Facts box: *Christer Ljungwall is an economist with longstanding research experience from China, senior country economist at the Asian Development Bank, and Science Counselor at the Swedish Embassy in Beijing. He is part of several international groups working on various aspects of China and the country's role in the global environment. Mikael Román is a political scientist with longstanding research experience from Brazil, similarly, Science Counselor at the Swedish Embassy in Brazil. Together, they have developed new tools for strategic applied policy intelligence, as well as models for system-wide business. Siyang (Samuel) Li is a Ph.D. candidate with Peking University HSBC Business School majoring in Economics, and president of Mathematical Economics Association of PHBS.*

China - Greater Bay Area 5.0 with far-reaching changes for Hong Kong.

China's long-term development strategy, and the particular role of the Greater Bay Area(GBA), are, along with the difficult-to-interpret agreement between China and the UK which expires in 2047, causing Hong Kong to lose its privileged position. The development is profound; creating new trade and investment flows as well as innovation collaborations that follow previously unknown patterns. For other countries, and foreign companies, it will be absolutely critical to understand this development and the resulting pressure of change. This is stated by Christer Ljungwall, Mikael Román, and Siyang Li.

What role does Hong Kong have in mainland government's long-term, comprehensive development strategy? What is actually happening in the GBA, which includes Hong Kong? How does this affect business? These long-term and strategic issues, that we believe are central to companies, have received surprisingly little attention in the debate. One exception is the article, "Doubts Growing Over Hong Kong's Future as a Financial Center Amid Protests," recently published in the Financial Times (November 28, 2019). The article, that raises many of the issues mentioned above, stresses that Hong Kong is under a unifying pressure of change that could alter its position very quickly. At the heart of this development is the mainland government's long-term plans to turn what is called the Greater Bay Area, e.g., the cities around the Pearl River outlet (Hong Kong, Shenzhen, Macao, Guangzhou, etc.), into an economic powerhouse of gigantic proportions. In light of this, new trade and investment flows are now growing at a rapid pace, where alternative models for innovation cooperation often have a central place, not least between China and South America. This development around it might be called Greater Bay 5.0.

Hong Kong will help solve all the challenges China faces. This implies that Hong Kong's future role can only be understood in a larger strategic perspective, where the city has played a significant and gradually changing role for development in China over the past four decades. The process began in the late 1970s, when a first cooperation agreement between the cities in the Pearl River Delta was signed, and has subsequently been progressively deepened. The hand-over of Hong Kong and Macao, in 1997 and 1999 respectively, provided another push in the cooperation between the "Special Administrative Regions" and Guangdong Province, and in

2008 the concept of "Bay Area" was articulated as a yet another indication of deeper integration. In March 2015, the ambitions were expanded, from being a mainly regional development plan, to the entire Greater Bay Area (GBA), or the "Pan-Pearl River Delta Region", e.g., a total of nine provinces as well as Hong Kong and Macao. The following year (2016), the GBA development plan also became a pronounced part of the 13th Five-Year Plan, and in February 2019, the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" (ODP) was published. The latter governance document describes very clearly that the region's development is central to meeting all the challenges that a unified China faces. Thus, the political ambitions are clear. A reasonable assumption is that Hong Kong will be affected in one direction or another.

The question regarding Hong Kong's future role has been at the center of attention in recent weeks. At first glance, many of the more critical issues also seem to have been resolved, or reached its natural solution; the local government has made clear concessions to the protesting students, only to thereafter suffer a stinging defeat in the subsequent local elections. Hong Kong's position thus appears to be secured, and the big question now is how existing democratic rights should be safeguarded after 2047. The starting point for these discussions is, then, based on the image of Hong Kong as a unique intermediary between mainland China and the outside world, especially with respect to financial transactions and various legal frameworks - a situation that is expected to remain unchanged. But, is it really that simple? Is it a reasonable assumption that the central government in Beijing will lock itself into a development model where one is dependent on Hong Kong?

Clear development goals for the region and a revamped Hong Kong. To answer these questions it is, in our view, necessary to return to the strategic documents and the central government's long-term plan for the region. The objectives of the ODP are clear: 1) The GBA shall be an efficient and dynamic world-class region with a cluster of innovative cities as early as 2022; and 2) parallel to this, the region will develop a world-class *modi operandi* economy, in order to finally reach the goal of a knowledge-driven economy by 2035. Both of these points, it should be noted in particular, are fully in line with the central government's development plans for the whole of China by year 2045 and the celebration of the 100th anniversary of the People's Republic of 2049. At this time, China will be the world leader in higher education, research, advanced manufacturing and service production. What the above indicates is that GBA is intended to drive the overall development.

In this scenario, we argue, the central government will gradually and consciously tone down Hong Kong's special position. Based on the ambition to make the entire GBA region a dynamic economy integrated with the rest of China and, not least, the global economy, the central government simply cannot rely on Hong Kong as the sole and independent engine for this process for strategic reasons. In short, it is a matter of: 1) capacity (the transformation is massive); 2) diversification (Hong Kong does not possess all the required activities); and 3) control (Hong Kong's independence eventually becomes a problem for the coordination of this giant project).

