


GREATER BAY AREA INITIATIVE: FACTORS IMPORTANT TO ITS SUCCESS

REPORT ON CPA AUSTRALIA'S
GREATER BAY AREA MEMBER SURVEY

CPA
AUSTRALIA



Legal notice

CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies, representing more than 163,000 members of the financial, accounting and business profession in 125 countries.

ISBN: 978-0-6482917-2-5

For information about CPA Australia, visit our website cpaaustralia.com.au

First published 2018 CPA Australia Ltd

ACN 008 392 452

Level 20, 28 Freshwater Place

Southbank VIC 3006

Australia

Copyright © CPA Australia Ltd (ABN 64 008 392 452) ('CPA Australia'), 2018. All rights reserved.

CPA Australia owns all copyright in these materials or uses it under licence or applicable law. For permission to reproduce any material, a request in writing is to be made to the Legal Business Unit, CPA Australia Ltd, Level 20, 28 Freshwater Place, Southbank, Victoria 3006 Australia.

Disclaimer

CPA Australia has used reasonable care and skill in compiling the content of these materials. However, CPA Australia makes no warranty that the materials are accurate and up to date. These materials do not constitute the provision of professional advice whether legal or otherwise. Users should seek their own independent advice prior to relying on or entering into any commitment based on the materials. The materials are purely published for reference purposes alone. CPA Australia, their employees, agents and consultants exclude completely all liability to any person for loss or damage of any kind including but not limited to legal costs, indirect, special or consequential loss or damage (however caused, including by negligence) arising from or relating in any way to the materials and/or any use of the materials. Where any law prohibits the exclusion of such liability, then to the maximum extent permitted by law, CPA Australia's liability for breach of the warranty will, at CPA Australia's option, be limited to the supply of the materials again, or the payment of the cost of having them supplied again.

CONTENTS

FOREWORD	4
ACKNOWLEDGEMENT	5
ABOUT THE SURVEY	6
ABOUT CPA AUSTRALIA	6
BACKGROUND TO THE GREATER BAY AREA INITIATIVE	7
THE FACTORS IMPORTANT TO THE SUCCESS OF THE GREATER BAY AREA	9
Making payment transfers across the borders of the GBA easier	9
People and talent	12
Hong Kong as the intellectual property centre of the GBA	16
Attracting more foreign companies and start-ups to the GBA	17
Simpler and unambiguous regulation to facilitate doing business across borders	18
Infrastructure	18
Making the movement of goods across the borders of the GBA easier	20
Promoting the development of the university/research sector	22
Future intentions towards the GBA	22
CONCLUSION	23

FOREWORD

As one of the largest professional accounting bodies in the world, CPA Australia has a strong interest in supporting policies that increase sustainable economic growth, create new employment opportunities and improve living standards.

It is in this context that it has prepared this report on the Guangdong-Hong Kong-Macao Greater Bay Area initiative – CPA Australia’s second report on the Greater Bay Area.

The Greater Bay Area initiative should provide the people and businesses of Hong Kong and the rest of the Greater Bay Area with significant long-term benefits. This report focuses on the factors CPA Australia members identified in a recent survey as most important to its success.

The report also includes the views of experts from CPA Australia’s Greater Bay Area Innovation and Technology Committee and interviews with other experts.

The suggestions range from how best to attract, develop and retain talented individuals and entrepreneurs in Hong Kong and the rest of the Greater Bay Area, to how to transform Hong Kong into the intellectual property hub of the Greater Bay Area and beyond.

With China’s unprecedented economic growth and urbanisation that began around 40 years ago, the major cities of the Pearl River delta now intersect to such an extent that they can be collectively viewed as a megacity. It therefore makes sense that the cities of the Greater Bay Area should enhance their cooperation and coordination – and in our view, innovation and technology will be critical to that.

We foresee that the Greater Bay Area will evolve to play a significantly more vital role in both the global economy and in China’s Belt and Road Initiative over the coming years. We are therefore pleased to be able to present this report as our further contribution to the development of the Greater Bay Area initiative.

In preparing this report, CPA Australia has drawn on the views of members residing in Hong Kong through our survey, and the considerable expertise of the members of our Greater Bay Area Innovation and Technology Committee. We have also drawn on our knowledge from other markets, particularly Australia. We would like to thank all those who contributed to this report, particularly the members of the Committee.



Paul Ho FCPA (Aust.)

Divisional President – Greater China
CPA Australia



Deborah Leung FCPA (Aust.)

Country Head - Greater China
CPA Australia

ACKNOWLEDGEMENT

CPA Australia would like to acknowledge the many CPA Australia members that responded to our survey. We would especially like to thank Mr Paul Ho, 2018 Divisional President of Greater China CPA Australia and the members of CPA Australia's Greater Bay Area Innovation and Technology Committee for their input and guidance in shaping this report, and those that agreed to be interviewed for this report:

MEMBERS OF THE GREATER BAY AREA INNOVATION AND TECHNOLOGY COMMITTEE

Sidney Cheng FCPA (Aust.)

Managing Partner
Deloitte Macau

Derek Kwik FCPA (Aust.)

Managing Partner
BraveSoldier Venture Capital

John Lo FCPA (Aust.)*

Chief Financial Officer
Tencent Holdings

Simon Loong FCPA (Aust.)

Founder and CEO
WeLab

Wilson Pang FCPA (Aust.)

Head of Turnaround, Restructuring Services
Head of Restructuring Services, Southern China
KPMG Advisory China

Jason Shum CPA (Aust.)

