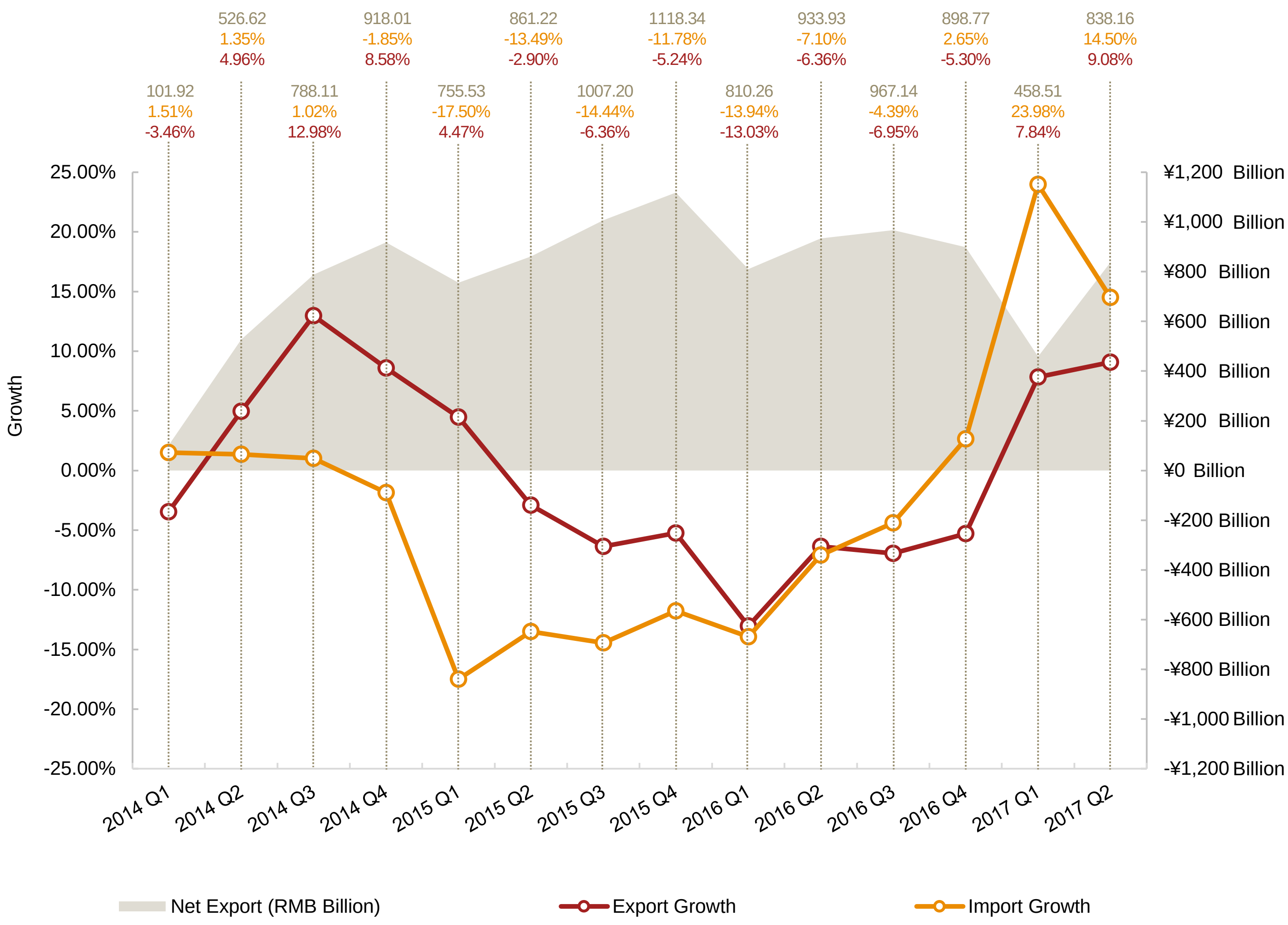


For the first half year, the **total retail sales** of consumer goods grew to 17.23 trillion yuan and went up by 10.4% year-on-year. Consumption continues to be one of the most significant driving forces for China's economic development. As of June, retail sales of consumer goods increased by 11%. In the second half of 2017, it is expected that the current growth trend of domestic consumption will continue.

Automobile retail sales increased by 9.8% in June, while the growth was only 5.2% for the first half year all together or 1.94 trillion yuan of total sales. It is very likely that both sales and manufacturing of automobiles would continue to rebound in the coming months.

Meanwhile, consumer spending on services continued to grow rapidly. In the first half of the year, consumer spending on transportation and communication, education and entertainment, and medical care increased by 9.6%, 10% and 11.9% respectively. Other spending such as domestic service, tourism, catering services also increased between 12% and 16%.

