

Positioning Hong Kong as the Gateway of the Greater Bay Area to Southeast Asia

Donald Low

Professor of Practice in Public Policy

Director, Institute for Emerging Market Studies

Hong Kong University of Science and Technology

香港和粤港澳大湾区： 一体化与独特性

HONG KONG & THE GREATER BAY AREA: INTEGRATION & DISTINCTIVENESS

大卫·史基林 David Skilling
Landfall Strategy Group

刘浩典 Donald Low
香港科技大学新兴市场研究
HKUST Institute for Emerging Market Studies

现时香港大部分粤港澳大湾区政策的重点都在于深化融合，但本文认为香港同时需要加强香港在大湾区内的独特性。本文将借鉴从亚洲到欧洲的国际小型经济体在如何管理经济一体化与独特性的双重需求的经验，提供与香港情况相关的新政策见解。

Much of Hong Kong's current policy focus with respect to the Greater Bay Area has been on deepening integration, but a greater emphasis on policies that strengthen Hong Kong's distinctiveness will be also required. Drawing on lessons from international small economies, from Asia to Europe, in managing dual imperatives of economic integration and distinctiveness, this report will provide new policy insights that are relevant to the Hong Kong context.

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粤港澳大湾区： 对香港与东南亚关系的影响及启示

THE GREATER BAY AREA: IMPLICATIONS FOR HONG KONG'S RELATIONS WITH SOUTHEAST ASIA

曼努·巴思卡仁 Manu Bhaskaran 及郑来志 Nigel Chiang
新加坡亚洲百年咨询公司 Centennial Asia Advisors

刘浩典 Donald Low
香港科技大学新兴市场研究
HKUST Institute for Emerging Market Studies

随着香港积极融入粤港澳大湾区建设，为经济发展带来更多商机，香港与内地一线城市（如深圳和上海）的竞争将愈发激烈与此同时，东南亚经济正准备加速转型，本文探讨香港应作何种调整，透过专注于与相邻经济体相比有更多明显优势的领域，如银行贷款、股权融资，以及促进东南亚公司进入中国市场，以获享融入大湾区以及东南亚地区经济复苏带来的机遇。

Hong Kong's deepening integration into the Greater Bay Area will bring expanded growth business opportunities for the city. But it also faces increased competition from leading cities such as Shenzhen and Shanghai. This report discusses how Hong Kong can find ways to tap into the accelerated economic transformation that a rejuvenated Southeast Asia is poised to enjoy, focusing on areas where it has a clear edge over competing economies such as bank lending, equity financing, and in facilitating Southeast Asian companies' access to China.

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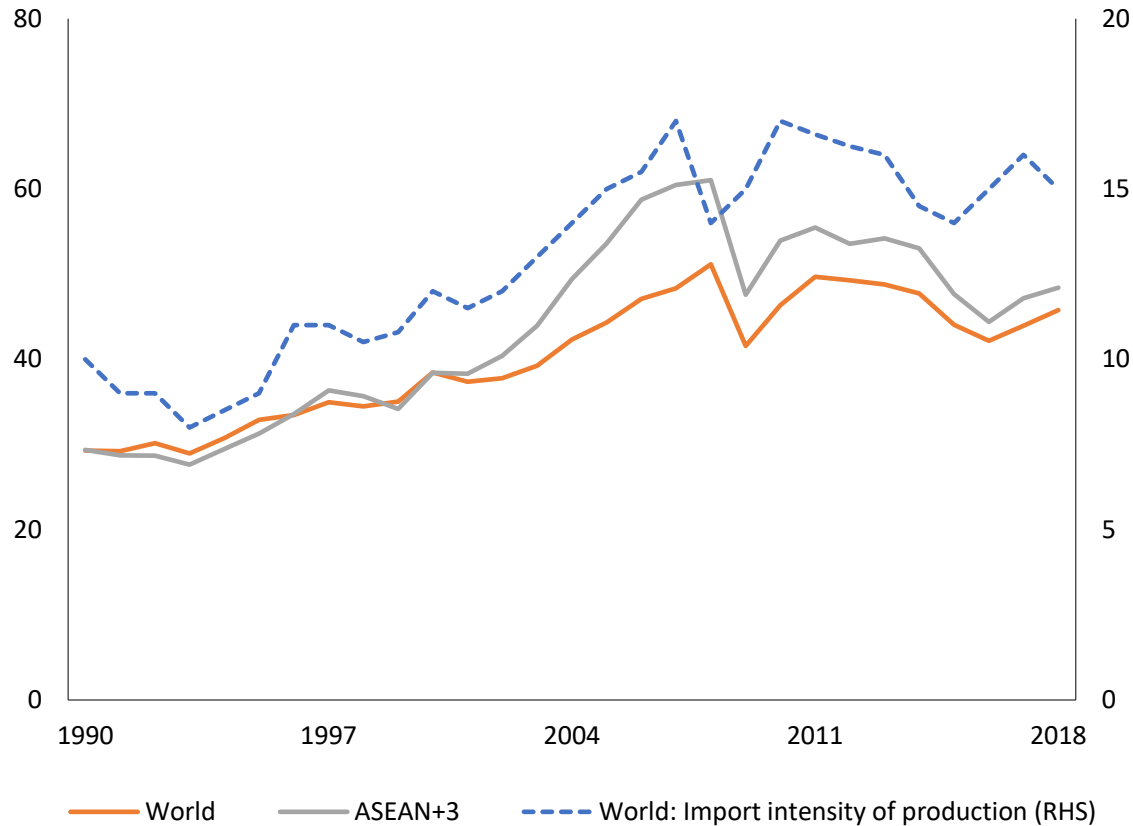
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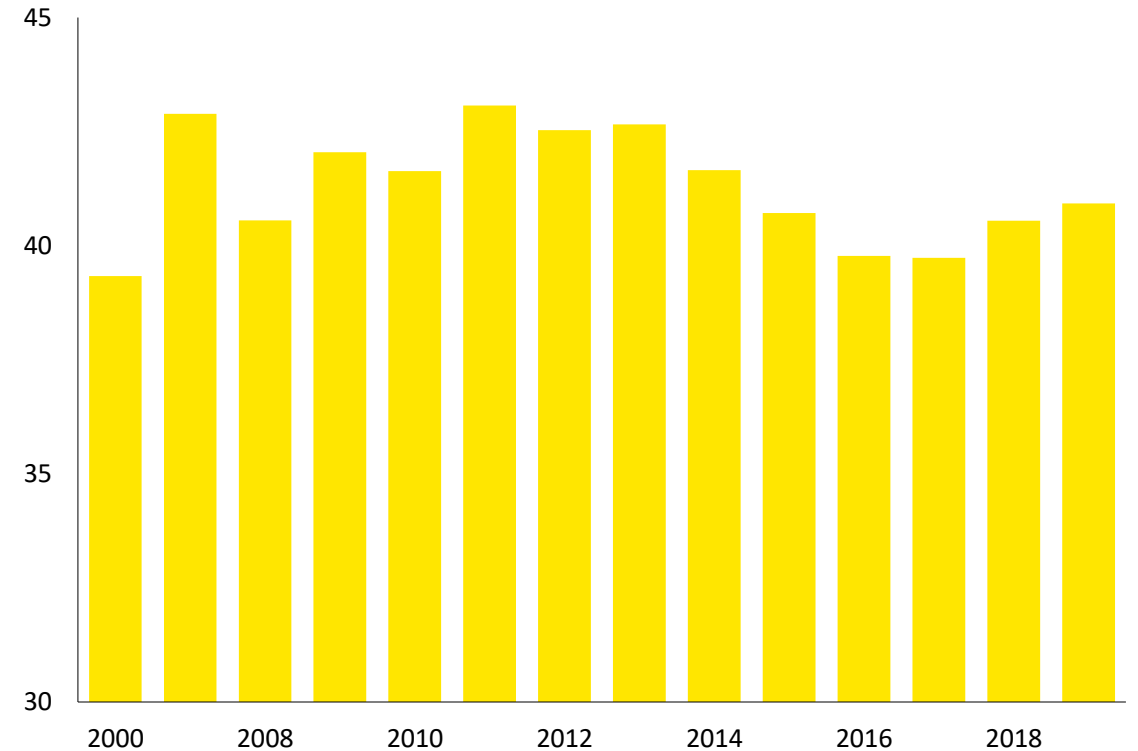
Photo by hzmb.gov.hk

With trade and GVCs slowing since the Global Financial Crisis, COVID-19 has fueled predictions of deglobalization and a reshoring of GVCs.

