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Hot topic analysis: The facts and implications of
Yangtze River Delta integration



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Hot topic analysis

The facts and implications of Yangtze River Delta integration

In December 2019, China's central government unveiled the "Outline of integrated development of Yangtze River Delta", a comprehensive report to describe the blueprint of the region's development by 2025. It has officially documented the Yangtze River Delta (YTD or the Delta) integration as one of the national development strategies, while others include the Belt and Road Initiative, Beijing — Tianjin — Hebei (or Jingjinji) Collaborative Development, Yangtze River Economic Belt (a much

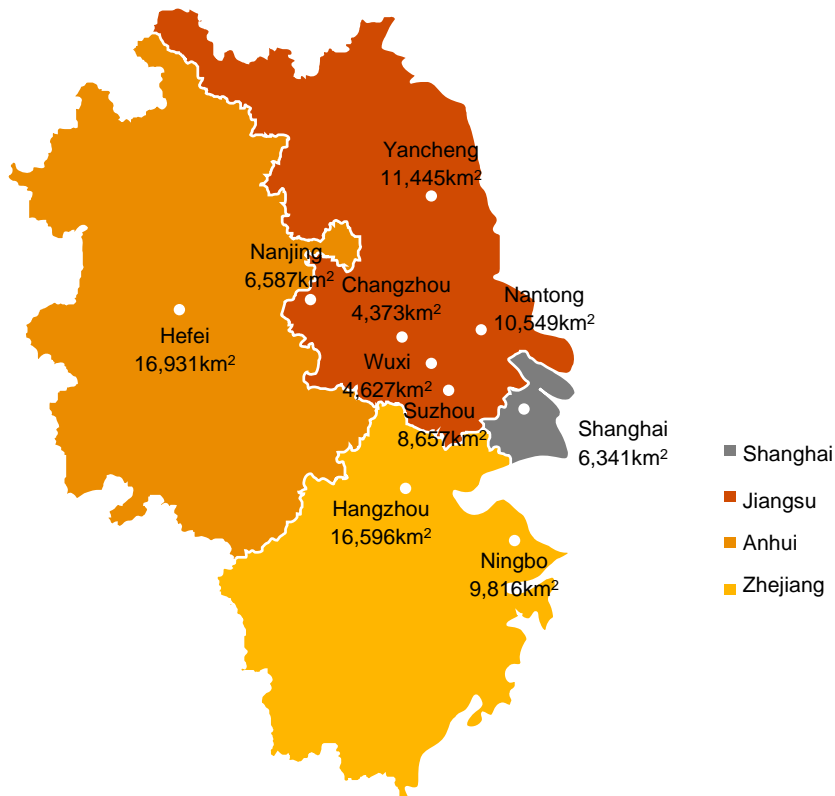
larger area than the Yangtze River Delta), and Guangdong — Hong Kong — Macao Greater Bay Area (the Greater Bay Area).

So, as a new national development strategy, what do you need to know about the Yangtze River Delta and its integration, particularly from a business and economic perspective? Moreover, what are the implications and opportunities?

■ **The world's fifth largest economy has generated a quarter of China's GDP**

In the outline, the Yangtze River Delta consists of the Shanghai municipality (province-level), and the provinces of Jiangsu, Zhejiang, and Anhui. It is slightly different to the traditional definition of the Delta which has not included Anhui province in the past. With a population of 29 million, Anhui is the least developed of the three provinces. It is a great opportunity for Anhui to be incorporated as part of the Delta's integration. It is also the central government's intention that developed regions should help less developed areas in order to narrow the gap of unbalanced regional development.

