

CHAMPS

China's fastest-growing cities

A report from the Economist Intelligence Unit's Access China service.





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Executive summary

- The CHAMPS represent the top 20 fastest-growing large cities in China.
- The CHAMPS tend to be located in China's central provinces with large rural populations, which will fuel urbanisation.
- The rise of the CHAMPS reflects China's transition to a consumption-driven economy, with growth moving away from the export-led eastern seaboard.
- Urbanisation will enable China to continue to post healthy growth for at least 20 years despite an ageing population. China's urban population will not start to decline until 2037, when it peaks at 880m. The CHAMPS represent considerable growth potential.
- Over the next decade to 2020, the population of the top 20 emerging cities will grow by 27% to 85m, making central China a global hotspot for business opportunity. By contrast, the population of China's richest 20 cities will only grow by 19% to 100m. The richest cities will still be important but they are already crowded markets.
- In 2009 average incomes in China's richest 20 cities were 42% higher than in the top 20 emerging cities. By 2020 that gap will have fallen to 15%. Thus the best growth opportunities for products targeted at high-income earners will in most cases be in the inland cities.
- Market uptake of numerous types of consumer goods is still rapidly increasing in the CHAMPS, even though such consumer markets in wealthier cities are approaching saturation. Mobile phones, air conditioners and personal computers are expected to perform exceptionally well in the CHAMPS.

Access China

The Economist Intelligence Unit has developed new models for forecasting population growth and economic performance down to the city level in China. When combined with our data on business conditions across all of China's 287 prefecture-level cities, the new forecasts give unparalleled insight into business opportunities

in this rapidly emerging new segment of the global economy.

Economist Intelligence Unit benchmarking allows businesses to identify which cities will be particularly attractive for specific kinds of business: for example, Shenzhen has strong needs in the health and education sectors. Guangzhou has the best logistics but some of the worst industrial pollution—a good place for supply centres and strong demand for clean technology.



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Introduction

In 2007 the birth of the new “New China” took place, the beginning of the key trend that will define China for the next generation—the rise of inland Chinese cities. China's past 30 years of growth were characterised by the exceptionally strong performance by the coastal cities, but this changed in 2007 when inland China started growing at a faster pace than the coastal area. The global financial crisis accentuated the trend, as it hit the export income of the coastal powerhouse while leaving the less trade-exposed inland cities relatively untouched. But the trend did not end with the crisis—it is here to stay. Economic data for the third quarter of 2010 reaffirmed the picture: growth in central China was 18.9%, compared with 15.6% in the eastern region.

Against this backdrop, the Economist Intelligence Unit has sought to identify the champions of global growth—the fastest-growing cities in the world's most vibrant economy. The CHAMPS are among the top 20 cities. They include a broad range, from Chongqing, the Yangtze River metropolis, to the explosive coal-centred economy of Pingdingshan. However, they all have one thing in common: rapid increases in population, income and infrastructure development.

We also identify China's future nerve centres—megacities fed by the largest-scale urbanisation in history. Zhengzhou, the capital of Henan province, will in 2020 have a bigger economy than Sweden, Hong Kong or Israel. China's megacities will attract a relatively high proportion of upper-income earners and their sizes will offer economies of scale and scope that will drive productivity growth in the service sectors.

There is a wide disparity between incomes in rich cities like Beijing, Shanghai and Shenzhen and the poorer inland cities. Businesses looking for new opportunities in China face difficult questions about how to position themselves. Will the recent strong growth record of some cities continue?

Does income level translate directly to business opportunity?

The ground floor of the building in which the Economist Intelligence Unit has an office in Beijing's CBD is an example. China is in the middle of a long-term retail boom, with sales growing in double digits every year, yet this ground floor is a luxury shopping ghost town—almost every retailer there closed shop in February 2010. The luxury mall found the high-income Beijing market attractive but in the end too crowded. However, the mall has surviving branches in five other cities: Changsha, Urumqi, Shenyang, Chongqing and Chengdu. These are all inland cities and three of them are in our top 20 emerging cities list. Inland China beckons with both high growth rates and less crowded markets.

Who are the CHAMPS?

