

SOUTHERN CHINA SUPERCITY

Shenzhen's Expanded Role in the Greater Bay Area



A new policy guideline pledges a privileged role for Shenzhen in the Guangdong-Hong Kong-Macau Greater Bay Area development plan and sets ambitious goals for the city to become a global leader.



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戴德梁行

INTRODUCTION

Shenzhen was designated as one of the “four engines” in the outline development plan for the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) published in February 2019.

Then, in August 2019, with Shenzhen nearing four decades as China’s pioneering Special Economic Zone (SEZ), the central government issued a fresh guideline announcing an expanded role for the city in the GBA’s development, and setting out a longer-term vision of a southern China supercity able to compete with the world’s best in competitiveness, innovation and influence.

The policy document, ***Building Shenzhen into A Pilot Demonstration Area of Socialism with Chinese Characteristics***, reaffirms Shenzhen’s place in the vanguard of China’s development and opening-up, confirms the city’s position as a science and technology driver in the GBA, and introduces a new ideological framework in the form of “socialism with Chinese characteristics.”

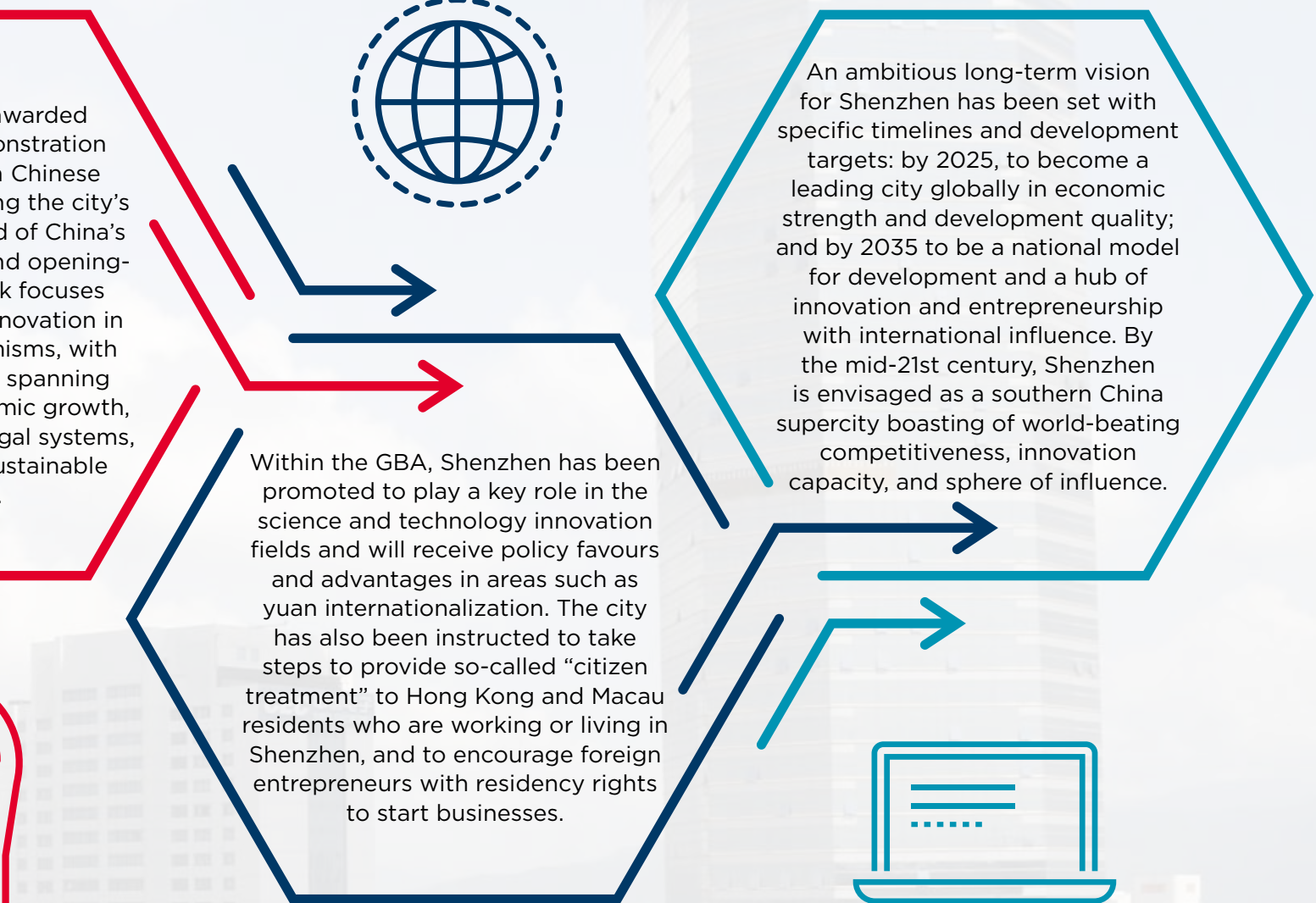
Shenzhen has been awarded the title of “Pilot Demonstration Area of Socialism with Chinese Characteristics,” informing its lead role in the vanguard of ongoing development and opening-up. The new framework outlines efforts on reform and innovation in institutions and mechanisms, a comprehensive remit for city construction, economic, culture and education, legal, social livelihood and sustainable development.