Figure 14: Map of the Yangtze River Delta and Top 10 Cities by GDP in 2018



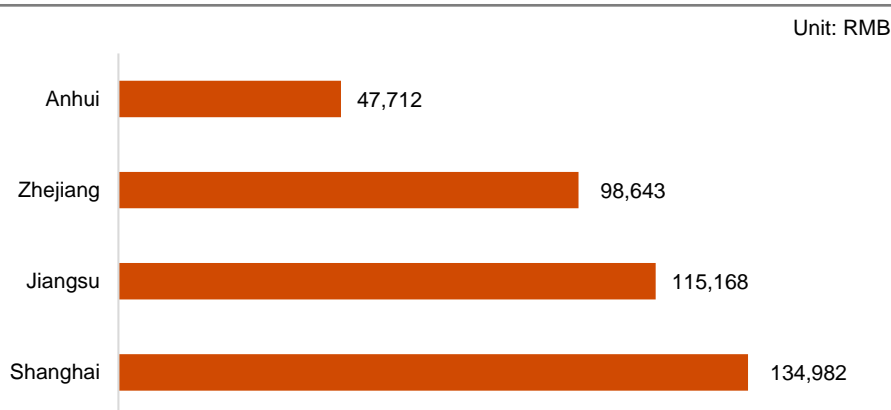
Source: Wind, China Statistics Bureau, PwC Analysis



The Delta is one of the most developed areas in the country, and plays a significant role in China's economic development. More specifically, the region has:

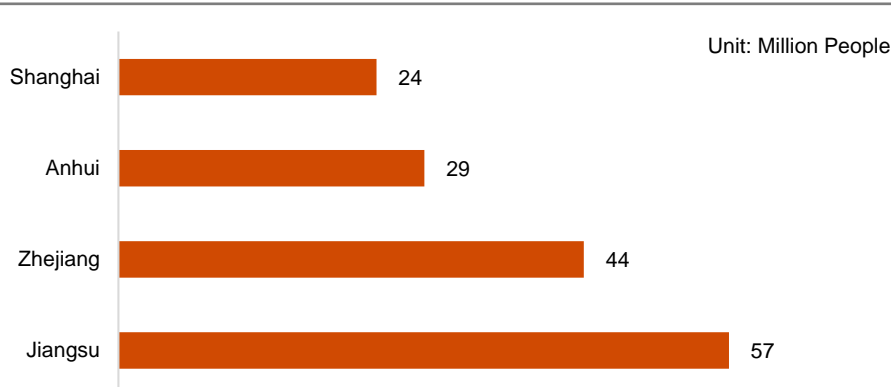
- A quarter of the national GDP, and its economic size in 2019 was greater than the world's fifth largest economy, UK.
- A quarter of China's total government tax revenue.
- One third of China's exports and imports.
- Attracted more than 50% of China's total foreign direct investment (FDI).
- One third of national R&D expenditure and total number of patents.
- A population of 220 million or 17% of the national total which would rank the region as the fifth most populous country after Indonesia.
- A land size of merely 259,000 square kilometres or 3.8% of the national total which is slightly smaller than New Zealand (270,467 km²) and larger than UK (242,500 km²).