Quarterly Balance of Trade



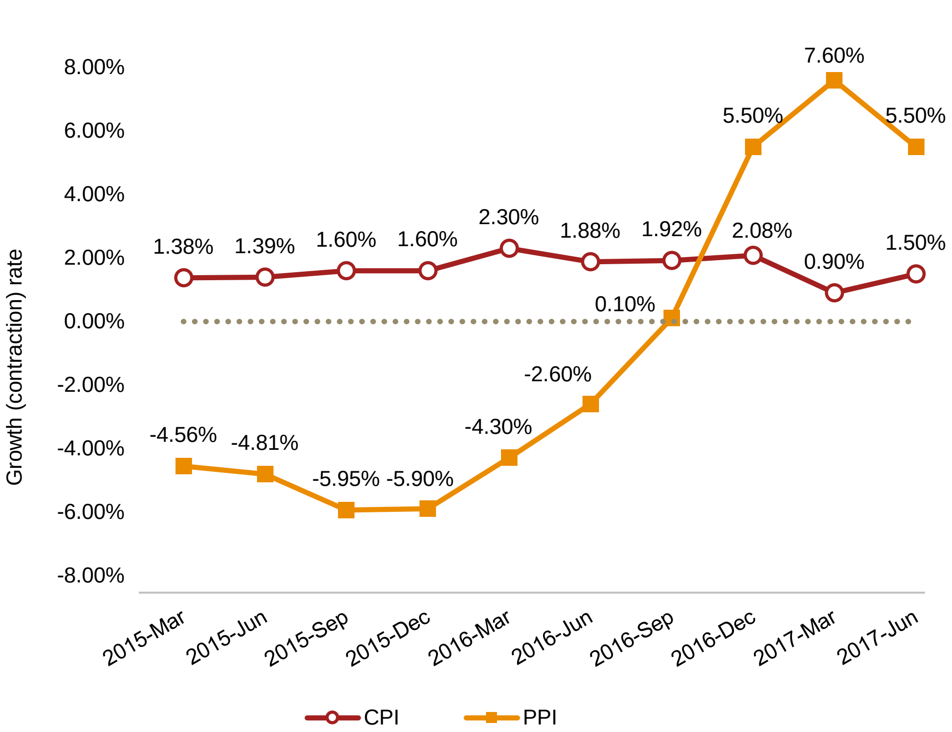
Compared to the GDP growth of 6.9%, China's **imports and exports** bounced even higher. For the first half year, China's total trade reached 13.14 trillion yuan with 19.6% growth rate. Imports and exports increased 25.7% and 15% year-on-year respectively. Despite sharp growth in imports, there was still a trade surplus of 1.2 trillion yuan.

Furthermore, labour-intensive mechanical and electrical products are still the largest export items accounting for 57.2% of total exports with 14.6% growth.

In terms of region, China's imports and exports with some of the countries along the Belt and Road initiative also increased significantly. For instance, trade with Russia, Pakistan, Poland and Kazakhstan went up by 33.1%, 14.5%, 24.6% and 46.8% respectively. In order to further boost trade with the Belt and Road countries, China might sign free trade agreements with some of them in the near future.

Given the improved global economy and higher demand for Chinese products, we expect both imports and exports to continue to rise in the second half year.

Producer Price Index and Consumer Price Index



During the first six months, **consumer price index (CPI)** increased only by 1.4%, dropping by 0.7% when compared to the same period last year. This was primarily due to reduction in food prices by 2.1%, particularly vegetable prices which fell by 14.7% due to stronger supply.

Meanwhile, non-food CPI rose by 2.3%, on account of price of health care which went up by 5.2%, tourism rose by 4.1%, education rose by 3.3%, Chinese traditional and western drugs rose by 5.8% and 6.2% respectively. These were triggered by rising labour cost and strong demand from upgraded consumption.

The core CPI, excluding food and energy, increased by 2.1% in the first six months as food and energy prices fluctuated more often than others. While food and energy prices may stay low in the second half year, the services related CPI could continue to rise. Therefore, overall CPI might increase a bit in the coming months, but it would still maintain a rather stable situation for the whole year.

On the other hand, **producer price index (PPI)** for the first six months seems to have shifted from its peak of above 7.8% in February to 5.5% in June. PPI is still at a higher level mainly because of rising prices of capital goods, which increased by 8.8% in the first half year and pushed PPI up by 6.4%, while prices for consumer goods remained low.

Boosted by global economic recovery and further progress of China's supply-side structural reforms, commodity prices rebounded, rising by 21.9% year-on-year in the first seven months of 2017. Among them, prices of ferrous metals, non-ferrous metals, chemical products and coal rose by 4.6%, 3.6%, 0.3% and 2.5% respectively in July from the last month, while refinery oil prices fell 1.5% further in July 2017. The level of PPI for the rest of the year will largely depend on the price changes of the capital goods, which may retain its growth trend.

II

Policy Updates

Tightened scrutiny over China's overseas investments

Since the end of 2016, China's National Development and Reform Commission (NDRC), Ministry of Commerce (MOFCOM), People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) have expressed their concerns over overseas acquisitions by the Chinese firms in certain sectors, underlining the government's new drive to rein in offshore spending by some of the country's biggest companies.

MOFCOM has recently reiterated its warnings that Chinese companies should exercise "prudent" decision making regarding overseas investments, especially in real estate, hotels, film studios, entertainment and sports clubs. Meanwhile, the four agencies indicated that they would step up scrutiny on "authenticity and policy compliance" of new overseas investment projects. The State-owned Assets Supervision and Administration Commission (SASAC) also announced that it would step up its review of investment by SOEs and in principle it would not approve SOEs to invest abroad in their non-core industries.

In June, China's Banking Regulatory Commission issued an urgent statement requesting for an investigation over the "irrational" offshore investment undertaken by HNA, Anbang, Wanda, Fosun, and Zhejiang Rosen Neri. This has brought a knock-on effect on the stock and bond market performances of these companies.

These new policy changes reflect government's increasing concerns over capital flight and "asset transfers", and rising financial risks brought by the shoddy investments as many relied heavily on loans from the Chinese banks. Rapid outflow of cross-border capital has exacerbated the difficulty of maintaining an equilibrium of balance of payments and brought more pressure on China's foreign reserves and RMB's exchange rate.

