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### Greater Bay Area insight – upgrading the industrial base

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- ◆ We think the Greater Bay Area (GBA) stands to benefit from the government's focus on "new quality productive forces"
- ◆ We look at why high-end manufacturing is changing and how it can advance further, helped by financial support...
- ◆ ...and how policy backing can create better synergies through regional integration across the GBA

#### China data review (1Q and March 2024)<sup>1</sup>

- **GDP** rose by 5.3% y-o-y in 1Q, putting China on track to meet its GDP growth target of "around 5%" this year. However, the revival has been on a bumpy path with March data showing decelerations in industrial production and retail sales. On the flip side, manufacturing and infrastructure investment accelerated, boosted by ongoing policy support. Ongoing headwinds will likely keep policymakers proactive to help sustain the momentum.
- **Industrial production** growth slowed to 4.5% y-o-y in March, given a high base and a drop in exports. That said, industrial production grew by 6.1% y-o-y for the quarter, providing a key tailwind for the economy for the year so far. We see this as stemming from more solid domestic demand as well as better than expected exports growth in Jan-Feb. The policy drive to accelerate development of "new productive forces" has also provided support for advanced manufacturing.
- **Retail sales** growth slowed to 3.1% y-o-y in March, though this is likely due to a combination of both the fading holiday impact after the Lunar New Year and a higher relative base. Nonetheless, services-related retail sales have continued to outperform, reaching 10% y-o-y year-to-date, while services consumption is still showing signs of improvement. This bodes well for a further recovery in consumer confidence and ongoing strength in offline services consumption.
- **CPI inflation** growth slipped back to 0.1% y-o-y in March following last month's bounce back to 0.7% y-o-y. This was due to a pullback in pork prices and consumption demand following the Lunar New Year holiday season, and high base from more reopening tailwinds at this time last year. Meanwhile, **PPI deflation** deepened a touch to 2.8% y-o-y, due in part to ongoing pressures in the property sector even as global commodity prices rose in March.
- **Export** growth contracted 7.5% y-o-y in March due to high base effects from last year and still sluggish global demand, especially as monetary conditions in other economies remain tight. **Imports** also fell 1.9% y-o-y, stemming partly from lower demand for energy materials as well as ongoing drag from the property sector, though may have been partly offset by increased infrastructure demand.

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<sup>1</sup> Source: Wind, HSBC

## The GBA – at the forefront of change

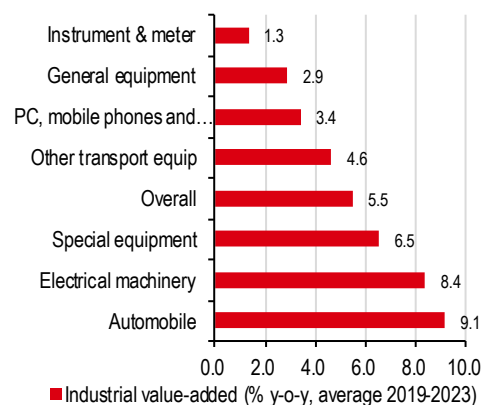
Since the high profile Two Sessions meeting in March, much of the policy talk has been about “new quality productive forces” and modernizing the country’s industrial base. Given Guangdong’s status as mainland China’s manufacturing powerhouse, **we expect the Greater Bay Area (GBA) to benefit**. Against this high-tech backdrop, we address three key aspects – how the region’s manufacturing sector is changing, what can make it evolve further, and important best policies for future growth.

### 1. The future of the manufacturing sector

**New economy sectors driving manufacturing**

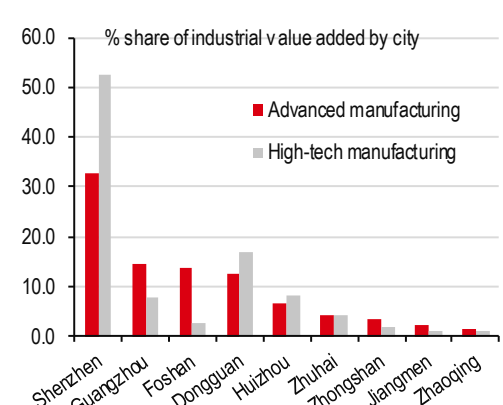
Guangdong Province remains the country’s largest manufacturing base for electronic goods like smartphones and computers. However, growth has slowed and this sector is highly export dependent, so there is an urgent need to develop strategically important industries. We think the province’s manufacturing future lies in **new economic sectors like new energy vehicles (NEVs), integrated circuits, and optoelectronic devices**. Production in all three grew rapidly last year (see Charts 1 and 2).

**Chart 1. The growth rate in the GBA’s equipment manufacturing has diverged**



Source: Wind, HSBC

**Chart 2. Distribution of high-tech and advanced manufacturing across the GBA**



Source: Wind, HSBC

### 2. Financial support to help drive this change

**Finance to speed up the pace of industrial modernisation**

Manufacturing loans in the province rose 24.4% y-o-y in 2023, led by bank lending to advanced manufacturing (up 37%) and high-tech manufacturing (up 35%) (Southcn.com, 26 January). Guangdong has also rolled out tax benefits to encourage R&D investment, and while technological advances need backing from the capital market, the GBA has a clear advantage here – **Hong Kong’s status as an international financial centre**.

### 3. Policy support – integration, co-operation, human capital.

**Policy support can speed up the GBA’s transformation**

Businesses in the GBA should be able to benefit from improving the flow of people, data, and capital, especially for technology-driven projects. The EU’s best practices in this area could be a good reference for the GBA. In addition, a joint task force of GBA local governments is discussing a “one-stop shop” for business registration to improve co-operation and support foreign direct investment. Finally, a huge shortfall of skilled manufacturing workers is forecasted by 2025, according to the Ministry of Industry and Information Technology. The government is making efforts to reform the college curriculum and provide tailored vocational training.

**Key upcoming China economic data**

Date	Indicator	Prior
21 Apr	Loan Prime Rate 1Y	3.45%
21 Apr	Loan Prime Rate 5Y	3.95%
29 Apr	NBS Manufacturing PMI	50.8
29 Apr	Caixin Manufacturing PMI Final	51.1
5 May	Caixin Services PMI	52.7
8 May	Exports y-o-y	-7.5%
8 May	Imports y-o-y	-1.9%
10 May	Producer Price Index (PPI) y-o-y	-2.8%
10 May	Consumer Price Index (CPI) y-o-y	0.1%
16 May	Retail Sales y-o-y	3.1%

Source: Refinitiv Eikon

**Performance of key A-share indexes\***

	Current	Year-to-Date	Last 1yr
Shanghai Composite	3,057	1.08%	-9.92%
Shenzhen Composite	1,638	-10.85%	-23.33%
CSI 300	3,549	2.33%	-14.20%

\* Past performance is not an indication of future returns

Source: Refinitiv Eikon. As of 16 Apr 2024 market close

# Disclosure appendix

## Important disclosures

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