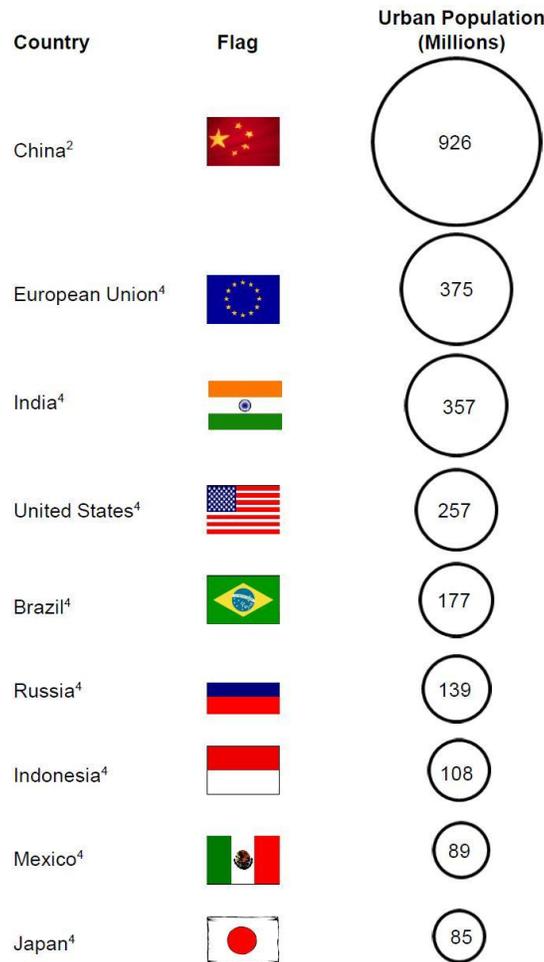


In China, One Quarter of All City Residents are Not Counted

Today, the number of people living in Chinese cities who are **not** counted by the official census as part of China’s urban population has grown to 260 million.¹ This uncounted urban population is equal to all the people living in U.S. metropolitan areas.

At the start of 2011, China’s actual urban population was 926 million² rather than the officially reported number of 666 million.³ Thus, the number of Chinese in major metro areas is three times larger than the total population of the United States. China’s current urban population dwarfs that of other countries and even the European Union.

Figure 1
Total Urban Population by Country



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As a result of this underestimation of China’s true urban population, companies interested in doing business in China possess incorrect information about the current and future growth of that nation’s cities, their economic output, and, most importantly, the already significant – but as yet, untapped – Chinese consumer retail market.

Source

Roger Urban is a well-known marketing strategy consultant and supply chain expert. He has helped grow the revenue and margins of more than 200 clients in 21 industries. His work includes a large number of food and beverage assignments, as well as, consumer products, transportation, financial services and retailing. A graduate of Dartmouth College (BA) and Stanford University (MBA), he also taught mathematics and conducted research in International Finance at IMD in Lausanne, Switzerland.

Building on his transportation and supply chain contacts in China, Mr. Urban has established MetroChina.Biz as a source of analysis and insights about how to build a consumer business in China. He has discovered the actual size of China's cities and determined the true economic significance of China's metro markets. He has analyzed what this means for businesses seeking to enter or expand in China. And now he is helping businesses adjust and refine their strategies to align with the actual urban population of China and the true potential of China's major metro markets.

Why are so many city residents in China not counted?

“China's long established *hukou*, or household registration system, identifies everyone as a 'rural' or 'urban' resident depending on their place of birth. The central government adopted the *hukou* system in 1951 to restrict and regulate the movement of people by tying everyone to their place of birth.”⁵ An unintended result of this rigid classification system is that the official population of China's cities now drastically understates the actual number of people living in urban areas.

“Long considered by rural folk, the key to a better life, an urban *hukou* comes with an array of benefits covering healthcare, social security and education that are unavailable or less accessible to farming families.”⁵ “People without *hukou* are not allowed to buy homes or register cars. Affordable housing that is subsidized by the government and children's public schooling - from kindergarten to the national college entrance exam - are also off-limits.”⁶

In pursuit of these benefits, for the past several decades, large numbers of young rural residents have moved into China's cities in search of jobs and better economic opportunity. Yet, when most rural residents move to a city, they cannot obtain an urban *hukou*. As a result they are not counted as part of that city's official population.