Digital Capital Strategy
Transaction & Advisory Services
Ernst & Young

Stanley Sum CPA (Aust.)

Director, IT Advisory
KPMG China

Dr Albert Wong FCPA (Aust.)

Director
PwC Consulting

Allen Wong CPA (Aust.)

Partner, Deloitte Digital
Deloitte Consulting

Marcellus Wong FCPA (Aust.)

Vice Chairman & Group
Managing Director
AMTD Group Company Limited

Winson Woo FCPA (Aust.)

Partner, Advisory Services and
China South Cyber Security Leader
Ernst & Young

Mason Zhu CPA (Aust.)

Chief Operating Officer and
Company Secretary
Guangdong Intely Information
Technology

PEOPLE INTERVIEWED FOR THIS REPORT

Dr Moses Cheng FCPA (Aust.)

Chairman
Insurance Authority, Hong Kong

Dr George Lam FCPA (Aust.)

Chairman
Cyberport Hong Kong

Dr Paul Sin CPA (Aust.)

Consulting Partner
Deloitte China
Asia Pacific Blockchain Lab Leader,
Deloitte

Dr Allan Zeman FCPA (Aust.)

Chairman
Lan Kwai Fong Group

We would also like to thank the following staff involved in the preparation of this report:

- Claire Cameron
- Paul Drum FCPA (Aust.)
- Mandy Lee
- Deborah Leung FCPA (Aust.)
- Gavan Ord
- Carmen Pan
- Libby Pearce
- Vanessa Richard

*John Lo was also interviewed for this report

ABOUT THE SURVEY

The survey sought the views of CPA Australia members residing in Hong Kong on how important a range of factors are to the success of the Greater Bay Area Initiative.

The survey was distributed online and ran from 5 June to 22 June. We received 351 responses.

ABOUT CPA AUSTRALIA

With a membership of more than 163,000 finance, accounting and business professionals worldwide, CPA Australia has had a longstanding presence in the Greater Bay Area that dates back to the 1950s. During that time, we have played an important role in developing the accounting profession and supporting our members to develop the technical and soft skills that are required to meet the ever-changing demands of the modern economy.

BACKGROUND TO THE GREATER BAY AREA INITIATIVE

The Guangdong-Hong Kong-Macao Greater Bay Area or Greater Bay Area is a policy initiative seeking to promote closer cooperation and coordination between 11 cities of the Pearl River delta in Southern China so that they can better leverage their competitive advantages in the global economy.

The Greater Bay Area will see the creation of a city cluster around the delta of the Pearl River (or the Zhujiang River) that is intended to rival other bay areas including the San Francisco Bay Area, the Tokyo Bay Area and the New York Bay Area.

It will bring together the following cities - Hong Kong, Macao, Guangzhou, Shenzhen, Zhuhai, Dongguan, Huizhou, Zhongshan, Foshan, Zhaoqing and Jiangmen, with a population of 67.6 million¹. With a combined GDP of over US\$1.56 trillion in 2017², the economy of the Greater Bay Area is larger than Australia and Spain, and just behind that of Korea.³

The huge scale of China's economic transformation and rapid urbanisation over the past 40 years has seen these

11 cities grow and intersect so as to become one loosely connected megacity. In 2015, the World Bank reported that the Pearl River delta had overtaken Tokyo to become the largest urban area in the world in both size and population.⁴

The concept of creating a Greater Bay Area began in 2015 in a policy paper on the Belt and Road Initiative. In 2016, China's central government included the concept in its 13th Five-Year Plan for the period from 2016 to 2020.⁵

In March 2017, Premier Li Keqiang stated in his 'Report on the Work of the Government' to the Fifth Session of the 12th National People's Congress:

*"We will promote closer cooperation between the mainland and Hong Kong and Macao. We will draw up a plan for the development of a city cluster in the Guangdong-Hong Kong-Macao Greater Bay Area, give full play to the distinctive strengths of Hong Kong and Macao, and elevate their positions and roles in China's economic development and opening up."*⁶

Professor Lin Jiang, an economist from Sun Yat-sen University's Lingnan College stated, "The central government hopes the Greater Bay Area will not only replicate Silicon Valley but also outpace it as the most important centre for scientific and technological innovation."⁷

Zhou Linsheng, Vice President of the China Society of Economic Reform stated the Greater Bay Area plan "essentially focuses on coordinating development and seeking win-win cooperation,"⁸ and seeks to avoid the 11 cities falling "into vicious competition for resources, projects and talent".⁹

1 http://english.gov.cn/news/top_news/2017/04/13/content_281475625476729.htm

2 <http://www.scmp.com/news/china/economy/article/2149002/china-holds-greater-bay-area-master-plan-trade-turmoil-clouds>

3 <http://statisticstimes.com/economy/projected-world-gdp-ranking.php>

4 <https://blogs.worldbank.org/opendata/new-data-and-research-help-measure-decade-urban-expansion-across-east-asia>

5 http://english.gov.cn/news/top_news/2017/04/13/content_281475625476729.htm

6 See the full text of the 'Report of the Work of the Government' http://www.chinadaily.com.cn/china/2017twosession/2017-03/16/content_28583634_13.htm

7 <http://www.scmp.com/news/china/economy/article/2149002/china-holds-greater-bay-area-master-plan-trade-turmoil-clouds>

8 Vicious competition should be avoided in bay area development, Global Times 19 April 2017 - <http://www.globaltimes.cn/content/1043229.shtml>

9 Ibid



Dr Allan Zeman
FCPA (Aust.)

