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# China Market Trends

## Market Potentials in the Yangtze Delta Megalopolis

Edward Leman is President of Chreod Ltd., development planning consultants, of Ottawa, Hong Kong, and Shanghai. This article concludes a review of development trends and investment potentials in the Yangtze Delta market started in the last issue of the Canada China Business Forum, and is based on extensive market research recently concluded by Chreod Ltd.

**With** a population of 193 million, the Yangtze Delta Region has become the largest market region in East Asia. It holds within its core the Yangtze Delta "megalopolis," an extremely dense, dynamic, and complex corridor of cities and towns that has almost four times the population of the Pearl River Delta megalopolis, stretching from Hong Kong/Shenzhen to Guangzhou and Zhuhai/Macao in southern China. The population of this massive agglomeration of consumers is concentrated in two bands of growth

anchored on Shanghai: the Shanghai-Nanjing corridor and the Shanghai-Hangzhou-Ningbo corridor (see Map 1 in "Recent Trends in China's Yangtze Delta Market" in the March/April 1995 issue of the Canada China Business Forum). According to our most recent estimates, the population of this megalopolis is expected to grow from 76 million to 91 million people in the next 10 years. If current levels of industrial development are sustained, the gross value of industrial output is projected to grow in real terms to six or

seven times its level in 1993;

A megalopolis is not an overgrown city: it is a cohesive network of numerous cities and towns stretching in a band at least 150 km long, and holding a population of more than 20 million inhabitants. There are usually at least two large metropolitan poles in a megalopolis, linked by strong transportation and communications networks such as expressways and railways. The megalopolis was first identified as a new form of regional settlement (or market) in the late 1950s, when the term was coined by French geographer Jean Gottmann to describe the agglomeration forming in a band from Boston to New York through to Baltimore and Washington, D.C. It was subsequently identified in Japan in the mid-1960s as a dense band of settlements stretching from Tokyo to Osaka, in England in a band from London to Manchester, in northern Europe from Amsterdam to Brussels, and along the Great Lakes from Chicago to Detroit, Cleveland, and Buffalo, and northeast from Detroit to Toronto. Research in the 1970s and 1980s found that megalopolitan markets were also emerging in some developing countries, notably Indonesia, Taiwan, Brazil, and parts of India.

What makes a megalopolis unique and of major significance to investors is that it is usually a country's principal economic powerhouse — a concentration of consumers, purchasing power, and production that incubates new and higher forms of economic growth and development. As transportation and communication linkages improve between multiple centres, previously sacrosanct "urban" boundaries disappear in a flurry of economic activity. People live

and work in different cities; manufacturers can source competitive inputs from multiple suppliers over a much wider area; cities and towns develop specializations (e.g., Windsor, Oakville, Oshawa); and higher level "services" begin to concentrate in those key metropolitan areas, such as Toronto and New York, that best provide for regional, national, and international market transactions.

This pattern of development is now clearly occurring in the Yangtze Delta megalopolis. Our recent research has found that industry is rapidly moving out of urban Shanghai into outlying counties, cities, towns, and villages along the Shanghai-Nanjing and Shanghai-Ningbo corridors (a similar pattern of industrial relocation occurred in the late 1980s and early 1990s from Hong Kong to Shenzhen, and then to smaller cities and towns in the Pearl River Delta). Tertiary services in finance, trade, retail, and tourism are beginning to flourish in Shanghai. The city's industrial future appears to lie more and more in high-technology research and development that requires access to a wide range of top professional, scientific, and technical expertise, and excellent communications and international transportation systems.

The structure of the emerging Yangtze Delta megalopolis will be firmly consolidated with the completion of a major new highway between Shanghai and Suzhou, Wuxi, and Nanjing by the end of 1996, another highway from Shanghai to Hangzhou and Ningbo by 1998, and other transport improvements, including a new bridge across the Yangtze (now under construction) that will link northeastern Jiangsu Province

to the burgeoning southern Yangtze shore. In less than four years, industries locating in the middle of the Yangtze Delta megalopolis will have quick and easy access to four major ports: Zhanjiang, Nantong, Shanghai, and Ningbo. No other part of coastal China, including the Pearl River Delta, will be able to offer such a range of competitive international distribution options while providing access to a navigable waterway as long as the Yangtze and a captive domestic market of 450 million people within its basin.