The Economist Intelligence Unit took a close look at China's 287 prefecture-level cities and forecast their respective populations using a unique methodology that adjusts for urbanisation and flows of migrant labour within China. We then culled all cities with a population of less than 1m by 2014, and ranked the remaining 86 cities by a variety of growth measures including our forecasts of population and real GDP growth. The CHAMPS are Chongqing, Hefei, Anshan, Maanshan,



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Pingdingshan and Shenyang, taken from our list of the top 20 fastest-growing Chinese cities. The top 20 major cities in China show a strong performance from central provinces like Anhui and Henan, but parts of the north-east—cities such as Shenyang—also stand out. Anhui and Henan have large rural populations, fuelling urbanisation. Inner Mongolia also performs well on the back of a broad-based mining boom, despite its low population.

Anshan, a steel town, has relatively slow population growth but is experiencing a solid investment boom in heavy industry driven by the government in Beijing. Shenyang also shares these characteristics—like the rest of the north-east it suffers from slow population growth but this is offset by strong investment. Maanshan and Chongqing get a head start from their position on the Yangtze River, giving them low transport costs. Coal is the backbone industry in Pingdingshan. All of the CHAMPS, with the exception of Xiamen, are inland—Xiamen sneaks in owing to the relatively rapid expansion of its built-up urban area. Inland China is large and diverse but our top

The CHAMPS: China's top 20 fastest-growing cities (index score, maximum = 100) Source: Economist Intelligence Unit

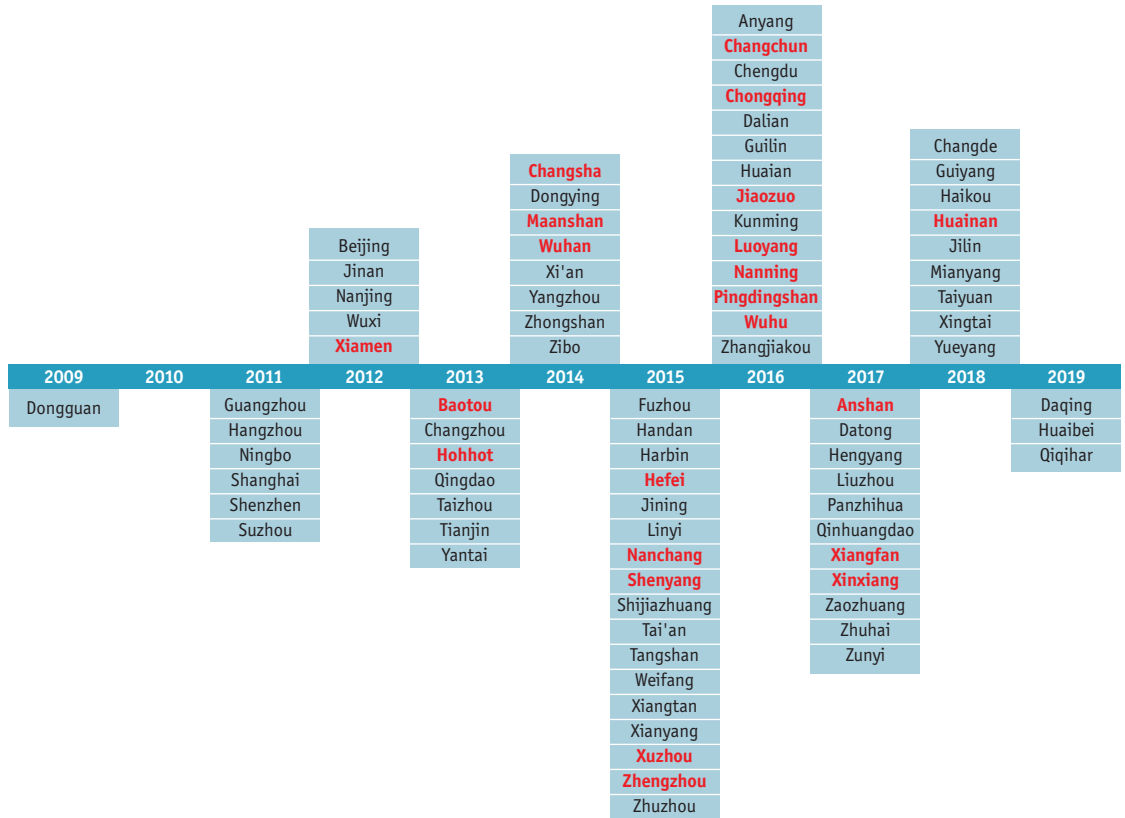
Overall rank	City	Infrastructure and property		Consumer markets		Recent performance		Outlook	
		Urban built area	Fixed asset investment	Per head disposable income	Per head living expenditure	Population	Real GDP per head	Population	Real GDP per head
1	Hefei (Anhui)	86	100	81	79	100	57	95	63
2	Baotou (Inner Mongolia)	55	66	92	100	73	100	86	66
3	Shenyang (Liaoning)	64	72	87	92	63	88	71	71
4	Jiaozuo (Henan)	61	82	81	85	72	78	85	56
5	Changchun (Jilin)	87	65	77	79	67	75	70	71
6	Hohhot (Inner Mongolia)	58	45	100	87	78	84	92	55
7	Wuhu (Anhui)	70	60	83	76	82	64	85	64
8	Zhengzhou (Henan)	88	49	77	69	97	54	70	72
9	Xinxiang (Henan)	64	70	85	85	76	68	83	58
10	Chongqing	72	48	79	66	72	65	79	77
11	Pingdingshan (Henan)	53	75	82	79	77	69	87	56
12	Nanchang (Jiangxi)	58	65	79	95	95	57	67	72
13	Luoyang (Henan)	62	79	78	75	78	69	81	55
14	Xiamen (Fujian)	86	53	75	76	77	68	77	61
15	Xuzhou (Jiangsu)	96	45	77	71	67	75	75	64
16	Maanshan (Anhui)	55	53	85	72	86	67	88	60
17	Wuhan (Hubei)	97	48	80	66	64	81	83	53
18	Anshan (Liaoning)	49	55	82	73	60	92	66	84
19	Changsha (Hunan))	82	53	73	62	94	56	64	76
20	Huainan (Anhui)	49	58	89	88	77	67	83	62