World and ASEAN+3: Annual trade as percentage of GDP



ASEAN+3: GVC Participation
(Percent of total exports, 3-year moving average)



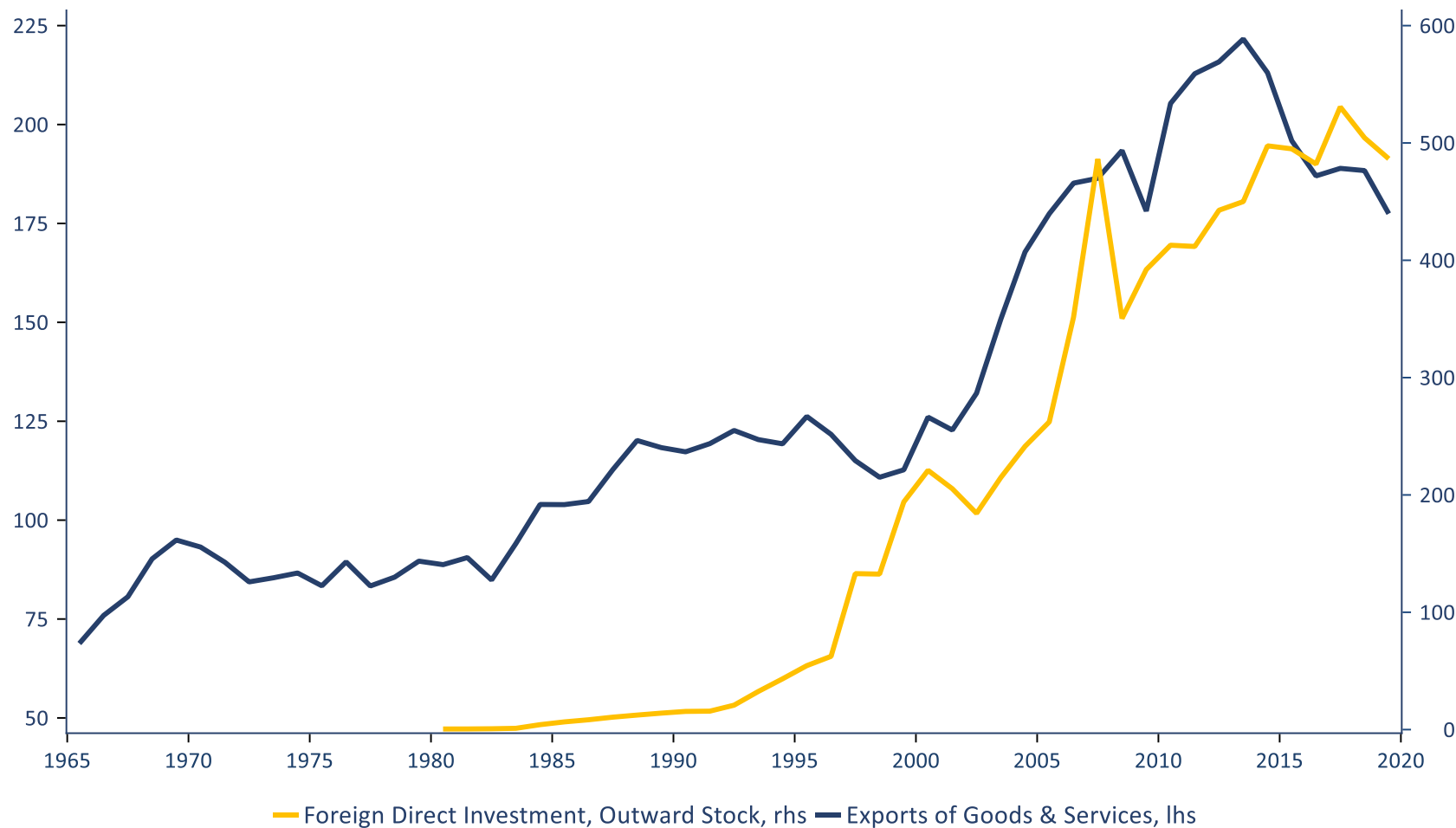
Sources: Mirodout and Nordström (2020); UNCTAD; World Bank; and AMRO staff calculations.

Note: Trade refers to the sum of exports and imports. Import intensity of production is defined as the ratio of GVC-related imports to the output of the final products.

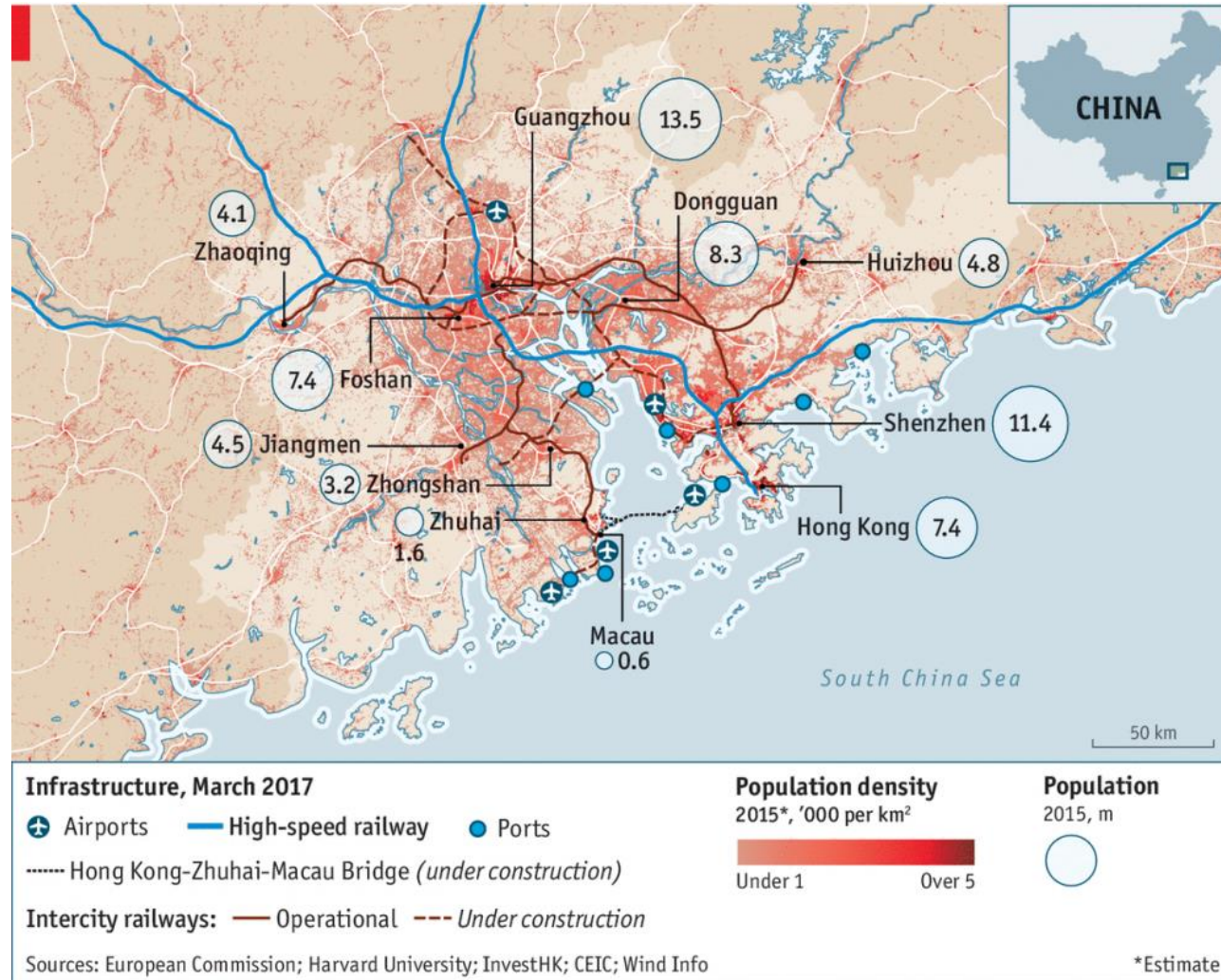
Sources: Asian Development Bank; ASEAN+3 Macroeconomic Research Office

After a period of high growth, Hong Kong's level of international economic engagement has levelled off.

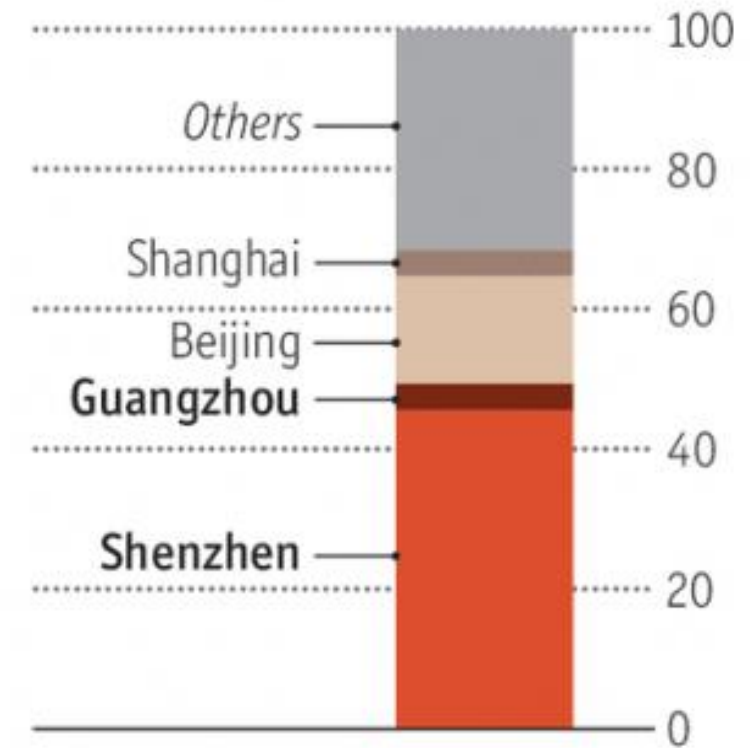
Hong Kong's exports of good & services; outward FDI, % of GDP, 1965-2019



Further harmonization with, and deeper integration into, the Greater Bay Area will offer Hong Kong significant growth opportunities...