According to MOFCOM, China's overseas investment reached a record level of USD170.1 billion in 2016. But thanks to the government's recent efforts, China's overseas investment in real estate sector dropped by 82% in the first half of 2017 while investment in cultural, sports and entertainment industries declined by 82.5% over the same period of last year.

With all these developments underway, however, the Chinese government is adamant that its policy of encouraging overseas investment remains unchanged. It will "continue to guard against risks of outbound investment and ensure the healthy and orderly development of investment overseas." China will support companies investing overseas according to market and international rules, especially in 'Belt and Road' developments.

Politburo sets new work targets for the second half of 2017

China's Politburo, the Communist Party's top decision-making body, convened on 24 July to assess the economic development in the first half of 2017 and set the tone for economic work for the rest of the year. According to a statement following the meeting chaired by President Xi Jinping, China will implement a "proactive" fiscal policy and "prudent" monetary policy in the second half of the year.

The meeting has identified six key priorities for the second half of 2017, namely further promoting the supply-side structural reforms by effectively dealing with the "zombie enterprises" issues; stabilising foreign and private investment by increasing their confidence in the market and improving market access; creating more employment opportunities to improve people's livelihood; ensuring there is no "systemic" financial risks while improving the efficiency of the financial sector; stabilising the real estate market by maintaining the continuity of relevant policies; and "actively and steadily resolving built-up government debt risks, effectively regulating local government debt financing, and resolutely curbing the increase in hidden debt".

Among these arrangements, the key task is the government's increasing concern about China's financial and debt risks. Years of economic expansion fueled by easing of the monetary policy has caused excessive leverage. The financial sector needs to play a stronger role in nurturing the development of the real economy and financial regulation needs to be strengthened in the face of rising moral hazard.

To address these problems, China is about to create a "super regulator" in addressing financial woes. The People's Bank of China will play a bigger role in enhancing coordination and improving weak links in financial oversight. In 2017 alone, CBRC has planned to complete 46 legislative programs, covering risk management on bankruptcy, liquidity of commercial banks as well as cross products services.

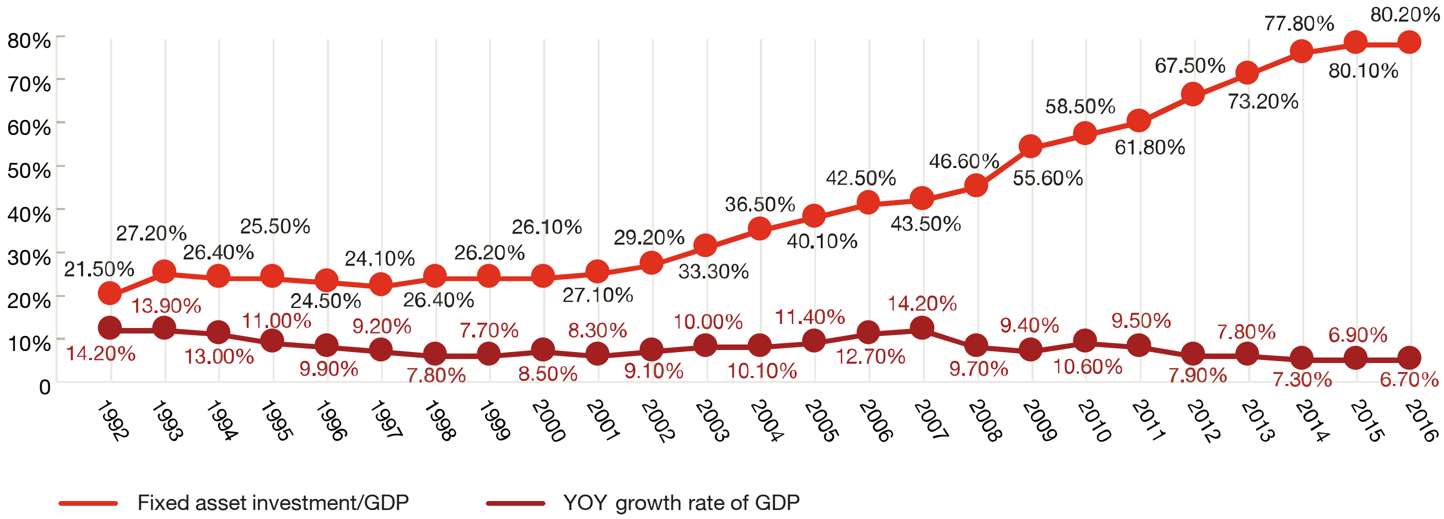
III

Hot topic analysis

China's ballooning debt: Is it time to address it?

While financial stability has been identified by the Chinese leadership as one of the top priorities for 2017, there is a rising concern lately about the health of China's banking system, which is facing increasing pressure of bad debts. The real problem, however, lies in the slowdown of the Chinese economy itself and the inherent structural issues of China's banking system.

Figure 1 — Fixed Asset Investment as a proportion of GDP increasing constantly in China



Source: Wind

As shown above, China still relies heavily on fixed investment, which rose to 80% of GDP in 2016. Yet the marginal return on investment has been steadily declining, as the total value of investment shot up while GDP growth rates dropped. Easy access to bank loans, especially for state-owned enterprises (SOEs), is partly to blame for the overinvestment. As a consequence, many of the investments aggravated the overcapacities in heavy industry and extractive sectors, contributing to the build-up of bad debts of the banks.

Due to underdevelopment of China's financial market, bank loans accounted for 69.9% of China's total financing for the real economy in 2016, and bond and capital markets only provided 16.8% and 7% of financing respectively, according to China Banking Regulatory Commission (CBRC).

