standard chartered

In collaboration with: HKTDC 香港貿發局

otg on the ground

standard chartered

Global Research

4 January 2022

GBA – Survey shows less positive expectations

- **Our gauge of GBA sentiment softened for a second straight quarter in Q4 as prior challenges lingered**
- **Lower expectations still consistent with stable growth; recent policy moves to ease credit conditions**
- **Manufacturers and retailers underperformed; our thematic questions shed light on 'dual circulation'**

Expectation adjustments catching up as reality bites

Kelvin Lau
+852 3843 0711
Kelvin.KH.Lau@sc.com
Senior Economist, Greater China
Standard Chartered Bank (HK) Limited

Our GBA Business Confidence Index (GBAI), based on quarterly surveys of over 1,000 companies operating in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) and conducted in collaboration with the Hong Kong Trade Development Council (HKTDC), shows businesses emerging from a challenging Q3-2021 with weaker confidence towards the outlook. The GBAI's 'current performance' index for business activity fell for a second straight quarter to 50.3 in Q4 from 52.7 in Q3. It would have dipped below the 50 neutral mark if not for decent 'new orders', which continue to grow (though slower than before) and companies' ability to raise final prices, although pressure on profit margins worsened despite this (Figure 1).

The q/q drop in the forward-looking 'expectations' index (-4.3pts) was bigger than its current performance counterpart (-2.4pts); however, we see this as more a reflection of expectations catching up with reality after a too-modest 1.4pts drop in Q3, rather than hinting at another slowdown on the horizon. In addition to most sub-indices' expectations component remaining comfortably in expansionary territory, we think the authorities' recent shift to a more pro-growth policy bias (the latest actions are not captured in the Q4 survey) should support Q1-2022 sentiment. Our credit indicators suggest that GBA credit conditions tightened evidently in Q3, and as such, any loosening of monetary conditions would be welcomed.

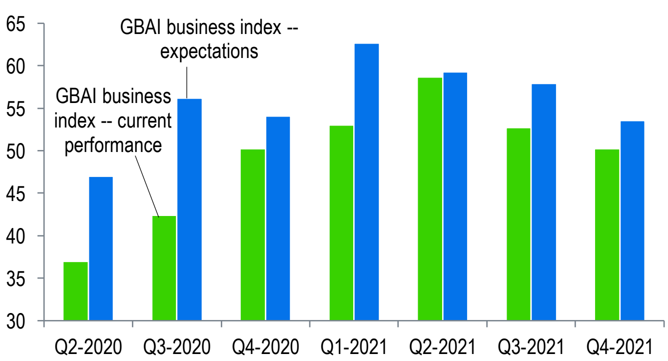
A further breakdown shows that, by industry, both manufacturers and retailers underperformed. By city, Foshan and Hong Kong improved q/q, while others dipped below 50 for 'current performance'. For thematic questions, we asked respondents to share their views on (1) China's 'dual circulation' strategy; (2) recruitment difficulties; and (3) their early impressions on the new Qianhai and Hengqin plans.

Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q4-2021	Q3-2021	Q2-2021	Q4-2021	Q3-2021	Q2-2021
Business index	50.3	52.7	58.7	53.6	57.9	59.3
1. Production/sales	49.8	54.3	60.4	56.1	61.8	64.5
2. New orders	50.7	56.1	63.6	56.1	64.6	67.5
3. Capacity utilisation	47.2	46.9	52.8	51.0	56.1	57.3
4. Raw material inventory	45.7	52.6	60.8	47.4	54.6	51.8
5. Prices of finished goods/services	61.9	62.0	66.3	61.4	59.5	61.5
6. Fixed asset investment	49.6	50.5	55.2	52.3	52.1	54.6
7. Financing scale	49.8	48.6	54.8	52.5	52.9	55.3
8. Profit	47.5	50.8	55.8	51.9	61.3	61.5

Source: HKTDC, Standard Chartered Research

Figure 2: Reining in expectations as growth softens



Source: HKTDC, Standard Chartered Research

Detailed findings of the GBAI survey for Q4-2021

In *our last GBAI report,* we warned that expectations of a swift Q4 economic rebound needed to be tempered, as it appeared that many of the headwinds that contributed to China's Q3 economic slowdown would remain in place. This view was confirmed, with the latest GBAI survey – conducted in October and November – confirming a further weakening in current sentiment among GBA businesses over the period. This spilled over into a more visible drop in the forward-looking expectations index; that said, we believe the recent policy shift to a more pro-growth bias provided key support to keeping the headline numbers in expansionary territory.

Only two of the eight 'current performance' sub-indices stayed above 50 in Q4

- **Current performance index easing towards neutral:** The GBAI current performance index for business activity fell for a second straight quarter to 50.3 in Q4 from 52.7 prior. This mirrored the official manufacturing PMI data, which dipped below 50 in September and October before recovering modestly to 50.1 in November, reflecting disruptions from power outages and pressure from rising costs. Sentiment among non-manufacturers has also been weighed down by regulatory tightening (and the resulting real estate activity slowdown and more) and a resurgence in COVID cases. It was therefore no surprise that business confidence in the GBA suffered in tandem.