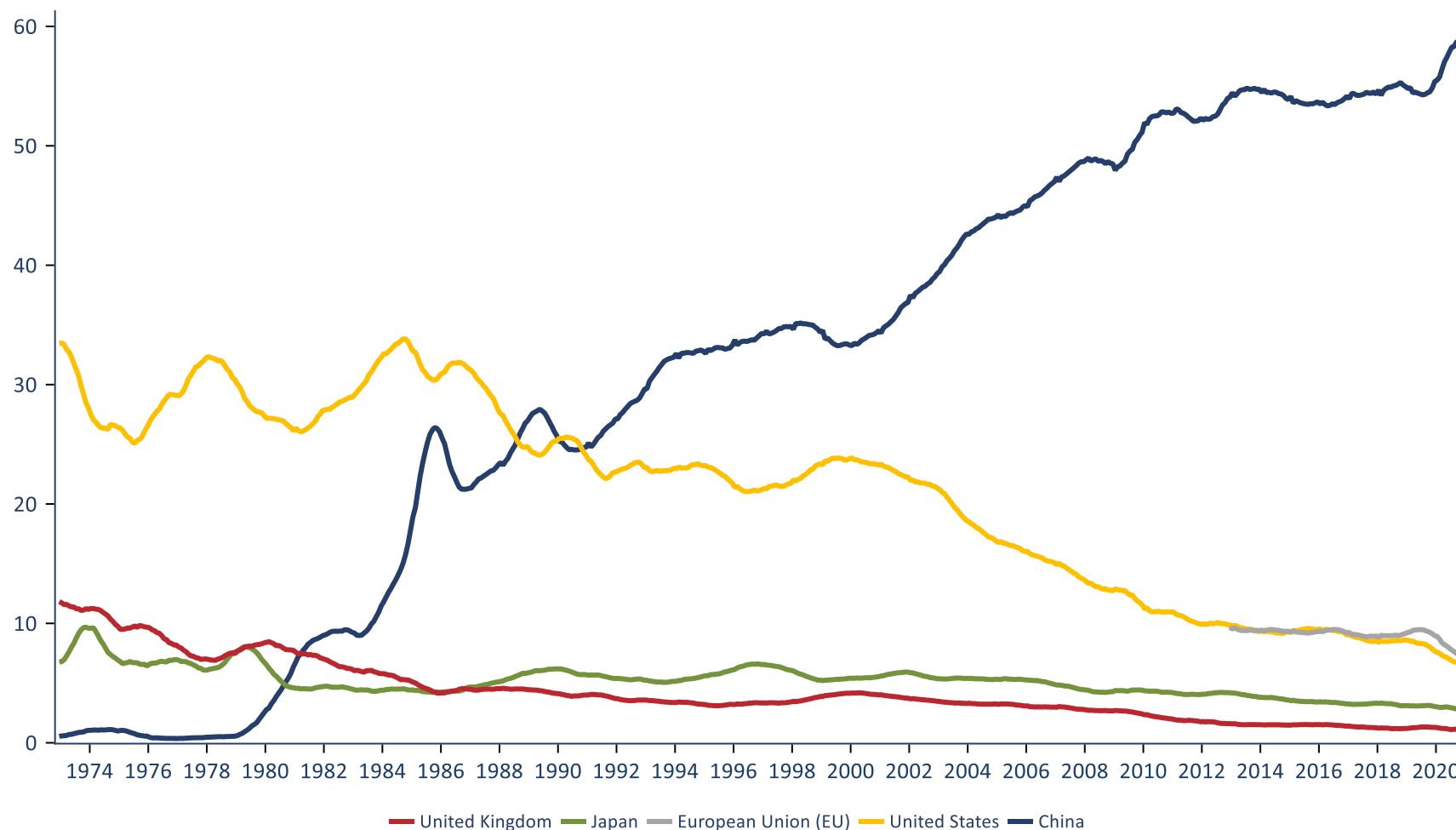


China's international patent applications by city, %, 2016



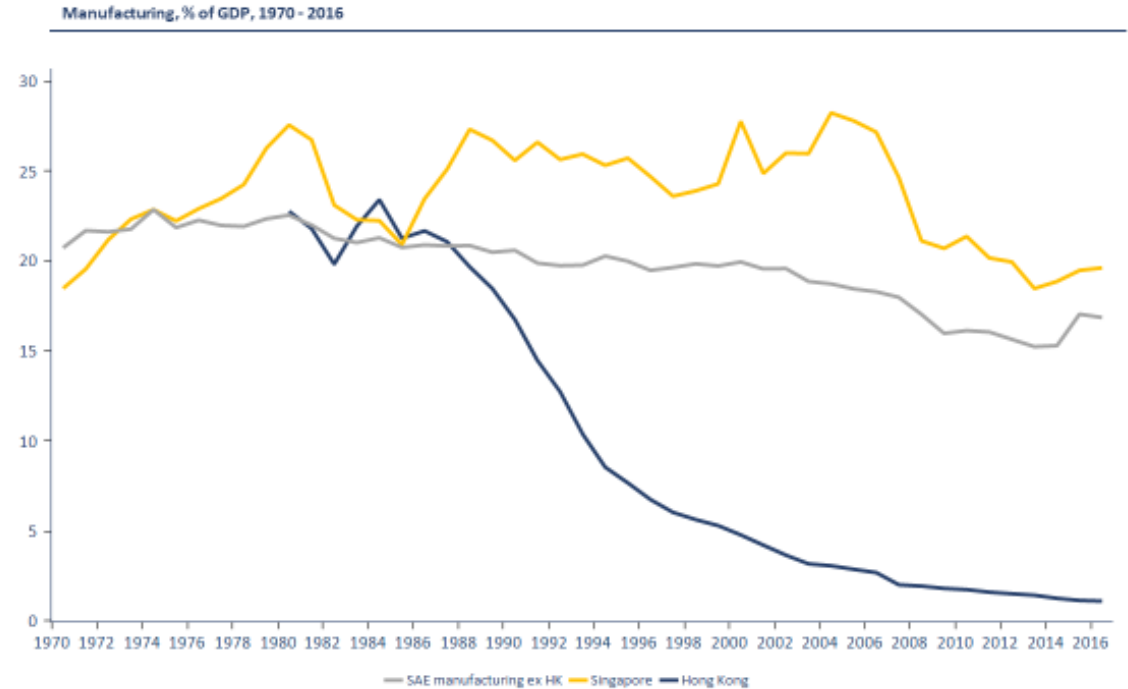
... Hong Kong has already successfully positioned itself as the bridge for flows of capital, goods and services into China.

Exports of goods from Hong Kong, % of total, 1973-2021



But regional integration also creates risk exposures for small economies that are part of much larger markets

