
China Market Trends

The Yangtze River Basin: China's Economic Powerhouse

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Increasingly earnest rhetoric on "China Trade" from governments and the Canadian and international press is threatening to obscure fundamental issues surrounding trade with China. False expectations are being raised by portraying China as an economic and cultural entity that can be analyzed and approached as a single target market. Prospective Canadian investors who

accept such rhetoric will at best be disappointed, and at worst find themselves spinning wheels and wasting money.

China cannot but be viewed by many Canadians as almost scaleless. Statistics are almost beyond our comprehension since we have no ready or historic benchmarks against which to compare China's unprecedented performance in recent years: a population

almost 50 times that of Canada with an economy growing at double digit rates; a country that has become the third-largest economy in the world in less than a generation; an urban population that has grown from 17% to 40% of the country's total in only two decades, creating a consumer market of almost 500 million people; the largest magnet in the world for foreign investment last year, a development that is causing alarm within governments of other Asian countries as historic aid and trade capital flows are turned on end in only a couple of years.

As described in our last article in the Canada China Business Forum, China's history is one of evolving regions. It is less of a coherent economic, cultural, or social unity than is Canada or the United States. China can only be understood and effectively approached on the basis of regional identities that define not only distinct economic subsystems within the country, but cognitive and cultural ones as well. What Canada can provide one region through trade is often dramatically different from what another region needs. It is becoming increasingly clear that the specialized expertise that many Canadian private and public sector organizations have to offer – and therefore, implicitly, what Canada can best provide in the form of foreign aid – is by no means wanted or needed by all of the country's 12 principal urban regions (Fig. 1). The challenge for Canadian business is to identify and understand those regions in China that are best suited to our capacities, and to then target them much more aggressively.