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In this report Cushman & Wakefield
Building Shenzhen into A Pilot Demonstration Area of Socialism with Chinese Characteristics

Key insights from the policy guideline:



Maoduan Zhang

Senior Director, Head of Research, South and West China

We anticipate that demands for retail, office, industrial and residential properties and space in Shenzhen will rise, along with the city's value and land resources. But a long-term mechanism to promote healthy and sustainable development of the real estate market is planned, and this is expected to restrain the prospect of run-away price rises and to ensure availability of affordable housing.”

Keefe's China research team bring their interpretation of and insights around the objectives of the **Building Demonstration Area of Socialism with Chinese Characteristics** policy guideline.



SHENZHEN AS A GLOBAL BENCHMARK BY 2050

Forty years of rapid development have boosted Shenzhen's GDP volume and growth rate, but gaps remain to leading international cities in terms of GDP per capita, city infrastructure, culture and education, public services, social security, legalization and ecology. Insufficient internationalization has also slowed the city's development to some degree. To achieve the goal of becoming an international benchmarking city in 30 years, the guideline specifies development objectives as follows:

To build Shenzhen into an international city of innovation by 2025 – strengthening economic power and development quality through R&D and industrial innovation capacity; and strengthening soft power through culture and education, public services and the ecological environment,

with an objective of reaching an advanced international level.

To raise Shenzhen's overall competitiveness to a world-class level by 2035 – creating a hub of innovation, entrepreneurship and creativity with international influence.

To be recognized as an international benchmarking city by midcentury – at an unsurpassed level of competitiveness, innovation and influence.

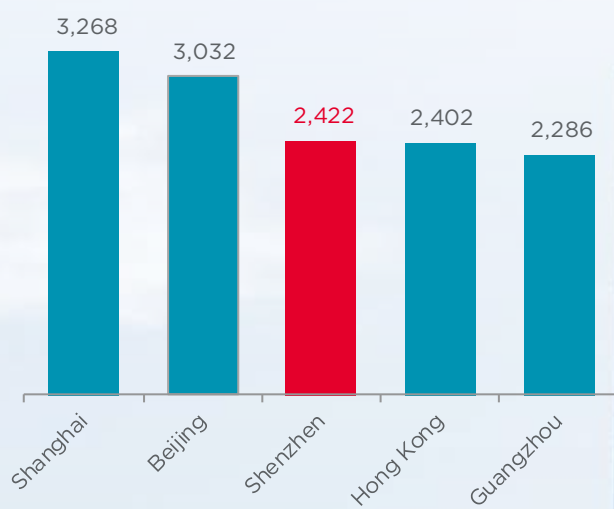
To meet these objectives it will be critical to adopt and implement reforms in multiple areas, including city development, innovation in institutions and mechanisms, opening-up and internationalization.