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Disposable income per head: crossing the Rmb30,000 mark



20 cities show some clear patterns. Anhui province has five of the cities. The southern part of the province benefits from good waterways and proximity to the rich east coast.

Although the CHAMPS tend to have lower incomes than their east coast counterparts, they are by no means poor. The chart above shows when the top cities pass through an annual income threshold of Rmb30,000 (about US\$4,500 at current exchange rates), with the top 20 cities highlighted in bold. In fact, the average income in a top-20 city in 2009 was roughly Rmb17,000, on par with China's average urban income level. This means that CHAMPS consumers are representative of the bulk of China's urban population.

Opportunities in China's emerging cities

Our six CHAMPS illustrate the variety of business opportunities available. Most tend to be fuelled by construction booms, with rising home ownership closely linked to spending on appliances and cars. To get a clearer picture of business opportunities, we also ranked all cities with a population of over 1m people by specific factors beyond growth: the level of economic development, consumer markets, logistics, IT connectivity, education, healthcare, average wages and pollution (see next page).

Economy. This category is measured by indicators reflecting output per head, sophistication of the economy (agriculture compared with services and manufacturing) and openness to trade and



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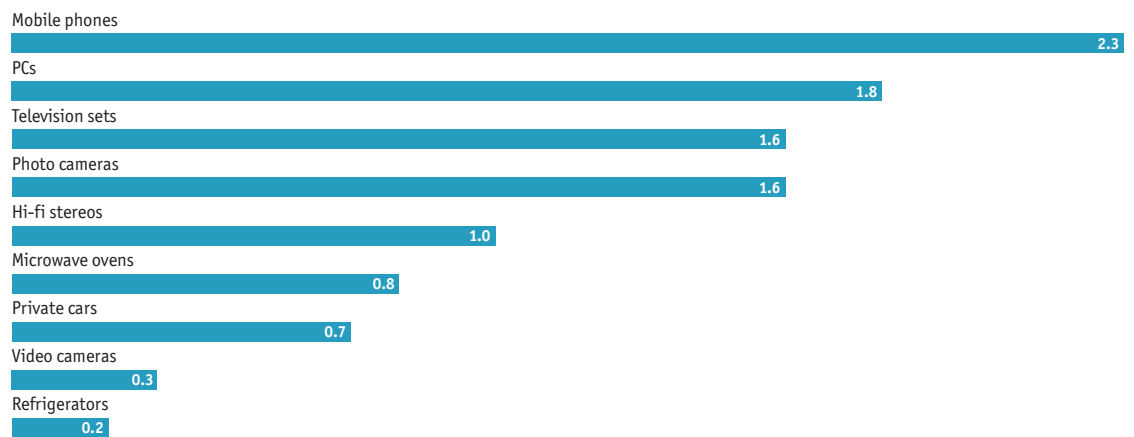
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foreign investment. Clearly, given the exposure of coastal cities to the global economy, they rank highly in this category. However, as infrastructure improvements and customs reforms make the Yangtze River increasingly easy to transport goods directly from river ports to overseas destinations, the CHAMPS are likely to gain ground.

