

Greater Bay Area

2023 outlook: Reopening to jump start the economy

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Economics - Greater China

- ◆ After a difficult 2022, the GBA is ready to bounce back
- ◆ Business activity is set to recover rapidly as mainland China reopens
- ◆ The pace of regional integration will increase, especially in areas like finance and high-end manufacturing

On the comeback trail. The Greater Bay Area (GBA), an economic powerhouse that generates 11% of the GDP of mainland China, Hong Kong and Macau, was hit particularly hard by the pandemic in 2022. The property and services sectors suffered most. As mainland China reopens after three years, 2023 brings the promise of better times as the GBA plays to its strengths.

Advanced manufacturing. Guangdong's advanced manufacturing sector is a bright spot, led by automobile production, which had risen 26% y-o-y in the first eleven months of 2022. This is a clear sign the province is moving up the value chain. We think competitiveness in mainland China's manufacturing hub will only continue to grow as integration and connectivity in areas like technology and financial expertise increase. Hong Kong's North Metropolis – a large planned infrastructure project – is an example of government efforts to strengthen high-end development through connectivity.

Infrastructure. Quality infrastructure – both hard and soft – strengthen regional economic ties and this remains key to future growth. **Significant** new construction projects backed by bond issuance and led by bridges, tunnels and roads are helping the 11 GBA cities create a one-hour living circle. At the same time, the 5G network is expanding rapidly – Guangdong now has 210,000 5G base stations and 60m 5G users, the most in the country. This type of new infrastructure is emerging as a leading driver of investment, as is green finance. Further, streamlining and building of 'soft' infrastructure, or that typically related to regulations and institutions, in the GBA can bring greater efficiency and connectivity.

Policy support. As government policy pivots to stimulating growth, we expect to see more support measures to revive domestic demand in 2023. Guangdong recently welcomed a series of measures to help the ailing property sector, including the provision of liquidity for hard-pressed developers. There are signs of progress. Towards the end of 2022, home sales in the major cities in Guangdong made a moderate recovery. The trend, if sustained, will benefit both investment and consumer confidence. We also expect local governments to roll out measures to boost consumption.

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Back to business

- ◆ 2022 was a challenging year for the GBA, with real estate and services the major pain points
- ◆ Despite this, manufacturing continues to move up the value chain, infrastructure and financial services were also resilient
- ◆ Mainland China's reopening in 2023 will accelerate the pace of GBA integration

A difficult year

The GBA accounts for 35% of the country's exports

The Greater Bay Area (GBA) comprises nine cities in the Pearl River Delta (PRD), one of mainland China's major manufacturing hubs, and Hong Kong and Macau. With a population of 87m and occupying less than 1% of the land mass, the GBA accounts for 35% of exports and 11% of GDP of mainland China, Macau and Hong Kong as of 2021 (Table 1). The central government wants to boost productivity in this city cluster by attracting and developing high value-added industries, capital and talent. In the full report, we review the GBA's performance in 2022 and discuss the region's outlook for 2023. Given the limited amount of high frequency data available, in some parts of the report we use data for Guangdong province when discussing the PRD, which accounts for 83.3% of Guangdong's GDP.

