Recent Trends in China's Yangtze Delta Market

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Over the past seven years, we have watched the enormous transformation of Shanghai from a tightly controlled, state-run, heavily polluted industrial city into a burgeoning, cosmopolitan (and still heavily polluted) metropolis serving the changing needs of the largest and most dynamic regional market in China. What appeared several years ago to be empty rhetoric by government about the future "Yangtze dragon" and Shanghai as the Yangtze's "dragonhead" is, to the great surprise of many, becoming true.

Shanghai entered the mainstream of market reforms with a vengeance in 1990, and its economy, municipal government, attractiveness to foreign investors, and shared culture have changed — and are continuing to change — even more rapidly than in Guangdong Province. The city is not simply re-inventing its original role in the early part of this century as China's principal entrepôt. What is happening now in Shanghai both shapes, and is shaped by, increasingly powerful economic and demographic forces beyond its borders in the Yangtze basin, and within the Yangtze's pivotal delta region.

Our work in Shanghai and the Yangtze delta over the past years has required us to analyze for our clients either the sectoral aspects of this incredible transformation (e.g., real estate, infrastructure, industry, retail), or its manifestations in specific locations (e.g., Puxi, Pudong, Suzhou). Although we became aware of multisectoral, region-wide appraisals of Hong Kong and the Pearl River Delta in Guangdong, no such efforts appeared to exist in the Yangtze delta region. We therefore decided over a year ago to undertake, with the assistance of our local associates, a comprehensive assessment of demographic, economic, foreign investment, infrastructure, transport, and urban development trends throughout the Yangtze delta region on as detailed a spatial scale as possible. The focus of this work was to be on trends; data was to be analyzed from 1990 (the start of the boom) to the end of 1993 (most recent, area-wide data), and was to provide the basis for reasonable projections of the future of the Yangtze delta region into the early years of the next decade.

After 14 months of analysis, eight field missions to the delta region, and numerous meetings with Planning and Construction Commission officials at the provincial, municipal, and district/county levels (which included corroboration of some key statistical data), we have assembled a computerized, spatial database on 174 development variables for 225 cities, counties, and towns in Zhejiang, Anhui, and Jiangsu Provinces that, together with Shanghai, comprise the Yangtze Delta Economic Region (YDER). Using GIS technology, we are now in the process of identifying counties, cities, and towns with the best growth prospects, and projecting key development trends in the YDER. In this and our next article in the Canada China Business Forum, we will report on major findings — some of which are quite surprising — that might be of help in positioning CCBC members and their Chinese partners to benefit from these trends.

Yangtze Delta in Context

The YDER is rapidly becoming an important economy in the Asia Pacific Region. Its population is four times larger than South Korea's, three times that of the Philippines, and equal to all of Indonesia's. Aside from Japan, the YDER and Indonesia are the largest contiguous population agglomerations in clearly defined markets in the Asia Pacific Region. As an economic entity, YDER is 4% smaller than Indonesia in terms of GDP (at current market prices, US$), 11% larger than Thailand, and 132% larger than Malaysia. A comparative review of macroeconomic trends in the Asia Pacific Region and the YDER over the past 10 years indicates that the YDER may be paralleling the early stage of South Korea's economic boom period, which began in 1985 and continued for eight years.

The YDER holds 16% of China's population on 3.5% of the country's land. It generated 22.13% of China's GDP and 39.4% of its secondary sector GDP in 1993. Per capita GDP in the YDER was 42% higher than for China as a whole. Exports from the region accounted for 20.4% of China's total; the YDER's share of these exports grew by 13.4% from 1990-93. The region held 23.2 % of China's secondary sector labour force in 1993 and accounted for 27.6% of township- and village-enterprise (TVE) output in all of China.

Despite large populations along the Yangtze River Basin as a whole (stretching 2,000 km from Shanghai to Sichuan Province in the west) and recent government policy initiatives to foster development inland, the YDER is clearly the major economic anchor of China's principal river basin. It accounted for 41% of the Basin's population in 1993, 57% of its GDP, 68% of the Basin's Gross Value of Industrial Output (GVIO), and 7 1% of total TVE output. Per capita GDP in the YDER was 39% higher than for the Yangtze River Basin as a whole.