GDP Growth Rate of China and Shenzhen (%)



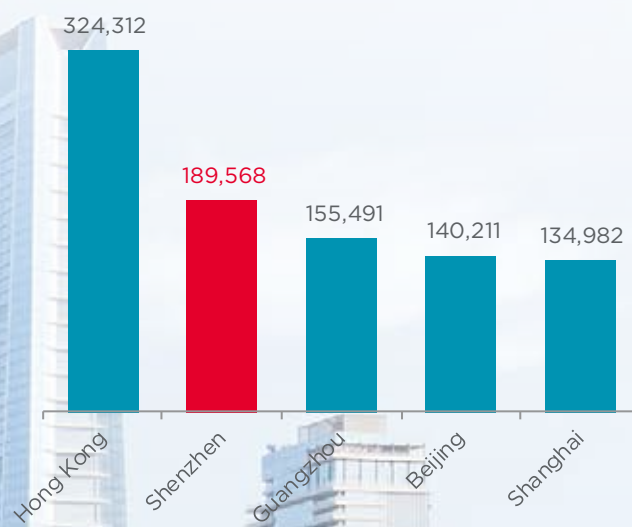
Sources: National Bureau of Statistics, Statistics Bureau of Shenzhen Municipality

2018 GDP (RMB Billion)



Sources: Statistics Bureau of each city
Note: 1HKD=0.85RMB

GDP Per Capita in 2018 (RMB)



Sources: Statistics Bureau of each city
Note: 1HKD=0.85RMB



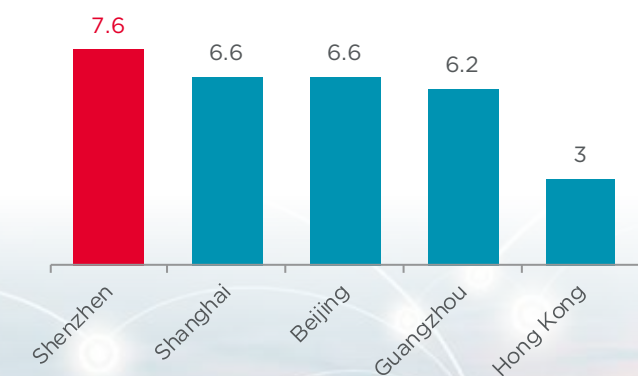
INNOVATION IS THE KEY TO HIGH-QUALITY DEVELOPMENT

The guideline sets a strategic objective for Shenzhen to be a leading player in high-quality development. Innovation is key. The city has already transformed from focusing on manufacturing and trade to being innovation-oriented, and now has the highest GDP growth rate among the four first-tier cities. The added-value of the technology sector has accounted for more than 30% of the city's GDP in recent years, with more than 14,000 hi-tech companies in

2018. R&D input accounts for 4.2% of GDP – at the same level as Israel. This robust hi-tech sector supports sustainable economic development.

The guideline designates Shenzhen as the location for a fourth comprehensive national science center – after Shanghai Zhangjiang, Beijing Huairou, and Anhui Hefei – and gives an instruction to explore and establish an international science and technology information hub and medical sciences institution.

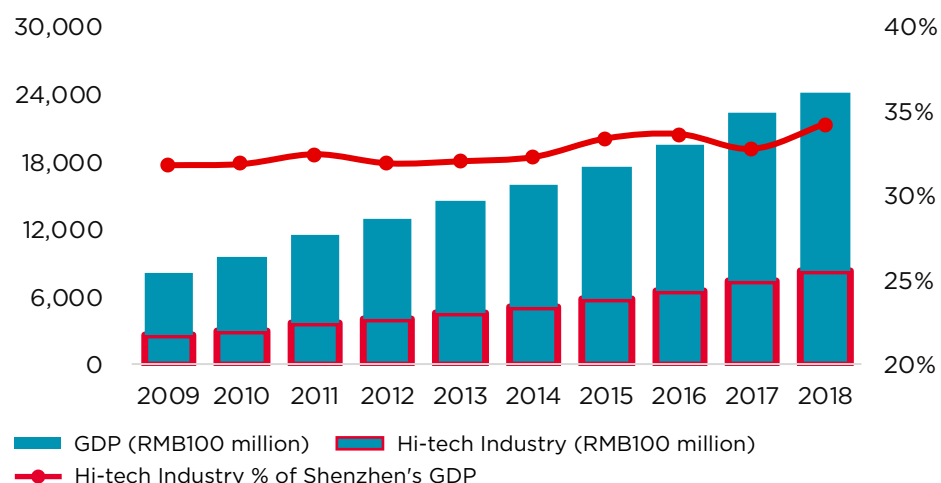
2018 GDP Growth Rate (%)



Sources: Statistics Bureau of each city

The new science center will join a growing array of educational and R&D institutions established by Shenzhen in recent years. Its creation is expected to draw top researchers and scientists and advanced innovation platforms. This will all support Shenzhen in building an international scientific and industrial innovation zone, and to provide a strong foundation for the GBA to further develop into a technology and innovation bay area.