Chairman
Lan Kwai Fong Group

"The future for Hong Kong is the Greater Bay Area, which will link the two special administrative regions, Hong Kong and Macau, with nine mainland cities within a two-hour radius of Hong Kong; namely Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoqing. This will be supported by new infrastructures – a high-speed rail link and the Hong Kong-Zhuhai-Macau Bridge.

The concept of the Greater Bay Area began in 2015 and the central government believes that, through deeper collaboration across 11 cities, the Greater Bay Area will become one of the key players in China's economic development and its opening up policy.

Aspirations are high for the Greater Bay Area as the central government poured in support for large cross-border infrastructure projects to link up the cities of the Greater Bay Area because connectivity is the key to unlock the success of the Bay Area.

With the soon-to-open high-speed rail link, travel time from Hong Kong to Shenzhen will take less than 30 minutes. The much-anticipated Hong Kong-Zhuhai-Macau Bridge is providing an unprecedented new solution for people in Hong Kong to travel to Macau and Zhuhai. The travel distance will be dramatically shortened from 160 to 30 kilometres and journey time will be reduced to 30 minutes or less.

The infrastructures will totally change the Greater Bay Area. I'm very optimistic that this is the future of Hong Kong. If we just continue the way we are going, we will be marginalised because mainland China is moving really quickly."

THE FACTORS IMPORTANT TO THE SUCCESS OF THE GREATER BAY AREA

In June 2018, CPA Australia surveyed members to seek their views on what factors they believe are important to the success of the Greater Bay Area (GBA). The factors found to be most critical to the success of the GBA are discussed below.

MAKING PAYMENT TRANSFERS ACROSS THE BORDERS OF THE GBA EASIER

CRITICALLY IMPORTANT

61%

Members were most likely to select making transfer payments across the borders of the GBA easier as a factor critical to the success of the GBA. It is important that any measures taken to make it easier to transfer payments across the borders of the GBA, only make legitimate transfer payments easier. Technology could play a very important part in making both the legitimate movement of money across borders easier while also tracking and disrupting the illegitimate movement of money.

We suggest that further work be undertaken to determine what technology could be used to make legitimate business-to-business payments across the GBA easier, cheaper and faster (and make illegitimate payments harder to make).

This could include:

Investigating whether the governments of the GBA can set a de facto blockchain standard for the GBA

Establishing a de facto blockchain standard for the GBA would mean that different blockchains used throughout the GBA would, regardless of the software used, be interoperable. This has many potential advantages for business and could be achieved through the governments of the GBA working with business and financial institution to develop interoperable frameworks for blockchain based on standardised solutions and governance models. Such an approach to creating a blockchain standard would be comparable to the European Blockchain Partnership¹⁰ - a model that 23 European countries have so far signed up for.

A blockchain standard would provide a platform for governments, business, banks, insurers and universities to more seamlessly and securely share information and interact.

This has the potential to build greater trust in business-to-business transactions across borders, make it easier to comply with laws throughout

the GBA and improve access to finance for SMEs, while also making illegitimate behaviour more difficult to undertake.

Such a blockchain standard could facilitate making the legitimate movement of money easier and help tackle illegitimate activity by:

- making compliance with laws such as the 'Know Your Client' obligations under the anti-money laundering regime quicker, easier and more accurate for financial institutions, especially where clients are based in a different jurisdiction of the GBA to the financial institution
- improving the reliability and accuracy of data lenders can access to make decisions on businesses seeking finance, and
- reducing the risk of fraud.

¹⁰ <https://ec.europa.eu/digital-single-market/en/news/european-countries-join-blockchain-partnership>

Other opportunities a blockchain standard for the GBA could create include:

- encouraging the development of new fintech applications designed to make the transfer of money within the GBA easier
- improving the reputation of products originating from the GBA by making it easier for business to trace and manage their entire supply chain, including tackling counterfeiting
- facilitating smart contracts – that is having all the financial and contractual terms of a financial transaction embedded within each transaction rather than in a standard contract
- decreasing insurance premiums for GBA businesses on transported goods as insurers can have far more certainty around what products they are insuring
- reducing costs for GBA businesses by potentially cutting a number of business processes
- improve internal audit
- improve access to the financial and other support GBA governments provide business while also potentially making the acquittal process required on such government support simpler
- encouraging blockchain start-ups to establish in Hong Kong and the rest of the GBA, and
- support the development of Hong Kong as a leading blockchain development centre.

While the governments of the GBA could pool their resources and develop a single GBA blockchain, a better outcome would be for those governments to influence the development of a de facto standard - one that allows the interoperability of different blockchains and is technology neutral.

Considering whether an e-invoicing standard can be implemented across the GBA

Compared to paper invoices, e-invoices are easier to process, they reach the customer faster and can be stored digitally at very low cost. However, there are potentially many e-invoicing formats being used by different software across the GBA. These varied formats hinder the smooth transfer of an e-invoice from one business to another, thus increasing costs and error rates.

A GBA-wide e-invoicing standard could be a significant cost saving option for business, while also improving accuracy of financial information and potentially improve cash flow as earlier receipt of an invoice could encourage earlier payment. One report estimates that the potential annual benefits of business to business e-invoicing in Europe at €40 billion.¹¹

The European Union, Australia and Singapore are undertaking work to develop e-invoicing standards for their respective markets.

Investigating whether the current payment platforms across the GBA are meeting the needs of business

It may be beneficial for the governments of the GBA to review whether current payment platforms such as SWIFT and the Real Time Gross Settlement (RTGS) for Hong Kong interbank payments can assist making legitimate business-to-business transactions across the GBA easier.