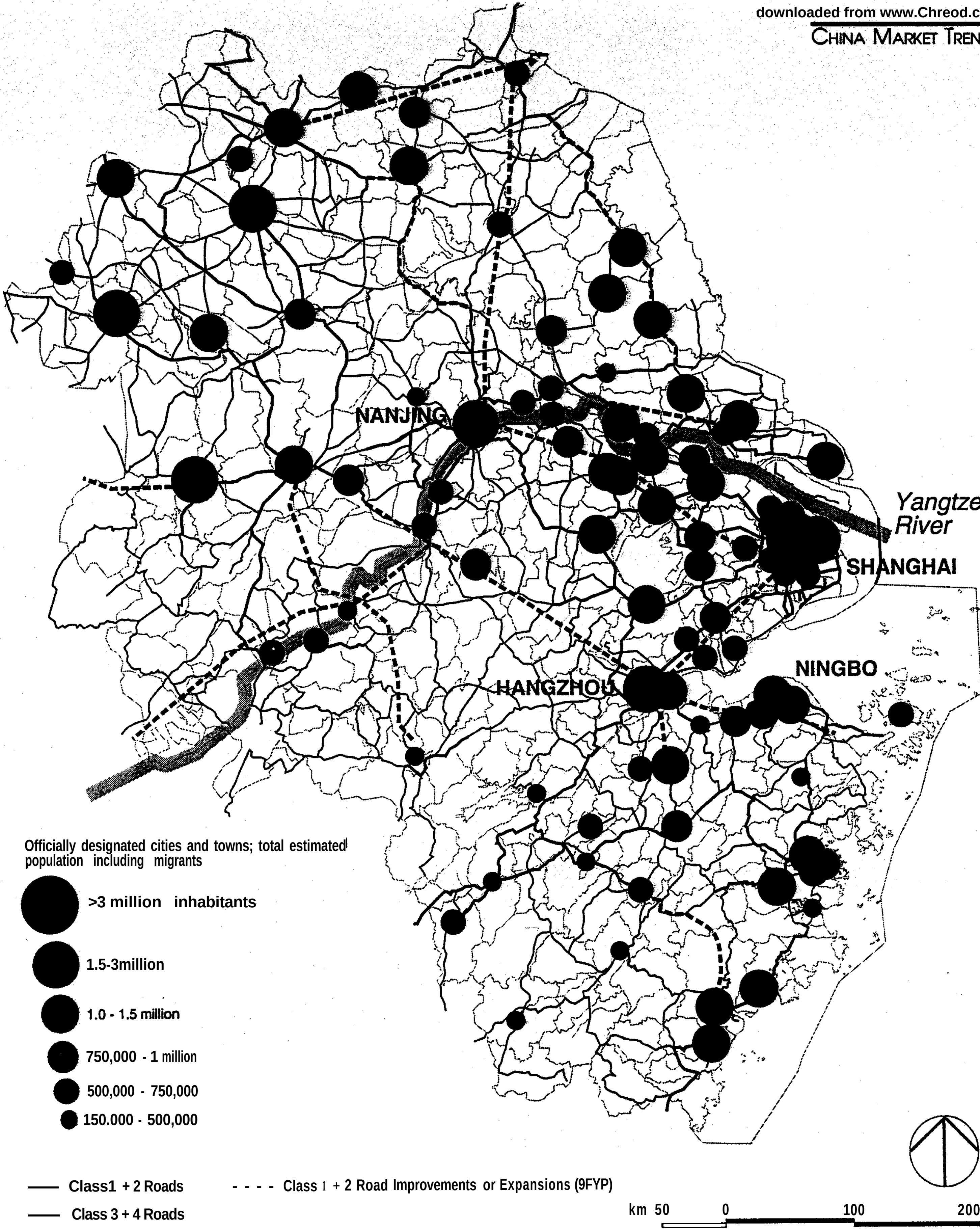
Demographic Shifts

The YDER's 193 million people live in 85 cities and towns and 148 counties. Thirty-five of these cities and towns have a population of 1 million people or more. Although natural population growth rates are falling (by about 50% from 1990-93). a massive surge of rural migrants to the delta's cities and towns is occurring. These migrants are generally not planned for by municipal governments, and receive few if any social, housing, or infrastructure services. We estimate that there are now about 9 million migrant workers and dependants in the YDER. Migrants account for 5 % of the total population within the region, and 10% of the Central Yangtze Delta Region (CYDR) which stretches in a highly industrializing band from Ningbo through Shanghai to Nanjing (see Map 1). Given labour force requirements, the migrant population is expected to grow by 10% annually into the next decade. This means that there may be as many as 11 million migrants by 1996, 16 million in the year 2000, and 21 million in the year 2005. (To put these numbers in perspective. by the year 2000 the number of rural migrants 'in the YDER will exceed the entire population of Cambodia.) About 80% of rural migrants are gravitating to the cities, towns, and rapidly developing counties within the Central Yangtze Delta Region: for example, we estimate that as much as 35% of the total population of Wuxi City and Changzhou City are migrants.

The implications of this rural-urban shift are going to be far-reaching across the delta. Municipalities will need to start treating these migrants as permanent residents. If they are to avoid explosive social problems, governments will need to respond quickly to provide adequate shelter, education, health, and basic infrastructure services to these migrants. Municipal budgets will become increasingly strained, leading, in our view, to increased fiscal pressure to make many of these services available on a user-pay basis to all residents. This could lead to many infrastructure development opportunities in selected locations on a commercially viable basis for CCBC members.

Industrial Shifts

The Gross Value of Industrial Output in the YDER in 1993 was 131% larger than in Guangdong Province. Total GVIO in the YDER grew by 67% in real terms from 1990-



Regional Structure 1995

map 1

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Yangtze Delta Economic Region

93%. Within the CYDR, GVIO increased by 77% in real terms during this period. If current trends continue to the end of this decade, we estimate that the total industrial output from the CYDR will grow from 70% to 80% of the delta region's output as a whole. In real terms, per capita industrial output could grow by as much as six times from 1993 to the year 2005. Although this represents an annual real growth of around 18%, it is still well below the 27% annual growth experienced in Guangdong Province from 1985- 1993.