  More interesting is the broadness of this setback. Our headline index for current performance stayed (barely) above 50, but a further breakdown shows that only two of the main sub-components remained in expansionary territory in Q4 (versus six of them in Q3, as shown in Figure 1). New orders, being one of the better-performing components at 50.7, should help ease some of the growing concerns surrounding soft production and sales (49.8, -4.5pts q/q); the q/q drop in the new orders sub-index, however, was still the second-largest (-5.4pts), besting only raw material inventory (-6.9pts). Capacity utilisation and financing scale improved q/q by +0.3pts and +1.2pts, respectively, reflecting no further worsening of pressure to scale back business operations for now. Respondents also reported a still-strong ability to raise final prices (61.9, almost unchanged from 62.0 prior), but their profit margins worsened nonetheless (47.5 versus 50.8), reflecting significant demand and cost headwinds.

- **Policy support likely helped maintain positive expectations:** The GBAI expectations index for business activity fell 4.3pts q/q to 53.6; this was bigger than the -2.4pts drop in current performance, possibly reflecting a catch-up of expectations to the challenging reality after a too-modest 1.4pts drop prior, more so than hinting at another slowdown on the horizon (Figure 2). If anything, all sub-components, except raw material inventory (which is more affected by high

Recent monetary easing has yet to reflect in the GBAI credit indices

Figure 3: Recent monetary easing should be welcomed

Five sub-components of our GBAI credit indices – current vs expectations

	Current performance			Expectations		
	Q4-2021	Q3-2021	Q2-2021	**Q3-2021**	Q3-2021	Q2-2021
Credit Index	**47.8**	50.8	51.6	**51.0**	51.9	53.0
1. Bank financing cost *	49.2	51.7	47.5	49.1	48.4	47.8
2. Non-bank financing cost *	49.2	50.7	48.0	49.1	49.2	48.2
3. Banks' attitude towards lending	47.1	51.8	51.1	49.9	49.2	52.8
4. Surplus cash	47.3	48.8	56.3	53.8	58.2	58.1
5. Receivables turnover	46.4	51.3	55.2	53.1	54.7	58.1

* Index above 50 indicates lower cost; Source: HKTDC, Standard Chartered Research

input costs and lingering supply shortages), stayed comfortably above 50, led by 'prices of finished goods and services', 'production/sales' and 'new orders' – the latter two signalling decent real activity levels. Profit margin compression appeared to remain a key concern, having posted the biggest q/q drop of 9.4%; however, it had little impact on business appetite for investment and financing, which stayed largely steady from previous levels.

Reassurance of supportive policies key to creating a floor to growth, as well as business sentiment

The above findings are consistent with our view that while growth is unlikely to rebound swiftly, it appears to be *stabilising after a challenging Q3*. Demand for exports is likely to stay strong, and power-rationing measures have been largely halted; that said, headwinds from slowing real-estate activity and disruptions from COVID resurgences still call for more policy support to limit further downside risks to growth. The latest example of the authorities making growth a higher priority is *the broad-based 50bps cut in the reserve requirement ratio (RRR)*, effective 15 December. According to the People's Bank of China (PBoC), the move unlocked CNY 1.2tn of long-term funding and should lower banks' funding costs by CNY 15bn annually. This was followed by a 25bps cut in re-lending rates to SMEs and agriculture loans. Judging by the recent tightening in GBA credit conditions suggested by our credit indices, our survey respondents would welcome the confirmation of a policy shift to easing growth headwinds.

Credit conditions tightened prior to recent RRR cut

- **Financial conditions tightened in Q3**: The current performance index for credit fell to 47.8 after staying above 50 for a second straight quarter, indicating a tightening in credit conditions among GBA companies (Figure 3). All five current credit sub-components contributed to this deterioration – not only did borrowing costs rise (both the bank and non-bank sub-indices dropped), but banks also turned more cautious in lending (-4.7pts), while companies themselves saw their cash positions weaken, especially in the form of slower receivables turnover (-4.9pts). The PBoC first removed its tightening bias of monetary policy when it cut the RRR in July, but the lagged effect from prior macro policy normalisation likely exacerbated new challenges, such as regulatory tightening and an economic slowdown throughout Q3-2021.

Our expectations index for credit was more resilient by comparison, staying elevated at 51.0 in Q4, down only marginally from 51.9 in Q3. Respondents see their cash flow improving, albeit not as strongly as prior expectations, consistent with earlier findings of a still-cautious macro outlook despite emerging from a challenging Q3. Expectations for bank financing costs and banks' willingness to lend also improved marginally (albeit staying below 50), consistent with our call for the credit impulse turning slightly positive in 2022 to align with a likely GDP growth target of 5%. We expect total social financing (TSF) growth to be relatively stable at around 10% in 2022, slightly higher than our estimate of nominal GDP growth. More targeted easing is also on the cards to support high-end manufacturing and green initiatives. Even the property sector could see credit conditions improving gradually in the quarters ahead as the authorities adjust the pace and intensity of regulatory tightening to prevent growth from stalling and financial risks from spreading wider.