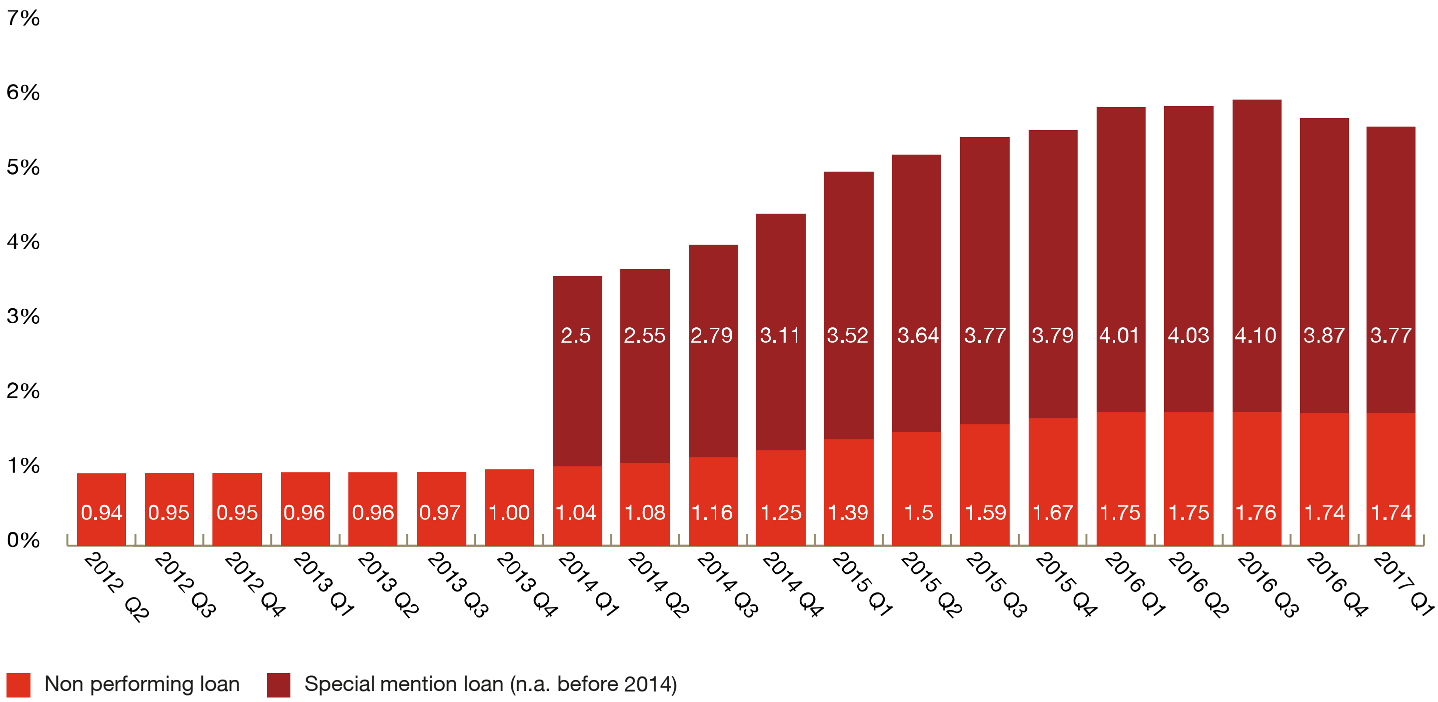
In 2016, bank loans jumped 13.5% year-on-year to RMB 12.65 trillion, which is more than RMB 925.7 billion compared to the previous year. Two thirds of the loans were extended to SOEs, which are known for their low efficiency and poor investment returns. Some are deemed as the "zombie enterprises" that rely on state support to stay afloat.

Chinese banks are well exposed to the non-performing loans (NPLs), the percentage of a bank's loans that is unlikely to be repaid. According to CBRC, the NPLs of major commercial banks rose to 1.74% by the end of 2016, with the balance of NPLs reaching RMB 1.51 trillion. This marked the 22nd consecutive quarterly growth of NPLs since the third quarter of 2011.

The Chinese level of NPL rates of 1.74% appears to be low, compared with the average rate of 2.7% for 30 global system banks in 2016. However, behind the gap lies the differences between international and Chinese accounting standards. While the international accounting system would classify a loan as NPL if the borrower has a repayment delay of more than 90 days or if the borrower is facing serious difficulties, the Chinese accounting standards distinguish two broad categories of "loan at risk": (i) the non-performing loan (NPL) and (ii) the special mention loan. When the value of a collateral is sufficient to permit the repayment of a risky loan, the loan will most likely be classified as special mention loan instead of NPL under the Chinese accounting standards.

As the CBRC data has suggested, special mention loans rose more rapidly, climbing to RMB 3.35 trillion by the end of 2016, accounting for 3.87% of total loans, compared to 2.5% in 2014 when such category of loan were first accounted for by the CBRC. If both NPLs and special mention loans are taken into account, China's bad debt levels will be much higher (see Figure 2).

Figure 2 — NPL and special mention loan in the banking sector



Source: CBRC, PwC Analysis

Amid rising concerns, the Chinese government has remained adamant that there is no imminent systemic financial crisis. According to Mr. Yang Kaisheng, Special Advisor of the CBRC, at a press conference on 6 March 2017, China's NPL rate remained low by international standards. Meanwhile, loan provisioning rates for big commercial banks remained above 70% and profits of commercial banks exceeded RMB 2 trillion. Coupled with over RMB 10 trillion of capital in cash, China is well-equipped to deal with any potential risks.

