Asia's Growth and Japan II: Large Cities Enjoy the Benefits of the Demographic Bonus

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Key Points:

- **Shanghai's per capita GDP is equal to those of high-income countries.**
- **The percentage of young people in large cities is higher than at the country level.**
- **There are concerns about the acceleration of population aging in the regional areas and agricultural villages in the near future.**

The future of the economies of East Asia (China, Asian Newly Industrializing Economies (NIEs) and the Association of Southeast Asian Nations (ASEAN)) depends on the cities.

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Back in 1950, the percentage of urbanization (the rate of the urban population to the total population) in East Asia was just 17%, well below the global average of 30%. At that time, cities were exceptional areas in East Asia. The percentage of urbanization subsequently rose rapidly, however; it surpassed 50% in 2010 and hit 57% in 2015, exceeding the global average of 54%. East Asia shifted from a rural society to an urban society. The large cities in Asia have been the engine of economic growth, and there is no doubt that they will continue to be the engine of future growth.

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Large cities in East Asia's middle-income countries as well as Seoul and Taipei are steadily catching up with developed countries. In recent years, the pace of growth of urban areas has appeared to accelerate further through the digitization of the economy. In large East Asian cities, there are more and more digital services that are getting ahead of Japan, such as settlements of accounts by car allocation applications and smartphones and shared motorcycles.

You should note that the true abilities of these large cities cannot be grasped by the indexes shown as averages at the country level. Per capita GDP is regarded as the most basic indicator when evaluating the economic level of a country. But you will miss the true abilities of large cities if you look at those data alone.

For example, China's per capita GDP is around 8,000 dollars, which means that the country is only a middle-income country according to the World Bank's definition. If you focus on Shanghai, its per capita GDP is 18,000 dollars, which means that the city is at the level of a high-income country. By the same token, Thailand's per capita GDP is just 6,000 dollars, but if you focus on Bangkok, its per capita GDP is over 14,000 dollars.

In addition, you can evaluate Shanghai and Bangkok at their administrative levels, but this does not enable you to gain an adequate grasp of the actual situations of large cities. This is because these large cities involve adjacent areas and form new economies. If you apply this to Japan, it is necessary to include Kanagawa, Chiba, Saitama and parts of Ibaraki to evaluate Tokyo's economies.

Shanghai forms spacious Yangtze delta economies that are connected with the adjacent Province of Jiangsu and parts of the Province of Zhejiang. In addition, the per capita GDP of the seven adjacent provinces where the manufacturing industry is concentrated, mainly Bangkok, is over 10,000 dollars. New economies that are neither a country nor a city are emerging in East Asia.

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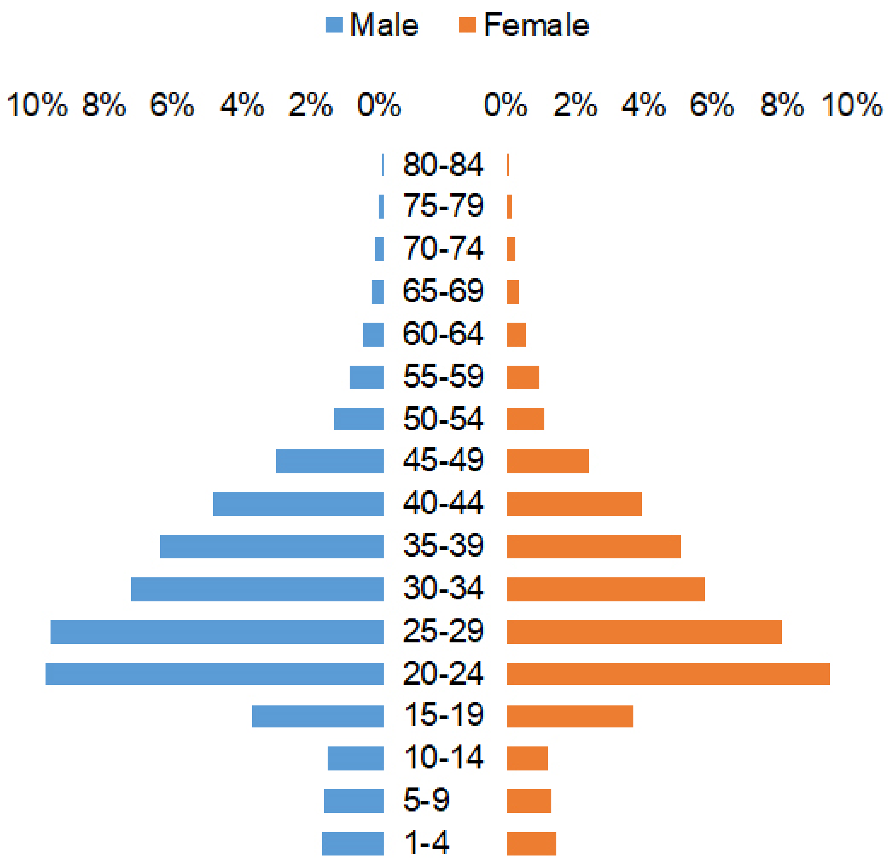
Both the consumption levels and lifestyles of the central areas of large cities are also developing rapidly. Up until recently, many people have argued about the necessity of recruiting and securing middle-income class (people who earn lower incomes than the Japanese middle class) in terms of tapping the East Asian consumption market. In reality, however, high-income earners who buy products and services that cost as much as they do in Japan are expanding rapidly. This is clear from a sharp increase in the number of visitors to Japan from East Asia, including China, and their behaviors during their stays in Japan.