Table 1: GBA: key metrics

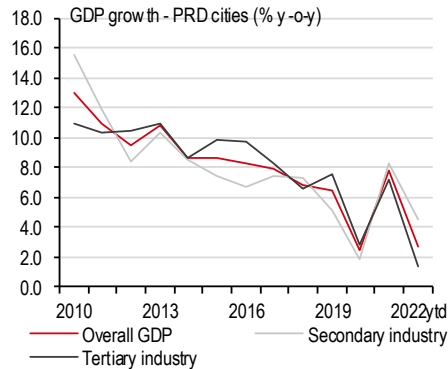
City/Region	Population (m)	Area (km ²)	GDP (USDbn)*	GDP per capita (USD)*	Output per km ² (USDm)	Exports (USDbn)*	Deposits (% share)**	Retail sales (% share)**	Utilized FDI (% share)***	R&D (% of GDP)†	Top 100 universities‡
Guangzhou	18.8	7,434	443	23,540	60	98	3.1	2.3	4.7	3.2	–
Shenzhen	17.7	1,997	481	27,201	241	299	4.6	2.1	5.8	5.5	–
Zhuhai	2.5	1,736	61	24,682	35	29	0.4	0.2	1.7	–	–
Dongguan	10.5	2,460	170	16,159	69	148	0.8	1.0	0.8	3.5	–
Zhongshan	4.5	1,784	56	12,522	31	35	0.3	0.3	0.4	–	–
Foshan	9.6	3,798	191	19,835	50	78	0.8	0.8	0.5	2.9	–
Huizhou	6.1	11,347	78	12,870	7	33	0.3	0.4	0.7	3.1	–
Jiangmen	4.8	9,507	56	11,682	6	23	0.2	0.3	0.6	–	–
Zhaoqing	4.1	14,891	42	10,065	3	4	0.1	0.3	0.7	–	–
Hong Kong	7.3	1,050	368	49,642	350	638	5.1	0.6	–	1.0	5
Macau	0.7	33	30	43,632	906	2	0.3	0.1	–	0.5	–
GBA	86.6	56,038	1,975	22,816	35	1,386	16.0	8.5	–	–	5

*GDP data are from 2021. GDP per capita derived from nominal GDP divided by population. **Percent of national share including Hong Kong and Macau. ***Percent of national share. †R&D spending for 2021, except for Hong Kong and Macau, which are from 2020. ‡QS World University Ranking 2023. Source: CEIC, Wind, Statistics Bureau, HSBC

Services and real estate the major pain points last year

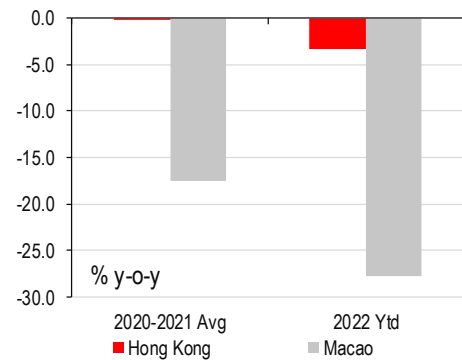
Guangdong has a relatively balanced industry profile, with secondary and tertiary industries accounting for 40.4% and 55.6% of the economy, respectively. In 2022, the pandemic hit the services sector hard. The PRD cities had a weighted average growth rate of 2.7% y-o-y during first three quarters of 2022, whereas the tertiary sector grew only 1.3% y-o-y (Chart 1). Hong Kong and Macau, the two most externally oriented cities in the GBA, saw their growth rates decline more sharply than the other cities in the GBA due to their services-oriented economic structure (Chart 2). Real GDP declined 28% y-o-y in the first three quarters of 2022.

Chart 1: PRD cities' economic growth dragged by the services sector



Source: Wind, HSBC

Chart 2: Growth slumped in Hong Kong and Macao

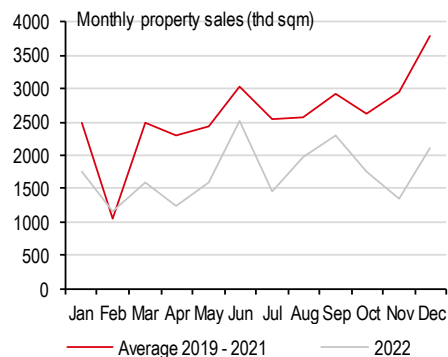


Source: Wind, HSBC

In 2022, the property sector was a major drag on the country's economy. Average monthly home sales for several key cities fell to only 65% of the average in 2020 and 2021 (Chart 3). The latest data suggest that property investment declined by 15.1% in the first 11 months of 2022 (Chart 4).

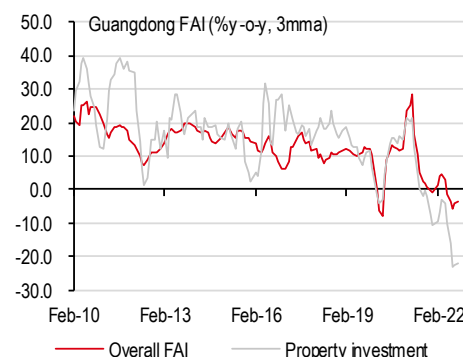
Although the contribution of the property sector to GDP has gradually declined over the past few years, it still represents a relative large share of business activity and enterprise portfolios in Guangdong. As of 2022, the province was home to 26 A-share property companies, as well as 55 real estate companies listed in Hong Kong, leading all provinces.

