

How Construction Projects Boost the Economy

By Michael Hart

With the economy flagging, the national government has announced a number of large construction projects to help stimulate the economy. I recently visited one in Tianjin, the National Exhibition and Convention center located in Tianjin's Jinnan District. To be fair this project has been under planning and construction for a few years, but it is part of the government led investment theme. This project raised a number of questions I've had about these investment-led projects, but it also helped answer some questions I've had about other projects the government previously built.

Activity generates GDP

Whenever anyone asks if a construction project is viable long term, as in, "who is going to use this?" I am usually asking that question too, but I am also then reminded of a lesson I learned in economics years ago and that is that "activity generates GDP (Gross Domestic Product)." Professors like to say that if workers are hired to dig a hole and then fill it in, that has generated GDP or measurable economic activity. That was never very satisfying to me. And while it doesn't answer the question about the long-term success of a project, it does help explain that the construction project itself, if completed, has already achieved part of someone's GDP target. It has by generating salaries for workers and by consuming construction materials helped to boost the economy.

Satellite Cities and University Towns

Until recently calling a city a "university town" would indicate there are a substantial number of students in that city as compared to its local population base. Austin in Texas, Heidelberg in Germany and Wuhan in China are examples. These cities often benefit from a cluster of universities or institutes of higher learning which generate good jobs, more sports and entertainment options per capita and a thriving bar and restaurant scene. And in most cases the schools themselves benefit from their surroundings. A decade ago attending Nankai university or Tianjin Foreign Studies university meant living in the heart of a big city and being surrounded by buildings nearly a century old. So, I was baffled a number of years ago when Tianjin started building "university towns" that were clusters of schools located on the outskirts of the city and moving undergraduates to these campuses. In Tianjin there are at least four such clusters I can think of, a particularly large one is located east of the city in Jinnan District, the Haihe Education Park which has half a dozen schools.

I personally enjoyed my university years, partially as a result of its urban location, and I would certainly not choose a school located in a brand-new purpose-built campus located far from the city. However, as Tianjin built these far-flung campuses, they generated activity and in the urban places that once housed students, a number of new large projects, in some cases tall apartments and office buildings have been built. These again, generated economic activity.

Infrastructure

I have spent hours poring over maps of Tianjin and am always curious and excited to discover what is being built. And I have a soft spot for trains and subway systems and so love to see these networks expanding, but I sometimes wonder about specific projects. Did you know for instance that Tianjin has eight high-speed rail stations in operation? One, Junliangcheng North Station (军粮城北站) has always been a mystery to me. And where is that Line 1 subway extension to the east going? And did we really need Tianjin Avenue (天津大道)? Well actually in the latter case, it does make sense to have a direct route from central Tianjin to Binhai's Yujiapu that doesn't drag you through the various industrial sites in Hedong and Dongli. And what was the side effect of building these roads, rail lines and metro systems? You guessed it, economic activity and jobs.

Seeding an Area

Besides the initial economic activity generated by their construction, many of these big infrastructure projects seed an engine of growth for their immediate surroundings. In terms of these remote college campuses, jobs are created for catering staff, security guards, cleaning staff and delivery folks. Additionally, people with good jobs such as professors spend more time and potentially money in these communities as they stop for gas, a meal or a coffee or even decide to move to cheaper housing close by. And eventually new restaurants, bars and entertainment options will be created to cater to the young and curious students.

The Convention Center

Now how about more details of this new National Convention and Exhibition Center that I mentioned earlier? The first phase is slated to open in June of 2021. Once the entire project is completed it will have 1.34 million square meters of built space. This will include exhibition and meeting space as well as two office towers, a Marriott and a Four Points hotel and a large retail area.

The meeting and exhibition space on its own is bigger than the Meijiang convention center. It is a site to behold. Upon arrival it looks like an airport terminal with its high roofs and vaulted ceilings.

And how do you get there? It is located along the still relatively new Tianjin Avenue between central Tianjin and Yujiapu. There are also two stations on the east extension of subway Line 1 (Beiyangcun or Guozhan lu stations) (北洋村或国展路). And although not many trains stop there right now, the high-speed rail station Junliangcheng North Station (军粮城北站) is curiously close by.

Will the convention center be successful? I don't know, that is a lot of space to fill and it will certainly take an effort. They recruited a team that are currently reaching out to the community and have announced the first exhibition will open in June 2021 and will of all things be "the China Building Science Conference and Green Intelligent Building Exbo." The hotels and office buildings are slated for completion in 2022, so economic activity generated by construction will continue there as the conference center opens and seeds economic activity nearby. The project will certainly generate some

jobs, likely even some part time ones for the students located at the cluster of colleges located at the Haihe Education Park nearby.

The Alternative

Many folks are still not convinced that these types of projects are the best use of the government's money. That may be true and it is great to start thinking of substitute uses of the money, land and construction materials, but consider the alternative. If the economy is not growing and the government did nothing, that also would not generate a very satisfying result, especially if private firms were also sitting on the sidelines and conserving cash to wait out the economic storm. Many times in this market I have seen the government racing forward to build things no profit minded developer would touch and crowding out good projects that these firms would have pursued. However, this is one of the times when the government should be stepping forward and taking on bold projects. It's even more satisfying to see past investment projects all being tied together in a way that I hadn't been able to see before and illustrating that maybe someone actually did have a well thought out plan and that maybe yes, someone is actually going to use them.

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