Output of State-Owned Enterprises (SOEs) within the CYDR accounted for 29% of GVIO while TVEs contributed 47% (the remainder was from collectively and individually owned and joint-venture enterprises). SOE output grew by 44% from 1990-93 in real terms while TVE output grew by 167%. This phenomenal growth by township and village enterprises has not been limited to light industry; output of heavy industry grew almost as much as light manufacturing in the CYDR between 1990-93.

There are obviously major variations in demographic and economic changes among counties, cities, and towns in the Yangtze Delta. The greatest concentration of migration and industrial growth has focused on the CYDR as a whole, but particularly in the cities and towns outside of Shanghai. Shanghai is assuming a vastly different role in the delta region and the Yangtze Basin; it is clearly becoming a major tertiary services centre with many existing industries relocating outwards within the delta to cities and towns along major transport corridors close to secondary ports. Major new industrial developments are now occurring not in urban Shanghai, but in its outlying counties and farther afield along the delta's major growth corridors. Comparative advantages of these locations will increase dramatically over the next five years as major highway and port development projects are completed across the delta. However, despite these improvements, bottlenecks will continue to increase in some locations, as will major deficits in the provision of electrical power (these will be discussed in more detail in our next article).

A New Regional Market System

The Yangtze Delta Economic Region, particularly the rapidly developing corridor from Ningbo to Shanghai and Nanjing, is changing radically in both quantitative and qualitative terms. A combination of price differentials between Shanghai and other cities and towns in the delta, improvements in transport access, and constant upgrading of municipal and industrial infrastructure in these surrounding centres means that the structure of this regional market is changing from a single-city focus into a dynamic corridor. However, industrial, transport, and infrastructure conditions are by no means equal across the corridor; major opportunities for investment by CCBC members are emerging in new construction and upgrading of existing systems to enhance the comparative advantages of key cities, towns, and counties in the Yangtze Delta Economic Region well into the next decade. ■