Such a review could consider whether a standardised platform for processing business-to-business payments across the GBA could make legitimate business-to-business payments easier, cheaper and faster and help track and disrupt illegitimate payments.

Other ideas that could make legitimate cross-border payments easier

- In implementing technology solutions to make legitimate cross-border payments easier, it is important for governments to consider what assistance, training, support and information small business in particular may need to adapt and use such technology
- Consider what additional steps could be taken to make it easier for people in Hong Kong and Macau to make consumer-to-business payments using digital technologies in Mainland China.

¹¹ http://ec.europa.eu/internal_market/payments/docs/sepa/sepa-capgemini_study-final_report_en.pdf



Dr Paul Sin
CPA (Aust.)

Consulting Partner
Deloitte China
Asia Pacific Blockchain
Lab Leader, Deloitte

"Greater Bay Area is about enabling the flow of people, goods, capital and information. Projects on infrastructure, property, manufacturing and trading will come into play as the 11 cities become more interrelated through the development of the Bay Area. The complexity and the diversity of parties that need to work together for major projects in the Greater Bay Area lead us all to look for a new architecture to support effective collaboration.

Blockchain offers a business-to-business data synchronisation platform. It has the potential to create a new foundation for business coordination, thus creating a new level of ecosystem collaboration among business organisations.

In international trading, many companies are already adopting blockchains to enable traceability on complex supply chains and they are also using the network to obtain financial services.

In the financial sector, banks are actively looking into new ways of adopting blockchains in their businesses. With adequate collaboration amongst banks, a blockchain platform would be an ideal system to share sensitive information and identify fraudulent documents and information.

Adoption of a blockchain strategy will create an effective infrastructure for the Greater Bay Area. Through blockchain, information can then be shared across a diverse range of industries and geographic locations. Such flow of information will enable the Greater Bay Area to improve its capital flow and liquidity across cities by significantly reducing fraud. With sufficient participation, we will also see the creation of high quality and reliable ecosystem big data, hence enabling better risk management for the whole ecosystem.

For a blockchain to reach its full potential, it requires interoperability with blockchain platforms of other jurisdictions, and it also needs much support and participation from corporations, logistics providers, and regulators.

Finally, it will take time for blockchain technology to penetrate into the market players of the Greater Bay Area. I see the adoption growing steadily and this should be transparent to users. You may be using it as an underlying technology without knowing it - this is the beauty of the blockchain technology."

PEOPLE AND TALENT

Making it easier for people to move throughout the GBA



Making it easier and quicker for people to move throughout the GBA is also seen by many as critical to the success of the initiative.

In looking at the barriers to the movement of people, the relevant governments could consider what changes can be made to make it easier for people, especially business people, senior managers, start-up owners and specialists (and their immediate families) to move throughout and work in all parts of the Greater Bay Area.

This issue is not only relevant for foreign talent but also for the people of Hong Kong. It is therefore

positive that President Xi Jinping has announced that the central government will consider measures that should

“make it more convenient for the people of Hong Kong to study, work and live on the mainland, and provide more opportunities for them to pursue career development on the vast mainland.”¹²

Making it easier for people to move throughout the GBA is important for many reasons including:

- making it easier for businesses to have the talent they require, in the locations that need it, when they need it

- it can help business attract and retain the staff they need, regardless of where they are from in the world
- it can help attract entrepreneurs from around the world to try their luck in the GBA
- it can improve people to people links, and
- it may attract foreign companies to establish a presence in the GBA as making it is easier for them to bring in the talent they need is one consideration around choice of location for a business.