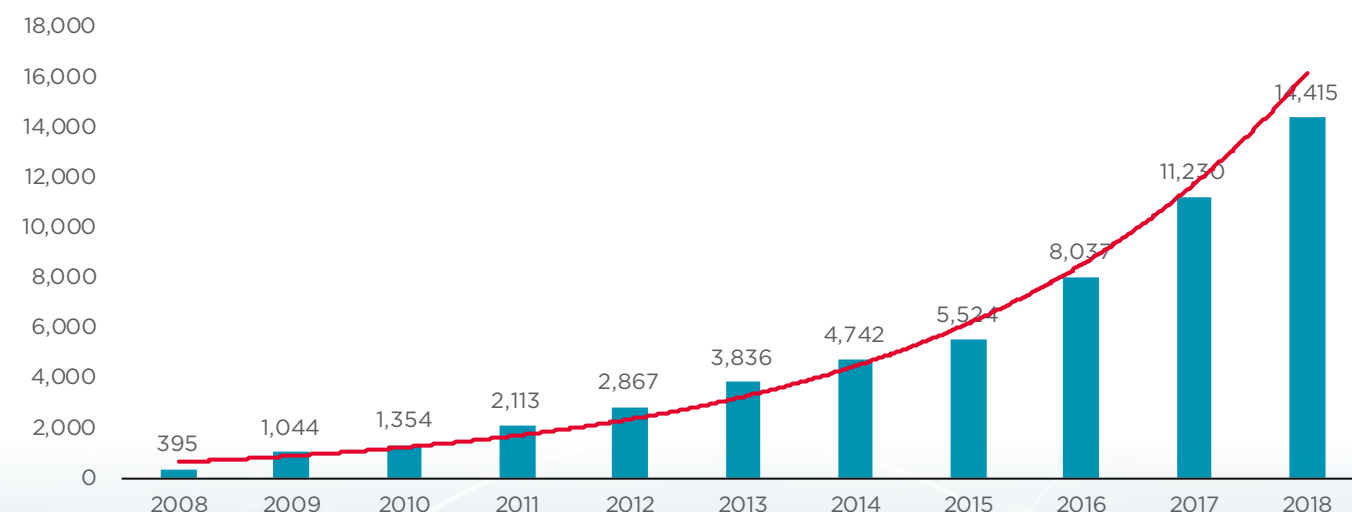
Hi-tech industry Value-added and its % of Shenzhen's GDP



Sources: Statistics Bureau of Shenzhen Municipality, Cushman & Wakefield Research

The accumulated industrial foundation, R&D platforms and talent introduction policies are envisaged to support the sustained future growth of hi-tech industries in the GBA, and enhance Shenzhen's standing as an advanced technology and innovation hub.

Number of Shenzhen Hi-tech Companies



Sources: Shenzhen Hi-tech Industry Association, Commerce Bureau of Shenzhen Municipality





PURSuing DEEPER REFORM AND EXPANDED OPENING-UP

High-quality and high-speed development are the key forces for Shenzhen to achieve the status of an international benchmarking city. And amid prevailing economic uncertainty and ongoing trade friction, innovation breakthroughs are the development engines.

Adopting deeper reform tools to promote the city's development, and expanding opening-up via policies, innovation schemes and reform will be effective measures to help Shenzhen become a pioneer in China's continuing reach-out to the globe and international competition.

More open and convenient systems to attract international talent, innovation and entrepreneurship – through easier border entry and exit, freedom for foreign entrepreneurs with residency to setup scientific and technology enterprises, relaxed practice permits for overseas professional doctors, and the provision of “citizen treatment” to Hong Kong and Macao residents who work or live in Shenzhen.

Further opening-up of the financial market with improved capabilities to serve the real economy – via greater connectivity between the Shenzhen, Hong Kong and Macau financial markets, mutual recognition of fund products, and advancing the pilot implementation of RMB internationalization.