Figure 15: 2018 Yangtze River Delta — GDP Per Capita by Provinces



Source: Wind, PwC Analysis

Figure 16: 2018 Yangtze River Delta - Resident Population by Provinces



Source: Wind, China's national and provincial statistic bureaus, PwC Analysis

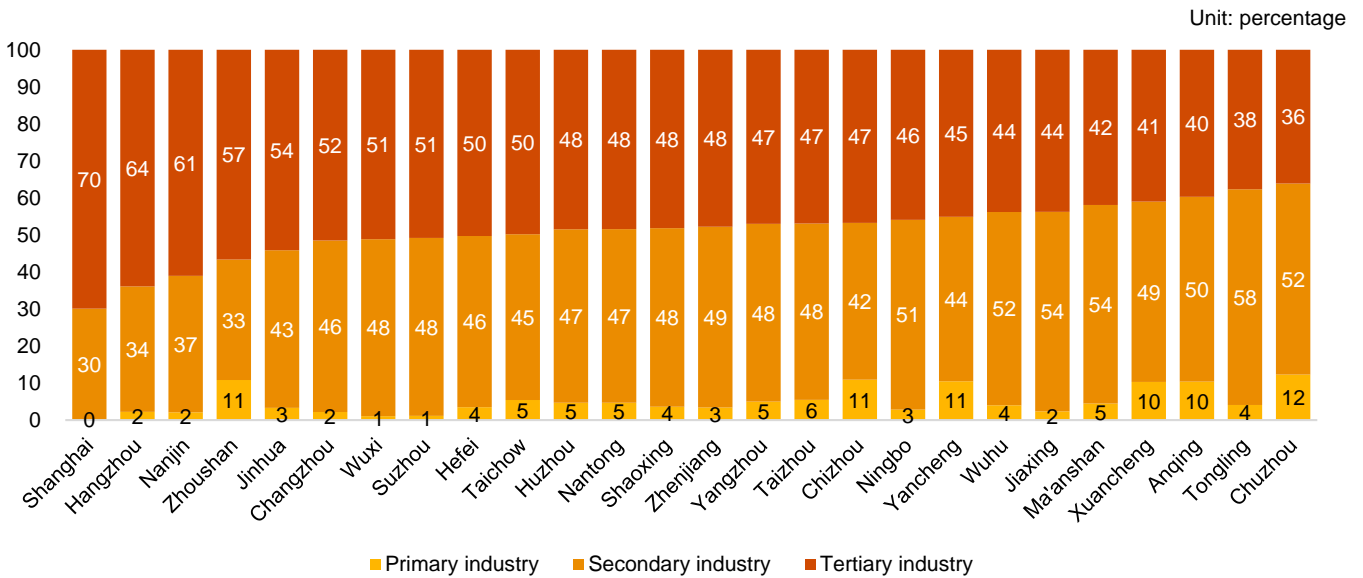
Furthermore, within the country by economic size, the Delta (21.62 trillion yuan in 2018) is much larger than Beijing — Tianjin — Hebei (8.5 trillion yuan) and the Greater Bay Area (10.87 trillion yuan). Meanwhile, the Delta also has a greater population and land size than China's two other important economic cores.

As one of the most competitive regions in China, in addition to the large size of its economy, the Delta's GDP per capita is also among the highest in the country. As a municipality, Shanghai has one of the highest GDPs per capita, meanwhile

Jiangsu and Zhejiang rank first and second respectively among the provinces. In comparison, Guangdong province in the Greater Bay Area has the largest economy in China, but its GDP per capita is about 25% less than

Jiangsu. The total GDP of Jiangsu is slightly less than Guangdong and it is the second largest economy in the country (by province) .

Figure 17: 2018 GDP composition of Yangtze River Delta by Cities



Source: Wind, China's national, provincial and municipality statistics bureaus, PwC Analysis

In spite of this, the development of the Delta is unbalanced. For instance, Shanghai's GDP per capita in 2019 reached to more than US\$ 20,000 at the prevailing exchange rate which is comparable to Greece, one of the EU member states. The GDP per capita in the cities of Chuzhou and Anqing in Anhui province are less than 30% that of Shanghai (40,000 yuan compared to 135,000 yuan in 2018).



■ **The Delta fosters 38% of the top 500 private enterprises and is the #1 destination for FDI**

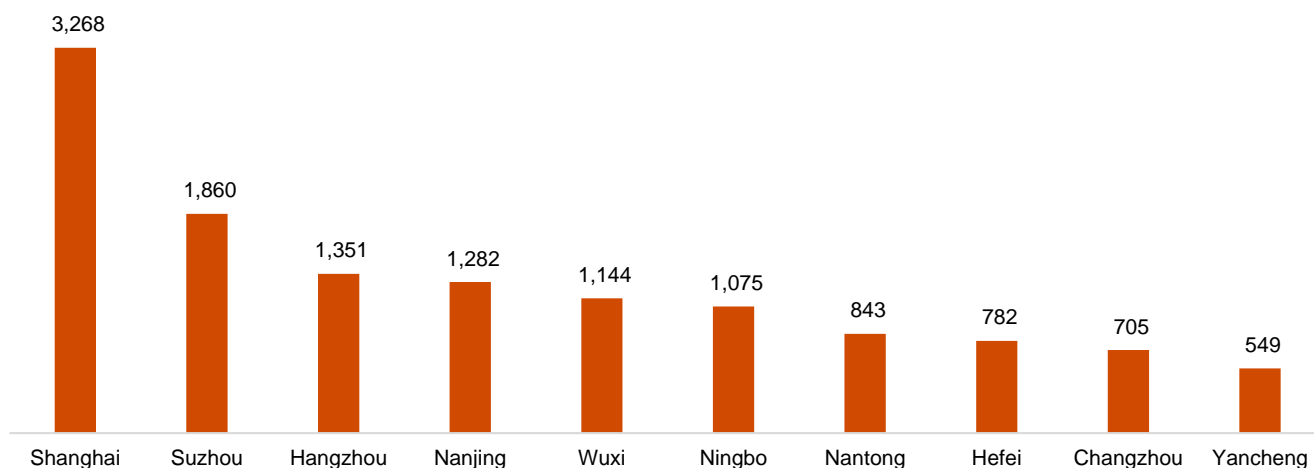
While Beijing — Tianjin — Hebei is located in the North, and the Greater