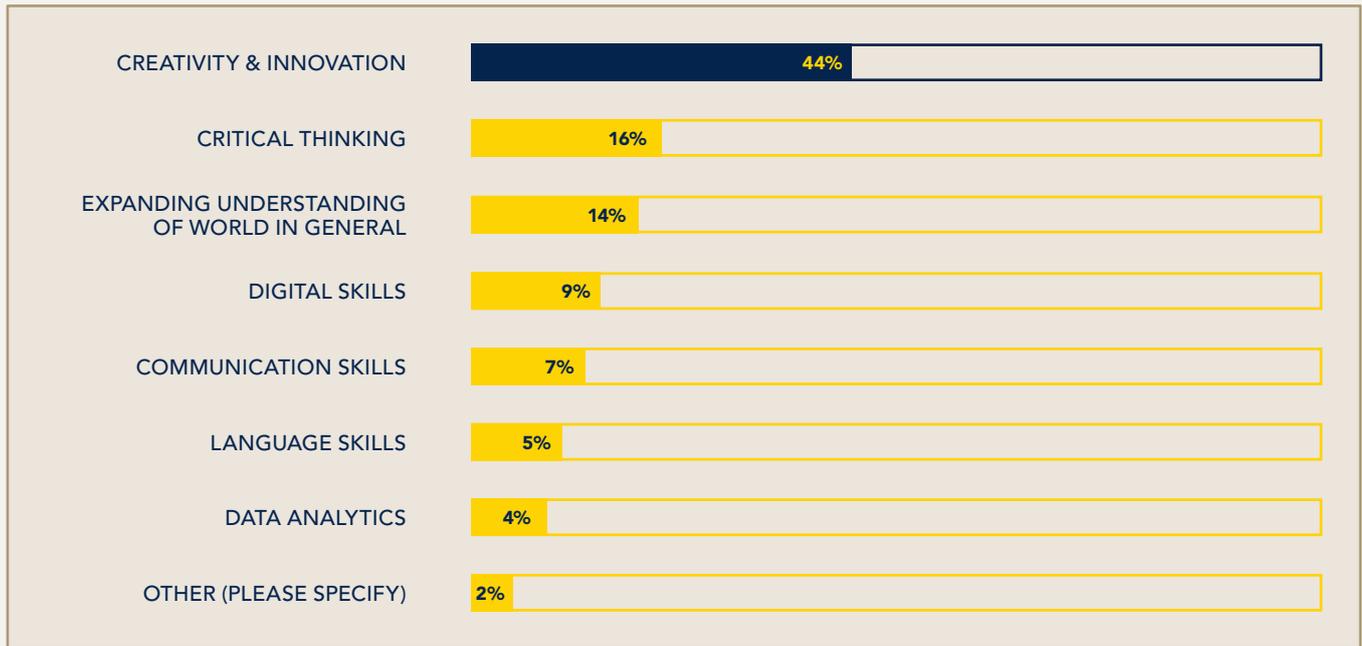
Business access to talent



Nearly 54 per cent of respondents saw business access to talent as critical to the success of the GBA. Given the fundamental role that having access to the right skills is to business success, this response is not surprising.

¹² President Xi’s speech at a meeting marking the 20th anniversary of the return of Hong Kong to China - http://news.xinhuanet.com/english/2017-07/01/c_136409932.htm

Which skills are most in need of improvement in the Hong Kong workforce to best allow Hong Kong companies to take advantage of the GBA?



When thinking about the current Hong Kong workforce, respondents were strongly of the view that ‘creativity and innovation’ is the skill most in need of improving to best allow Hong Kong companies to take advantage of the GBA initiative. In addition to these skills, feedback from members shows that they believe future workers should have certain attributes. These are:

- to observe
- ask questions
- be able to associate issues
- solve problems
- work in teams
- have higher level communication skills

Given these attributes are most likely acquired through experience, it is suggested that education institutions and the SAR government give more Hong Kong students the opportunity to undertake an internship.

Such internships should be undertaken throughout the GBA to not only assist students develop such skills and attributes but also help them to better understand the opportunities the GBA presents for them personally. Members stated that gaining work experience in other parts of the GBA is essential as the range of experiences they can be exposed to is different to Hong Kong.

We suggest that:

- the SAR government expand its internship program so that all Hong Kong students have the opportunity to undertake an internship in one of the other cities of the GBA
- the SAR government consider implementing other programs that increase the exposure of Hong Kong students to other parts of the GBA.

Other suggestions that could improve the skills and capabilities of Hong Kong's existing and future workforce include:

- considering whether further incentives are required to encourage more local students into STEAM fields of study
- establish a Digital Academy for civil servants to improve their understanding of technology improving the digital skills of civil servants will over time filter through to business
- attract the world's leading universities to establish campuses in Hong Kong and conduct exchange programs for students from the GBA.

In addition to developing the talent of the current and future workforce, business access to talent can be more immediately satisfied through attracting talent from the rest of China and beyond. However, what would attract such talent to the GBA?

While Hong Kong has many advantages such as a low tax rate, its very friendly business environment, and increasing integration into the rest of the GBA, these factors may not be sufficient to attract the talent and entrepreneurs businesses require.

Given that issues with access to talent can discourage businesses from entering and staying in Hong Kong, we encourage the government to consider:

- undertaking a review of the factors needed to attract and retain the right talent in Hong Kong, regardless of where they are from
- promoting awareness of the GBA and Hong Kong's critical role in the GBA in foreign markets.

Tax and the movement of people

Appropriately designed and implemented tax measures can remove some of the disincentives for people to work in different areas of the GBA, especially Hong Kong and Macau residents working in the mainland section of the GBA.

One option worthy of further research by the Tax Policy Unit within Hong Kong's Financial Services and the Treasury Bureau is how best to lower the impact of PRC tax being imposed on the salaries of Hong Kong residents working in the mainland part of the Greater Bay Area.

To achieve this, the Tax Policy Unit could consider the value of giving a financial subsidy or incentive that reduces the effective tax burden.

This could lead to Hong Kong residents only paying tax at the Hong Kong rate regardless of where they are working in the GBA. It may also require revisions to the 183-day residency requirement.

Longer term research could also be undertaken to consider the economic, social and revenue impacts of moving towards a more harmonised tax regime across the GBA. Such a study could also look at what such a harmonised regime could look like and set out the options to achieve such harmonisation.



John Lo
FCPA (Aust.)

Chief Financial Officer
Tencent Holdings

“Combining Hong Kong, Macau and the cities of Guangdong’s Pearl River delta, the Greater Bay Area is a key initiative of our central government. The underlying concept of the Greater Bay Area is to deepen the integration and exchange of people, goods, money, knowledge and services across the 11 cities and beyond. With a combined GDP of US\$1.4 trillion, the Greater Bay Area is expected to be a key player in the future growth of China’s economy.

Whilst there are multiple facets to the Greater Bay Area that we can look into, I wish to focus on two specific areas that I feel most passionate about - the mobility of talent and the opportunities for young people.

These days, we tend to get easily wrapped up with notions of business digitisation as technology plays a front-and-centre role in many parts of our businesses. Technology is certainly a huge part for Tencent but we must not forget about the importance of the human element. Having the quality to be spontaneous and creative, people play an equally, if not a more valuable role to our businesses than technology alone. In this respect, I believe that it is vitally important to energise the mobility of people and talent across the Greater Bay Area to ensure success.

