
China Market Trends

The Tianjin Economic-Technological Development Area

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This is the fifth in a series of articles for the Canada China Business Forum on regional aspects of China's development, based on Chreod's ongoing work since 1988 in providing research and advisory services to public- and private-sector investors active in China.

Previous articles in this series by Chreod's President, Edward Leman, have stressed the major differences among urban markets in China, with particular attention to Shanghai and the Yangtze River Basin. Now we move northward to Tianjin and in particular to a specific development area at the eastern end of Tianjin: the Tianjin Economic-Technological Development Area (TEDA). As China's growth and modernization move northward and inland, this may be an area that Canadian business will wish to include in their investment and marketing strategies for China and Asia.

Background

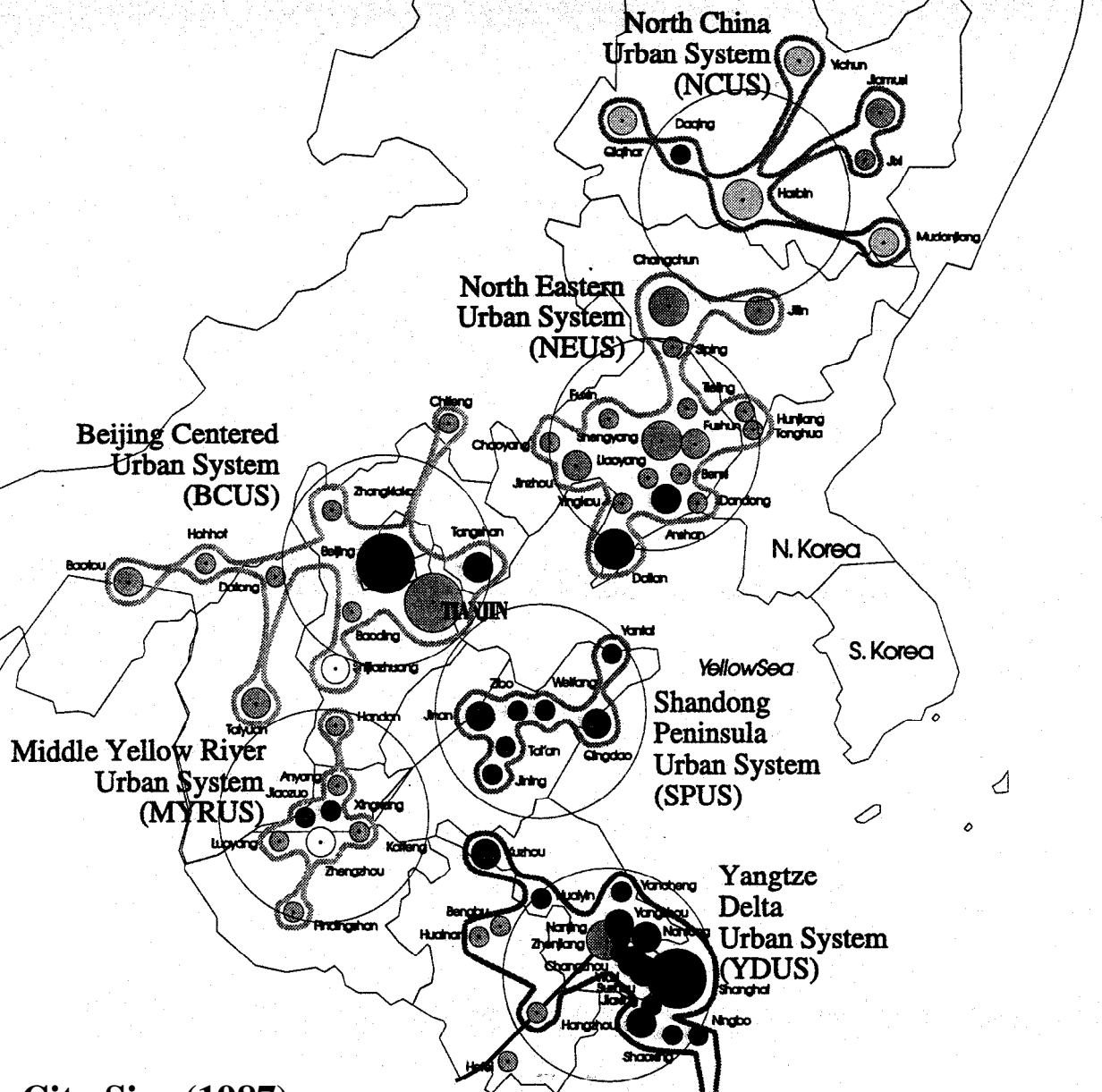
Over a year ago, the Tianjin Economic-Technological Development Area (TEDA) approached the Ontario International Corporation to explore the possibility of joint work with Canadian companies. After several meetings to discuss the kind of collaboration that would be most productive, Chreod was chosen as the appropriate firm to take the leadership role in this project because of its experience in Shanghai, Pudong, and other parts of China.