Consumer markets. Again, the relatively high-income cities enjoy a strong position in this category. However, incomes in the CHAMPS are rising quickly. The Economist Intelligence Unit forecasts that the average disposable income of the top 20 emerging cities will rise to Rmb57,000 (about US\$8,500 at current exchange rates) by 2020, within a hairline of the Rmb65,000 that will be enjoyed by the country's richest 20 cities.

What are CHAMPS consumers buying?

(Top 20 CHAMPS annual increase in market uptake* to 2013; millions)



* First-time purchase

Source: Economist Intelligence Unit

Logistics. The CHAMPS are the best performers in this category. Cities such as Zhengzhou, Wuhan and Chongqing are key logistics hubs for domestic transport, with Yangtze River access and central locations. Coastal cities rank highly mainly because of sea ports. As China's high-speed rail networks develop, even a city as far inland as Chongqing will be accessible within half a day (it is over 1,400 km by air from Chongqing to Shanghai). China already has the world's longest high-speed rail network at over 7,000 km, and there are plans to increase this to 16,000 km by 2020.

Education. As larger cities struggle to provide basic public services to their massive base of migrants (people who have moved from other parts of China), the CHAMPS perform relatively well in this category. They have a fairly high ratio of teachers and schools relative to the population.

Healthcare. Just as large cities fail to provide schooling to their migrant population, healthcare is also a major issue for the large coastal cities. Population ageing will create an even greater strain on healthcare facilities. Chinese education and health sectors are likely to be major growth areas for decades, and businesses should skew their operations towards wealthier cities where demand is stronger.

Wages. Clearly, wages are highest in the traditional centres of economic activity—Shanghai, Beijing



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and Guangzhou. Rising wages are often cited as one of the main considerations of manufacturers when contemplating a move to an inland site. The CHAMPS benefit from their location in China's rural heartland, the origin of the bulk of low-skilled labourers.