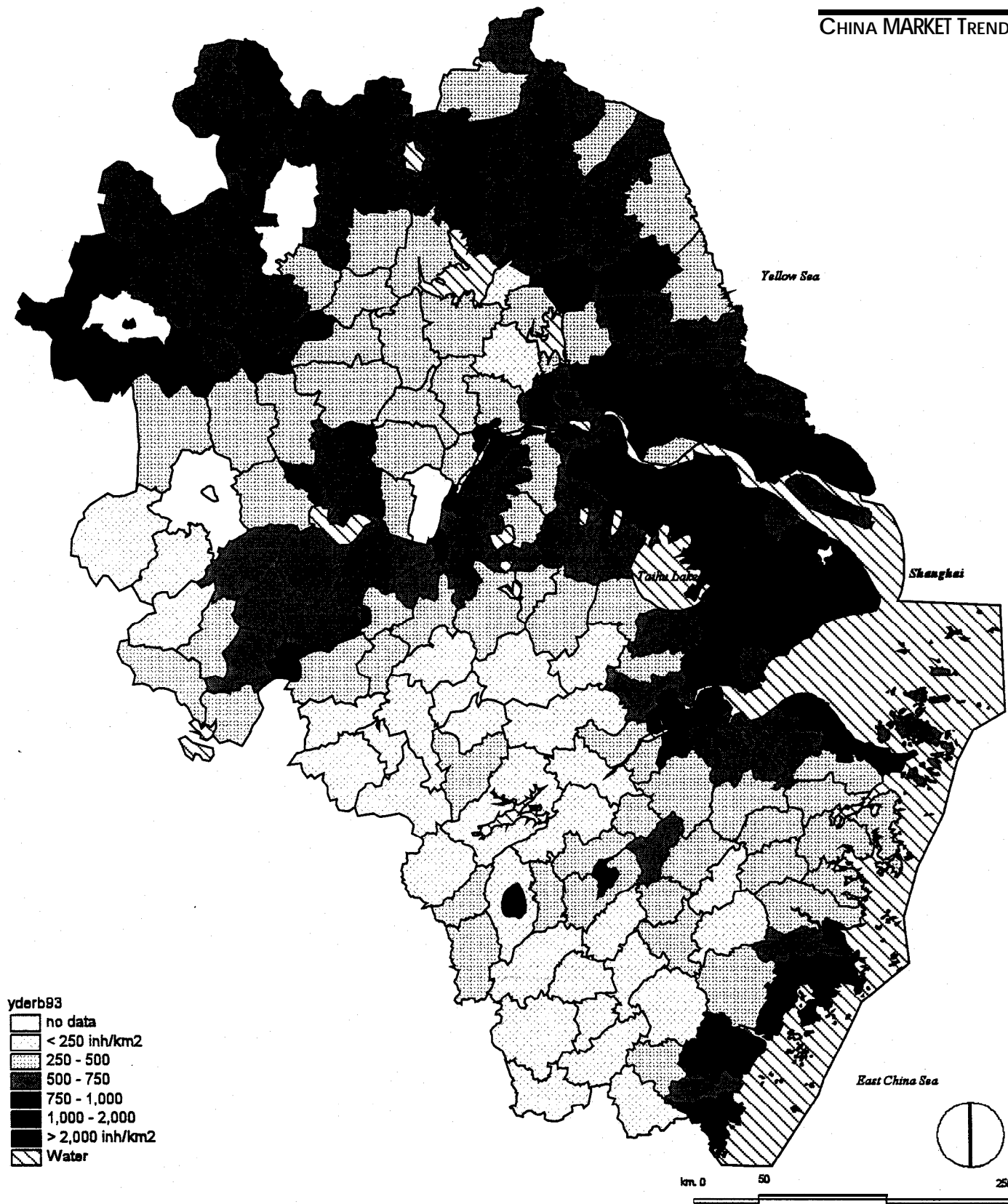
The overriding intent of China's national highway development program to the year 2000 is to improve linkages between the Yangtze Delta megalopolis and key economic regions in the north and central coastal areas, and along the Yangtze River basin. Of greatest relevance to the future of the Yangtze Delta are planned highways northwards through Shandong, northeastwards through Xuzhou in northern Jiangsu to Henan and the Yellow River Basin, and westwards along the Yangtze almost to Sichuan Province. By the end of this decade, the Yangtze Delta megalopolis will become connected by highways with the most dense parts of China, areas that are also among the largest industrial and agricultural producers in the country.