Bay Area in the South, the Delta is situated in mid-eastern China which is comparatively one of the most convenient geographic locations to access from the most parts of the country. The Delta also stretches across

the traditional border between the North and South of China, with inhabitants that have a mix of living habits and cultures.

Figure 18: Yangtze River Delta-Top 10 Cities by GDP (2018)

Unit: RMB Billion



Source: Wind, China Statistics Bureau, PwC Analysis

Figure 19: Top 100 Cities by GDP in 2019 — Yangtze River Delta Cities

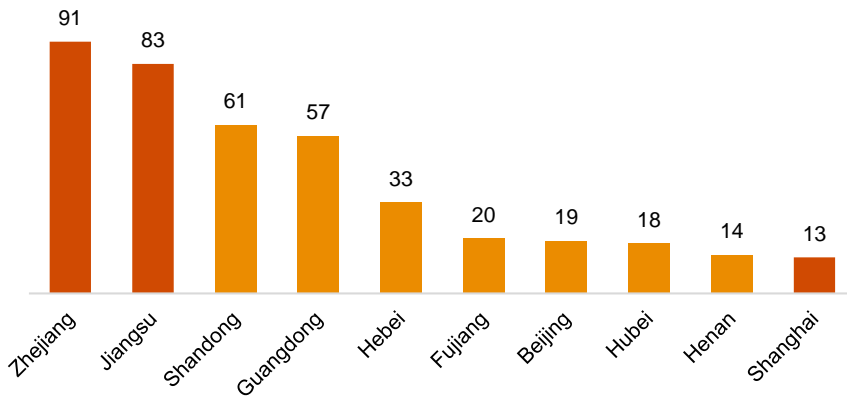
City	GDP Ranking	City	GDP Ranking
Shanghai	1	Yangzhou	35
Suzhou	7	Shaoxing	36
Hangzhou	10	Taizhou*	37
Nanjing	11	Jiaying	45
Wuxi	13	Taichow*	48
Ningbo	15	Zhenjiang	49
Nantong	19	Jinhua	50
Changzhou	24	Wuhu	70
Hefei	25	Huzhou	79
Wenzhou	33	Lianyungang	80
Yancheng	34		

Source: 21st Century News

*:Taizhou refers to 泰州, and Taichow refers to 台州

As the economic heartland of China, the Delta also boasts some of China's most developed cities. According to data from 21st Century News, in 2019, 25 cities from the Delta ranked among China's top 100 cities by economic size. Three of these cities are listed in the top ten, namely Shanghai (#1), Suzhou (#7), and Hangzhou (#10). Additionally, Nanjing, Wuxi, Ningbo and Nantong rank 11th, 13th, 15th and 19th respectively.

Figure 20: Number of top 500 private enterprise by Province



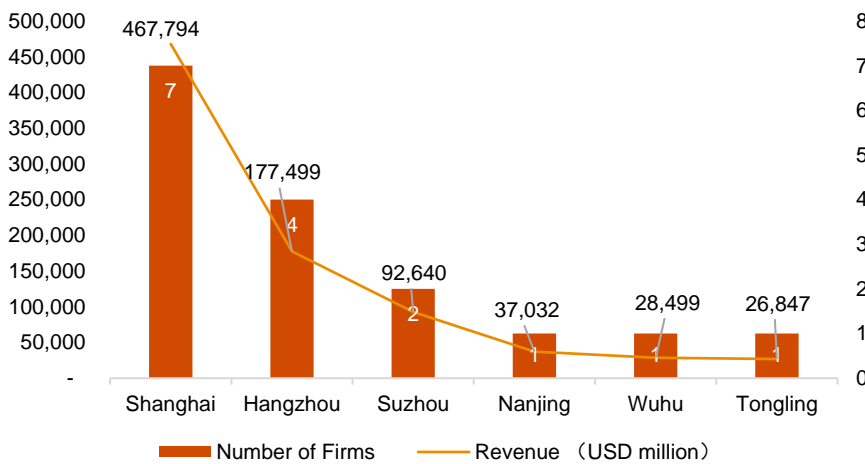
Source: All-China Federation of Industry and Commerce