Business opportunity rankings in 2009, top 20 cities by category

Rank	Economy	Consumer markets	Logistics	IT connectivity	Education	Average wages	Health care	Industrial pollution
1	Suzhou(J)	Guangzhou	Guangzhou	Shantou	Huaian	Shanghai	Hengyang	Haikou
2	Dalian	Wenzhou	Shanghai	Suzhou(J)	Shantou	Beijing	Tangshan	Xiamen
3	Shenyang	Shanghai	Chongqing	Ningbo	Xiangfan	Guangzhou	Xiangfan	Shenzhen
4	Wuxi	Suzhou(J)	Chengdu	Dongguan	Zaozhuang	Shenzhen	Zaozhuang	Beijing
5	Yangzhou	Wuxi	Beijing	Zhongshan	Nanning	Tianjin	Huaian	Kunming
6	Changzhou	Dongguan	Qingdao	Shanghai	Hohhot	Hangzhou	Jilin	Zhengzhou
7	Xiamen	Beijing	Wuhan	Hangzhou	Chongqing	Nanjing	Harbin	Hefei
8	Zhuhai	Hangzhou	Tianjin	Zhuhai	Jinan	Wuxi	Hangzhou	Qingdao
9	Tianjin	Shenzhen	Dalian	Changzhou	Harbin	Dongguan	Datong	Tianjin
10	Hangzhou	Ningbo	Nanjing	Xiamen	Tai'an	Hohhot	Zunyi	Huaian
11	Shanghai	Changzhou	Shenzhen	Guangzhou	Tangshan	Huainan	Xingtai	Nanchang
12	Dongguan	Zhongshan	Hangzhou	Wuxi	Hangzhou	Suzhou(J)	Huaibei	Dongying
13	Ningbo	Zhuhai	Ningbo	Tianjin	Xianyang	Changzhou	Nanning	Chengdu
14	Dongying	Nanjing	Baotou	Beijing	Mianyang	Ningbo	Jining	Jinan
15	Changchun	Baotou	Jinan	Wenzhou	Guiyang	Maanshan	Handan	Changsha
16	Baoding	Xiamen	Kunming	Changchun	Changchun	Dongying	Xuzhou	Wuhan
17	Zhongshan	Fuzhou(F)	Haikou	Tangshan	Yangzhou	Daqing	Changchun	Taiyuan
18	Beijing	Hohhot	Xiamen	Yangzhou	Changde	Dalian	Beijing	Shenyang
19	Daqing	Jinan	Yantai	Dalian	Haikou	Qingdao	Changde	Fuzhou(F)
20	Haikou	Taizhou(Z)	Zhengzhou	Shenzhen	Xi'an	Wenzhou	Yangzhou	Yantai
21	Anshan	Dalian	Taiyuan	Haikou	Changzhou	Shenyang	Suzhou(J)	Shanghai
22	Shenzhen	Shenyang	Suzhou(J)	Chongqing	Zunyi	Xuzhou	Yantai	Linyi
23	Guangzhou	Yantai	Shenyang	Zaozhuang	Nanjing	Jinan	Chongqing	Guilin
24	Yantai	Shantou	Datong	Huaian	Datong	Chengdu	Xianyang	Qinhuangdao
25	Tangshan	Qingdao	Wenzhou	Tai'an	Zhuhai	Liuzhou	Taiyuan	Shijiazhuang
26	Wuhu	Tianjin	Changsha	Yantai	Wuhan	Taizhou(Z)	Jinan	Nanjing
27	Nanjing	Yangzhou	Fuzhou(F)	Taizhou(Z)	Huaibei	Baotou	Anshan	Harbin
28	Maanshan	Changsha	Xi'an	Jinan	Wuhu	Yantai	Dongying	Dalian
29	Qingdao	Dongying	Yueyang	Shenyang	Baoding	Yangzhou	Shantou	Huaibei
30	Hefei	Zibo	Dongguan	Nanjing	Xinxiang	Changsha	Shijiazhuang	Wuhu

F=Fujian, J=Jiangsu, Z=Zhejiang

Source: Economist Intelligence Unit



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Industrial pollution. This category measures industrial discharge of pollutants such as soot, sulphur dioxide and untreated waste water on a per head basis. Cities with the cleanest industries rank the highest. The CHAMPS have a head start on some of their more developed counterparts since today's environmental regulations were not in effect when coastal cities began to draw in investment. Cities with more developed economies such as Beijing (air quality is a different issue) tend to discharge less industrial pollution, but Guangzhou, with its large petrochemicals and automotive industries, is an important exception: it is rich, dirty and a key market for clean technologies.

Since CHAMPS consumers tend to be at different income levels from their wealthier counterparts, the types of goods they purchase tend to differ. For instance, every household in Shanghai has, on average, 1.1 PCs, while in Chongqing that number is only 0.6.

Thus the CHAMPS have plenty of scope for rapid growth in household penetration rates, and many consumers will be purchasing, for instance, their first PC ever.

However, there are near-universal items across nearly every income group, such as refrigerators. Here, markets are relatively mature across urban China, and growth in demand for refrigerators is determined primarily by population growth and replacement rates.

The great urbanisation: China's new nerve centres

The future megacities of China are important for investors, even if they are not in the top 20 emerging cities. They will attract a relatively high proportion of upper-income earners and their sizes will offer economies of scale and scope that will drive productivity growth in the service sectors.