Currently, there is a steady flow of people across the 11 cities but we should explore fresh and innovative ways to empower more talent and knowledge exchange across, not just the Bay Area but the globe. Connectivity in transportations, infrastructures and cross-border arrangement are under progress but more importantly, a standardised policy on concessional tax treatment lowering individual income tax rate comparable to Hong Kong’s would certainly be a good incentive to motivate more talent to work in the Greater Bay Area. Our Greater Bay Area is also about growing outwards and making international connections. A lowered corporate tax rate like Hong Kong’s will encourage more international companies to move into the Bay Area.

Young people with fresh and dynamic ideas are also crucial to the development of the Greater Bay Area. Silicon Valley has been incubating start-ups for a long time now. It has attracted talent from all over the world to go and try out their ideas there. Our Greater Bay Area is at the start of nurturing and supporting start-ups. I am hopeful that one day, our Greater Bay Area would be an international incubation powerhouse for young people from different countries to come and experiment their innovative ideas here.”

HONG KONG AS THE GLOBAL INTELLECTUAL PROPERTY CENTRE OF THE GBA

Important to the development of the GBA as a centre of scientific and technical innovation is the protection of intellectual property rights that may emerge from such innovation. Hong Kong, with its strong intellectual property protections, sound legal system, world class professional services sector, substantial incentives for innovation, dispute resolution services and good intellectual property support services, is well placed to be the intellectual property hub of the GBA.

There are many factors that drive the choice of location where innovation is undertaken - access to talent, access to finance, incentives, etc. Being able to protect the intellectual property rights such innovation may create is another important consideration in the minds of innovators. Hong Kong could play to its strengths and seek to be the destination companies and entrepreneurs choose for the registration and protection of their intellectual property and other commercial secrets developed in the GBA.

Hong Kong becoming the GBAs intellectual property hub (and a global intellectual property hub) would assist the GBA to become a major global centre of innovation by encouraging more companies and start-ups to undertake their innovation in Hong Kong and the rest of the GBA. Importantly, it would build on the substantial investment in innovation the SAR government announced in its 2018/19 budget.

For foreign companies and entrepreneurs, the proximity of Hong Kong to the advanced manufacturing capabilities of the rest of the GBA provides additional incentives to using Hong Kong as their destination for registering their intellectual property. For example, this proximity may lead to companies registering their IP in Hong Kong and using the GBAs advanced manufacturing capability and large market to develop, refine and commercialise their IP.

While Hong Kong already has many of the attributes necessary to become the GBA's and a global intellectual property centre, there may be a need for additional measures to augment these existing advantages. Additional measures could include:

- increasing the funding of Hong Kong's Intellectual Property Department so it can offer more support, training and resources to business and entrepreneurs (including foreign businesses and entrepreneurs)
- increase the promotion of the Hong Kong Trade Development Council's IP trading platform, Asia IP Exchange
- offering financial incentives to start-ups to register IP in Hong Kong
- developing a patent box tax regime for Hong Kong. A patent box regime enables companies to apply a lower rate of profits tax to profits earned from its patented inventions.

Other suggestions to promote innovation in the GBA include:

- establishing a joint innovation fund that all governments of the GBA would make a proportional financial contribution towards. Such a fund could provide matching funding to companies that undertake innovation anywhere in the GBA
- establishing an organisation to promote the research and development (R&D) and advanced manufacturing capabilities of the GBA throughout the world
- providing additional funding to GBA universities that promote innovation and entrepreneurship amongst their students and researchers
- a fully-refundable super deduction of 200 per cent for expenditure relating to research and development and innovation undertaken anywhere in the GBA
- accelerated depreciation for the purchase and installation of high-tech equipment and machinery anywhere in the GBA.



ATTRACTING MORE FOREIGN COMPANIES AND START-UPS TO THE GBA

Attracting more foreign companies and start-ups to Hong Kong and the broader GBA is another important factor in the success of the GBA.

Hong Kong already has a strong record in attracting foreign companies due to its long list of positive attributes including:

- a business-friendly regulatory environment
- a low tax rate and relatively easy tax system
- common law jurisdiction
- its status as a global financial centre
- a world class professional services sector
- its increasing integration with the Mainland's economy.

However, we encourage the government consider adding further reasons as to why foreign businesses and start-ups would choose Hong Kong as their GBA base.

Options for attracting more foreign companies and start-ups to Hong Kong

To attract more foreign companies and start-ups to establish a base in Hong Kong, consideration should be given to how the SAR government can further support foreign companies and start-ups to take advantage of the GBA. This could include:

- providing matching services to potential suppliers, customers and professional advisers
- Mandarin lessons for entrepreneurs

- translation services
- facilitating groups where foreign businesses and start-ups can discuss issues with local businesses and professional advisers
- support delegations of foreign businesses and start-ups to visit Hong Kong and the rest of the GBA
- researching whether Estonia's e-residency initiative can be adapted to Hong Kong so that non-residents can digitally access the benefits of the GBA, including government services for business without having a physical presence in Hong Kong. We note that Estonia has frozen its popular e-residency ID cards due to security concerns. Nonetheless, the program is in great demand due in part to the access it provides to the European Union market. It is important that e-residency has appropriate levels of security and authentication.

Tax measures to attract foreign companies to base themselves in Hong Kong

We suggest that the following tax ideas to attract foreign companies and start-ups to Hong Kong be subject to further research:

- lowering the impact of PRC tax being imposed on Hong Kong-resident companies operating in the mainland part of the GBA. This could be achieved through a financial subsidy or incentive that reduces the effective tax burden on such companies

- removing or reducing capital gains tax on Hong Kong-resident companies operating in the mainland part of the GBA
- a profit reinvestment tax exemption for investors that reinvest profit/dividends back into their enterprise that operates in the GBA or as a capital investment to set up another enterprise anywhere in the GBA.