Supporting these cities and strong economies in the Delta are the large numbers of prosperous and competitive enterprises that form the backbone of the area. Additionally, more than 50% of China's FDI has been invested in the region.

More specifically, take China's top 500 private enterprises (generated by All-China Federation of Industry and Commerce, ACFIC based on revenue) in 2019 as an example, 190 of these companies or 38% are headquartered in the Delta.

- 91 in Zhejiang
- 83 in Jiangsu
- 13 in Shanghai
- 2 in Anhui

Figure 21: Number of Fortune 500 in 2019 in Yangtze River Delta

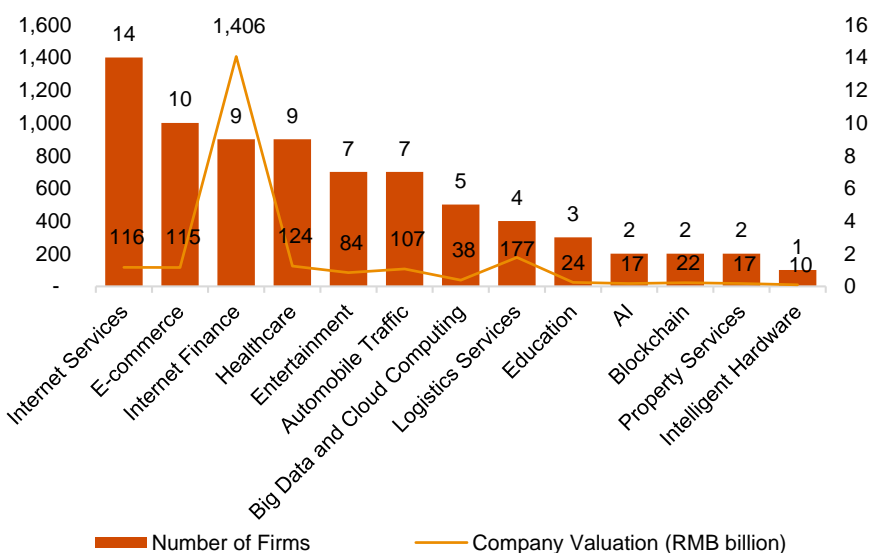


Source: Fortune magazine, Wind, PwC Analysis

Furthermore, in addition to the large number of top private companies, as of 2019 there were 16 Chinese Fortune 500 companies based in the Delta: 7 in Shanghai, 4 in Hangzhou, 2 in Suzhou, and 1 each in Nanjing, Tongling, and Wuhu, respectively.

Moreover, the Delta is home to more than 80 unicorns. Based on Hurun Global Unicorn List 2019, China has 206 unicorns which mostly consist of billion-dollar valuation tech start-ups. More specifically, there are 47 in Shanghai, which ranks #3 in terms of cities with the most unicorns after Beijing and San Francisco, 19 in Hangzhou (#5) and 12 in Nanjing (#7).