- **Industries emerging from the soft patch at different paces:** After falling q/q across the board in Q3, three of our five 'current performance' industry sub-indices rebounded in Q4 (Figure 4). 'Professional services' led the way (+5.6pts), although from a low base and to only 46.9, keeping it the weakest industry sub-index. In contrast, 'innovation and technology' and 'financial services' extended their outperformance, the former showing resilience to regulatory headwinds and the latter possibly benefiting from the recent shift to a more supportive policy bias to offset rising credit concerns, especially surrounding some of the property names. On the other end of the spectrum, 'manufacturing and trading' and 'retail and wholesale' fell 3.1pts and 0.8pts, respectively. While power-rationing measures have been rolled back and exports have been strong, manufacturers likely stayed cautious due to high costs and weak domestic demand amid a new COVID outbreak. The latter also explained the return of 'retail and wholesale' back below 50.

'Manufacturing and trading' saw the largest q/q index fall among sectors, after being one of top performers in our last survey

A further breakdown showed that only manufacturing respondents reported a lower 'production/sales' sub-index (-6.2pts to 56), in addition to sizeable q/q drops in 'new orders' (-6.4pts), 'raw material inventory' (7.9pts) and profits (-4.4pts). Retailers saw a similarly broad-based deterioration, with five of eight sub-components reporting q/q declines. In terms of outlook, the headline expectations indices fell for manufacturing, retail and tech respondents by -4.5pts, -5.3pts and -3.2pts, respectively; however, they stayed above 50, indicating little concern over a sharp slowdown (Figure 4). Credit conditions are also expected to improve in tandem in the coming quarter mostly on prospects of improved surplus cash and receivables turnover (Figure 5). 'Manufacturing and trading' was the only industry that continued to post simultaneous sub-50 prints for 'expected bank financing costs, 'expected non-bank financing costs', and 'expected banks' attitude towards lending'. The other four industry groups had higher overall credit expectation indices, boosted by a q/q rise in the sub-indices for bank financing costs and accessibility to bank lending, matching the perceived shift to a less-tight monetary policy bias to ease growth pressure.

- **Foshan and Hong Kong outperforming:** All mainland city 'current performance' sub-indices, except Foshan, dipped to just below 50 from having diverse levels of optimism in the prior quarter (Figure 6); this convergence is

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q4-2021	Q3-2021	Q2-2021	**Q4-2021**	Q3-2021	Q2-2021
Manufacturing and trading	**50.3**	53.4	59.7	**53.8**	58.3	59.8
Retail and wholesale	**49.2**	50.0	52.4	**50.9**	56.2	55.1
Financial services	**54.2**	51.8	52.3	**59.6**	56.3	58.2
Professional services	**46.9**	41.3	58.3	**52.2**	50.2	60.3
Innovation and technology	**59.6**	55.3	60.3	**58.0**	61.2	60.4

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q4-2021	Q3-2021	Q2-2021	**Q4-2021**	Q3-2021	Q2-2021
Manufacturing and trading	**47.5**	51.0	51.9	**50.6**	51.9	53.2
Retail and wholesale	**49.2**	50.5	50.8	**52.0**	51.9	52.2
Financial services	**49.1**	50.1	53.1	**50.8**	49.3	52.2
Professional services	**49.7**	49.3	46.7	**58.9**	52.6	51.6
Innovation and technology	**52.0**	50.1	51.9	**52.6**	53.9	52.2

Source: HKTDC, Standard Chartered Research

another confirmation of the broad-based nature of the recent slowdown. Guangdong had the lowest scores for 'production/sales' and 'new orders' among our six main city categories, while Shenzhen underperformed in 'capacity utilisation' and 'raw material inventory'. Dongguan was similarly weak across all these sub-components, while other non-core onshore GBA cities had the lowest scores for 'fixed asset investment', 'financing scale', and 'profits'.

Foshan must be doing something right with its manufacturing and trading sector

While our results did not provide any direct explanation for Foshan's outperformance, we found that (1) c.80% of Foshan respondents are involved in 'manufacturing and trading'; and (2) most are mid-sized (c.60% with annual revenue between USD 1-10mn), similar to those in Dongguan. As such, Foshan may have done something right in terms of industrial upgrading to differentiate itself from neighbouring Dongguan. This matches the official GDP data, where secondary industry value-added (on a two-year CAGR basis) grew 5.2% y/y in Q3 in Foshan, versus 3.8% in Dongguan. Another sign of Foshan possibly coming further along in the economic transformation amid China's push for 'dual circulation' is that the city has the highest proportion of respondents targeting sales of their products/services in the mainland domestic market (more on this in the thematic questions section).

Moreover, Hong Kong was an encouraging story in our latest survey, with the current performance index posting the biggest q/q gain (+2.5pts) by city and also climbing above 50 for the first time since our inaugural GBAI survey in Q2-2020. This confirms that the city has come a long way in returning to economic expansion following COVID and before that, disruptive social incidents. Hong Kong's zero-COVID strategy has encouraged a domestic consumption recovery, and it continues to benefit from mainland China's still-robust external trade (while being more insulated from higher production costs and power outage due to its services-oriented nature). These factors have allowed it to maintain a modest

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q4-2021	Q3-2021	Q2-2021	**Q4-2021**	Q3-2021	Q2-2021
Hong Kong	**50.1**	47.6	45.1	**52.7**	56.4	50.8
Guangzhou	**49.8**	58.4	54.7	**52.3**	60.6	57.9
Shenzhen	**49.4**	50.2	63.1	**53.4**	58.0	60.0
Foshan	**59.6**	57.3	65.9	**57.6**	59.5	65.6
Dongguan	**49.2**	56.8	60.7	**55.0**	55.5	65.2
Macao and other cities	**49.2**	54.7	62.7	**53.3**	56.8	62.4