Tell the world about the GBA and Hong Kong's prime position in the GBA

The government should consider how to further promote the enormous benefits the GBA has to offer to businesses around the world. While the initiative is often discussed in Hong Kong, awareness of the GBA, its benefits to business and Hong Kong's significant role in it are not well known in many other parts of the world.

SIMPLER AND UNAMBIGUOUS REGULATION TO FACILITATE DOING BUSINESS ACROSS BORDERS



Members were highly likely to nominate simpler and unambiguous regulation as critical to the success of the GBA initiative.

This result is not surprising. While Hong Kong consistently ranks as one of the easiest places to do business, doing business across borders, regardless of which border can seem complex, especially in comparison to local regulations that businesses are familiar with.

As discussed above, developing GBA standards for blockchain and e-invoicing can contribute to making doing business across the borders of the GBA easier, cheaper and faster. Such standards can also assist with regulatory convergence where appropriate.

Based on Australia’s experience, institutional frameworks are the best way to identify unnecessary barriers to doing business across the borders of the GBA and to develop the most appropriate responses to those barriers. We understand that the central government and the governments of the GBA are in the process of establishing such institutions, and we commend them for that action.

INFRASTRUCTURE



Members were also very likely to nominate quality interconnecting infrastructure as critical to the success of the GBA initiative.

Again, this result is not surprising. As the cities of the GBA grow and intersect, the infrastructure of the GBA must reflect this. There are already many examples of quality infrastructure that is helping to better connect the cities and the people of the GBA.

Members suggested that the governments of the GBA could look to improve ‘soft infrastructure’ to not only increase connections between the cities but also to improve the utilisation of existing infrastructure. Examples could include greater sharing of data on land, air and sea traffic flows.

Other suggestions for improving infrastructure include:

- conducting research into how best to promote Public Private Partnerships (PPP) to encourage the private sector to become more involved in the delivery and management of infrastructure
- research the feasibility of providing investors into government-led infrastructure projects tax relief for PPPs and asset-backed securitisation (ABS) arrangements.



Dr George Lam
FCPA (Aust.)

Chairman
Cyberport Hong Kong

“The Guangdong-Hong Kong-Macau Greater Bay Area is all about interconnectedness and growth potential. Moving away from the traditional economy limited by physical infrastructures and boundaries, the Greater Bay Area will be all about creating a smart ecosystem with optimal equilibrium being achieved in all key areas including finance, education, healthcare, entrepreneurship, transportation, logistics, trade, tourism as well as clean energy and resources.

In terms of the future of finance, many fintech projects on e-wallets, cross-border e-payments, insurtech and e-trade transactions are already well underway. It is important that we embrace these innovations and technological disruptions because an innovative environment is tremendously important to encourage entrepreneurship which fuels the digital economy.

Moving towards becoming a smart Bay Area, we are also seeing investments being made towards upgrading our already-world-leading digital infrastructure by establishing more internet data centres, telecom towers, fibre optic cables and satellite systems to support the fast growth of our digital economy. These developments are being built to expand the spatial infrastructures of the Greater Bay Area so that more data can be collected, stored, managed, processed and analysed quickly and cost effectively to facilitate better connectivity.

Immense investments will also be put into establishing renewable energy facilities in the Greater Bay Area. The central government has always been environmentally conscious and it is envisioned that the 11 cities of the Greater Bay Area can be transformed into a low-carbon super economic hub and the people can enjoy a green urban lifestyle.

Efforts towards nurturing talent and training them to become smart citizens carrying outward-looking perspective and are open to future driven ideas will be a common goal of the Greater Bay Area.

As for healthcare, I am looking forward to seeing the implementation of smart hospitals and other e-health systems being put in place to further improve the current healthcare services in the region.

With these new developments in progress, I am very optimistic about the future of our young people. I am foreseeing that our next generation growing up in this integrated Greater Bay Area will be very entrepreneurial, innovative and adaptive to changes. As for professions which will be of high demand, I would say that the areas relating to fintech and artificial intelligence will continue to be very robust in the coming years.”

MAKING THE MOVEMENT OF GOODS ACROSS THE BORDERS OF THE GBA EASIER

CRITICALLY IMPORTANT

55%

Making the movement of goods across the borders of the GBA easier was also identified as one of the more critical factors to the success of the GBA.

Technology, simpler regulation and improved infrastructure can all contribute to addressing issues impacting the flow of goods across the GBA's boundaries.

Blockchain for example can be used to link supply chain information, reduce complexity in international business processes, reduce duplication and reduce the risk of human error. For example, it is estimated that about 15 per cent of all information in individual import transactions in Australia is duplicated, reducing efficiency significantly. In Australia, this duplication is estimated to add as much as A\$450 in costs for the movement of each shipping container.¹³

Blockchain-enabled smart contracts could also be used to improve the speed at which financial institutions can provide credit facilities to guarantee exchange of goods, thus helping to make cross-border trade easier. Further, the traceability that blockchain and the Internet of Things creates can lead to cheaper and more accurate insurance on the movement of goods as insurers, should have far more accurate knowledge of the goods that they may insure in a container.



¹³ <https://www.afr.com/news/acci-pwc-and-the-port-of-brisbane-team-up-on-blockchain-supply-system-20180528-h10mg9>



Dr Moses Cheng
FCPA (Aust.)

