
China Market Trends

China's Urban Regions: Where Are the Markets?

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Structural changes in recent years have unleashed two powerful forces in China: the inherent productive capacity of the largest country in the world; and, in parallel, the drive towards higher standards of living. Prudent foreign investors are quickly recognizing that China is much more than a low-cost production base, and that enormous opportunities exist for targeted investments in energy, transport, infrastructure, industry, housing, retail, and tourism – in short, in capital

projects that China needs to build to serve its consumers and to foster exports. Finding these opportunities is no longer a problem – there is a deluge of “deals” being promoted by instant entrepreneurs in government and the growing private sector in China.

But getting the market information to evaluate these “deals” according to Canadian investment standards can be quite difficult given the secrecy attached to even the most mundane data, the

competition among often disparate agencies that collect information in China, and, in some cases, the unreliability of data. Chreod has been assisting investors from Asia and North America since 1988 in assessing the viability of capital project investments in various parts of China. In the next few issues of the Canada China Business Forum, we will describe some of the key market trends investors should be aware of, and some of the problems and opportunities associated with these trends.

Many North American investors perceive China as a single market, and largely as a rural one. While the foreign press praises the “market dragon” of China, the reality is a major economic disparity between regions – even among the coastal provinces that have gained the most from recent reforms – and between rural and urban markets. In just two decades, China has become the world's largest urban nation: 40% of the population, 460 million people, now live in China's cities and towns. This urban consumer base will very likely reach 50% of the population in the next decade given the easing of restrictions on movement within China, and the recent decline in the rate of rural population growth to almost zero.

Almost a third of urban Chinese live in 104 cities with populations over 500,000. There are 44 cities with populations greater than 1 million, and 15 major metropolitan centres with more people than in the Greater Toronto Area. We recently analyzed urban development

trends in Greater China (including Taiwan and Hong Kong), and have tentatively identified twelve major urban systems that appear to operate as distinct regional markets (Please see the map on the next page). They range in size from the Yangtze Delta Urban System, with more than 26 million urban consumers, to the Fujian Urban System with 2.3 million urban residents.

The aggregate Gross Domestic Products of these urban systems also vary considerably: Taiwan, South Coastal China, and the Yangtze Delta are the largest producers, followed by the Beijing Centered Urban System and the North Eastern Urban System, the North China, Shandong and Middle Yangtze Systems, followed by the smallest regional economies in the Middle Yellow River, Fujian, Shaanxi and Western Yangtze Systems.

The degree of industrial sophistication and the quality of the supporting infrastructure in the urban systems can be inferred by looking at per capita GDP rates: productivity is highest in the Southern Coastal System (almost US\$4,000) followed by the Yangtze Delta and Shandong Urban Systems. The poorer urban systems of China have per capita GDP levels almost one-third of the Yangtze Delta's.