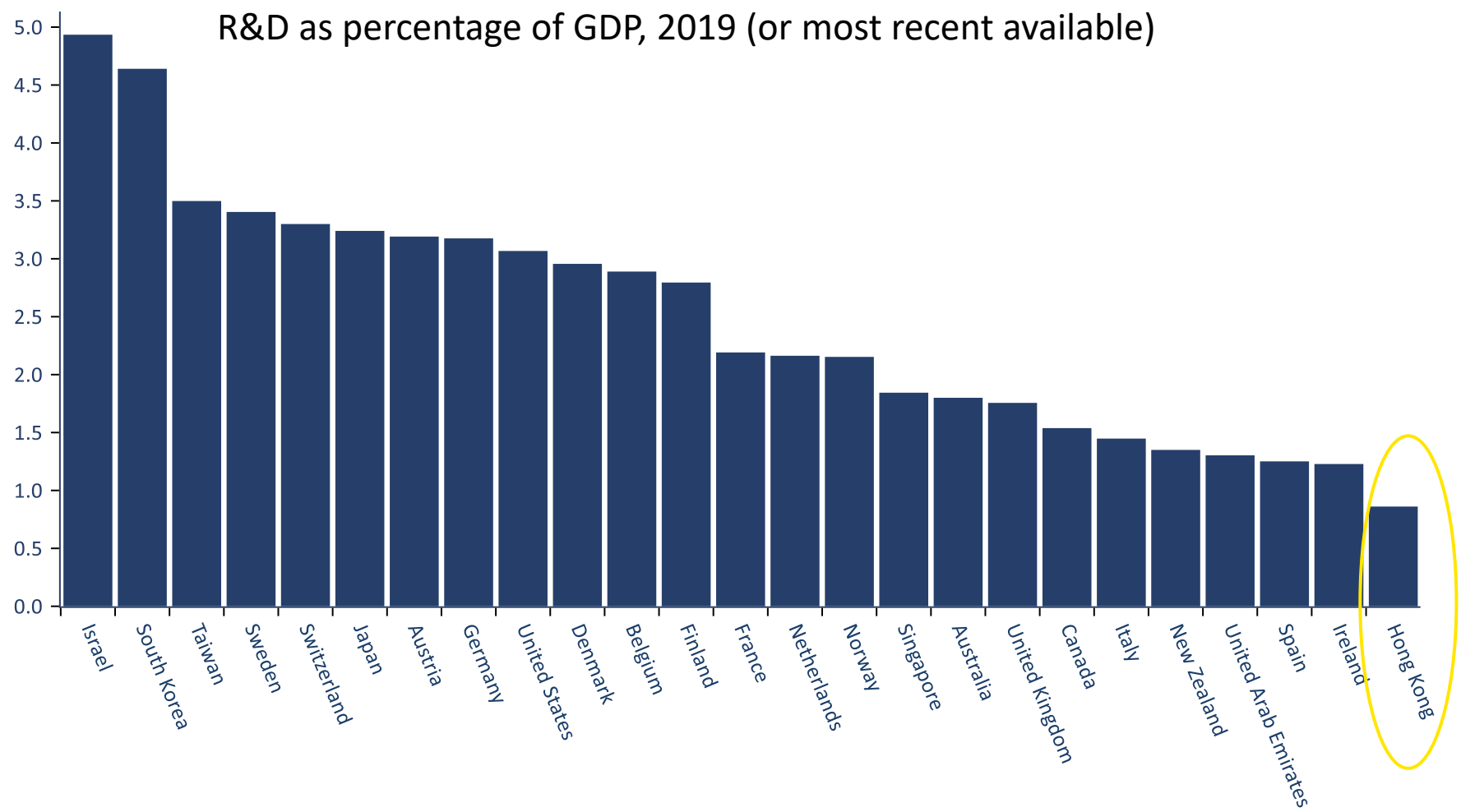
- Firms and talent may leave for better opportunities in the larger markets
- Hollowing out of the manufacturing sector; loss of an industrial base
- Loss of manufacturing sector reduces opportunities for technology upgrading and development
- Less diversified economy; more exposed to idiosyncratic, sector-specific risks



“Whereas Singapore is deeply integrated into a range of sectors in the global economy, Hong Kong has become highly specialized and deeply integrated into China. Although Hong Kong’s model has supported its growth, it also means that Hong Kong now has fewer options.”

David Skilling, *Landfall Strategy*

The hollowing out of manufacturing might have reduced opportunities for innovation and technology development in Hong Kong...



Hong Kong also needs to foster a stronger research, innovation and enterprise (RIE) ecosystem and a vibrant start-up scene

| Startup Genome | | | | | | | | |
|------------------|----------|-------------|---------|---------------|--------------|-----------|--------|--------------|
| | Ranking | Performance | Funding | Connectedness | Market Reach | Knowledge | Talent | Growth Index |
| Silicon Valley | 1 | 10 | 10 | 7 | 10 | 10 | 10 | 7 |
| New York City | 2 (tie) | 10 | 10 | 10 | 9 | 5 | 10 | 7 |
| London | 2 (tie) | 9 | 10 | 10 | 10 | 7 | 10 | 7 |
| Beijing | 4 | 10 | 9 | 1 | 10 | 10 | 10 | 9 |
| Boston | 5 | 9 | 9 | 9 | 9 | 5 | 9 | 7 |
| Tel Aviv | 6 (tie) | 9 | 9 | 8 | 10 | 4 | 9 | 6 |
| Los Angeles | 6 (tie) | 9 | 10 | 4 | 9 | 7 | 9 | 6 |
| Shanghai | 8 | 10 | 8 | 1 | 8 | 10 | 9 | 9 |
| Seattle | 9 | 8 | 6 | 9 | 8 | 7 | 8 | 6 |
| Stockholm | 10 | 8 | 5 | 5 | 8 | 3 | 7 | 4 |
| Washington DC | 11 | 5 | 7 | 7 | 7 | 1 | 8 | 6 |
| Amsterdam | 12 | 6 | 7 | 10 | 7 | 1 | 7 | 6 |
| Paris | 13 | 4 | 9 | 9 | 1 | 1 | 8 | 4 |
| Chicago | 14 | 5 | 6 | 6 | 6 | 1 | 8 | 7 |
| Tokyo | 15 | 7 | 8 | 1 | 3 | 9 | 7 | 8 |
| Berlin | 16 | 7 | 7 | 10 | 2 | 1 | 7 | 7 |
| Singapore | 17 | 4 | 8 | 7 | 8 | 1 | 4 | 7 |
| Toronto-Waterloo | 18 | 5 | 8 | 8 | 6 | 2 | 6 | 8 |
| Austin | 19 | 5 | 6 | 7 | 5 | 7 | 6 | 8 |
| Seoul | 20 | 7 | 3 | 1 | 9 | 10 | 5 | 4 |
| San Diego | 21 | 6 | 2 | 3 | 7 | 6 | 6 | 6 |
| Shenzhen | 22 | 7 | 6 | 1 | 1 | 9 | 5 | 9 |
| Atlanta | 23 | 4 | 1 | 4 | 6 | 1 | 6 | 6 |
| Denver-Boulder | 24 | 3 | 5 | 6 | 5 | 4 | 5 | 5 |
| Vancouver | 25 | 6 | 1 | 5 | 5 | 2 | 4 | 7 |
| Bangalore | 26 | 4 | 7 | 8 | 1 | 8 | 2 | 5 |
| Sydney | 27 | 3 | 3 | 8 | 1 | 1 | 5 | 6 |
| Hangzhou | 28 | 8 | 2 | 1 | 1 | 9 | 3 | 9 |
| Hong Kong | 29 | 3 | 4 | 1 | 7 | 1 | 1 | 6 |
| Sao Paulo | 30 | 6 | 1 | 4 | 2 | 1 | 1 | 9 |
| Bern-Geneva | 31 (tie) | 2 | 1 | 1 | 3 | 1 | 1 | 6 |
| Dallas | 31 (tie) | 1 | 1 | 1 | 4 | 3 | 1 | 3 |
| Miami | 31 (tie) | 3 | 2 | 1 | 1 | 1 | 1 | 6 |
| Munich | 31 (tie) | 2 | 4 | 6 | 1 | 3 | 1 | 8 |
| Salt Lake-Provo | 31 (tie) | 8 | 1 | 1 | 5 | 1 | 1 | 7 |
| Copenhagen | 36 (tie) | 1 | 1 | 2 | 4 | 1 | 2 | 5 |
| Delhi | 36 (tie) | 1 | 5 | 1 | 1 | 1 | 1 | 4 |
| Dublin | 36 (tie) | 1 | 3 | 5 | 1 | 1 | 4 | 5 |
| Melbourne | 36 (tie) | 1 | 1 | 6 | 4 | 1 | 1 | 5 |
| Montreal | 36 (tie) | 1 | 1 | 1 | 1 | 1 | 2 | 6 |