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q4-2021	Q3-2021	Q2-2021	**Q4-2021**	Q3-2021	Q2-2021
Hong Kong	**46.9**	49.7	45.1	**50.2**	51.9	50.5
Guangzhou	**49.3**	53.3	52.6	**50.9**	52.0	53.5
Shenzhen	**47.6**	51.1	53.0	**50.0**	52.2	52.6
Foshan	**53.1**	51.4	53.9	**55.5**	54.1	56.7
Dongguan	**47.1**	50.6	51.6	**53.2**	52.5	56.2
Macao and other cities	**45.8**	48.4	53.2	**51.7**	49.8	53.2

Source: HKTDC, Standard Chartered Research

recovery momentum and *we expect such positive drivers to remain in place over the coming year*. The main factor keeping the city's recovery ceiling low and explaining our modest 2.3% GDP growth forecast for 2022 is the likely slow and cautious reopening of borders (starting with the mainland) over the course of 2022. This also explains the higher expectations indices for mainland GBA cities, as our respondents see them rebounding faster from the recent soft patch.

Key takeaways from our thematic questions

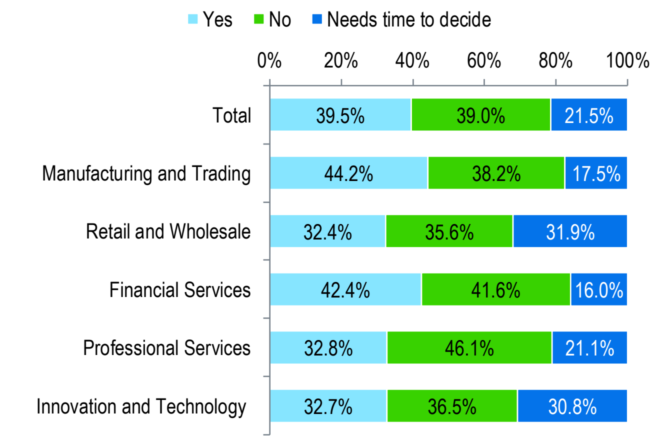
Our thematic questions this time focused on (1) our respondents' eagerness and readiness to expand their business in view of China's long-term pursuit of 'dual circulation' development; (2) the ease of talent recruitment and the impact on their businesses; and (3) their current operations in, and future plans for, Qianhai and Hengqin, the two cooperation zones with new development plans being announced earlier in the year, promising further cross-border integration, financial opening and industry transformation. We list our key findings below.

We asked about the implications of the 'dual circulation' strategy for GBA businesses

- **Going local in selling and sourcing:** We asked respondents whether they had plans to roll out products and/or services targeting the mainland market as China transitions to a more domestic consumption-driven economy under its 'dual circulation' development strategy. Almost 40% of respondents said yes, marginally exceeding those saying no (39%), with the remaining 21% needing more time to decide (Figure 8). A further breakdown shows that 'manufacturing and trading' and 'financial services' had the highest share of positive responses; by city, Foshan topped the list with 67% 'yes' responses, and Huizhou and Dongguan rounded out the top three. More generally, larger companies (by annual turnover) tended to report a higher percentage of those planning to tap the mainland domestic market.

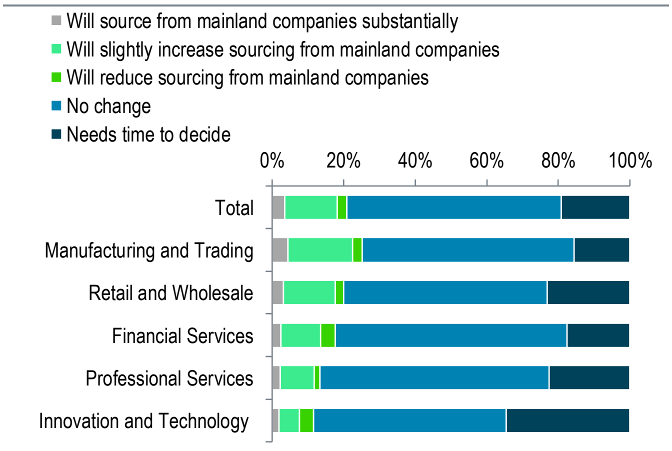
  Compared with selling more onshore, respondents appeared less eager and ready to source more domestically due to the 'dual circulation' push: only 4% said they would substantially increase their sourcing from mainland companies, and another 15% said they would increase slightly (Figure 9). A majority 60% said there would be no change to their sourcing strategy, and another 19% said they need time to decide. 'Manufacturing and trading' again posted the most

Figure 8: Does your company have a plan to roll out products/services targeting mainland market, as China pursues 'dual circulation' strategy? *% of respondents*



Source: HKTDC, Standard Chartered Research

Figure 9: How will your company change the procurement policies as China pursues 'dual circulation'? *% of respondents*



Source: HKTDC, Standard Chartered Research

positive results among industries. This makes sense, given China's traditional strength in the manufacturing supply chain. This contrasts with 'innovation and technology', which has the lowest share of local sourcing for now, but also the least share of 'no change' responses, leaving a sizeable 35% adopting a wait-and-see approach as China transforms to be less dependent on foreign technology. This matches the city-level breakdown, where more manufacturing-centric Huizhou, Foshan and Dongguan topped the list.