Through further discussions, Ontario Hydro International (OHI), Toronto Transit Consultants (TTCL), Zeidler Partnership International, and the Wastewater Technology Centre were identified as the most appropriate sub-consultants and partners to pursue specific opportunities and to provide transit, power, engineering, urban design, and other expertise needed by TEDA.

The project is being funded in part through a contribution agreement with CIDA Inc. and in part through the contributions of the partners. The long-term goal of this project is to foster a special relationship between the development area and Canadian companies through which Canadian investors and entrepreneurs will continue to be favoured in terms of services, infrastructure development, and industrial and commercial projects.

The TEDA Success Story

The Tianjin Economic-Technological Development Area (TEDA), a special development zone on the Bohai Bay in North China, is located in the eastern portion of Tianjin Municipality,



City Size (1987);
non-agr. cities + counties

- > 5 million inhabitants
- 2-5 million
- 1-2 million
- 500,000 - 1 million

Urban GDP per capita (1987)

- > 7,000 yuan
- 5,000 - 7,000 yuan
- 3,000 - 5,000 yuan
- < 3,000 yuan
- data not available

Total Urban GDP of System
(billion US\$; 1987)

- > 30
- 10-30
- 5-10
- < 5

Major Urban Systems: Bohai Gulf

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approximately 50 kilometres from the city of Tianjin. TEDA was created in 1984 and provides essentially the same preferential policies, incentives, and flexible measures as the Special Economic Zones in China. It has a planned area of nearly 36 sq. km, including separate sections for industrial development and mixed residential, financial, and commercial uses.

Despite these preferential policies and flexible, client-oriented services to the foreign investor, TEDA progressed quite slowly through the 1980s compared to many other special development zones, especially in the south of China. All of this has changed dramatically over the past three years. In 1993, the value of foreign investment approvals, industrial production, and the gross domestic production (GDP) generated on the TEDA site all approximately doubled over the previous year. Exports rose by over 80%. Enterprises with foreign investment account for 96% of TEDA's industrial output and sales.

Once all investment intentions are fully realized from the approvals made up to the end of 1993, total investment in TEDA from both foreign and domestic sources will approach \$US4 billion, or close to eight times greater than the comparable figure reported in 1991 of \$US520 million. Accordingly, in terms of production and investment attraction, 1993 was clearly a breakthrough year for TEDA. Preliminary evidence suggests that TEDA has continued to expand and to attract substantial foreign investment interest through the first 10 months of 1994. Employment at the TEDA site is estimated to

approach 60,000 by the end of 1994, and at the present rate of growth, it is expected that development of the full 36-sq. km site will be virtually completed by the end of the decade.

The TEDA success story is being increasingly recognized by both the Chinese and the foreign press. As reported in the **South China Morning Post** on September 8, 1994, the Economist Intelligence Unit (EIU) in their study: "The China Connection: Building a Business in Beijing and Tianjin," concluded that TEDA is the best sourced and managed zone in China. TEDA's growing reputation in the international business community is reflected as well in the number of large multinationals — Motorola, Samsung, Yamaha, Hyundai, Nescafe, AT&T and so on — that are establishing significant production facilities on the TEDA site.