Total Urban Population in 'millions

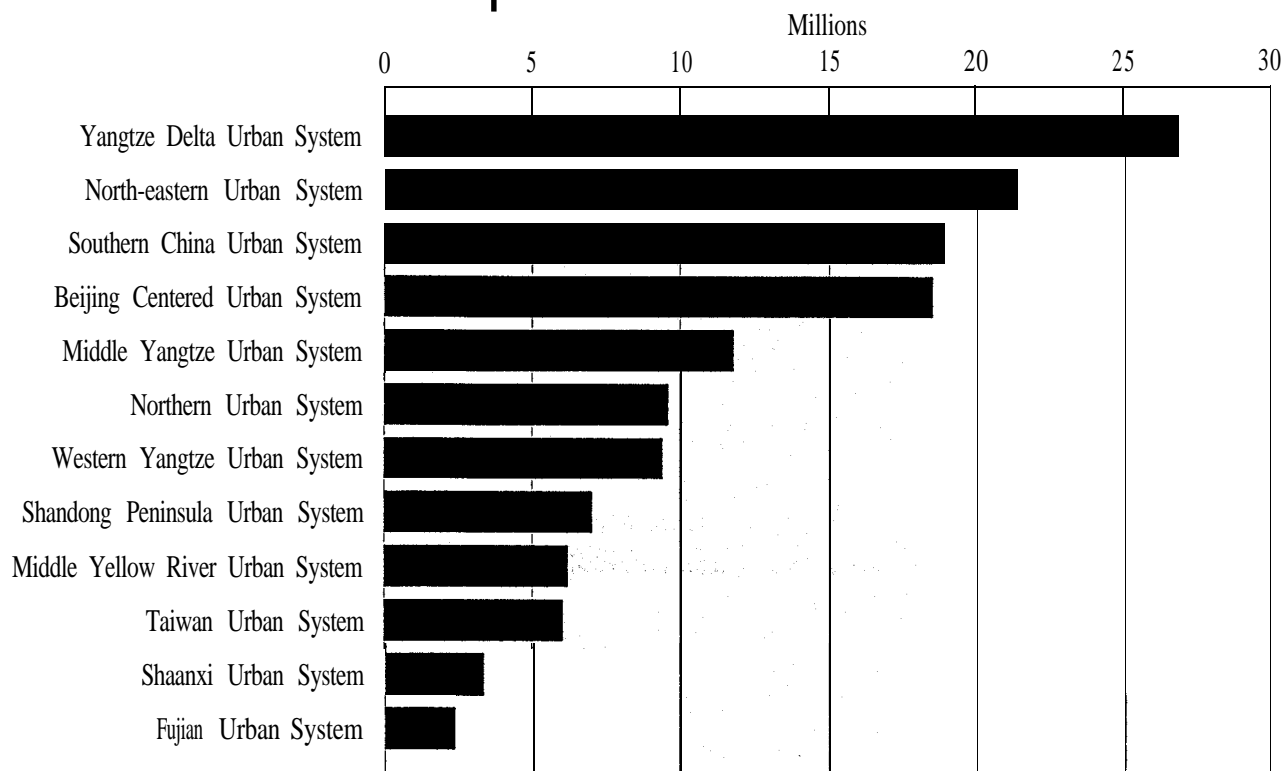


Figure 1

There is still considerable confusion among some foreign investors over the roles of different regions in China. Much recent press coverage has focused on South China, particularly Guangdong Province and the Shenzhen Special Economic Zone. While this area has taken the lion's share of foreign investment over the past 15 years (largely from Hong Kong), the recent opening of key domestic markets and the rapid rise in disposable urban incomes now means that there is considerably more market potential in other parts of China. The Yellow River/Bohai Gulf and the Yangtze River Basin are the major engines of GNP and industrial output in the country. Although Southeast China had 19.5% GDP growth in 1992, it came

fifth among regions in terms of contribution to overall GNP and trade. In fact, figures show that Hongkong's trade with Shanghai – the gateway to the Yangtze River Basin – was considerably greater than with Guangzhou, and its combined trade with Beijing and Tianjin was about the same as for Guangzhou.

The Yangtze River Basin is China's principal inland artery, stretching 2,000 km from Shanghai on the East China Sea past Sichuan, the country's most populous province. The Yangtze River Basin (YRB) has a watershed covering more than 1.8 million km² (3.5 times that of the Great Lakes Basin), and contains over 400 million people, slightly more than one-third of China's population. The YRB accounts for over half of

China's gross industrial and agricultural output.

There are three major urban systems in the YRB:

- 1) the Yangtze River Delta area (anchored on Shanghai) with a population of 27 million living in cities over 500,000 inhabitants
- 2) the Middle Yangtze area with an "urban" population of 12 million, centered on Wuhan
- 3) the Western Yangtze area with almost 10 million people in cities over 500,000, anchored on Chongqing (Fig. 2).

These three urban systems together produce over 40% of the total GDP of China's larger cities.

Shanghai and the inland areas along the Yangtze River were largely isolated from economic reforms from 1984 until recently: reforms initially

that may soon become electrified. Wuhan officials see the city becoming the "Chicago" of the Yangtze River Basin.

This comparison to Chicago is more than simply marketing rhetoric. There are many similarities between the Yangtze River Basin and the Great Lakes/St. Lawrence River Region in North America. The challenges that Canada and the United States have faced in the past one hundred years — building transport and communication linkages between major concentrations of urban consumers, constructing the power systems to sustain economic and urban growth, developing and rehabilitating industries to act as engines of productivity, directing urbanization to accommodate huge population influxes into towns and cities, protecting natural environments from industrial

and urban pollution, and building the institutional mechanisms required to plan, manage, and monitor growth and development — are also being faced along the Yangtze River Basin, but at a much larger scale. In comparative terms, the Basin is seeking to catapult itself within one or two decades to a level of economic, urban, infrastructural, and institutional development that has taken us more than a century to achieve.

The transformation of the Yangtze River Basin is a major challenge and opportunity for Canadian companies. While the differences between our Great Lakes/St. Lawrence River Region and the Yangtze River Basin are huge, there are also some distinct similarities. Few in the world can claim hands-on experience in building up and running such a huge

economic and urban region as well as can we in Canada and in the northeastern U.S.; much of that success stems from the efforts of business in the industrial, infrastructure, and tertiary services sectors. While Japan and South Korea focus their investments in China's north and northeast, and Hongkong and Taiwan investors continue to pour into Southern China, the Yangtze River Basin has fewer direct cultural linkages with other countries. However, that comparative vacuum — a door that is presently open for Canadian and American investors — will invariably be filled quickly as foreign capital targets yet another part of China that is ripe for significant and sustained returns. Canadian companies, if they prepare properly and act quickly, can get a head start. ■

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