When asked about the key considerations to purchase goods/services from other mainland companies, 'durability/quality', 'government policy' and 'business relationship' had the highest combined shares of 'very important' and 'rather important' responses (Figure 10).

Persistent efforts to drive financial opening likely supported the more upbeat investment outlook for financial services

- **Investment and profits amid 'dual circulation':** We asked respondents their investment plans in response to the 'dual circulation' development strategy. 20% said they could increase their investment in the mainland, versus 58% saying no change and almost 20% saying they 'need time to decide'. By industry, 'financial services' had the most positive responses (27%), followed by 'manufacturing and trading' (22%); tech respondents once again had the fewest 'no change' votes and the most 'need time to decide' votes, indicating some cautious optimism towards innovation's transformative role within the 'dual circulation' strategy (Figure 11).

  Expectations of the impact of 'dual circulation' on profits in the short to mid-term (i.e., the next five years) were slightly more positive. 24% saw a positive impact, versus a mere 5% seeing a negative effect; the remaining 52% saw no impact and another 18% said they needed more time to tell (Figure 12). Once again, respondents from Foshan, Dongguan and Huizhou were the most optimistic. For a change, 'innovation and technology' this time had the most positive responses, while also having the least 'wait-and-see' responses.

- **Recruitment difficulties**: Over 20% of applicable respondents reported difficulty in recruiting executives/managers, marketing/sales, and engineers/technicians; this was closely followed by R&D personnel and general workers, both in the 19% range. Clerks and other professionals were less difficult to hire, at 12% and

Figure 10: Under the 'dual circulation' development paradigm, what are the considerations for your company to purchase goods/services from other mainland companies?

% of respondents

Stub Header	Very important	Rather important	Neutral	Rather unimportant	Very unimportant
Price	27.5%	49.0%	19.5%	3.7%	0.4%
Durability/Quality	32.3%	49.0%	17.3%	1.1%	0.4%
Practicality/ Compatibility	27.7%	48.9%	22.0%	1.3%	0.2%
Functionality/ Technology	23.7%	51.8%	22.5%	1.5%	0.6%
Design/Style of the end-product	18.9%	45.6%	30.6%	4.3%	0.7%
Environmental, Social and Governance	20.9%	50.4%	25.0%	3.1%	0.5%
Government policy	41.0%	40.2%	16.6%	1.8%	0.5%
Business relationship	31.2%	48.3%	16.2%	4.1%	0.2%
Habits/Similarity in working and communicating styles	18.5%	54.5%	21.6%	5.2%	0.2%
Proximity to the market	22.2%	56.0%	19.2%	2.5%	0.1%

Source: HKTDC, Standard Chartered Research

15%, respectively. The difficulty to hire has varying affects across job types, with the highest share of applicable respondents saying the shortage of executives/ managers (15.9%), marketing/sales (15.1%), and R&D personnel (15.1%) had the most impact on their business (Figure 13).

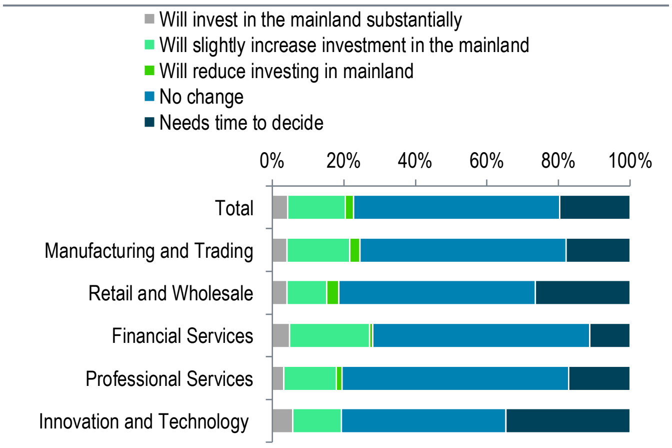
- **Gauging interest in Qianhai and Hengqin**: The new Qianhai development plan, aimed at accelerating the integration and collaboration between Shenzhen and Hong Kong, expands the zone's size to eight times the original size, providing a broader economic base to build on cross-border technology innovation, financial opening and services trade expansion (in household wealth, advance manufacturing or transport infrastructure, for instance). The new plan for Hengqin should accelerate Macau's industry diversification and integration with Zhuhai and other GBA cities, mainly through Macau's more direct participation in Hengqin's policy-making and execution. These two new development plans were announced in September, and the latest GBAI survey allowed us to capture respondents' initial thoughts on them.

Optimism towards Qianhai and Hengqin have room to grow over time

19% respondents saw the Qianhai and Hengqin plans as having at least some positive effect on their businesses in the short to mid-term (within five years), versus just under 2% for those seeing a negative impact. Another 17% said they needed time to judge, but a majority (62%) thought the plans would have a neutral or no impact. Foshan, Huizhou and Dongguan had the highest share of positive responses (29%, 26% 23%, respectively), followed by the core cities (Hong Kong 19%, Shenzhen 18%, Guangdong 16%). By industry, financial services topped the ranks with 24%, with 'manufacturing and trading' (20%) and 'innovation and technology' (19%) rounding out the top three spots (Figure 14).