Yet the real level of bad debt in China might be much higher than the official figures, according to some international rating agencies. NPL rates may have already been as high as 15%-21% for the financial system. If that was true, it would mean that if all these were written off, it would wipe out Chinese banks' capital base.

Rising bad loans were also the main worry for the Chinese bankers last year, according to the Chinese Bankers Survey Report for 2016, which was published by the China Banking Association and PwC in February 2017. According to the survey, up to 89.6% of interviewed bankers held that currently, the biggest challenge facing China's banking sector is the increasing difficulty of risk control amid deteriorating asset quality. The respondents generally believed the ratio of NPLs of Chinese banks has not peaked, and more than 60% of them said the NPL ratio of their banks will exceed 1% in the next three years.

So, no matter how to measure it, China's NPLs are far from reassuring. The scale of China's total debt has risen from 164% of GDP in 2008 to 260% of GDP by the end of 2016, according to Bloomberg. While the government and households played a minor role, the lion's share were corporate debts, and two-thirds of the debts came from SOEs.

Yet this is unlikely to lead to a financial crisis. It needs to be recognised that most of China's debts are domestic in nature, with limited international debt, and the Chinese government has significant fiscal buffer and a lot of resources to keep things under control. Meanwhile, the Chinese economy still keeps growing, albeit at a slower rate. Many NPLs could be diluted and resolved along with economic expansions.

Going forward, China needs to properly handle the rapid growth of bank credit and the poor quality of many bank assets. To do this, it has to ensure that financial resources are allocated to productive forces in the market, regardless of the ownership of the enterprises. At the same time, the Chinese banks will need to step up their efforts to address the rising debt, including increasing screening and scrutiny before extending new loans, strengthening post-loan risk management, exploring new market-oriented and innovative methods such as transfer of bad assets, securitisation of bad assets, debt-equity swap, and credit default swap (CDS) to handle NPL problem.

The ongoing supply-side structural reforms provides clear guidance for this change. Excessive production capacities, especially from SOEs, will be shed off and the "zombie enterprises" be closed down, while corporate leverage ratios will be held at a much lower level. Once these jobs have been done, the Chinese banks will hopefully return to a good shape with less NPL risks.

In the meantime, the Chinese government should encourage more direct financing, such as the bond and capital markets, and reduce corporates' reliance on bank loans.

[1] https://www.bloomberg.com/news/articles/2017-05-24/china-downgraded-to-a1-by-moody-s-on-worsening-debt-outlook

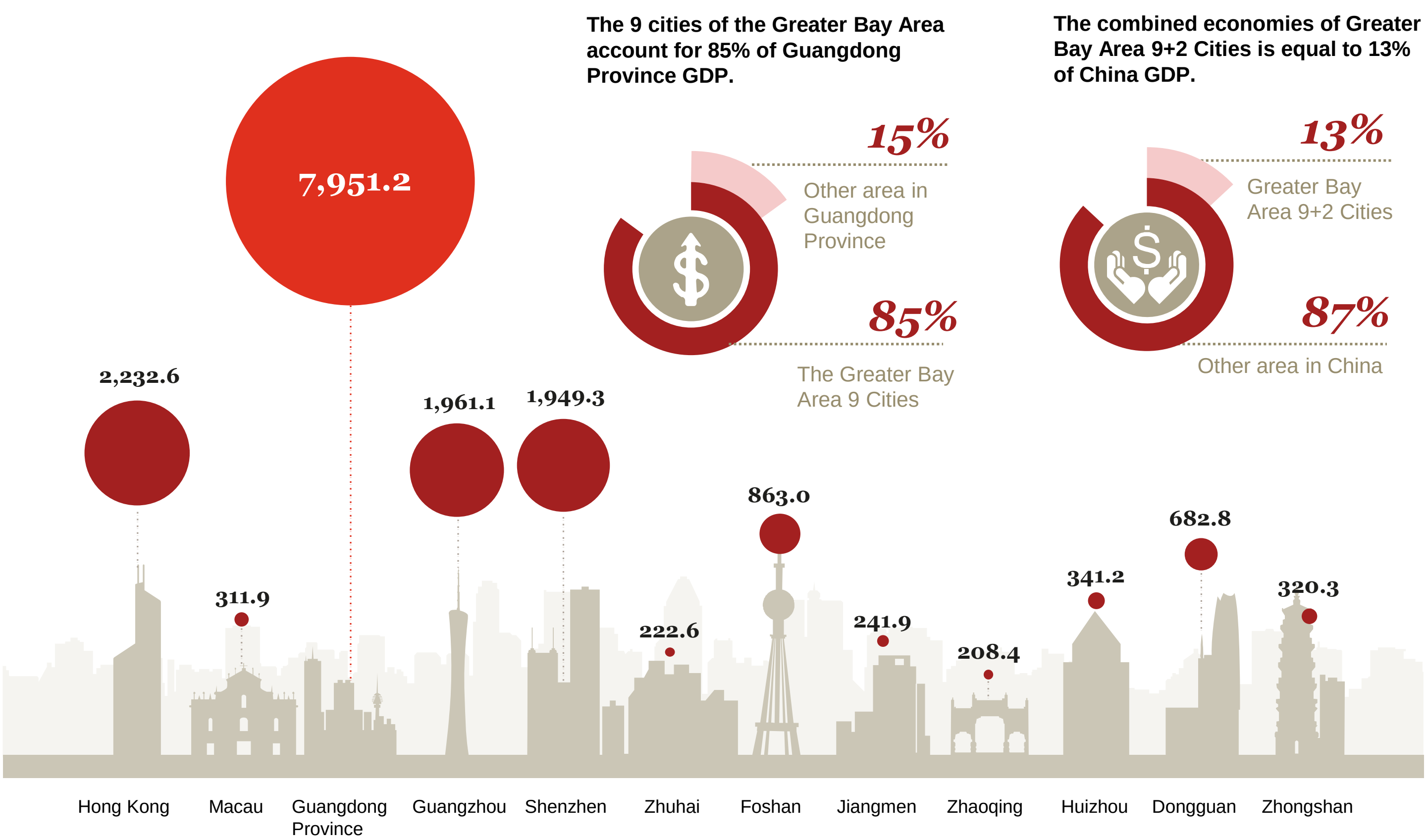
China's Greater Bay Area plan creates enormous opportunities