The Strong Development Prospects of Tianjin

The Canadian investor should recognize that TEDA is essentially a new and highly successful industrial suburb of the well-established North China city of Tianjin. Tianjin is the third-largest city in China after Shanghai and Beijing, with a population in the city of 5.9 million (of which 3.7 million are in the city core) and a total population in the province of almost 9 million. It is only a 90-minute drive from Beijing on the new expressway. Moreover, as illustrated by the map, as urban growth and economic modernization continue, the two metropolises will likely become increasingly interrelated within an integrated urban economic system stretching from Beijing to Tianjin and down the coast to

a new Coastal City centred on TEDA, the Tianjin port, and the District of Tanggu in the eastern portion of Tianjin.

Tianjin has a long history as a major industrial centre in North China and enjoys particular strengths in textiles, machinery, chemicals, petrochemicals, pharmaceuticals, light industry, precision equipment, electronics, and household appliances. Tianjin has been an Open Coastal City since 1984 and offers three special development zones for attracting the foreign investor: TEDA, the Port Free Trade Zone next to TEDA, and the Tianjin New Technology Park near the city centre. By the end of 1993, there were more than 6,000 enterprises with foreign investment registered in Tianjin, and on a cumulative basis, foreign investment approvals had reached \$US6.9 billion. (TEDA accounts for close to 40% of this total.) Major sources of investment in Tianjin province include Hong Kong, Japan, the U.S., and Taiwan, while interest from South Korea is expected to grow with the establishment of diplomatic relations between the two countries. Canadian investments in Tianjin and TEDA have to date been modest. Up to the end of 1993, less than 1% of the foreign-investment contribution to TEDA-registered enterprises came from Canadian firms.

Tianjin was the earliest commercial port in China to open to the outside world, and the new harbour that borders on the TEDA site is one of the largest ports in the country. Through the years, Tianjin has developed a strong scientific and technological capability. The Tianjin telecommunications and urban infrastructures are also

quite well developed; compared to most other Chinese cities, Tianjin enjoys good access to natural resources and many agricultural products. Tianjin therefore offers the Canadian investor a good balance between human, natural, and infrastructure resources, facilities, and strengths.

The New Coastal City Will Add Further Momentum to TEDA's Development

TEDA and its economic prospects cannot be looked at in isolation from the other components that will make up the eastern Coastal City of Tianjin in the future. The Tianjin Economic-Technological Development Area, combined with the port and the free trade zone that border on the TEDA site, are central to this development, but as well there are:

- Tanggu District, which surrounds these three specialized facilities and has grown to an urban population of close to 400,000
- the oil and gas fields in Dagang
- the smaller city of Hangu with its large salt and industrial chemical works

The total area - urban and rural - of this emerging Coastal City is 2,200 sq. km, 20% the size of Tianjin's. Its total population is now approaching 1 million, 11% of Tianjin's total population. The area designated for urban development is 350 sq. km, which is about the same size as Shanghai-Pudong. Its current urban population is close to 700,000. This urban population is expected to more than double over the next decade and a half, while incomes and purchasing power could increase by up to 10 times.

The new Coastal City concept has a lot going for it. The expectation of some North China development experts is that the Coastal City could be the next major urban development zone in China after Shanghai-Pudong. It is also anticipated that the Coastal City, together with the total Tianjin/Bohai Sea development, will figure prominently in the Ninth Five-Year Plan.

The Regional Market and Context Shaping the Development of TEDA and Tianjin in the Future

TEDA's future development prospects will be closely tied to the progress of the broader Tianjin/Bohai Sea development zone, which is now in the planning stages in Beijing and Tianjin. This new zone is expected to include at a minimum, the provinces of Tianjin, Beijing, Shandong, Hebei, and Liaoning. It is reported that the province of Shanxi and part of the Inner Mongolia Autonomous Region could also be included. The map on page 24 illustrates that the new development zone is designed to bring together three of the major urban systems in China centred on Beijing/Tianjin, the Shandong Peninsula, and the North East. The major proponents of the Tianjin/Bohai Sea region argue that this should become the third great development region in China after the Pearl River Delta and Shanghai/the Yangtze Basin.