Chart 3: Property sales of four Guangdong cities were well below historical levels



Note: The four cities are Guangzhou, Shenzhen, Dongguan and Foshan.
Source: Wind, HSBC

Chart 4: Property investment was the largest drag on Guangdong's FAI in 2022



Source: Wind, HSBC

And yet, there were many positive developments

Advanced manufacturing stood out

In 2022, Guangdong's advanced manufacturing sector stood out, with automobile production the real bright spot in the province – growing 25.7% y-o-y by the end of November 2022. New energy industries, such as lithium batteries and photovoltaics, also saw rapid growth. Advanced manufacturing partially offset the softness in lower end consumer goods manufacturing and other industries, such as textiles, clothes and paper-making, as well as energy-intensive sectors, such as chemical and metal production (Chart 5).

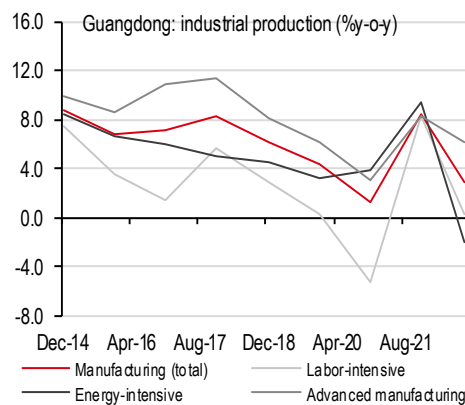
While industrial upgrading gathered momentum, related investments also picked up. Manufacturing investment increased 15.1% during the first 11 months of 2022, significantly above the headline growth rates of FAI (down 2.6% y-o-y). Aside from fiscal support (i.e. tax benefits), financial institutions were also encouraged to provide targeted support to manufacturers. By the end of September 2022, outstanding manufacturing loans in Guangdong reached RMB2.16trn, rising 29.5% y-o-y or 2.4x headline loan growth.

Automobile production was the real bright spot in Guangdong

Hong Kong has redoubled its focus on attracting talent

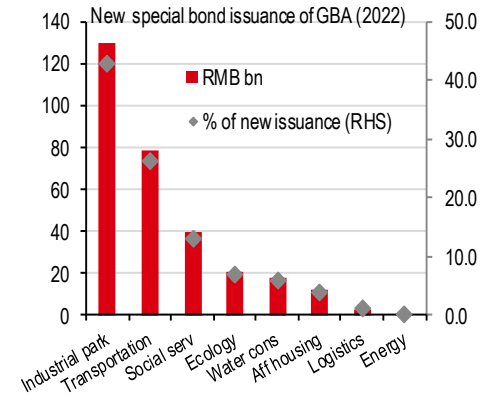
This will be complemented by an increased policy focus in Hong Kong to lift innovation and play a leading role in connecting global capital with the GBA. In the 2022 Policy Address, Hong Kong redoubled its focus on attracting talent and increasing investment in innovation to help enhance the city's competitiveness as an international financial and investment centre. Linking up the development of R&D within the GBA will also remain key and a further buildout of Hong Kong's innovation hubs and science and technology parks, including in the planned Northern Metropolis, will lift technology and innovation in the region, given the synergies from increased proximity, high-quality talent and quality infrastructure.

Chart 5: Advanced manufacturing partially offsets the softness in other sectors



Source: Wind, HSBC

Chart 6: New SB in GBA mainly supported industrial parks and transportation



Source: China Bond, HSBC

Hard and soft infrastructure continued to push ahead

Infrastructure has remained a key driver for the GBA's growth in recent years. In 2022, construction continued to focus on transport and logistics links that connect PRD cities, Hong Kong and Macau, backed by strong financial support through bond issuance and targeted policy tools (Chart 6).

These infrastructure projects will create a network of sea crossings, connecting the GBA and strengthen economic ties across the region. With mainland China reopening borders in January 2023, the benefits of a "one-hour" living circle will gradually materialise.