On the occasion of the 20th anniversary of the return of Hong Kong to China, during President Xi Jinping's visit to Hong Kong, the National Development and Reform Commission (NDRC), the People's Government of Guangdong Province, the Hong Kong SAR and the Macau SAR, jointly signed the Framework Agreement on Deepening Guangdong-Hong Kong-Macau Cooperation in the Development of the Greater Bay Area. Earlier, Premier Li Keqiang proposed "to promote and deepen the cooperation between the Chinese mainland, Hong Kong and Macau, and to formulate a plan for the development of a city cluster in the Guangdong-Hong Kong-Macau Bay Area." It is reported that the plan under the leadership of the NDRC will be announced in the near future.

The central government attaches great importance to the development of the Guangdong-Hong Kong-Macau Greater Bay Area ("the Greater Bay Area"). The development plan is not only a local and regional strategy between the two special administrative regions and several mainland cities, it is also a long-term plan at the national level. So, what are the new opportunities that such an important plan would bring?

First of all, the total GDP of Guangdong, Hong Kong and Macau in 2016 was approximately 10.49 trillion yuan (USD1.57 trillion), accounting for 14% of the country's total GDP. This is comparable to the world's tenth largest economy Canada; and the total population of the three places is close to 120 million, almost the same size as the world's tenth most populous country of Mexico or Japan. Therefore, Guangdong, Hong Kong and Macau together can be regarded "as rich as a country" in terms of total economic size and population. According to estimates by China Centre for International Economic Exchanges, one of the country's top think tank, by 2030 the Greater Bay Area's GDP is expected to amount to USD4.62 trillion, surpassing the economic size of Tokyo Bay Area (USD3.24 trillion) and the New York Bay Area (USD2.18 trillion), to become the world's largest bay in terms of economic scale.

Figure 1 — GDP of the Greater Bay Area 9+2 cities and Guangdong Province, 2016



Unit: GDP (RMB billion)

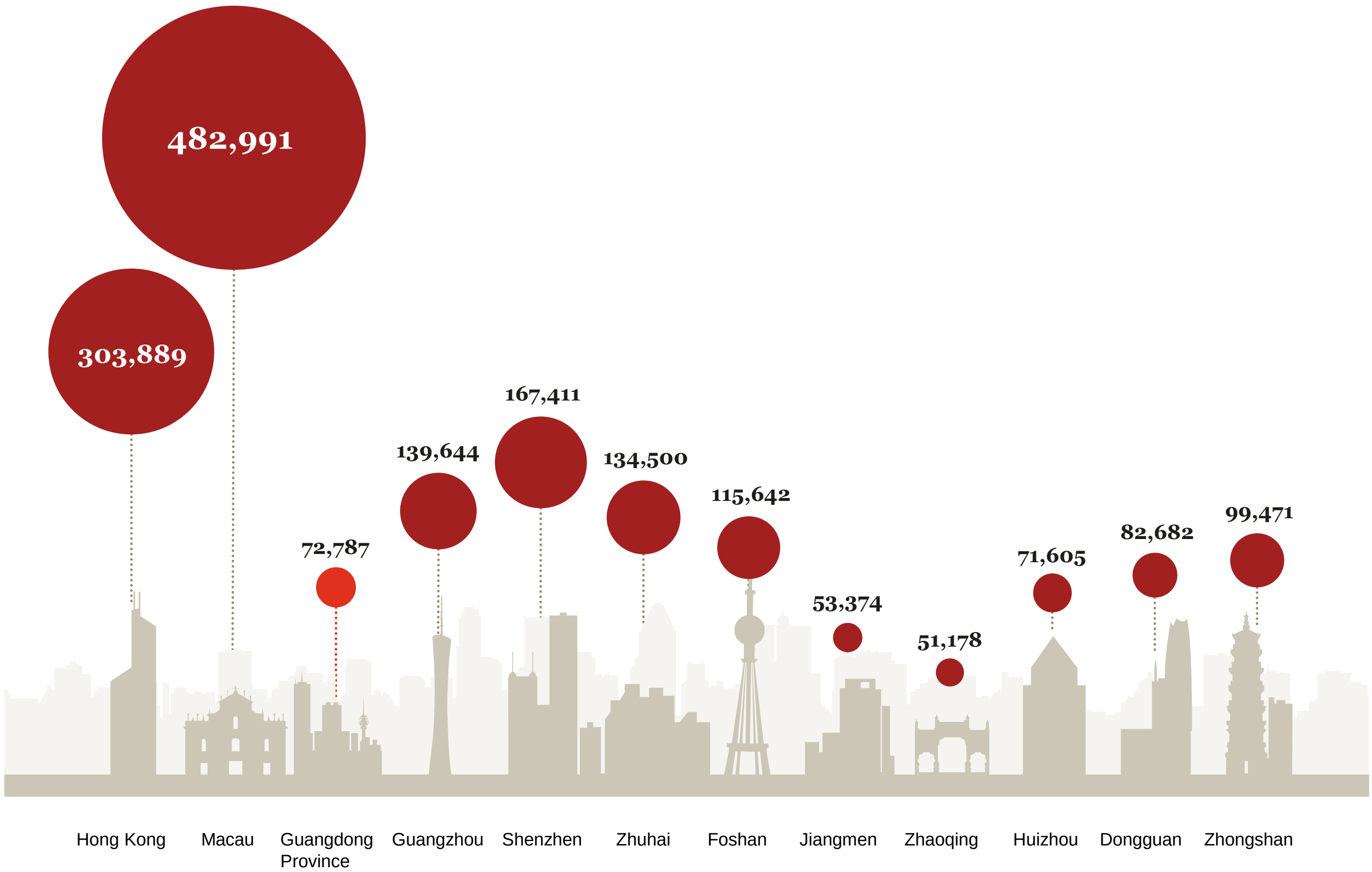
Source of data：Local Chinese statistics bureaus , HKSAR Census and Statistics Department, Macau SAR Statistics & Census Service, Wind, PwC Analysis