The entire region covers an area of 1.12 million sq. km, or 12% of China's total territory, and its population of 240 million accounts for over 20% of the country's total. The Tianjin Bohai Sea region generates

about a quarter of China's total gross domestic output, and incomes and purchasing power can be expected to double over the next decade. The major issues to be addressed to support development in the future are the acute shortage of water - perhaps to be addressed in the next century from the Yangtze River - and further improvements to its transportation system, especially to the regions' inland centres in Shanxi and Inner Mongolia.

What Are the Attractions for the Canadian Investor?

TEDA, Tianjin and the Bohai Sea region offer a great deal to the knowledgeable Canadian investor:

1. Proven development success, TEDA's excellent reputation for providing quality service to the investor, and growing national and international attention, which can only increase under China's Ninth Five-Year Plan starting in 1996.
2. A strategic location in TEDA and Tianjin with excellent access to the large and rapidly expanding North China market; as well as to nearby foreign markets in Japan and South Korea where Canadian firms are already active.
3. Good transportation and other infrastructure facilities and relatively abundant natural resources.
4. Well-educated and reliable labour force available at much lower wage rates than in South China and Shanghai.
5. A strong economic base, a rich industrial and commercial tradition, and a way of life and of doing business

that may be more comfortable to Canadians than found elsewhere in Asia.

6. Tax and other incentives that are generally on a par with other special development zones in China.

TEDA, Tianjin and the surrounding Bohai Sea region offer real opportunities in areas where Canadians have enjoyed considerable success both at home and abroad since the Second World War. Canada has faced many challenges in developing its economy and export capability similar to those now facing this region. Among them:

- natural resource development
- transportation, telecommunications, and other infrastructure
- manufacturing, including resource processing and technologies, environmental industries, and other higher technology activities
- commercial, real estate, and urban development
- environmental protection and improvement

There just may be a better fit between Canadian strengths and the opportunities provided here than is available in many other rapidly developing parts of China and Asia. Perhaps most important, during Chreod's first months in TEDA and Tianjin, we have found genuine interest in developing close links with the Canadian business community. A special relationship with TEDA is clearly possible, but will require special efforts from both sides.

Key Issues in Pursuing Specific Canadian Investment Opportunities

Ultimately, business development requires the identification and realization of specific in-

vestment opportunities. Accordingly, one of the objectives for this project is to identify and promote opportunities for Canadian investment in the TEDA site and elsewhere in Tianjin and the surrounding region. The Chreod team is now conducting a prefeasibility analysis of potential investment opportunities in infrastructure development, natural resources, high technology industry, land development and management, and financial, tourism, and other services.

However, in pursuing specific business opportunities in TEDA, Tianjin, and elsewhere in China, Canadian businesses must recognize the market realities and constraints of doing business there. There is tremendous competition to supply machinery and equipment for Chinese infrastructure and industrial projects, sometimes on concessional terms that can be more favourable than provided by Canada. Provision of engineering and other expertise is also possible, but in this case the competition is even stronger as China also has quality engineering expertise that is offered at well below international rates. High-quality Canadian technology can be an important plus, but again, in many areas, our technologies are not unique and China has many potential technology suppliers from other Westernized countries.

The key constraint in China is financing, even for infrastructure and other projects that hold the potential for cost recovery and favourable returns. The financing crunch China is now facing reflects in part the fact that international trade, industrialization, and other market-opening reforms have gone much further than finan-

cial-sector modernization. Despite a high savings rate, the Chinese financial sector is still not fully equipped to mobilize the massive funds needed by its infrastructure and industrial sectors. Foreign financing is required to fill this investment gap.

Accordingly, Canadian firms will often need to be prepared to work closely with TEDA or another joint venture partner in putting together the total package, including:

- machinery and equipment often backed by competitive concessional financing from EDC
- direct equity investment and commercial loans, at times complemented by commercial or concessional loans from international financial institutions (IFIs) — a financing tool that in general Canada may have used with less success than some other countries
- technology transfer and its modification to suit Chinese conditions
- engineering, planning, and construction expertise
- project management during the lead-up to construction, during construction, and after start-up

While Canadian equipment, concessional export financing, **expertise**, and technology may be helpful in getting Canada to the table and in developing the deal, Canadian financing, both equity and loan, and a capability to assist in operating the facility and sharing the risk after start-up, will often be critical for closing the deal for Canada in TEDA and in many other development zones in China. ■