Making full use of the special economic zone's legislation rights – allowing Shenzhen to adjust regulations, within the authorization, will enable the city to align with international standards in law, governance, business environment and industry regulations: necessary conditions for Shenzhen to become an international benchmark city.

Further opening up of the Shenzhen-Hong Kong Modern Service Industry Cooperation Zone – accelerating the construction of the Shenzhen-Hong Kong science and technology innovation cooperation zone.





STRENGTHENING LEVELS OF INTERNATIONALIZATION



Despite strong economic development performance, Shenzhen remains a young and inexperienced entity in the context of established international cities in the region such as Hong Kong, Beijing and Shanghai.

In the 2016 Global Cities Index results from A.T.Kearney, Shenzhen ranked at number 83. In contrast, Hong Kong was ranked at 5, Beijing at 9 and Shanghai at 20. The index determines the globalization of a city from five components: business activity, human capital, information exchange, culture experience, and political engagement.

As well, Shenzhen currently hosts no foreign Consulate-General, and this is considered clear evidence of the work required to meet the new positioning targets.

The policy guideline includes a series of measures to promote Shenzhen's levels of internationalization.

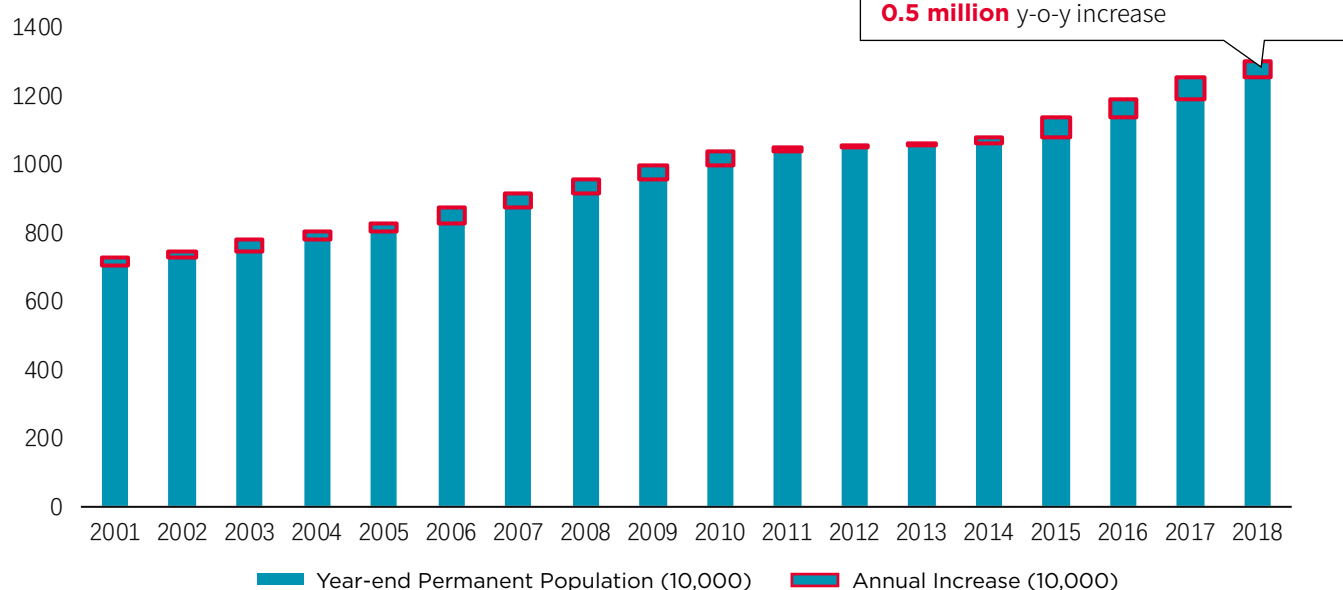
These include encouraging international organizations and institutions to settle in the city, holding international sports events and cultural exchange activities, and establishing a national team training center.

There is also emphasis on promoting the development of international cruise terminals and cruise liner arrivals and promoting development as a global marine city overall.

Financial markets are also in focus, with expanded opening-up to promote the level of connectivity between Shenzhen, Hong Kong and Macau markets, the mutual recognition of fund products, and advancement of the implementation of RMB internationalization.

