

The battle of the bays: China's urban ascent

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In the "battle of the bays" featuring locations such as Tokyo, New York and San Francisco, our money is on China's Greater Bay Area becoming the pre-eminent economic region in the world.

The most productive urban locations in the world are found in bay areas, for example Tokyo, San Francisco and New York. Now, there is a new kid on the block - China's Greater Bay Area, or GBA for short.

On a recent trip to Shenzhen, the Global Cities blog looked at the scale and speed of the development of the GBA, the population of which will soon exceed that of Germany.

The GBA benefits from China's willingness to invest in transport infrastructure, as an effective high-speed public transportation system will be critical in determining whether a city achieves global dominance in the future.

Generally, people's tolerance for commuting has been found to be about one hour in either direction. High speed transport lowers the cost of housing as a city can expand from its centre while ensuring that travel times remain within this tolerance band.

So, in the 'Battle of the Bays', will the GBA be the next winner?

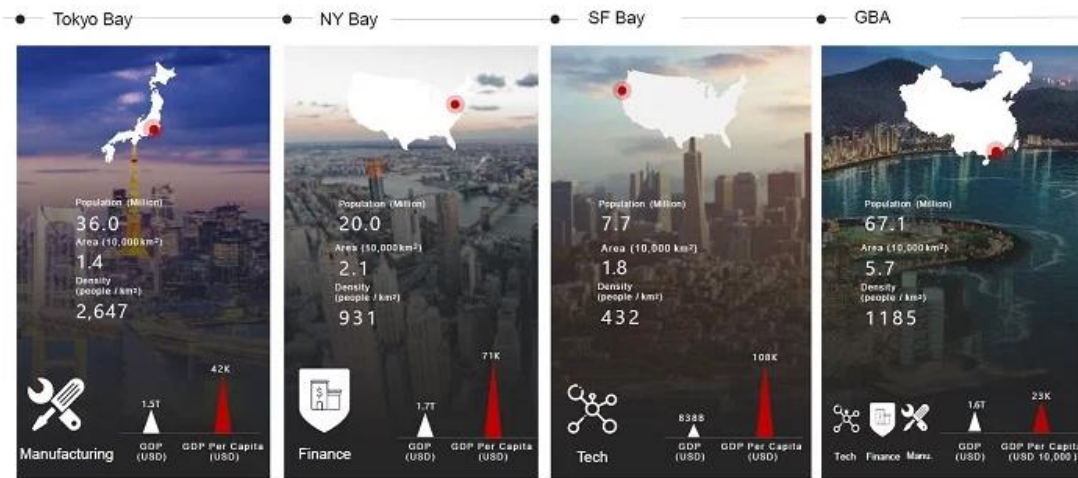
China urbanisation

China's progression from a manufacturing hub to an ideas hub is the catalyst behind its rapid urbanisation. We see this happening all over the world: certain locations evolving into knowledge clusters and providing economies of scale as ideas are monetised. The best example of this is the GBA, which the Chinese government hopes will become the world's pre-eminent tech development centre.

	Hong Kong	Guangzhou	Shenzhen	Macao
Currently	 <ul style="list-style-type: none"> Global Financial Hub Trading/ Professional Services Center Aviation Hub 	 <ul style="list-style-type: none"> Manufacturing Center Cultural Hub Transport & Commerce Hub 	 <ul style="list-style-type: none"> High-Tech Location R&D Center 	 <ul style="list-style-type: none"> Tourism Hub Asia's Las Vegas
Future	 <ul style="list-style-type: none"> Global Financial Hub Trading/ Professional Services Center Aviation Hub Develop I.T. Industries 	 <ul style="list-style-type: none"> Global Metropolis Southern China Innovation Area Regional PE Trading Market Center of Lingnan Culture 	 <ul style="list-style-type: none"> Innovation Hub (Global Influence) Cooperation Zone (Green Finance) (Fintech) Pilot Area (Insurance Innovation) 	 <ul style="list-style-type: none"> World Class Tourism / Leisure Center Platform to Portuguese-Speaking Countries Cultural Exchange Hub

Source: HK Government; Cushman & Wakefield Research

The GBA comprises four cities or economic zones that will serve slightly different purposes. The interlinking of large cities through transport infrastructure means that the sum becomes economically more powerful than the parts. This leads to high per capita levels of productivity.



Note: Data for Tokyo, NY and SF are as of end-2017

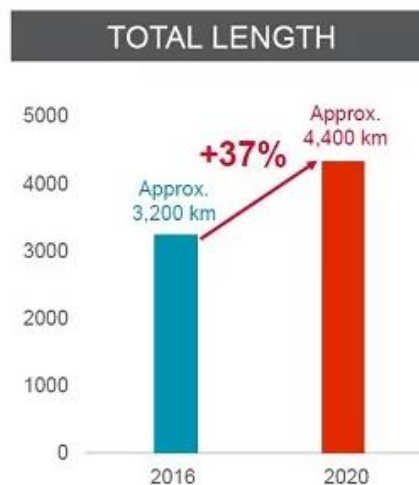
Source: HKITDC; Bay Area Council Economic Institute; Cushman & Wakefield Consultancy; Cushman & Wakefield Research

Which bay area will win?

Although the GBA's productivity is currently half that of its nearest rival (see chart above), we think this could change rapidly. Companies such as Tencent and DJI in Shenzhen are market leaders and the pace of knowledge transfer is set to increase. This is because the Chinese government has recognised the importance of cities in generating ideas. Unlike the other bay areas, it is prepared to spend heavily on transport infrastructure to facilitate the movement of

people around the GBA, as well as ensure affordability for employees and tax breaks for highly skilled workers. In the GBA, a combination of higher density housing and rapid infrastructure also helps to contain house price inflation.

This willingness to invest is demonstrated by the rail network connecting the GBA. This is in stark contrast to the San Francisco Bay Area, home of Silicon Valley, where housing has become unaffordable within the commuting tolerance zone, mainly because the transport infrastructure is so poor and because of the city's low density housing. This leads to skilled workers leaving the city as even pay inflation is unable to keep up with the higher costs.



Source: Cushman & Wakefield Research

Conclusion

We know that cities are the most efficient way for companies to grow, as ideas and people cluster together. The investment in the GBA shows that investment into this region will reap rewards for China. In the 'battle of the bays' our money is on the GBA becoming the pre-eminent economic region in the world. Moreover, according to Oxford Economics the GBA will be the seventh largest economy in the world by 2030.

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