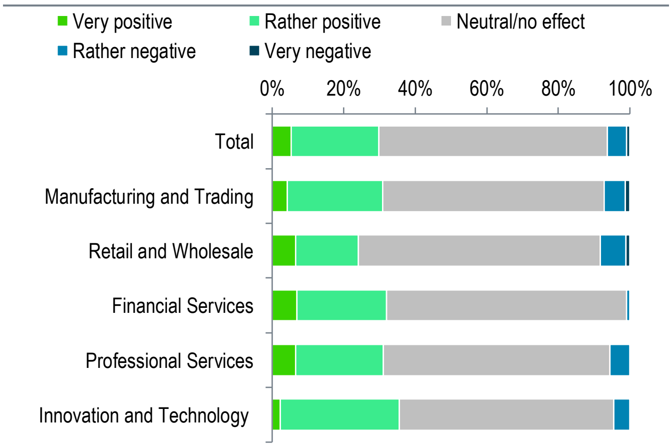
A mere 6.6% and 5.3% of all respondents currently have operations in Qianhai and Hengqin, respectively; but over 40% of those already in Qianhai and 33% of those in Hengqin plan to expand their business in these areas in the next five years. 13% and 14% of all respondents said they were currently not operating in Qianghai and Hengqin, respectively, but had plans to expand their business there. All this matches the share of positive responses mentioned earlier. By city, perhaps unsurprisingly due to proximity, Shenzhen and Zhuhai had the highest shares of respondents (13% and 12%, respectively) with business

Figure 11: How will your company change the investment policies as China develops 'dual circulation'?
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 12: As China develops 'dual circulation', how do you think it will affect your company's profit in the short to mid-term (within five years)? *(% of respondents)*



Source: HKTDC, Standard Chartered Research

operations currently in Qianhai and Hengqin. By industry, financial services respondents appeared more eager to expand their presence in Qianhai, while manufacturers were the least keen; retailers and financial services providers were the keenest to expand to Hengqin. These findings provide a gauge of the comparative strengths of the two zones.

Figure 13: Is it now difficult for your company to recruit new employees of different ranks? If so, how does it affect your company's daily operations?

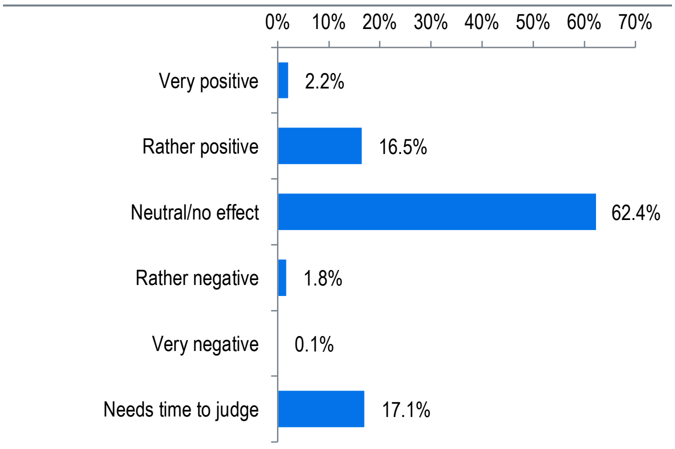
% of respondents

Stub Header	Difficult and it has serious impact	Difficult and it has some impact	Difficult but so far it has no impact	Not difficult at all	Not applicable
Executives/managers	3.3%	12.3%	5.4%	77.4%	1.6%
Marketing and sales	3.2%	11.5%	5.9%	77.2%	2.2%
R&D personnel	2.6%	11.3%	3.9%	74.3%	7.8%
Engineers/technicians	1.7%	11.5%	5.2%	73.3%	8.4%
Workers	2.8%	11.3%	4.7%	77.5%	3.6%
Clerks	1.0%	6.3%	4.4%	86.6%	1.8%
Other professionals	1.0%	8.9%	4.4%	80.7%	5.0%

Source: HKTDC, Standard Chartered Research

Figure 14: How do you think the recently released Qianhai and Hengqin plans will affect your company's businesses in the short to mid-term (within five years)?

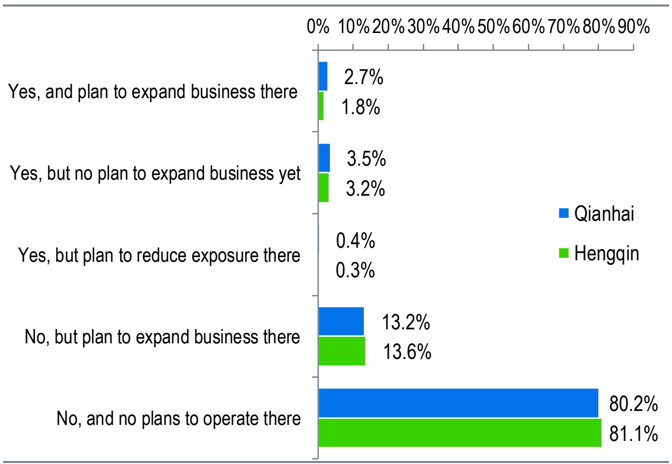
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 15: Does your company currently operate in Qianhai and Hengqin? And what are your companies' plans for these two zones over the next 5 years?

