



Views From The Heartland

Investment Perspective of Buena Vista Investment Management

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Return to Pearl River *by Mark W. Headley, President and Portfolio Manager
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Miles of modern style condo developments ten minutes away from Guangzhou.

A decade ago, China was just beginning to show signs of its relevance to the global economy, following over a century of imperial collapse, invasion, civil war and utopian failure. The epicenter of the China's new emergence was the region surrounding the British colony of Hong Kong. The city of Shenzhen on Hong Kong's border had been made one of a handful of experimental sites of foreign investment and even boasted one of

China's two "experimental" stock markets. Up the murky Pearl River was China's long-time commercial center, Guangzhou, once known as Canton.

The transformation that had occurred in this region by the early '90s was almost entirely driven by Hong Kong entrepreneurs and Chinese money trickling out of hundreds of government entities. It was chaotic to the extreme. Rules were unclear and continuously changing. China's new business community had only the most tenuous understanding of international business practices. Meetings were fascinating affairs where savvy Hong Kongers only spoke Cantonese and Northerners, with Beijing political connections, only spoke Mandarin. The streets were crowded with belching trucks and constant construction all around.

Today, much of Shenzhen and Guangzhou are still crowded and chaotic, but the transformation into mature cities is unmistakable. Combined with the cluster of cities sitting along the Pearl River between them, something close to 20% of China's exports are produced in an area that can be driven across in less than two hours. Taking that drive recently, one senses the change from hardscrabble development to confident strength. Most roads are new and more are on the way. Cars and trucks are modern and driven with reasonable restraint. Shopping centers are huge and modern. The beauty of southern China's semi-tropical environment has not been blighted, and a surprising amount of the region resembles agricultural areas in Thailand.

While Shenzhen is clearly a new city, with areas that are reminiscent of Singapore's meticulous city planning and parts that closely resemble Tijuana, Mexico, Guangzhou is a real city. A few years ago, it was hard to tell anything through the haze of factory pollution and construction dust. Sadly bikes are almost an endangered species. Motorbikes are not, however, the constant menace they once were as the city moves aggressively to force citizens to use public transport, especially ultra-modern buses. Streets are crowded but with the feeling of a prosperous economic

center. Ground is being broken on a Shanghai style city-center complete with the five-star hotels and glass skyscrapers so loved by politicians.

The real surprise comes as one leaves the old city and heads out to the new suburbs. Miles of residential development is rippling out in a series of massive projects. Closer to the city are typical Hong Kong high rise clusters with thousands of units on small amounts of land ranging from modest to very posh. Ten more minutes out of the city and you enter condo land with development after development offering a range of thematic environments for Guangzhou's professional class to choose from. From classic Chinese styles, adjusted to modern tastes, to Australian/Balinese designs, southern China's new middle class is offered a variety of choices that rivals southern California and looks to be better built. Prices remain far lower than in Hong Kong with a modest apartment available for about \$75,000 to a modest McMansion for \$500,000.

The region's new suburbia is a physical component of the domestic economy that has long been recognized as the "next step" for China's development. Homeownership and all the consumption of goods and services it engenders are the natural path towards a more balanced and mature economy. The current housing development would not have been possible without the mass housing privatization of the mid- '90s. That privatization program put millions of Chinese citizens on the road to afford today's modern apartment. The Pearl River Delta region continues to be a hub of global exports, but that export success is transforming the region into a very large domestic economy.

The real challenge for this bustling region is putting it all together into a cohesive whole. Hong Kong and Guangzhou are rivals as well as partners with regular disputes over the path to a more integrated economy. Could Shenzhen be incorporated into a greater Hong Kong region, or will it remain a bastion of Northerners penetrating China's south? Macau has struggled to remain relevant as the region moves forward, but sin was always its strength and its future seems sure to lead in the direction of the Las Vegas of Asia. Battles over bridges and pollution are ongoing and a rationally integrated region remains many years away.

Interestingly, the angst over Shanghai stealing Hong Kong's mojo, a constant topic five years ago, has been replaced by a deep insecurity that life across the border looks pretty much like life in Hong Kong. As one friend told me, there isn't much you can do here that you can't do over there and for a lot less. China's Pearl River is a giant experiment in how China will relate to the world and how Chinese will relate to each other. While the story is far from over, it looks better than one could have imagined not long ago.