Finally, the guideline mandates Shenzhen to explore and improve its property rights system, and to improve the level of democracy and the rule of law.

Year-end Permanent Population in Shenzhen



Sources: Statistics Bureau of Shenzhen Municipality



BOOSTING SOFT POWER, COMPETITIVENESS AND INFLUENCE

Alongside its economic development indicators, Shenzhen's soft powers – including culture, education and healthcare – are the foundations to support the city's sustainable development and are key drivers to improve the its competitiveness and influence.

Among these factors are the quality of primary and higher education and the medical sector – both considered essential to support the sustainability of the city's economic development.



Education reform – the guideline mandates Shenzhen progress education system reform, ensure a universal high standard of education across school stages, and to expedite first-class higher-education institutions and university education.

Healthcare – the city is required to speed up the creation of a world-class integrated prime healthcare service system and to devise an innovative medical healthcare insurance system.

Talent and quality – initiatives to attract high quality talent and streamlining of the talent

introduction process have been implemented in recent years. There is room to improve further the capability of training high-caliber talents and the quality of residents.

Environment – a good ecological environment are important factors for Shenzhen to attract international resources. Within China, the city has been taking the lead in ecological and environment protection, and the guideline mandates it to implement stringent protection systems. To do so, the city will need to consider urban development planning, ecological environment protection, and resource conservation regulations holistically.



Fortune 500 in the GBA (20 companies)

Source: Fortune 500 2019

Hong Kong 7

China Resources Lenovo China Merchants Group Jardine CK Hutchison Holdings
AIA China Pacific Insurance

Shenzhen 7

Ping An Insurance Huawei Amer Evergrande China Merchants Bank Tencent
Vanke

Guangzhou 3

China Southern Power Grid Guangzhou Automobile Group Cedar Holdings

Foshan 2

Country Garden Midea

Zhuhai 1

Gree



MANAGING SUSTAINABLE DEVELOPMENT OF THE REAL ESTATE SECTOR

Building Shenzhen into A Pilot Demonstration Area of Socialism with Chinese Characteristics addresses the overall long-term development plan of the city of Shenzhen. However, it has still renewed speculation over the future rise of the real estate market.

Admittedly, comprehensively promoting the city's competitive strengths can be expected to boost land values. But this rise is set to be in line with the city's development, rather than resulting in a sudden jump in property prices.

The policy guideline takes a view on the real estate market to serve the livelihood and development of the city, requiring

Shenzhen to set up a comprehensive long-term real estate market mechanism to ensure stable development, and to expedite the improvement of affordable housing and housing under the talent attraction and retention policy.

This mechanism, together with market adjustments, is expected to stabilize housing costs, curb any trend for runaway price increases, and avoid curtailing the development of other sectors. There are three key factors supporting this view:

Firstly, Shenzhen's household debt balance accounted for more than 80% of the city's nominal GDP in 2018, and residents' debt-

Admittedly, comprehensively promoting the city's competitive strengths can be expected to boost land values. But this rise is set to be in line with the city's development, rather than resulting in a sudden jump in property prices.

to-deposit ratio reached 144.4%. Since the city's success relies on its industrial and commercial development it would be very unhealthy if a high percentage of capital were to flow into the real estate sector.

Secondly, central government planning and Shenzhen's adjustment policies and regulations have aimed to avoid irrational activity in the real estate market, and to protect long-term healthy economic development.

And thirdly, regardless of the 30 years to go before becoming a global benchmarking city, Shenzhen is already among the world's most-expensive cities for housing costs. The multi-source housing supply scheme policy released in 2018 by the Shenzhen government indicates that open-market commercial ("commodity") housing will no longer be the primary source of supply, and that government-allocated affordable housing will reach a historical high of 60% of the total supply in the period 2018-2035. Consequently, we can expect that future commodity housing costs will have less impact on the city's economy and on residents' livelihood.