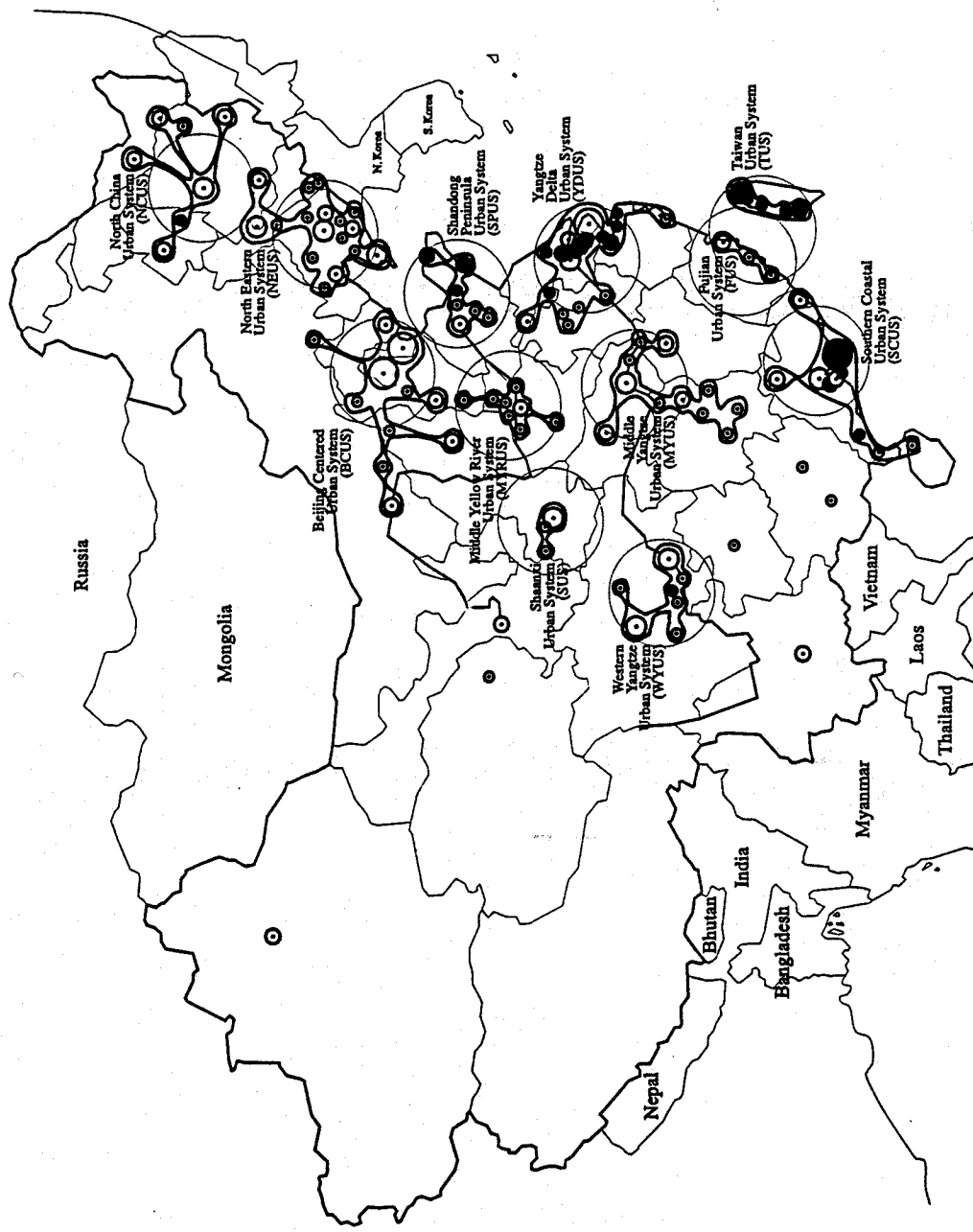
When we look at the productivity of each of the 104 cities with populations greater than 500,000, interesting patterns emerge. The most productive cities are not the big industrial centers of Shanghai, Beijing, and Tianjin but rather smaller cities in the Shandong Peninsula, the

Yangtze Delta, and in Guangdong Province. This is not surprising given antiquated industrial infrastructures in the larger cities (60-70% of Shanghai's industrial plants are thought to date from the 1930s and 40s) and their historic reliance on heavy industry.

How will the markets of major urban systems likely evolve? From Liberation until the early 1980s, there was a pronounced anti-urban and, for security reasons, anti-coastal bias in national government development policy. This bias changed radically in both the Seventh and Eighth Five-Year Plans, and capital investments in infrastructure now being contemplated for the Ninth Five-Year Plan starting in 1996 indicate major commitments to strengthening the internal development of major urban systems, as well as the highways between them. For example, if current plans for major highway construction to the Year 2000 are realized, very strong linkages will be made between the Yangtze Delta and the Middle Yangtze Urban System (centred on Wuhan), the Yangtze Delta and Shandong, between the North Eastern and Beijing Centered Urban Systems, and between the South Coastal and Fujian Urban Systems.

These trends will have major implications for location decisions being made by foreign investors. Existing transport and infrastructure bottlenecks will be significantly relieved, and cities that are difficult to access today will, in the next few years, be much more attractive locations for plant sites. As industries in

these cities begin to develop, there will be major demands for power, water, sewage, communications, and associated transport systems in addition to more and better housing and retail and tourism facilities. These are demands that the prudent Canadian investor could well help to meet. ■

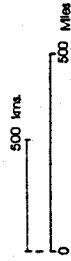


City Size
non-agr. cities + counties

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

Urban GDP per capita

- > 7,000 yuan
- < 7,000 yuan



Preliminary Outline of Major Urban Systems: Greater China

Source: various (see notes)