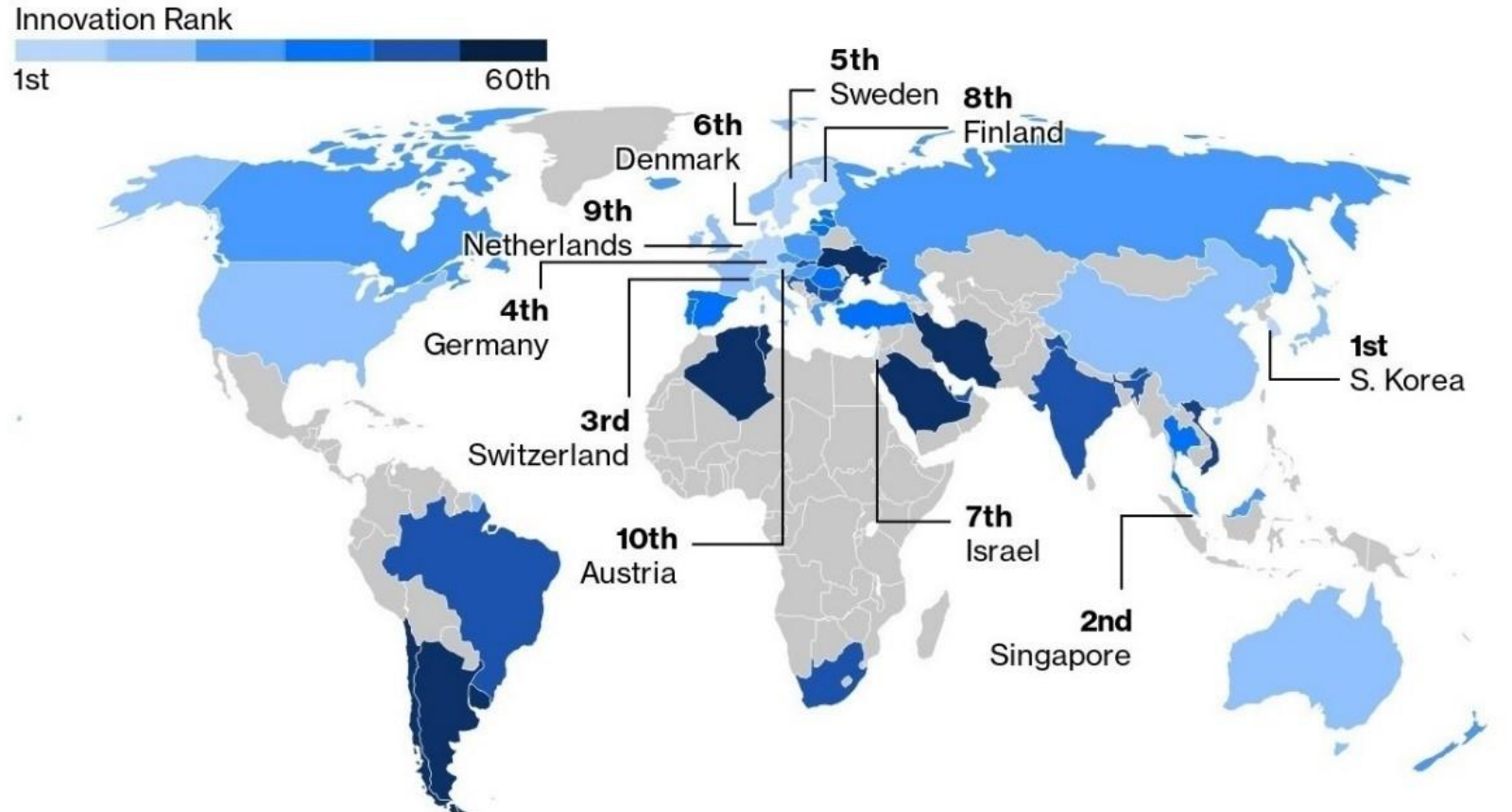
31-35 and 36-40 are alphabetical order

Global Startup Ecosystem Report 2020

Source: 2020 Global Startup Ecosystem Report (GSER) from Startup Genome and Global Entrepreneurship Network. The GSER now ranks the top 140 startup ecosystems from an assessment of several hundreds.

World's 60 Most Innovative Economies

South Korea, Singapore and Switzerland lead the index in 2021



Sources: Bloomberg, International Labor Organization, International Monetary Fund, World Bank, Organisation for Economic Cooperation and Development, World Intellectual Property Organization, United Nations Educational, Scientific and Cultural Organization

Bloomberg

Enhancing the distinctiveness of the Hong Kong economy

“

Unless Hong Kong enhances the distinctiveness of its economy, there is meaningful risk of a further loss of economic activity and an erosion of competitive strength in key sectors. But there are substantial economic opportunities from GBA integration as well. Indeed, the more successful Hong Kong is in upgrading the distinctiveness of its economy, the more it can fully exploit the opportunities from GBA integration. Only by doing the former well can Hong Kong fully realise the benefits of the latter

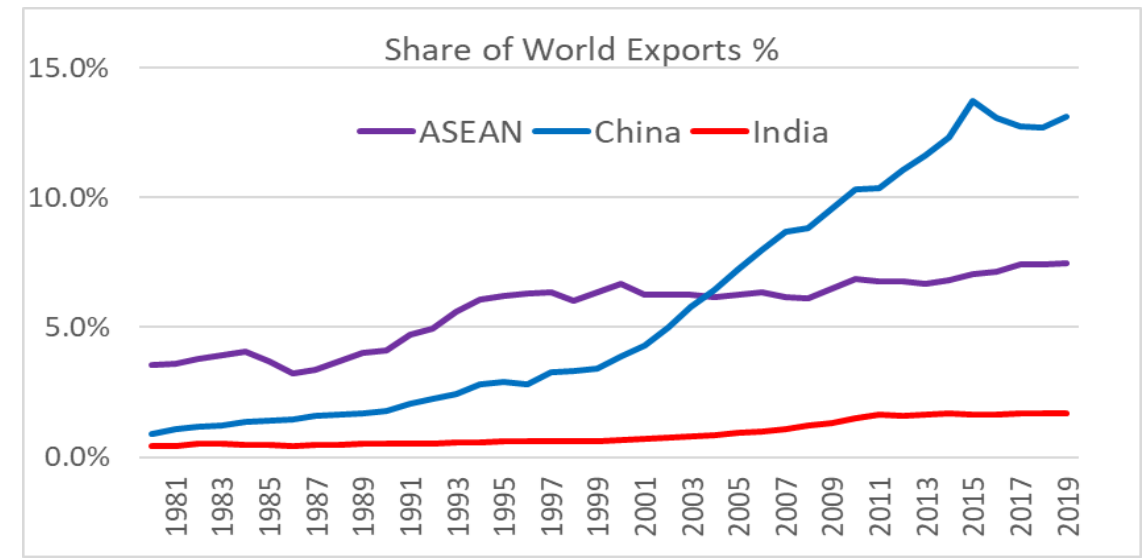
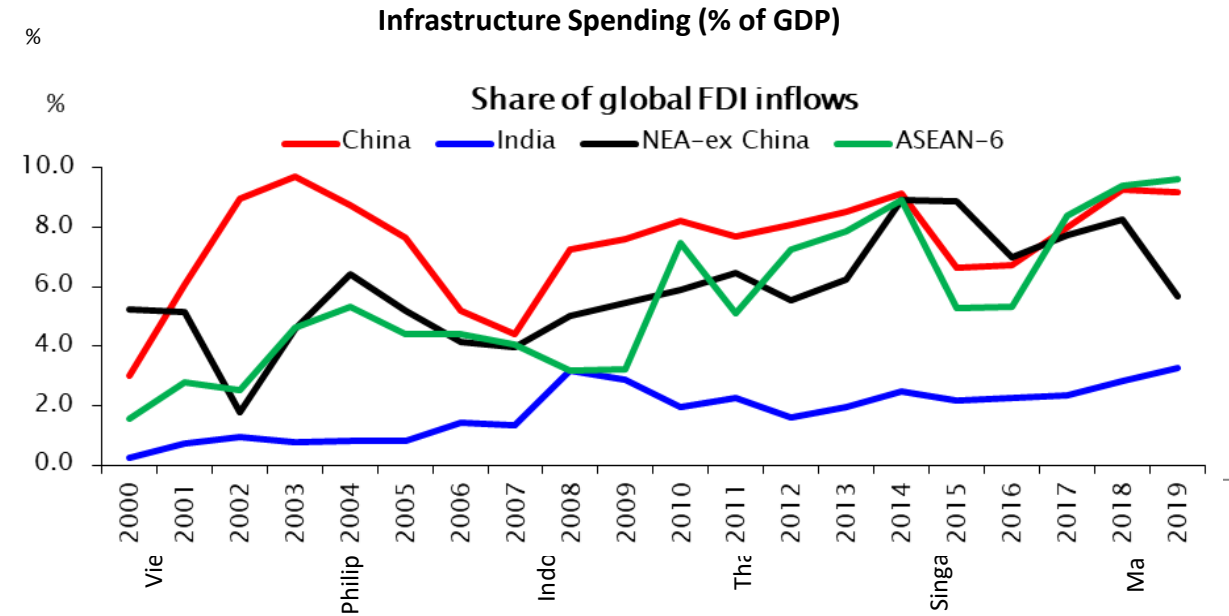
IEMS report on “Hong Kong and the Greater Bay Area: Integration and Distinctiveness”