% of respondents



Source: HKTDC, Standard Chartered Research

Appendix: How the GBAI works

The GBAI is a diffusion index based on responses from no less than 1,000 enterprises across 11 GBA cities and key industry sectors

The GBAI is compiled based on a quarterly survey conducted by the HKTDC in collaboration with Standard Chartered. Every quarter, no less than 1,000 enterprises in key business sectors across the GBA provide valuable feedback on a range of subjects, including their current business situation and credit conditions, and their outlooks on these subjects for the coming quarter. The GBAI also asks respondents thematic questions that help us understand what drives their business decisions and plans, and how this might shape the GBA's future.

Index calculation: The GBAI comprises two main business indices, one gauging 'current performance' (in this case Q4-2021), and the other looking at 'expectations' (Q1-2022). Each index is calculated as an average of eight sub-indices that reflect different aspects of business activity, as outlined in Figure 1. Respondents indicate the corresponding changes, actual or expected, in three ways: up, same or down; a diffusion index is then calculated using the following formula:

$$\text{Up\%} \times 100 + \text{Same\%} \times 50 + \text{Down\%} \times 0$$

An index reading above 50.0 means that respondents are generally optimistic about the business environment in the coming quarter, while a reading below 50.0 indicates predominantly pessimistic sentiment. A reading of 50 is neutral.

The two credit indices are calculated in the same way, but with five of their own sub-components that focus on measuring the costs and ease of obtaining credit, and respondents' willingness and/or eagerness to do so (Figure 3).

Figure 16: GBAI

Number of respondents

By city	Targeted respondents
Hong Kong	200
Guangzhou	200
Shenzhen	200
Foshan	100
Dongguan	100
Huizhou, Zhongshan, Jiangmen, Zhuhai, Zhaoqing, Macau	200
Total	**1,000**

By industry	Targeted respondents
Manufacturing and trading	500
Retail and wholesale	200
Financial services	125
Professional services	125
Innovation and technology	50
Total	**1,000**

Source: HKTDC, Standard Chartered Research

Disclosures appendix

Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

Global Disclaimer: Standard Chartered Bank and/or its affiliates ("SCB") makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in the document (including market data or statistical information). The information in this document, current at the date of publication, is provided for information and discussion purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices, or represent that any such future movements will not exceed those shown in any illustration. The stated price of the securities mentioned herein, if any, is as of the date indicated and is not any representation that any transaction can be effected at this price. SCB does not represent or warrant that this information is accurate or complete. While this research is based on current public information that we have obtained from publicly available sources, believed to be reliable, but we do not represent it is accurate or complete, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. This document does not purport to contain all the information an investor may require and the contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person. Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice. Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, we are under no obligation to do so and there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this document, and we may have acted upon or used the information prior to or immediately following its publication. SCB is acting on a principal-to-principal basis and not acting as your advisor, agent or in any fiduciary capacity to you. SCB is not a legal, regulatory, business, investment, financial and accounting and/or tax adviser, and is not purporting to provide any such advice. Independent legal, regulatory, business, investment, financial and accounting and/or tax advice should be sought for any such queries in respect of any investment. SCB and/or its affiliates may have a position in any of the securities, instruments or currencies mentioned in this document. SCB and/or its affiliates or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document and on the SCB Research website or have a material interest in any such securities or related investments, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments and may have received compensation for these services. SCB has in place policies and procedures and physical information walls between its Research Department and differing public and private business functions to help ensure confidential information, including 'inside' information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SCB expressly disclaims responsibility and makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. SCB also makes no representation or warranty as to the accuracy nor accepts any responsibility for any information or data contained in any third party's website. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from the use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This document is for the use of intended recipients only. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors. This communication is subject to the terms and conditions of the SCB Research Disclosure Website available at https://research.sc.com/Portal/Public/TermsConditions. The disclaimers set out at the above web link applies to this communication and you are advised to read such terms and conditions / disclaimers before continuing. Additional information, including analyst certification and full research disclosures with respect to any securities referred to herein, will be available upon request by directing such enquiries to scgr@sc.com or clicking on the relevant SCB research report web link(s) referenced herein. MiFID II research and inducement rules apply. You are advised to determine the applicability and adherence to such rules as it relates to yourself.

Market-Specific Disclosures – This document is not for distribution to any person or to any jurisdiction in which its distribution would be prohibited. If you are receiving this document in any of the market listed below, please note the following:

Australia: The Australian Financial Services Licence for Standard Chartered Bank is Licence No: 246833 with the following Australian Registered Body Number (ARBN: 097571778). Australian investors should note that this communication was prepared for "wholesale clients" only and is not directed at persons who are "retail clients" as those terms are defined in sections 761G and 761GA of the Corporations Act 2001 (Cth). **Bangladesh:** This research has not been produced in Bangladesh. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS REPORT HAVE NOT BEEN AND WILL NOT BE REGISTERED IN BANGLADESH AND MAY NOT BE OFFERED OR SOLD IN BANGLADESH WITHOUT PRIOR APPROVAL OF THE REGULATORY AUTHORITIES IN BANGLADESH. Any subsequent action(s) of the Recipient of these research reports in this area should be subject to compliance with all relevant law & regulations of Bangladesh; especially the prevailing foreign exchange control regulations. **Botswana:** This document is being distributed in Botswana by, and is attributable to, Standard Chartered Bank Botswana Limited, which is a financial institution licensed by Bank of Botswana under Section 6 of the Banking Act CAP 46.04 and is listed on the Botswana Stock Exchange. **Brazil:** SCB disclosures pursuant to the Securities Exchange Commission of Brazil ("CVM") Instruction 598/18: This research has not been produced in Brazil. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS REPORT HAVE NOT BEEN AND WILL NOT BE REGISTERED PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL AND MAY NOT BE OFFERED OR SOLD IN BRAZIL EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS AND IN COMPLIANCE WITH THE SECURITIES LAWS OF BRAZIL. **China:** This document is being distributed in China by, and is attributable to, Standard Chartered Bank (China) Limited which is mainly regulated by China Banking and Insurance Regulatory Commission (CBIRC), State Administration of Foreign Exchange (SAFE), and People's Bank of China (PBoC). **European Economic Area:** In Germany, Standard Chartered Bank AG, a subsidiary of Standard Chartered Bank, is authorised by the European Central Bank and supervised by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht-"BaFin") and the German Federal Bank (Deutsche Bundesbank). This communication is directed at persons Standard Chartered Bank AG can categorise as Eligible Counterparties or Professional Clients (such persons constituting the target market of this communication following Standard Chartered Bank AG's target market assessment) as defined by the Markets in Financial Instruments Directive II (Directive 2014/65/EU) ("MiFID II") and the German Securities Trading Act ("WpHG"). No other person should rely upon it. In particular, this is not directed at Retail Clients (as defined by MiFID II and WpHG) in the European Economic Area. Nothing in this communication constitutes a personal recommendation or investment advice as defined by MiFID II and WpHG. **Hong Kong:** This document is being distributed in Hong Kong by, and any part hereof authored by an analyst licensed in Hong Kong is attributable to, Standard Chartered Bank (Hong Kong) Limited 渣打銀行（香港）有限公司 which is regulated by the Hong Kong Monetary Authority. **India:** This document is being distributed in India by Standard Chartered Bank, India Branch ("SCB India"). SCB India is a branch of SCB, UK and is licensed by the Reserve Bank of India to carry on banking business in India. SCB India is also registered with Securities and Exchange Board of India in its capacity as Merchant Banker, Depository Participant, Bankers to an Issue, Custodian, etc. For details on group companies operating in India, please visit https://www.sc.com/in/important-information/india-result/. The RBI had advised that entities under their regulations shall not deal in virtual currencies ("VCs") or provide services for facilitating any person or entity to deal with or settle VCs; however, the Supreme Court overturned the ban on cryptocurrency payments. A proposed law which may prohibit dealing in cryptocurrencies is under discussion, according to media reports. **Indonesia:** Standard Chartered Bank, Jakarta Branch is a banking institution duly registered with and supervised by the Indonesian Financial Service Authority. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or represent that any such future movements will not exceed those shown in any illustration. Future changes in such laws, rules, regulations, etc., could affect the information in this document, but SCB is under no obligation to keep this information current or to update it. Expressions of opinion are those of SCB only and are subject to change without notice. **Japan:** This document is being distributed to Specified Investors, as defined by the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, known as "FIEA"), for information only and not for the purpose of soliciting any Financial Instruments Transactions as defined by the FIEA or any Specified Deposits, etc. as defined by the Banking Act of Japan (Act No.59 of 1981). **Kenya:** Standard Chartered Bank Kenya Limited is regulated by the Central Bank of Kenya. The information in this document is provided for information purposes only. The document is intended for use only by Professional Clients and should not be relied upon by or be distributed to Retail Clients. **Korea:** This document is being distributed in Korea by, and is attributable to, Standard Chartered Bank Korea Limited which is regulated by the Financial Supervisory Service and Financial Services Commission. **Macau:** This document is being distributed in Macau Special Administrative Region of the Peoples' Republic of China, and is attributable to, Standard Chartered Bank (Macau Branch) which is regulated by Macau Monetary Authority. **Malaysia**: This document is being distributed in Malaysia by Standard Chartered Bank Malaysia Berhad only to institutional investors or corporate customers. Recipients in Malaysia should contact Standard Chartered Bank Malaysia Berhad in relation to any matters arising from, or in connection with, this document. **Mauritius:** Standard Chartered Bank (Mauritius) Limited is regulated by both the Bank of Mauritius and the Financial Services Commission in Mauritius. This document should not be construed as investment advice or solicitation to enter into securities transactions in Mauritius as per the Securities Act 2005. **New Zealand:** New Zealand Investors should note that this document was prepared for "wholesale clients" only within the meaning of section 5C of the Financial Advisers Act 2008. This document is not directed at persons who are "retail clients" as defined in the Financial Advisers Act 2008. NOTE THAT STANDARD CHARTERED BANK (incorporated in England) IS NOT A "REGISTERED BANK" IN NEW ZEALAND UNDER THE RESERVE BANK OF NEW ZEALAND ACT 1989, and it is not therefore regulated or supervised by the Reserve Bank of New Zealand. **Pakistan:** The securities mentioned in this report have not been, and will not be, registered in Pakistan, and may not be offered or sold in Pakistan, without prior approval of the regulatory authorities and/or relevant governmental statutory body(ies) in Pakistan. **Philippines:** This document may be

Document approved by
Shuang Ding
Chief Economist, Greater China and North Asia

Document is released at
05:00 GMT 04 January 2022