Experts

Dan Steinbock
- Growth fueled by urban investment

Jeffrey N. Wasserstrom
- Shanghai Expo/Disney: Some Historical Connections

Yao Shujie
- Love-hate affair must not boil over

Marcos Fava Neves
- Evaluate international investments' capacity to promote economy

Xiong Lei
- US arms sale to Taiwan reveals ignorance, disrespect

Han Dongping
- Obama's State of the Union Address said that he got it
Growth fueled by urban investment
By Dan Steinbock (China Daily)
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During the first months of the global financial crisis, China's exports were hit hard, and export activities slowed down sharply over the course of 2008. This led many observers to say that the collapse of exports meant the demise of China's growth.

Yet the government's prompt and vigorous policy actions and swift adjustment in the labor market helped growth pick up by the second quarter of 2009, and placed the country in the lead of global recovery.

In the coming years, China's growth cannot be driven primarily by domestic consumption. In the US, private consumption accounts for some 70 percent of GDP. But China is a developing economy, and it is building the kind of social net that will stimulate consumption.

China's growth has not been devastated by the low degree of demand in North America and Europe. Even before the global financial crisis that started in 2007, exports accounted for only about 10 percent of its GDP on a value-added basis. At the same time, fixed asset investment was 55 percent of GDP.

China's growth trajectory is driven by urbanization - through investment in cooperative megacities. During the past three decades, the share of China's city dwellers has more than doubled to 45 percent. And by 2040, the urbanization rate is expected to be close to 67 percent.
In the next three decades, the number of China’s urban residents is expected to grow by 360 million people to 970 million. In terms of current urban populations, this is the same as creating city space for entire urban America (260 million), Japan (85 million) and another 15 million people - within one generation.

Every second of the 740 million Chinese who live in rural areas today will become a city resident in the next 30 years. Fixed asset investment is critical to expanding existing infrastructure and creating new urban space for them.

Recently, some Western analysts have argued that China’s growth is a bubble because the country suffers from excess capacity. After all, China’s total fixed investment last year was 47 percent of GDP, which is more than Japan’s at its peak.

But even these numbers should be seen in their proper context. In China, capital stock per person remains just 5 percent of what it is in the United States or Japan.

In terms of urbanization rate, China is today where the US was in the early 1910s. In other words, China’s rise has barely begun.

Starting in the 1980s, China’s reform and opening up were initiated by the creation of the coastal special economic zones, most of which were in Guangdong province, close to Hong Kong and Macao.

Soon the reform extended from cities such as Shenzhen and Guangzhou to other primary cities, from Beijing to Shanghai. During the past decade, the economic ripple initiated by the success of these megacities has been washing into new generations of Chinese cities.

Even before the onset of the global financial crisis, second-tier cities - from Suzhou, Tianjin and Shenyang to Chengdu, Dalian and Chongqing - had already attracted significant attention with investments from global corporate giants.

At the same time, third-tier cities, from Ningbo and Fuzhou to Wuxi and Harbin, were following in the footsteps of first- and second-tier cities. Behind these three tiers of rapidly-growing urban agglomerations, there are still others such as Kunming and Hefei, seeking to take advantage of the urban growth trajectories.

In China, the expansion of old and rise of new cities have been driven by growing economic prosperity and dreams of a better quality of life. At the heart of this colossal transformation, it is the central cities that drive growth - not just within city borders, but regionally.

The Chinese economy was fragmented until the late 1970s, when the reform began, boosting economic integration internally and externally.

Take, for instance, the growth story of Shanghai. In 1992, Deng Xiaoping declared that Shanghai would be “the head of the dragon”, pulling the country into the future. The
development of Pudong was intended to restore not only Shanghai's past grandeur, but also its historical role in the Yangtze River Delta (YRD) region and, more broadly, for China.

As Shanghai implemented economic reform, it sparked the birth of Lujiazui, China's Wall Street, and huge development in shipping and trade - which will be evident to the estimated 70 million tourists who will soon attend the 2010 Shanghai World Expo.

The expansion of these gigantic cities has been fast, disruptive and unprecedented in world history. It has also been accompanied by rapid price increases. But they have occurred primarily in the first-tier cities. Markets cannot easily price what they have never witnessed before.

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It was China's 11th Five-Year Plan (2006-10) that first called for greater efforts to rebalance China's development patterns. The quest for a harmonious society has been energizing efforts to reduce regional and income disparities. Today, growth is also reaching China's central and western regions. For example, Chongqing had 2.5 million inhabitants in 1980. Today, its urban area has 5 million people and the municipality more than 31 million people. The world's greatest megacity, Tokyo, has only a few million more.

Recently, Chongqing was promoted as a national central city. It is the only municipality under direct central government control in the central and western regions. But it has a group of powerful cities around it.

Like Chongqing, the leading megacities - Shanghai as the center of eastern China, Beijing and Tianjin in northern China and the Bohai Sea rim, Guangzhou in the Pearl River Delta (PRD) region - serve as "heads of the dragon" driving rapid economic growth and integrating China into the world economy.

China's development depends on the rapid growth of these megacities. It is driven by high levels of fixed asset investment and foreign direct investment, their role as trade hubs, rapid restructuring, and high levels of per capita consumption in comparison to other cities.

In fact, China's growth is driven primarily by three economically dominant regions: the YRD and PRD regions, and the Beijing-Tianjin corridor.

For instance, the PRD region is seeking economic integration with Hong Kong and Guangdong to develop a world-class PRD megapolis. In turn, this quest is energizing efforts at the merger of Shenzhen, the mainland's IT center, and Hong Kong, the world's financial center.

In the next 30 years, the GDP of the PRD megapolis could exceed $2.7 trillion on the basis of the current exchange rates. By the end of the 2030s, the PRD region's GDP would be comparable to that of the New York metropolitan area, while its per capita
GDP is expected to reach the 2005 level of the London metropolitan area - that is, about $45,000.

Ultimately, China’s new regional development is not just about the restoration of the historical glory of the great coastal urban centers. It is driven by these megacities as they serve as growth engines for the neighboring regions. It is history in the making.

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