Hong Kong as the GBA's Gateway to Southeast Asia

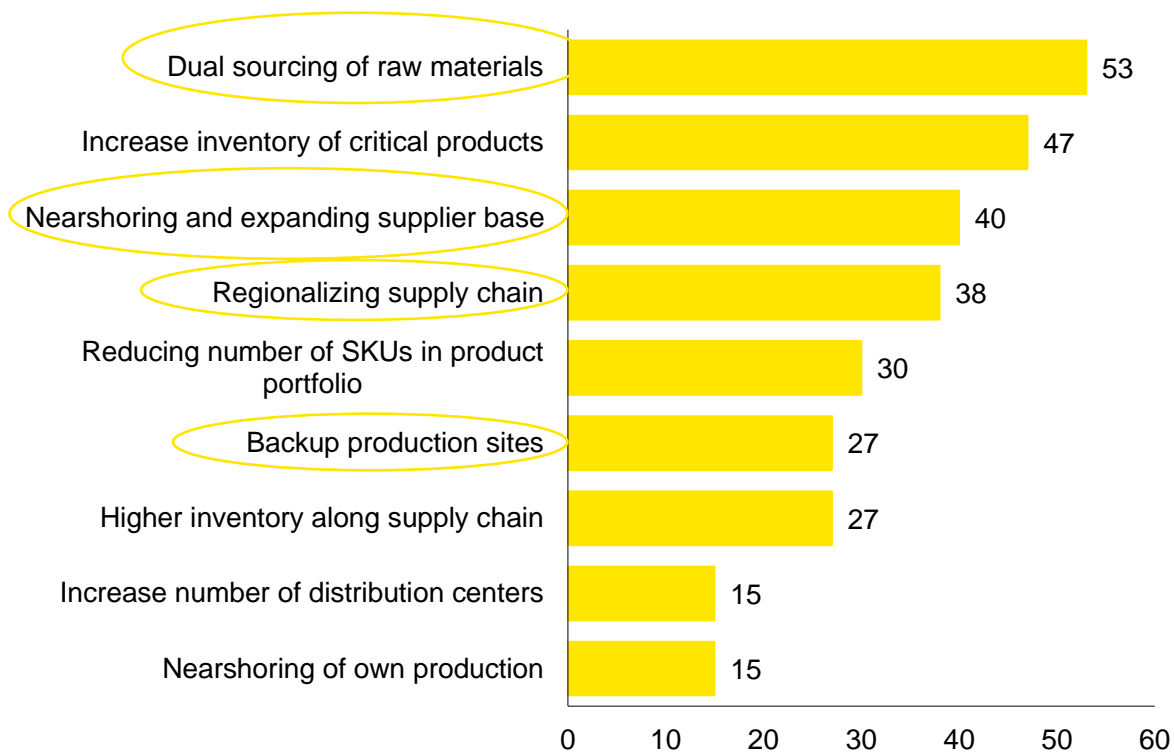
Southeast Asia is on the cusp of an acceleration in economic growth that will drive structural transformation, resulting in a more diversified economy with a much larger consumption base and a greater demand for sophisticated services.

- Key Southeast Asian economies are ramping up infrastructure spending.
- Southeast Asian countries are pursuing supply-side reforms and attracting more FDI.
- Countries in the region still keen on free trade agreements; there are also increasing synergies from regional integration efforts (e.g. RCEP).

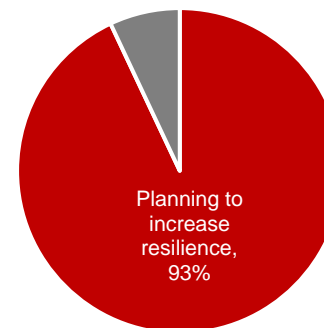


Little evidence of reshoring/nearshoring of production (away from China); instead, there is likely to be an emphasis on ensuring diversity and resilience of supply

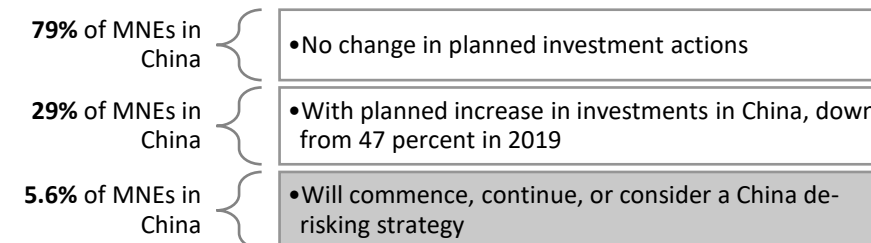
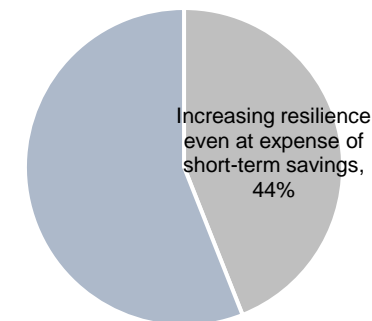
McKinsey & Company Corporate Survey: Planned Actions to Build Resilience
(Percent of total respondents)