Figure 22: Hurun Global Unicorn List 2019 — Yangtze River Delta Companies



Source: PwC Analysis, Hurun Global Unicorn List

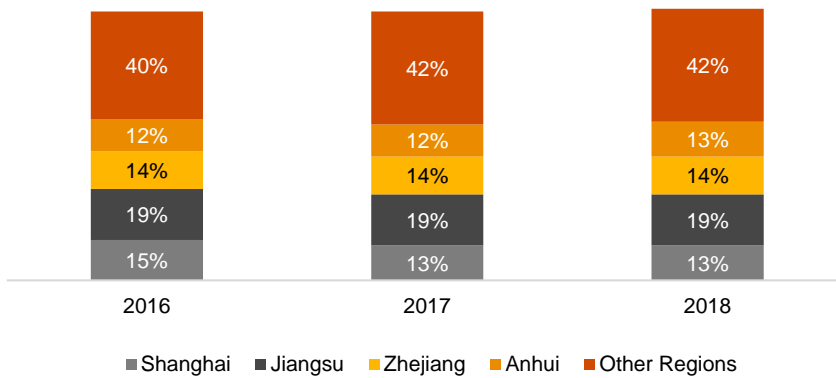
As mentioned earlier, the presence of multinational companies (MNCs) and FDI also contributes significantly to the Delta's economic prosperity. For instance, in 2018, Shanghai, Jiangsu, Zhejiang and Anhui respectively received US\$17.3 billion, US\$25.6 billion, US\$18.6 billion and US\$17.0 billion in foreign direct investment, which accounted for 54% of China's total FDI during the year. By the end of October 2019, there were 710 MNCs with regional, continental or national level headquarters in Shanghai and 453

MNCs with R&D centres in the city, both these numbers are the highest in the country. This has made Shanghai the most popular city for MNCs in China.

More importantly, in 2018, foreign-owned enterprises in Shanghai generated:

- 20% of total employment;
- 27% of total GDP;
- 33% of tax revenue;
- 60% of industrial added value; and
- 65% of imports and exports.

Figure 23: Proportion of FDI from Yangtze River Delta (2016-2018)



Source: Wind, PwC analysis

*:FDI Shanghai: The actual absorbed amount of foreign investment





■ Implications of the Outline for businesses and potential opportunities

The significance of the Yangtze River Delta is apparent. So what are the implications of the outline report for businesses? How can companies take advantage of opportunities?

The official “Outline of integrated development of Yangtze River Delta” is a forty page document with over 30,000 Chinese characters and has several points worth noting.

First, integrated development of the area can be achieved by:

- Breaking provincial boundaries for more cooperation due to administrative fragmentation of provinces.
- Creating a new pattern to promote regional coordination and development.
- Strengthening collaborative innovation and industry cooperation.
- Facilitating and accelerating public service sharing across provinces.
- Strengthening collaboration to protect the environment.
- Promoting a higher level of opening up through collaboration.

Second, the major objectives or development goals for Yangtze River Delta integration by 2025 indicate enormous business opportunities for

environmental protection, urbanisation, R&D, infrastructure and telecommunications, education, healthcare, the digital economy, and energy. These objectives include:

- Improving the environment. By 2025, energy consumption per unit of GDP will decrease by 10% compared to 2017.
- Increasing the urbanisation rate for the permanent population from 60% to 70%.
- Increasing R&D intensity to 3% which is also one of the five targets of Europe’s 2020 strategy.
- Increasing the density of high speed railways, express highways and 5G network. For instance, high speed railway density will reach 507 kilometres per 10,000 square kilometres, from 140 kilometres as of the end of 2019. This means in the next five years the Delta will add an additional 13,000 kilometres of high speed railway from the base of 5,000 kilometres now. At the cost of 130 million yuan per kilometre, which is based on Beijing — Shanghai high speed railway completed in 2010, the Delta requires at least 1.69 trillion yuan in investment.
- Increasing the average length of education for the working-age population to 11.5 years (from 10.5 years) and the average life expectancy to 79 years old (previously 77 in 2018 at the national level).

- Creating a digital Yangtze River Delta, such as building next generation information infrastructure, boosting the application of the Internet of Things, big data, artificial intelligence, and building up industrial Internet.
- Promoting the construction of trans-regional energy infrastructure for oil, gas and electricity.
- Boosting the following top ten sectors, namely electronic information, biopharmaceutical, aeronautics and astronautics, high-end equipment, new materials, energy saving and environmental protection, automobiles, green chemicals, textiles and garments, and intelligent appliances.

Finally, Yangtze River Delta integration will reinforce the leading role of Shanghai, particularly its service function, through preferential policies, and will also create new opportunities for the Shanghai Free Trade Zone including Lin-Gang Special Area which is home to Tesla’s Gigafactory 3. Undoubtedly, upgrading to become one of China’s national development strategies will further transform the Delta into an even more advanced and competitive region in China.



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