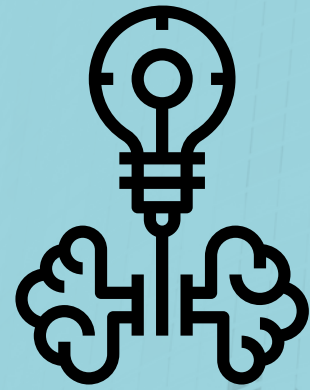
Central government planning and Shenzhen's adjustment policies and regulations have aimed to avoid irrational activity in the real estate market, and to protect long-term healthy economic development.

INTERPRETATION AND INSIGHTS:

Building Shenzhen into A Pilot Demonstration Area of Socialism with Chinese Characteristics Policy Guideline Measures



Explore ways to improve the IPO, re-financing, and merger and reorganization systems of the growth enterprise board and create a favorable environment for registration reform



Support Shenzhen to explore research in digital currencies and apply innovations in mobile payments

Establish pilot demonstrations of digital economic innovation

Establish a manufacturing innovation center in the fields of high-end future communications devices and high-performance medical equipment

Implement more open and convenient mechanisms on introducing international talent and on border entry and exit systems

Explore the securitization of IP and progressively establish an IP and technological achievement property trading center

Establish Shenzhen as the core location for a comprehensive national science center

Explore and establish an international science and technology information hub and "new system" medical sciences institution



Initiate pilot reforms on market entrance permissions and monitoring and establish a more flexible prudent and comprehensive monitoring system

Allow international talent with permanent residence permits to set up scientific and technology enterprises and to operate as legal representatives in Shenzhen

Support Shenzhen's organizations, institutions and companies to set up an international science research center

Promote the degree of connectivity between Shenzhen and the Hong Kong and Macao financial markets, and the mutual recognition of financial (fund) products

Initiate pilot comprehensive reforms on state-own enterprises

Encourage more international organizations and institutions to settle in Shenzhen

Progressively establish a maritime university and a national deep-sea research center, and explore and set up an international maritime development bank

Take forward the early and pilot implementation of RMB internationalization and explore innovation in cross boundary financial monitoring

Support pilot reforms on deepening foreign exchange management in Shenzhen

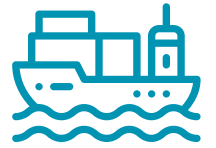
Further deepen reform and opening-up of the Shenzhen-Hong Kong Modern Service Industry Cooperation Zone at Qianhai



Support Shenzhen to hold international sports events and cultural exchange activities, establish a national team training center and organize foreign organization activities

Support Shenzhen to vigorously develop digital and creative industries

Progressively promote the development of international cruise terminals and further increase the number of international liners



Support Shenzhen to establish an innovation and creative design college

Take advantage of exhibition resources and industrial resources in Hong Kong and Macao to hold creativity and innovation exhibition events

Encourage state-level museums to set up branches in Shenzhen

Encourage Shenzhen to cooperate with Hong Kong and Macao to hold cultural and arts activities

Take forward the early and pilot implementation on the education system reform, ensure the success of a high standard education of pre-primary school, expand the scale of education of middle school and primary schools, and ensure a universal high-quality standard of high-school education

Encourage the development of high standard medical institutions through the use of social resources and support the development of Hong Kong and Macao medical institutions

Support Shenzhen to establish a Greater Bay Area (GBA) Big Data Center

Allow Shenzhen to make full use of its special economic zone's legislation rights, based on reform, innovation, and practical needs while constrained by the central government's enabling decision, to allow Shenzhen to adjust laws, administrative regulations and local decrees

Relax practice permits for overseas professional doctors to work in the mainland and pursue the early and pilot implementation in international advanced medical technologies

Speed up the establishment of a social credit system, and take the lead in establishing a uniform social credit platform

Promote the interconnected development of Shenzhen-Dongguan-Huizhou, foster cooperation and merge development between the east and west banks of the Pearl River, and improve, explore and promote the management system and mechanism of the Shen-Shan Special Cooperation Zone



Take forward a universal social insurance public service platform and implement a "One Card Pass" social insurance service

Deepen reform of delegation of power, streamlining administration and optimizing government services

Promote and provide "citizen treatment" to Hong Kong and Macao residents who work or live in Shenzhen



Accelerate the construction of the Shenzhen-Hong Kong science and technology innovation cooperation zone

Set up a comprehensive long-term mechanism for the real estate market to progress with stable and healthy development, and expedite the improvement of affordable housing and talent housing mechanisms



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