Global supply chain leaders survey



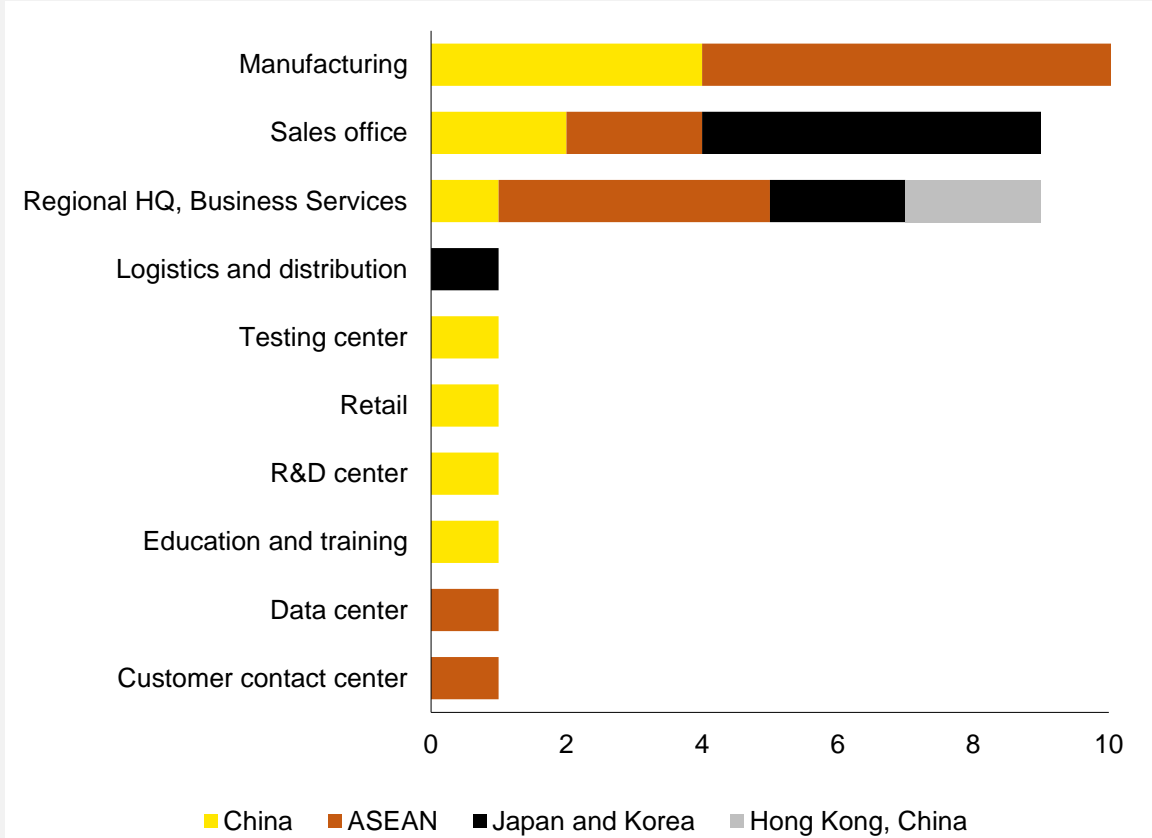
Business executives survey



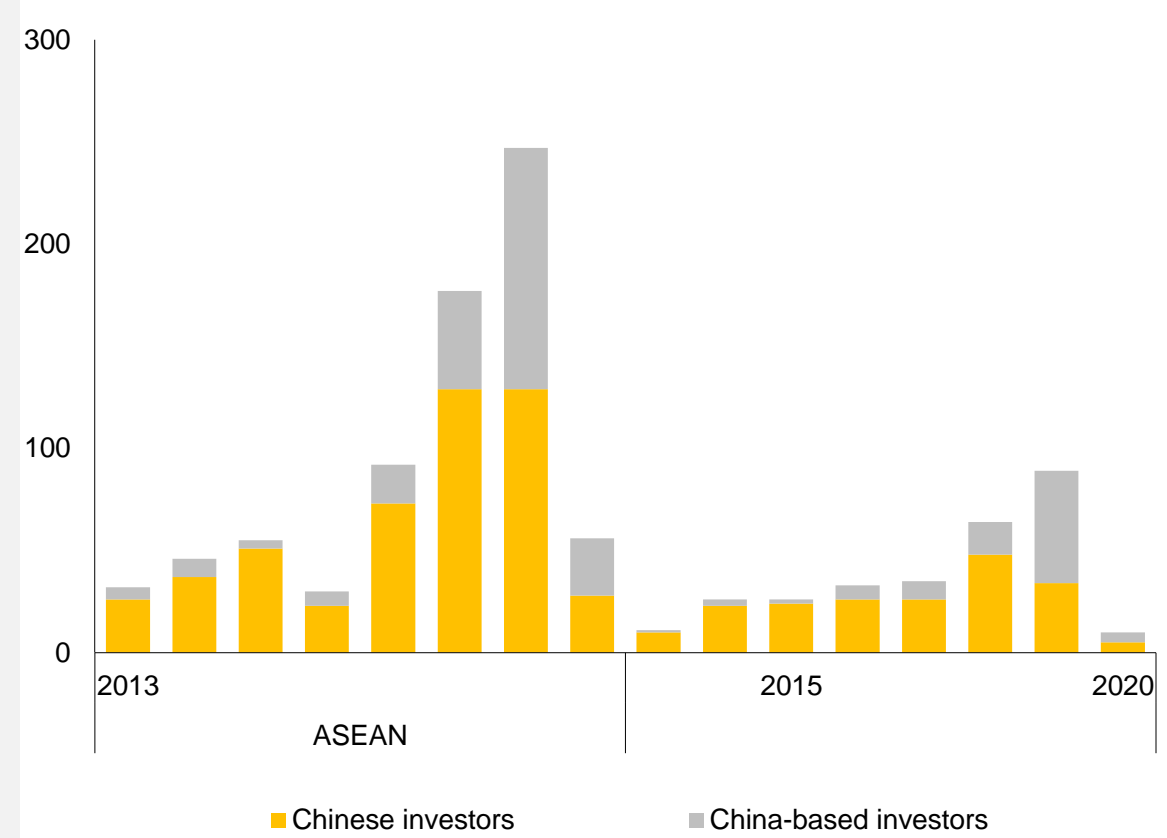
• Source: McKinsey & Company.
Notes: SKUs = stock-keeping units. Global supply chain leaders and business executives' surveys from May to December 2020.

Foreign and domestic firms in China show increasing interest in Southeast Asia

Relocation Announcements by Sector, 2020–21
(Number of projects)



Investment Announcements from China to ASEAN+3, by Ownership
(Number of projects)



Sources: Orbis Crossborder; and AMRO staff calculations.
Notes: HQ = headquarters; R&D = research and development. Logistics and distribution include transportation.

Sources: Orbis Crossborder; and AMRO staff calculations.

Even with a reconfiguration of global value chains, major Southeast Asia countries are an attractive location compared to peers

Heat-map for GVC “Transferability”

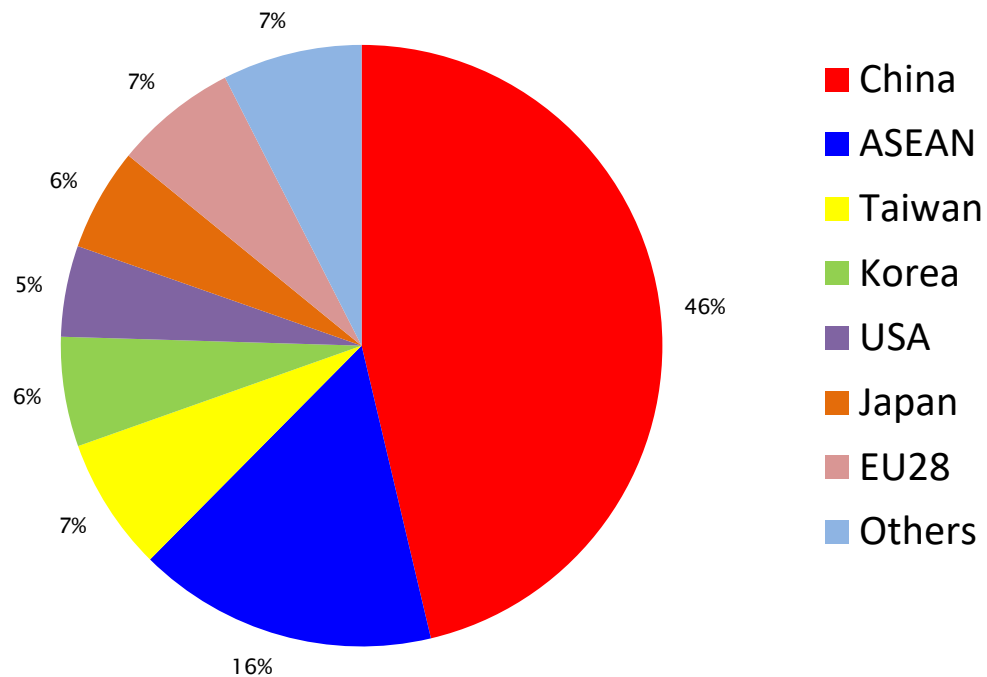
| | Institutions | Infrastructure | Labor skills | Labor cost | Labor availability | Market size | ICT development | IPR protection | Trade agreements | Transferability index |
|-------------------|--------------|----------------|--------------|------------|--------------------|-------------|-----------------|----------------|------------------|-----------------------|
| Malaysia | | | | | | | | | | |
| China | | | | | | | | | | |
| Indonesia | | | | | | | | | | |
| Thailand | | | | | | | | | | |
| Brunei Darussalam | | | | | | | | | | |
| Philippines | | | | | | | | | | |
| Vietnam | | | | | | | | | | |
| Lao PDR | | | | | | | | | | |
| Cambodia | | | | | | | | | | |
| India | | | | | | | | | | |
| Sri Lanka | | | | | | | | | | |
| Pakistan | | | | | | | | | | |
| Poland | | | | | | | | | | |
| Hungary | | | | | | | | | | |
| Bulgaria | | | | | | | | | | |
| Croatia | | | | | | | | | | |
| Russia | | | | | | | | | | |
| Turkey | | | | | | | | | | |
| Georgia | | | | | | | | | | |
| Mexico | | | | | | | | | | |
| Costa Rica | | | | | | | | | | |
| Argentina | | | | | | | | | | |
| Brazil | | | | | | | | | | |
| Mauritius | | | | | | | | | | |
| South Africa | | | | | | | | | | |

Sources: Asia Regional Integration Center, ADB; International Labour Organization; World Economic Forum; World Bank; World Trade Organization; United Nations International Telecommunication Union; United Nations Population Division; national authorities via Haver Analytics; and AMRO staff calculations.

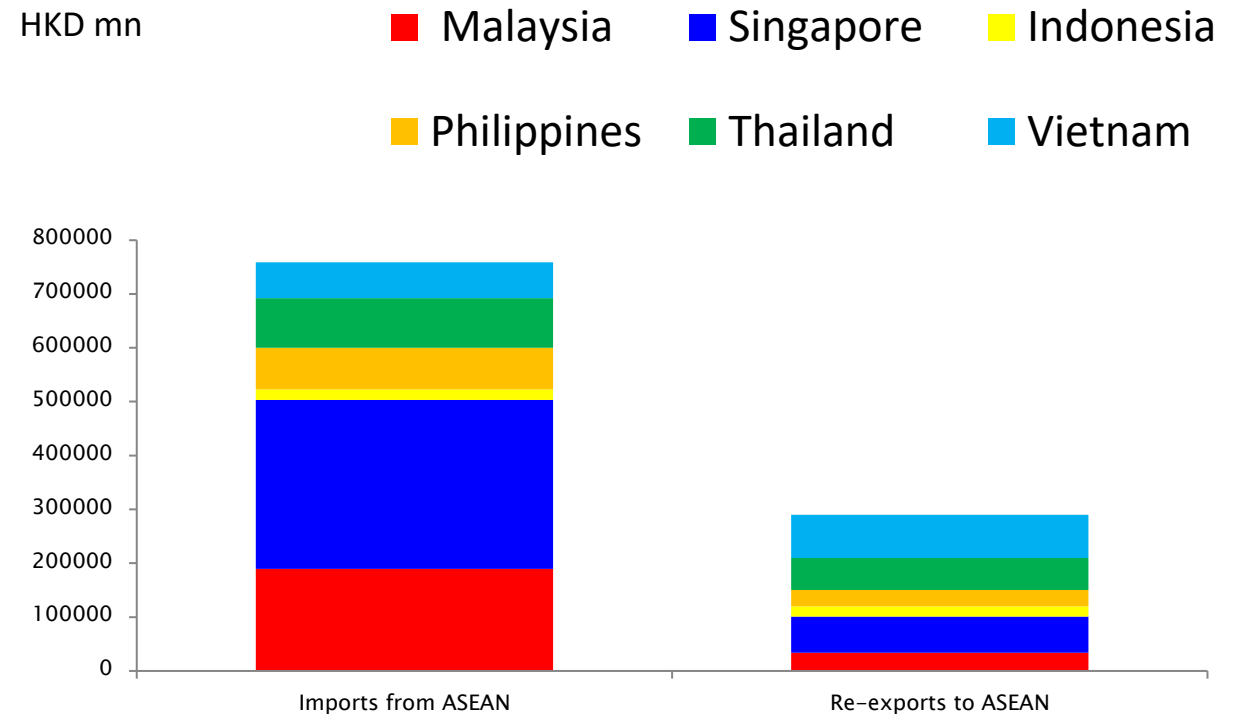
Notes: The overall Transferability index is a simple average of the nine indicators for each economy. The greener the color, the higher its relative z-score and the greater the GVC transferability to that economy or location; the redder, the lower the attractiveness for GVC relocation. See “Which GVC Sectors can be Easily Reconfigured?” in AREO 2021 for details.

