

The Biggest Market in Asia

By EDWARD LEMAN

The largest concentration of consumers in the Asia Pacific today is not Japan, not southern China, and not any single country in Southeast Asia. It is China's Yangtze delta region. Along with Shanghai, the provinces of Jiangsu, Anhui and Zhejiang form a dense market of 193 million people. That's a population bigger than Indonesia's, and a consumer base 55% larger than Japan's.

What's more, as head of the 6,300-kilometer long "Yangtze River Dragon," the delta has now become the biggest economic producer of all China's regions. Since the early 1980s, foreign investors have concentrated on Guangdong. Between 1990 and 1993, however, the Yangtze delta created fully one quarter of China's increased economic production, and its population and GDP were respectively 295% and 215% larger than Guangdong's. Comparisons with the rest of Asia are equally impressive. By the end of 1993, the average annual real GDP growth rate in the Yangtze delta was almost double that in the "Tiger" economies of Taiwan and South Korea, and over two percentage points higher than in Thailand and Malaysia. Per capita production and incomes in the delta's central portion are approaching those in Thailand.

The prosperous middle income population emerging in strategic parts of the delta has a buying power previously unheard of in China. And that is only one of the trends fueling growth in the region. Yet foreign investors who want to ride the Yangtze dragon into the next century need to start positioning themselves now. For all the opportunities, the journey will be full of hazards as well.

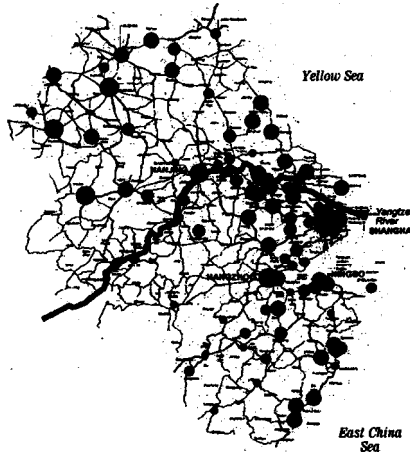
As my firm found during a recent year-long study, the major engine of the delta's growth has been autonomous townships and village enterprises. These dynamic, market-oriented businesses, mostly in light industry, are run by increasingly savvy entrepreneurs. It's similar to what happened in South Korea more than a decade ago: In the delta, local governments have provided major incentives to export-based enterprises, including lower taxes, comparatively easy access to cheap credit and foreign exchange, and lower priced raw materials.

Unencumbered by state quotas and targets, small bustling enterprises are churning out everything from umbrellas to electric fans in the expanding outskirts of urban areas, and, increasingly, across the delta's rich farmland. Between 1990 and 1993, their output increased by an astounding 167% in real terms, and there is every indication that these dynamic township and village enterprises will continue to fuel the Yangtze delta's growth well into the next century.

These trends are having a major impact on Shanghai. Once the bastion of state-owned enterprise along China's coast, the world's fifth largest city is shedding its antiquated industries and is quickly becoming

central China's financial and services center. But the most significant action is outside the city. Major new industrial developments are now taking place in Shanghai's outlying counties and even farther afield. For example, more than \$1 billion of investment has already been committed in Singapore's new industrial township outside of Suzhou. Other large industrial parks are taking shape further north in Wuxi as well.

This rapid industrial development, coupled with large population inflows, has transformed the Yangtze delta into Asia's largest megalopolis, or urbanized region.



Not counting Shanghai, there are 85 cities and towns in the delta - 35 of them with a population of more than one million people. In fact, with 528 inhabitants per square kilometer, the region's density is higher than any other area in China, or in the entire Asia Pacific region, including tightly packed Japan, South Korea, the Philippines and Vietnam.

By the end of this decade, the Yangtze delta megalopolis will become directly linked by modern highways with a domestic market of 465 million consumers, or 40% of China's population. Given bottlenecks in the country's railways, with much capacity dedicated to carrying coal for many years to come, the highway system is of critical importance to future economic development and to foreign investors. Road construction planned to the year 2000 should leave the Yangtze delta better connected to a larger market than any other part of China, including Guangdong.

However, with this burgeoning growth will come some difficult problems. The booming delta region is rapidly becoming China's principal destination for rural migrants seeking jobs. There are now an estimated nine million migrant workers in the delta, largely in the Shanghai-Nanjing corridor. Central government officials expect labor demand for migrants to grow by 10% a year into the next century. This means there could be 22 million rural migrants in the Yangtze delta by the year 2005, more

than double the number found today in Guangdong adjacent to Hong Kong.

Migration is already seriously challenging local governments, which must provide housing, infrastructure, security and social services, including family planning. Until now, the local governments have not budgeted for these services and the enormity of the migration in the past five years has caught them totally unprepared. Previously unthinkable in China, uncontrolled squatter settlements are now sprouting in cities, towns and counties across the delta.

The region must also address serious environmental issues - and quickly - if it is to sustain its role as China's economic powerhouse. The township and village enterprises fuelling so much of the delta's industrial growth are dispersed along its intricate network of waterways. As the number of enterprises proliferates, however, their activities have become increasingly difficult to monitor in terms of environmental compliance.

What is known is that half of the delta's solid waste and industrial wastewater is now generated outside of Shanghai. Effluents are being dumped with little if any treatment directly into rivers, canals and lakes which, due to the hydrology of the area, supply 90% of Shanghai's drinking water. Although the city is spending millions of dollars on new infrastructure to protect its water quality, uncontrolled development beyond its municipal borders threatens to cancel out the value of these huge investments.

What are the implications of the Yangtze delta's phenomenal growth for the foreign investor? In some respects, the only real danger is its speed. Major transport and port projects are shifting locational advantages so rapidly that good locations for office and housing, factories and retail facilities today may change dramatically by the end of the decade. Two things are certain: as noted above, the volume of economic growth, and the continuing inflows of migrant workers and their families, will create enormous pressure on municipal services. And local governments do not have the financial or institutional capacities to maintain even current service standards.

To maintain growth and social stability, local governments will have to turn to partnerships with the private sector to provide affordable housing, water and wastewater systems, solid waste management, and power and transportation services. Despite current constraints facing foreign investors in infrastructure, firms with a long-term interest in Asia and its largest market should get ready to move fast when those constraints begin to dissolve.

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