By Ben Simpfendorfer & Ivy Ji

Which China are we talking about?

It is possible to be both a China bull and bear. Economists have reason to worry about the big picture outlook, especially debt and demographics. But business owners also have reason to be bullish, as the best performing cities will continue to create commercial opportunities irrespective of slower GDP growth. And whereas it was once popular to ask, 'Are you in China?', the more important question for CEOs and senior executives today is, 'Where are you in China?".

Many executives are understandably worried about China's slower GDP growth figures. And yet this is not a reason to turn away from the country, but rather an opportunity to further refine a company's strategic focus. Indeed, we notice a real disconnect between economists, who are generally bearish, and business owners who are just as often bullish.

This discrepancy owes to the fact that economists are rightly worried about China's rising debt and ageing demographics, even as business owners recognise that the country's best performing cities will continue to offer commercial opportunities even if GDP growth slows to 6% or less.

Focusing on these cities offers not only a good offensive strategy, but also a defensive strategy in the event that GDP growth should slow further. Moreover, these city-clusters have a similar-sized GDP and population to Brazil, and so together are huge commercial opportunities in their own right.

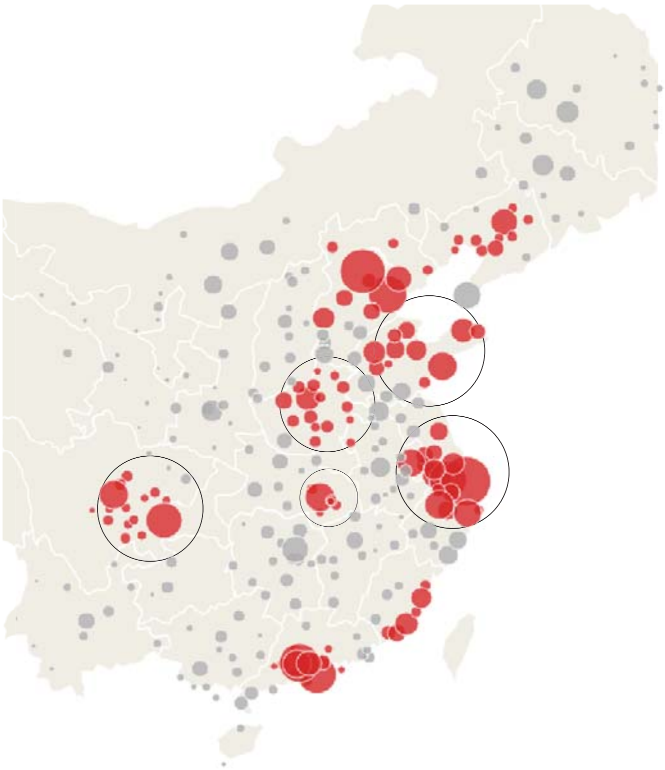
A similar story can be told in other parts of the world: consider the United States where GDP growth rates in the best performing regions are three full percentage points higher than in the worst, such as between the Southwest and New England regions. Much the same can be said about Northern and Southern Europe.

The conventional view is to use such measures such as GDP or population to determine the commercial importance of each city in China. But there is always the

Figure 2: City-clusters based on commercial strength

Circle size indicates relative commercial strength

We have focused on nine city-clusters each with between 6 and 16 cities and as identified by the red circles. For reference, all other major cities are identified by grey circles. The relative size of each circle indicates the underlying commercial activity of each city based on a variety of indicators, such as number of outlets owned by leading retailers and hotel chains, as well as flight departure details.



Source: SRA

risk that local officials are tweaking the data to boost their promotion prospects and so provide an unreliable measure of activity.

And so over the past six months we have mapped the locations of over 25,000 supermarkets, clothing outlets, and budget hotel chains in China as published by a range of leading local and foreign companies with a nationwide presence, as well as aggregated data on transport flows, such as daily flight traffic and railway passenger traffic for each city.

These are hard commercial data released by often listed companies. Moreover, by aggregating the results from a series of leading firms across each sector—apparel, restaurants, supermarkets, jewellery, and hotels, among a range of sectors—no single company can skew the results (unlike a local government leader with an eye on his or her future career opportunities).

Figure 2 shows the results for nearly 300 cities with the size of the grey and red circles indicating the relative commercial importance of each city. In many respects, the list itself isn't a surprise—Beijing, Shanghai, Guangzhou, and Shenzhen occupy the first four places, as they should given their importance to the rest of the country as economic, political, or financial centres.

The results for second-tier and even some third-tier cities, however, are more interesting as they rank higher than suggested by their GDP or population level. Dongguan, Hangzhou, Nanjing, and Shenyang are all good examples. Sure, these cities are anecdotally known for their relative affluence. However, our commercial data provides hard verification of this fact.

We have then identified nine city-clusters, as further illustrated by Figure 2. These clusters account for around 100 cities, one-third of the country's GDP and one-fifth of its population. Equally importantly, they also account for 55% of the country's leading apparel chain stores, for example, as well as another 70% of the leading supermarkets and hypermarkets.

These nine city-clusters are also the most likely to respond to slower GDP growth through reform. For a start, the country's larger and more affluent cities tend to attract the smartest graduates, most competent

Figure 1: Which China?

Economists prefer to talk about the first map that shows the world's second largest economy. But business owners are more likely to focus on the second that identifies the country's key city-clusters, or commercial hotspots, which should outperform even if growth slows across the rest of the country. These clusters have a GDP and population similar in size to that of Brazil.

officials, and the most innovative entrepreneurs. That in itself shouldn't be a surprise and helps to explain their outperformance.

The sheer size of these city-clusters is further reason for optimism, as many are able to sustain commercial operations on a scale comparable to many countries. Take the Pearl River Delta with a GDP similar in size to that of the Netherlands and a population equal to Turkey. The region has 81 Walmart stores alone.

The intensity of competition between these city-clusters also means many may introduce reforms more aggressively than the central government, as they look for new ways to grow, with the competition between the Pearl River Delta and the Yangtze River Delta being an especially fierce rivalry.

For CEOs and senior executives, the risks of slower GDP growth argue for a more selective screening of the country's commercial opportunities. Mid-sized firms in particular will benefit from a more focused market entry, committing resources to just a few parts of the country where there are still significant opportunities for growth.

Indeed, there is still money to be made in China, but 'Where in China?' should be the question that companies most often ask themselves. ■

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