The development of the Greater Bay Area also faces many challenges as these cities are in different stages of growth. For example, there is variation in the per capita GDP of 11 (9+2) cities, as the highest per capita GDP in Macau is almost ten times that of Zhaoqing.

Geographically, the east coast of the Greater Bay Area has great advantages both in terms of economic scale and population. The four cities on the east coast, including Hong Kong, Shenzhen, Dongguan and Huizhou, claim 48% of the population and 56% of the economic scale of the Greater Bay Area. By contrast, the four cities on the west coast, including Macau, Zhuhai, Zhongshan and Jiangmen, represent 15% of the population and 12% of the economic scale of the Greater Bay area respectively.

Moreover, due to the large differences in the level of economic development and economic and political systems, these 11 cities vary greatly in the amount of foreign direct investment, with Hong Kong being in the lead.

Figure 2 — GDP Per Capita in RMB across the Greater Bay Area cities, 2016



Unit: GDP (RMB)

Source of data: Local Guangdong statistics bureaus, HKSAR Census and Statistics Department, Macau SAR Statistics & Census Service, Wind, PwC Analysis

Despite the many challenges, the Greater Bay Area is not only economically large, but also has a number of dominant industries with distinct competitiveness globally or nationally. These are the key factors driving the regional economic development plan.

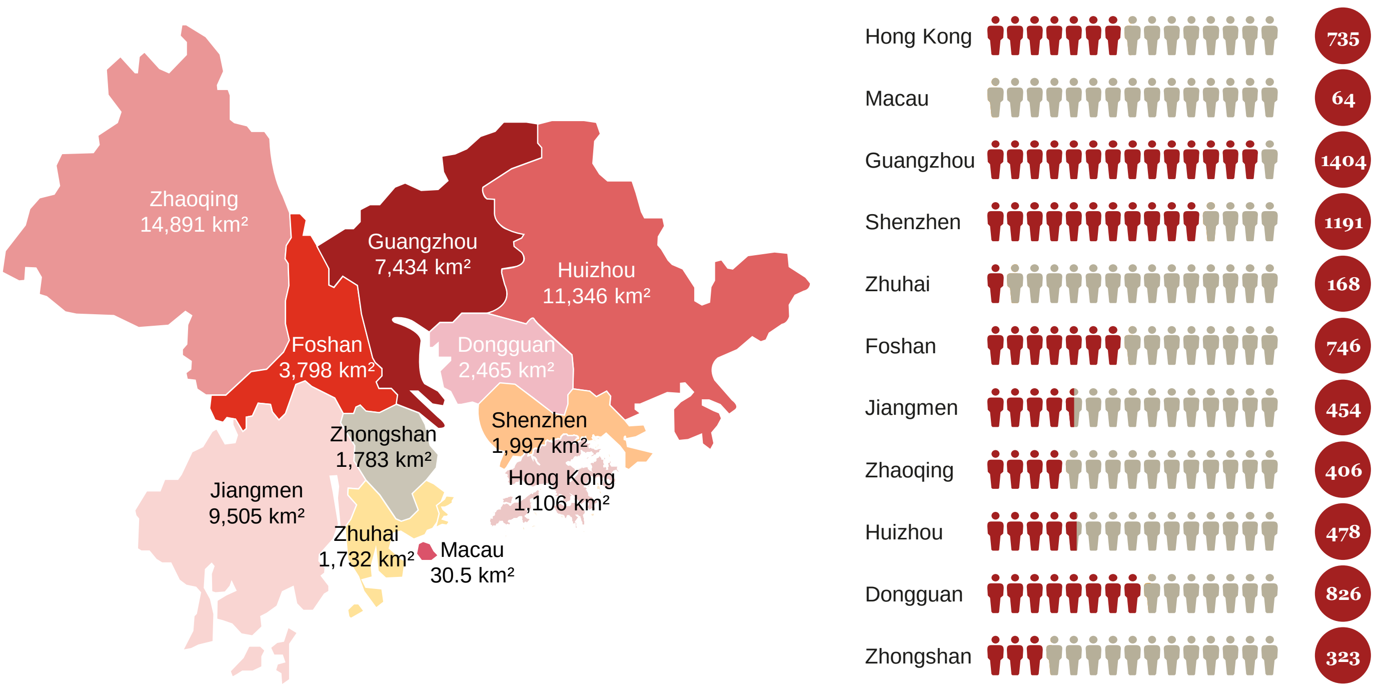
In terms of industry, the value added in the manufacturing sector in the Greater Bay Area reached 2.88 trillion yuan in 2016. Manufacturing of computers, communications and other electronic equipment accounted for 762 billion yuan, reflecting its leading position.