You should not only look at consumption levels, but also the fact that production innovations are accelerating exponentially in these large cities. Global business leaders, including DJI, a leading drone manufacturer, and Huawei Technologies Co., Ltd., a leading communications appliance manufacturer, emerged in Shenzhen, China, and this area aims to become the Silicon Valley of Asia. According to a recent media report, Shenzhen's per capita GDP exceeded 20,000 dollars, surpassing that of Shanghai. In addition, Shenzhen's regional gross production surpassed that of Hong Kong in 2017.

Young people drive the growth of these large cities and the associated consumptions and innovations. The population pyramid of Shenzhen shows that the percentage of the population aged from 20 to 39, who drive growth, is over 60%. (Refer to the illustration below.) This means that large cities are continuing to grow, attracting young people from both China and abroad. Shenzhen is the only large city that attracts such a high percentage of the young population of cities with a population of 10 million. In large cities in East Asia, despite not being as high as Shenzhen, the percentage of the young population is higher than shown by the population pyramid at the country level.

The population pyramid of Shenzhen, China (2010)



Source: The Province of Guangdong 2010 Population Census

These large cities began to follow a growth path that differed from the country level.

For example, there are concerns about the effect of declining birthrates and population aging in East Asia. The percentage of the working age population (15 to 64) has already declined in South Korea, Taiwan, Singapore, China, Thailand and Vietnam, as well as Japan. The effect of the so-called demographic dividends is shrinking at the country level. But as the population pyramid of Shenzhen shows, large East Asian cities continue to enjoy the benefits of the demographic dividends by attracting young people from the local regions.

Productivity improvement is essential for achieving sustainable growth. There is the issue of “the trap of middle-income countries,” according to which it is difficult to grow to become high-income countries unless you achieve productivity improvement through innovations. In East Asia, China, Thailand and Malaysia are facing this issue. However, the living standards of Shenzhen, Shanghai, Bangkok and Kuala Lumpur, which are large East Asian cities, have already reached the level of high-income countries. These cities also enjoy the digitization of industries and steadily avoid the trap of middle-income countries.

You should regard these large East Asian cities as partners that support Japan’s sustainable growth. High income earners living in large cities provide Japan with the opportunity to increase its exports through electronic commerce. High-priced agricultural products and other products that are included in them provide Japan with the opportunity for agricultural transformation; that is, a shift to offensive agriculture.

In addition, digital technologies that are evolving exponentially in large cities and their applications provide the opportunity to evolve value chains that are expanding in East Asia. In particular, start-ups emerging in large cities are the targets of open innovations.

Of course, large East Asian cities are also tough competitors for Japan. There is the concept of the “advanced country with issues,” according to which if Japan can overcome its issues, such as domestic population aging and energy, as the key to its sustainable growth, it will be able to maintain its international competitiveness. But if Japan is slow, companies growing in large East Asian cities may get ahead in finding ways to solve the issues facing Japan. You should not underestimate the abilities of large cities.

There is no doubt that these large cities will continue to drive Asian economies. But it is too early to assume that the prosperity of the large cities will ripple throughout East Asia. This is because the phenomenon of “the disappearance of local regions” due to the concentration of resources in Tokyo, which was discussed in Japan, is occurring throughout East Asia.

As noted above, the growth of large cities is based on their absorbing young people from the local regions and agricultural villages. As a result, the local regions and agricultural villages are short of young people to support their growth. In other words, the effect of the demographic dividends is lost before income levels rise sufficiently in the local regions and rural areas.

In addition, because there are numerous middle-aged and older people (from their late forties to their early fifties) who are baby-boomers in the local regions and rural areas, population aging is likely to accelerate in the near future. In China, people discuss the issue of getting old before getting rich as an issue to be overcome in the future. But this phenomenon is already occurring in the local regions and rural areas. This is also the case in East Asia.

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Japanese companies are expected to break away from the framework of countries, to regard large East Asian cities as places where high-end consumers live and places where digitized manufacturing and new services are produced, and to develop the strategy of facilitating their growth. On the other hand, it is also necessary to focus on widening income gaps between large cities, local regions and rural areas in a coolheaded manner. If a well-balanced strategy can be developed, East Asian growth will provide Japanese companies with the opportunity for sustainable growth.

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