Instead, the development of the GBA should be understood in the light of a revamped Hong Kong, with equal conditions for trade, investment and enterprise across the region. This, in turn, puts pressure on Hong Kong to prepare itself for upcoming changes already today. The starting point is, of course, the areas covered by the 1997 China-UK agreement. But, and here are our main points, regardless of the outcome of these discussions, Hong Kong's status as a unique financial center, with a unique legal framework for the region, will change at its foundation when new alternatives arise. In addition, the changes, we believe, will be so fast that Hong Kong should immediately begin the process of supplementing or replacing current major industries. However, this will only reinforce the trapped trend, where Hong Kong gradually becomes part of the GBA competition.

GBA as an offshore economy. The upheaval and rapid changes that we now see in the GBA are partly due to the fact that the road to reaching the objectives in 2022, 2035 and 2045/49 is fraught with challenges. Contrary to what many analysts believe, GBA (and China as a whole) underperform, among other things, in higher education, research, innovation, entrepreneurship and sustainable growth. Governors in Beijing and Guangdong Province are well aware that the situation requires significant change; not least in terms of improved capital and labor mobility, and a transparent legal framework in line with international trade, investment and enterprise rules.

Another key component is the need for a dynamic, diversified and competitive financial sector - that in turn relies on a convertible currency and minimal currency restrictions. Also, it is worth noting that the part of the GBA that does not include Hong Kong could relatively easily introduce its own convertible currency based on the cryptocurrency that China's central bank is developing today. In such a scenario, Hong Kong's commercial attractiveness would reduce and accelerate the process towards a single currency area. The idea of introducing one's own convertible currency is very much alive and part of a larger and more long-term thought process, where the ambition is to make GBA an offshore economy with a high degree of self-governance, but under the control of the central government in Beijing. Once again we see how the plans that are already on the drawing board for GBA, thereby putting Hong Kong's current unique position under hard transformational pressure. For Hong Kong, the immediate concern will be to ensure a well-balanced adaptation to these new circumstances.

GBA as the base for trade with South America. We can already see how the above development now leads to major structural changes. Of particular interest is the combination of better conditions for trade, investment and innovation within GBA. This, in turn, has given rise to new trade and production patterns, which is not least illustrated by China's cooperation with Brazil and South America. Once again, it is important to see the long-term strategic trends and, in this case, the link with the Belt and Road Initiative (BRI). One specific item that many foreign players have not noticed is that Brazil de facto is a pronounced part of BRI, which in practice then gives Chinese players a springboard to the entire South American market. A number of Brazilian states have long established business relations with China. Federal cooperation has recently been strengthened, something that became clear during the BRIC meeting in Brasilia in

November this year. A key in this link between GBA and BRI is Macao, which, with its cultural and linguistic proximity to Portuguese-speaking Brazil, forms a natural link in this new global trade flow.

The relationship between China and South America has both quantitative and qualitative aspects. On the one hand, trade exchange is growing very fast. China has been Brazil's largest trading partner since 2009, when the United States moved into second place. Since then, trade has increased exponentially. Still, cooperation extends beyond the trade of goods and services. With large investment funds such as the Brazil-China Cooperation Fund for the Expansion of Production Capacity (FUND), the China-Latin America Investment Cooperation Fund (CLAI Fund), as well as targeted investments from the Brazilian state, gigantic investments are planned in virtually all types of infrastructure, manufacturing industry, mining, agricultural development and more. At the same time, the qualitative aspects of the collaboration stand out. In particular, great importance is attached to encouraging new and long-term partnerships in research, technology development, innovation and education. This also includes changes in the financial and capital markets, payment methods and trading currency, standards and regulations and more to support the increased economic exchange. Much of this work is done by Chinese companies now starting to put some of their production outside of China. What we see is the emergence of new, innovative, value chains and economic clusters in sectors where, for example European and North-American companies have traditionally been successful, and where they want to be involved and develop in the future, such as: the automotive industry, aviation, telecom, medicine, mining and forestry. Add to this a variety of research-intensive areas in both product and service production, with a strong focus on digitalization and artificial intelligence.

Great significance for foreign businesses. This shift, where China partly turns away from the US and the western world, to adopt the role of growth engine in Asia and South America, is clear and has direct repercussions for companies. The trend is rampant. If actors want to have a place at the table, they need to act quickly and partially after new devises. The main point is that foreign companies now compete with Chinese companies both inside and outside China. This, in turn, requires a transition from traditional external monitoring, where executives look in the rear-view mirror for answers, to a more forward-looking and question-controlled, strategically applied external analysis. What are the key issues? By extension, this approach means a clearer division of responsibilities between traditional diplomacy and a new, complementary form of diplomacy based on the companies', universities' and regions' own roles in relations with, for example, China. The questions are raised on a high level: How should foreign entities relate to the development and what measures should be taken to become an attractive partner in the future? Companies ask themselves what value chains to include and how to best connect with them. Universities and research institutes may need to rethink their strategies. The importance of developing and participating in system-wide business is of great importance, but how do you take advantage of them?

Will China succeed? China's development illustrates the above challenges. The question of whether the country will succeed or not becomes easily hypothetical and will often take on the nature of quick and given answers, often based on feelings and various expert opinions, rather than a combination of experience, participation, theory and empiricism. The thing is that we simply do not know. There are well-justified risks with the Chinese development model. Opportunities elsewhere. In between, a crude walk. What we do know is that the relationship with China is complicated, which places high demands on the political dialogue between the countries. A step in increased understanding is an in-depth analysis of China's strategic expansion plans, and the global influence the country aspires to, then discuss its implications for trade, investment and other forms of cooperation.