And eight sectors have reported a total output value of more than 100 billion yuan. Besides, the Greater Bay Area has massive global ports, airports and other infrastructure facilities as well as other advantages richly endowed by nature.

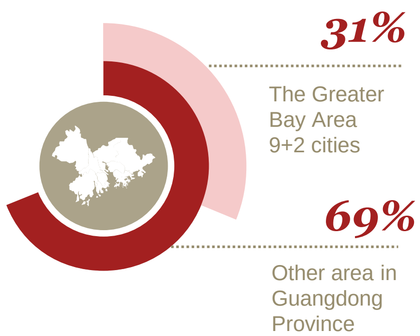
Apart from the obvious advantages in many areas of the manufacturing sector, the Greater Bay Area has a very prosperous tourism industry characterised by big market size and large numbers of visitors. For instance, in 2016, the passenger flows in Hong Kong, Guangzhou and Shenzhen airports were up to 70.52 million, 59.78 million and 41.97 million, respectively.

In addition, the Greater Bay Area leads the nation in finance, insurance, technology and internet, real estate development, automobile and home appliance manufacturing, etc., and some of the industries even top the global rankings. For example, 15 enterprises from the Greater Bay Area were among the Fortune Global 500 Companies 2016, with total revenues amounting to 6.45 trillion yuan.

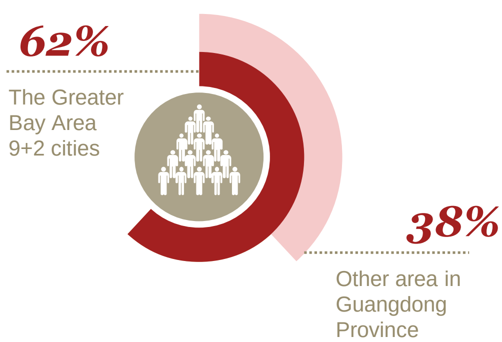
Figure 3 — Area and population of the 9+2 cities of the Greater Bay Area, 2016



The total area of the Greater Bay Area 9+2 cities is 31% of the size of Guangdong province.



The sum of the Greater Bay Area 9+2 cities' population is 38% of the provincial population.



Unit: area (km2); population (million people)

Source of data：Local Guangdong statistics bureaus, HKSAR Census and Statistics Department, Macau SAR Statistics & Census Service, Wind, PwC Analysis

So how should the Greater Bay Area develop in the future? What opportunities will it bring to local enterprises and residents?

Firstly, establishing a world-class city cluster with Hong Kong, Shenzhen and Guangzhou as three core cities is perhaps a good strategic positioning. With similar economic strength, the three cities can form a "三" shaped world-class city cluster (or three parallel city cluster) that enhances close cooperation with each other. This is a major feature of the Greater Bay Area, as there are no such three big cities so close to each other at home and abroad. The city cluster's advantage is to keep the existing development pattern while maintaining the special characteristics of each one of the cities.

Secondly, seamless connection between infrastructure facilities and public services and the rapid flow of production factors may build up an integrated single market. With the completion and planning of a series of infrastructure projects, the Greater Bay Area will enjoy greatly improved traffic convenience in the future; however, improvements are still needed in many areas. For example, "The failure to achieve smooth connection in the areas of education, medical care, finance and social security in the region hindered the rational allocation of resources within the Greater Bay Area," said well-known scholar Zheng Yongnian, adding that "The Greater Bay Area is not a patch on the EU in terms of integration, such as the labor market, staff mobility, customs pass management, and scientific research cooperation." Therefore, apart from the close connection of infrastructure facilities, it is worth pondering how to connect public services among cities to accelerate the rapid flow of production factors as quickly as possible over the next few years, and to finally establish an integrated single market in the Greater Bay Area.

Thirdly, an integrated single tourism destination might attract more visitors. As mentioned above, the Greater Bay Area received more than 400 million domestic and foreign tourists and registered an overall tourism revenue of more than 1 trillion yuan in 2016. If faster interconnection among cities through infrastructure facilities can be achieved in the future, people could reach major tourist sites of the 11 cities within two to three hours or even less. This will attract more domestic and foreign tourists to stay a few more days in the Greater Bay Area, thereby substantially increasing the tourism revenue.

Fourthly, promoting the competitiveness of the manufacturing sector and cultivating high value-added industries. Many areas of the manufacturing sector are still at the lower end of the value chain, and the proportion of businesses with high value-added is small. To ensure economic prosperity in the region, cultivating international brands, high tech and high value-added industries, upgrading and transformation of more industries, is vital.

Finally, perhaps most importantly, in today's context of economic globalisation, if a region does not have a few advanced industries, it will be difficult for them to prosper in the long term. When we look at the bigger picture from a global perspective, the finance (mainly banking and insurance), internet and technology sectors have the strongest competitiveness among all industries. Only when the cities can strengthen their cooperation with each other in these sectors, the Greater Bay Area will advance their economies and stay ahead of the world with their core competence. As such, the region will grow strong in terms of economic size and quality. Hence, this will help a powerful Greater Bay Area to finally emerge.

Source of data: Unless otherwise stated, the economic statistics are from the National Bureau of Statistics and the financial datum are from the People's Bank of China

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