Largest Chinese cities in 2050

	Population in 2000	Peak population (year)
Pearl River Delta "City" (Guangzhou, Shenzhen, Dongguan and Foshan)	16.6m	31.2m (2034)
Jingjin^a (Beijing and Tianjin)	16.6m	31.1m (2035)
Yangtze River Delta "City" (Shanghai and Suzhou)	14.8m	21.6m (2031)
Chongqing	6.2m	11.2m (2027)
Chengdu	3.9m	11.1m (2035)
Zhengzhou	6.7m	10.1m (2039)
Xi'an (Xi'an and Xianyang)	4.6m	10.0m (2035)
Changzhutan^a cluster (Changsha, Xiangtan and Zhuzhou)	3.7m	9.7m (2034)
Nanjing	3.5m	7.2m (2035)

Sources: 2000 census; Economist Intelligence Unit forecasts.

^a Names already in common use. Note. Population data are for metropolitan areas only, defined as the contiguously built city area.



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Three of our top 20 cities are also on our list of nine great cities in 2050. These megacities are already starting to form as large urban areas physically join up with neighbouring towns and cities. This is particularly clear already around Guangzhou and Shanghai. Our three from the top 20 emerging cities are Zhengzhou in central Henan province, Chongqing on the upper Yangtze River and Greater Changsha ("Changzhutan") in central Hunan province.

Today's leading cities, at the centre of China's economic hubs, are likely to look dramatically different in 40 years' time. The four cities on the east bank of the Pearl River Delta, for instance, are already interconnected to the point where satellite imagery shows one contiguous urban area the size of Los Angeles.

The area surrounding Shanghai is also ripe for integration. This will initially affect Suzhou and Shanghai, largely as a result of the rapid growth of Kunshan, a high-tech manufacturing hub located between the two metropolises. Beijing and Tianjin are experiencing a similar type of integration, driven mainly by the emergence of Langfang, a town that now houses campus extensions for Beijing's overcrowded universities.

At current rates of migration, most Chinese cities will reach a plateau in the 2030s, roughly a decade after the national population begins to decline. However, much of their future depends on what happens with the hukou system. Hukou is China's urban registration system that, at present, makes it difficult for most Chinese to easily move to a city and get access to health education and welfare services. We have not made adjustments for hukou reform in the model, so it is possible that these cities could grow even faster.

Urbanisation and city growth—what does it mean for business?

The pace of urbanisation in China will have a fundamental effect on all businesses. Unlike Europe and the US, China is still a developing market. Urbanisation does more than just drive growth; it also makes it more stable. As the global financial crisis showed, with growth increasingly driven by domestic urbanisation, China is less dependent on more volatile and slower growing export markets to keep its economy afloat.

Urbanisation means that growth is sustainable, despite an ageing population. China's working-age population will start to decline soon—it is expected to peak at around 1bn in 2013. But the rate of urbanisation will continue for decades. The Economist Intelligence Unit's new population forecasting model for China and its cities shows that China's urban population will not start to decline until 2037, when it peaks at 880m. This positive macro environment will support business for over two decades.

With a long period of strong growth ahead, businesses in China need to plan for long-term growth opportunities, and also need to take a closer look at the pattern of urbanisation. As reflected in our city rankings, growth will be increasingly driven by inland cities.



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Conclusion

- Just as the emergence of China's coastal cities was one of the world's greatest opportunities in the past three decades, the rise of inland Chinese cities brings with it a fresh source of rapid growth. With the CHAMPS, businesses have a chance to gain a foothold in cities where the population will increase by nearly one-third and incomes will grow by over threefold in the short space of a decade.
- Overall growth prospects are relatively stable and sustainable in the long term, owing to the magnitude of the urbanisation ahead.
- The current gap in income levels between the fast-growing CHAMPS and the established urban centres on the coast means that the opportunities for business will differ. While wealthier consumers in coastal cities will exhibit higher levels of sophistication, many CHAMPS consumers are making their first purchases of numerous consumer durables, ranging from PCs to mobile phones.
- Understanding the breadth of opportunities requires a closer analysis of spending patterns and sectoral performance. We do this by ranking cities by different criteria, ranging from Internet connectivity to pollution.
- China's future megacities will attract a relatively high proportion of upper-income earners, and their sizes will offer economies of scale and scope that will drive productivity growth in the service sectors. Although some are on the coast, those inland such as Chongqing and Zhengzhou will grow faster.
- The size and variety of CHAMPS markets means that knowledge of local business environments is crucial to any strategy. Patience is required as companies adapt and readapt their strategies over time. Given the mass of choices confronting investors in China, reliable benchmarks for strategic planning are essential.



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