The pace and extent of development in the Yangtze Delta megalopolis will obviously have far-reaching effects on its inhabitants. A key characteristic of a megalopolis is the existence of a band of population densities higher than 750 inhabitants/km<sup>2</sup>. This pattern of high densities already exists from Shanghai almost to Nanjing, and from Shanghai to Hangzhou, almost

to Ningbo (see map). We estimate that, by the year 2005, all of these corridors will hold more than 1,000 people/km<sup>2</sup>. The environmental impacts of this concentration of people and industry are already raising serious concerns. The township and village enterprises that are fuelling much of the Delta's industrial growth are dispersed along the Delta's intricate network of waterways. They are becoming increasingly difficult to monitor in terms of environmental compliance. More than 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 Shanghai is now 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 CCBC members? The Delta is the Asia Pacific region's largest, most compact market with a consumer base 55% bigger than Japan's within a 500-km radius of Shanghai. Major transport projects in the Yangtze Delta megalopolis will rapidly alter the spatial structure of the Delta as locational advantages change, in some cases dramatically, over the next five years. What are today good locations for factories, office buildings, housing, and retail facilities may become far less so by the end of this decade.

The volume of economic growth and the continuing



yderb93  
 no data  
 < 250 inh/km2  
 250 - 500  
 500 - 750  
 750 - 1,000  
 1,000 - 2,000  
 > 2,000 inh/km2  
 Water

# 1993 Population Density, persons/km2

Yangtze Delta Economic Region

map 1

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inflows of migrant workers (described in our last Forum article) will create enormous pressure on infrastructure services and major opportunities for foreign commercial involvement. Our recent research confirms that, as in Canada, local and provincial governments simply do not have the financial or institutional capacities to maintain even current service standards and will invariably turn to partnerships with the private sector to provide environmental infrastructure, power, and transportation services in order to sustain economic growth. Based on interviews with Planning Commission officials in Shanghai, and in Jiangsu, Zhejiang, and Anhui Provinces, we estimate that a total of almost 4,000 km of new Class I and II highways and roads will be incorporated in the Ninth Five-

Year Plan for the Yangtze Delta to the year 2000 (almost 3.5 times the length of the main highway link in the Quebec City-Windsor corridor). During this period, 3,250 km of railway in the Delta will need to be either upgraded or built for the first time. Port expansion projects in the Ninth Five-Year Plan could, if realized, provide the Delta with an additional annual bulk freight-handling capacity of over 95 million tonnes by 2000, and an additional container-handling capacity of 600,000 TEUs per year.

Given continuing tight credit and the expected redirection of considerable World Bank and Asian Development Bank lending to poor inland provinces, the scale of investment required to clear infrastructure bottlenecks in the Yangtze Delta will inevitably lead to new forms of public/

private partnerships through major concession contracts with foreign operators, most likely in joint venture with local governments. Despite the current and, in our view, transitional constraints facing foreign investment in China's infrastructure, those Canadian firms (including project financiers) with a long-term interest in Asia and its largest regional market need to start positioning themselves now in the Yangtze Delta megalopolis. ■

*Chreod Ltd. will be launching a comprehensive market profile report on the Yangtze Delta Region in late June during presentations to business groups in Hong Kong, Singapore, Taipei, and other Asia Pacific cities. Information on this market profile report is available from Chreod's Ottawa office by faxing (613) 238-6668.*

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