Guangdong has also been developing new infrastructure like 5G

In addition to these traditional infrastructure projects, Guangdong has also been developing new infrastructure. By the end of 2022, 210,000 5G base stations had been built in the province, up nearly 40,000 from 2021, the most in the country, and the government expects the total number of 5G stations to ramp up to 250,000 by 2025 (gd.gov.cn, 18 May 2022). As of 2022, the number of 5G users in Guangdong has reached 60m (ycwb.com, 1 December 2022). Meanwhile, big data centres and new energy vehicle charging stations have emerged as new drivers of investment.

Meanwhile, GBA cities are growing closer through "soft connectivity" – greater collaboration in terms of rules, regulations, management and business standards. While Hong Kong has strengths in financial, management and legal services, the establishment of co-operation zones in Qianhai, Hengqin and Nansha will boost industrial links and improve efficiency.

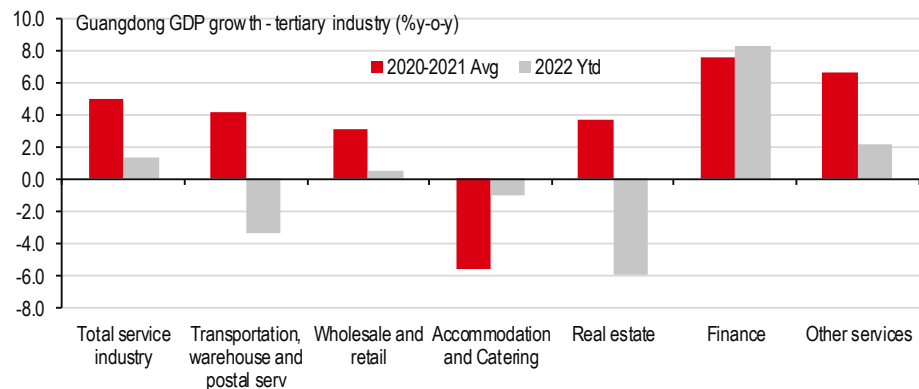
An upbeat financial services sector

The financial services sector was clearly an outperformer

Among major services sectors, the financial services sector was clearly an outperformer in 2022 (Chart 7). In the first three quarters of 2022, the financial industry contributed 34.1% or 0.8ppt to the province's economic growth at 2.3% (21Jingji, 12 December 2022). In the traditional banking sector, Guangdong's total social financing increased by more than RMB3trn during the first 11 months of 2022, accounting for 11% of the national aggregate. Outstanding bank loans also grew at a faster pace than the national average. In 2022, the central bank increased the use of structural monetary policy tools to support areas, such as technology innovation, transportation and logistics, and clean energy.

This targeted credit supported Guangdong's development as the new economic sectors have become key growth drivers. As mentioned earlier, credit support for advanced manufacturing was particularly strong in 2022. In addition, loan growth to high-tech enterprises rose c20% y-o-y, while green loans increased 56% y-o-y by the end of 3Q22 (PBoC, Guangzhou Branch, 24 November 2022).

Chart 7: Financial services accelerated in a difficult environment



Source: Wind, HSBC

Conclusion

We expect y-o-y GDP growth to reach 5% in 2023e in mainland China

As mainland China reopens and policy focuses on supporting the economy, we expect y-o-y GDP growth to reach 5% in 2023e. From the perspective of the GBA, the region should also see a major bounce in business activity for the first time in three years. We believe it will maintain its competitive strength in advanced manufacturing, supported by further integration with Hong Kong and Macau that will attract talent and capital. In the meantime, the construction of hard and soft infrastructure will continue. In particular, further collaboration in terms of rules, regulations and services is set to provide more business opportunities for GBA enterprises. There is also no sign of any slowdown in fast-growing green investment and green finance. Lastly, we expect more policy measures to be rolled out to stabilise the local property market and boost household confidence.

This is a Free to View version of a report with the same title published on 16-Jan-23.

The full report contains a further discussion of the key growth drivers for 2023 and beyond for the Greater Bay Area, from the positives of Mainland China's reopening and further integration of the GBA to why the financial services industry has become an important fulcrum for the regional economy and much more.

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