Chairman
 Insurance Authority
 Hong Kong

"Hong Kong is well positioned to be a centre of risk management for China and to provide insurance services for Belt and Road Initiative projects.

Residents of southern Chinese cities like to buy insurance products when they visit Hong Kong and the Insurance Authority would like to further promote Hong Kong as a regional hub for providing insurance services.

Mainland Chinese companies could also set up captive insurers in Hong Kong to look after their own needs. That would enable them to benefit from Hong Kong's professional expertise, capital markets and manage their risk in the Hong Kong insurance market.

Foreign exchange controls on the Mainland must be addressed first, however, we need to work out how to satisfy foreign exchange control rules and regulations to enable the flow of insurance businesses between Hong Kong and Mainland China.

Insurance is very localised and highly regulated: Hong Kong and Mainland China each have their own regulators. The Greater Bay Area is about connectivity so we have to reduce hurdles to enable insurance businesses between the 11 cities in the Area to flourish. This is a complex policy issue but it needs to be resolved before insurance connectivity can really be put into place.

The flow of talent is also important. There is a shortage of trained and experienced professionals in both the insurance markets of Hong Kong and the Mainland. Free flow of people across the Greater Bay Area would definitely expand the pool of human resources and benefit the 11 cities.

The Hong Kong insurance industry has a long history and many experienced people. Their technical skills and professionalism could contribute to the development of the insurance market in Mainland China.

The Insurance Authority looks forward to the first step whereby Hong Kong companies can set up service centres in the GBA to provide relevant services to policyholders including premium collection, claim settlement and business development. The Greater Bay Area policy would enable the 11 cities to pilot various modes of the "Insurance Link" concept between Mainland China and Hong Kong."

PROMOTING THE DEVELOPMENT OF THE UNIVERSITY/RESEARCH SECTOR

Universities and research institutions can and do play a key role in developing talent, and undertaking and supporting innovation. High quality universities with strong, commercially-focused research arms can play a vital role in attracting businesses and start-ups to Hong Kong, and developing the talent businesses need to thrive in the GBA and beyond.

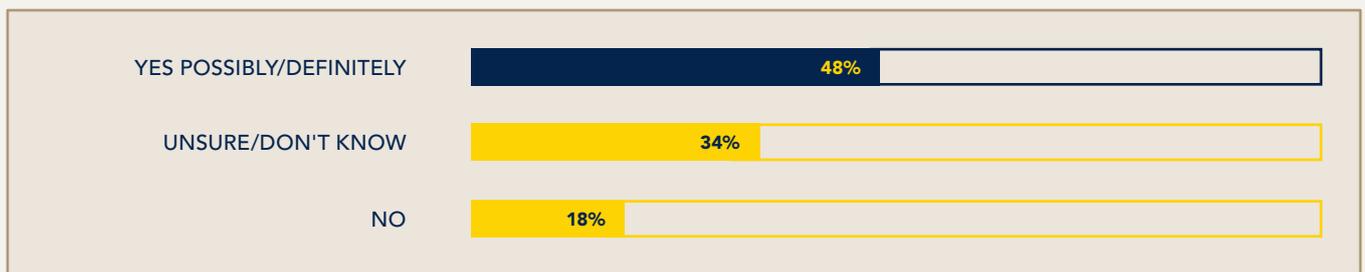
The government should continue to support efforts by top local universities to attract the academic and research talent they need to raise their global ranking. The government should also consider the benefits of attracting top foreign universities and research institutes to establish campuses in Hong Kong. This could boost the quality of local researchers and academics and attract businesses and start-ups eager to collaborate with world-renowned institutions.

Other ideas include:

- providing additional funding to promote greater research collaboration between Hong Kong universities and other universities of the GBA
- providing additional funding to Hong Kong universities to undertake more exchanges of academics and students with other universities of the GBA.

FUTURE INTENTIONS TOWARDS THE GBA

Do you intend to expand your business or career into the rest of the GBA in the next five years?



Nearly half of the respondents intend or possibly intend to expand their business or career from Hong Kong into the rest of the GBA in the next five years. This is very encouraging, and CPA Australia suggests that

the other respondents invest some time to learn more on the initiative, considering the advantages of being involved in the GBA, the risks of not being involved, and what they need to do to succeed in the GBA.

An important consideration for the SAR government from the above chart is whether there is a need to further explain the GBA, and how Hong Kong, its people and businesses can benefit from it.

CONCLUSION

Hong Kong needs to be and can be much more than the financial hub of the Greater Bay Area. This was reflected in the SAR government's 2018-19 Budget, where significant investments were announced that should encourage more innovation be undertaken in Hong Kong.

Building on those large investments and utilising Hong Kong's strong intellectual property protections, further policy initiatives should be considered to transform Hong Kong into the global intellectual property centre for the GBA. With the protection of intellectual property rights a key consideration for innovators, such a move could encourage more innovation to be undertaken in the GBA and therefore be a significant contribution to the success of the initiative.

Creating a GBA-wide standard for blockchain will greatly assist the technology reach its full potential and support further fintech innovations being developed in Hong Kong. Interoperability of blockchain platforms across the GBA should help to make business and compliance easier, improve cash flow and liquidity and increase the reliability and accuracy of data.

CPA Australia is of the view that both the people and businesses of Hong Kong would benefit from taking the time to learn more on the GBA, the opportunities that it brings and what they may need to do to prosper as part of the GBA.

Opportunities abound for Hong Kong from the GBA initiative - but those opportunities must be seized. Appropriate policies and support are needed to ensure Hong Kong radiates its influence throughout the GBA and beyond.

CPAH2968

cpaaustralia.com.au