Hong Kong is well-positioned to take advantage of Southeast Asia's growth

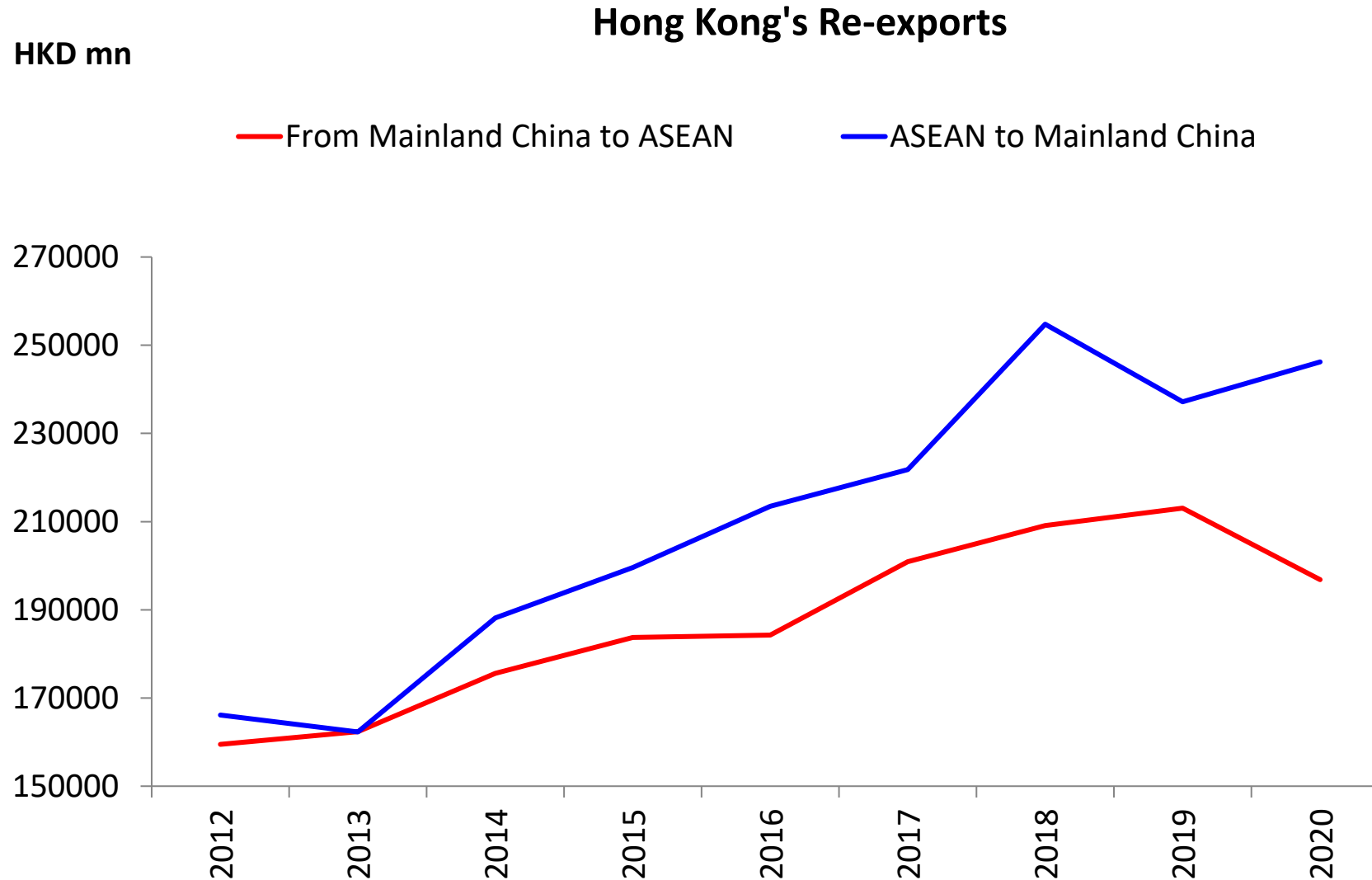
Hong Kong Imports by Major Trading Partners (2018)



HK: Goods Trade with ASEAN



Hong Kong is well-positioned to take advantage of Southeast Asia's growth

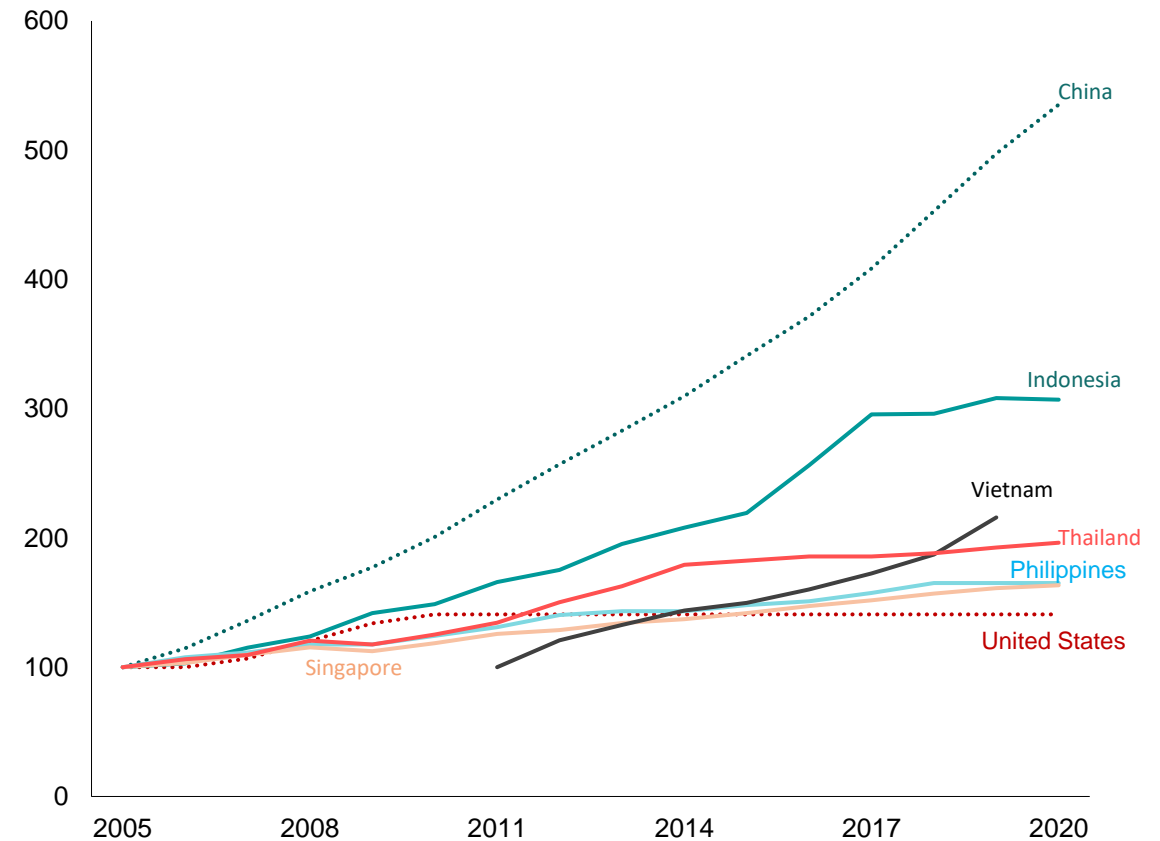


Hong Kong as the GBA's Gateway to Southeast Asia

Southeast Asia is on the cusp of an acceleration in economic growth that will prompt a faster pace of transformation, resulting in a more diversified economy with a much larger consumption base and a greater need for more sophisticated services.

- Key Southeast Asian economies are ramping up infrastructure spending.
- Southeast Asian countries are pursuing supply-side reforms and attracting more FDI.
- Countries in the region still keen on free trade agreements; there are also increasing synergies from regional integration efforts (e.g. RCEP).
- Supply chain reconfiguration would spur investments in Southeast Asia as multinationals seek lower cost locations and pursue a “China +1” strategy.
- Southeast Asia as a major market in its own right.

**Selected Economies: Wage growth
(2005 = 100)**



Note: Data for China and India refer to the average nominal annual wage of all units; for Indonesia, average net wages of employees; for the Philippines, the legislated daily wage rate; for Singapore the average resident monthly earnings of Industry; for Thailand, the average monthly wages per person; for the United States, the minimum hourly wage rate; and for Vietnam, the average monthly earnings.



Thank you