Due to the *hukou* system, 60 years of migration to cities from the rural countryside is not recorded by the official Chinese census. Migrants continue to be classified by their rural *hukou* and counted in the official census as residents of the rural area from which they came. Even the children of rural residents living in a city are counted as “residing” in the rural area with which their father's family or grandfather's family was classified in 1951.

Size of the Problem

Due to *hukou* misclassification, the size and the rate of growth of China's cities is understated by China's official census population numbers. As a result, the population of China's individual cities is severely understated and misunderstood. However, nearly all analyses of Chinese, emerging market and world populations rely on the official Chinese census data.

Here is an example of the confusion that results. The United Nations World Urbanization Prospects Report lists the 2010 population of the city of Shenzhen as 9 million, the official Chinese Census number.⁷ Yet, a report the same year from another UN Agency, UNESCO, stated that "Shenzhen's population ballooned to 13 million by the end of 2007."⁸ In March 2010, The Economist reported that "out of Shenzhen's population of more than 14 million people, only 2.5 million are residents."⁹ By the end of 2010, Shenzhen's actual population reached 16 million.

Other examples of the gap between China's "official resident" metro population data and the actual number of people living in a city are occasionally reported by news organizations in China. In addition to Shenzhen, four more are presented below:

Figure 2
Uncounted Population in 5 Large Chinese Cities

City	Hukou Resident Population	Actual Population	Uncounted Population
Shanghai	16.6 million	23.0 million ¹⁰	6.4 million
Beijing	12.4 million	22 million ¹¹	9.6 million
Shenzhen	2.5 million	16 million ¹²	13.5 million
Guangzhou	8.9 million	15 million ¹³	6.1 million
Suzhou	2.4 million	11.8 million ¹⁴	9.4 million
5 City Total	42.8 million	87.8 million	45.0 million

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The total actual population of these five cities equals the total population of the fifteen largest metropolitan areas in the United States. The "missing" population in these five cities is 45 million people, making the actual population of these five cities double the official *hukou* resident number. The average number of **uncounted** residents in these five cities is 9 million people.

A Huge Consumer Economy Already Exists in China's Cities

It is a commonly held and widely discussed belief that China lacks a large consumer economy. This opinion is outdated and inconsistent with the facts. The massive migration of China's population into its cities has already generated huge growth in Retail Sales of Domestic Goods. In 2010, 90% of all Chinese Retail Sales of Domestic Goods occurred in China's urban areas.¹⁵

Retail Sales of Domestic Goods is a direct measure of China's consumer economy. During 2010 in China's major metro areas, total Retail Sales of Domestic Goods were US \$2.1 trillion.¹⁵ This amount equals the total 2010 gross national product of France.¹⁶

During the last five years China's total nationwide Retail Sales of Domestic Goods grew US \$1.4 trillion.¹⁵ **All of this increase occurred in China's metro markets.** Because rural population loses more than offset gains in rural household income, there was no growth of Retail Sales of Domestic Goods outside of China's cities.

During the last five years, China's urban area Retail Sales of Domestic Goods have grown at a compound annual growth rate (CAGR) of 24.3%.¹⁵ This means that China's metro market consumer economy doubled in the last three years. In the last five years, China's metro market consumer economy tripled.

In contrast, the nominal growth of the larger, non-consumer part of the Chinese economy (investment-led capital goods and exports) has averaged a 10.8% CAGR during the last five years.¹⁵ As shown below in Figure 3, due to the great difference in growth rates during the past five years, China's metro market consumer economy growth (US \$ 1.4 trillion) was three-quarters the size of the growth generated by all the rest of the Chinese economy (US \$1.9 trillion).

Figure 3
Sources of Chinese Economic Growth¹⁵
2005-2010

	Absolute Growth Trillion US \$	Rate of Growth Five-Year CAGR
Metro Market Consumer Economy	\$1.4 Trillion*	24.3%
Non-Consumer Economy	\$1.9 Trillion*	10.8%

* US dollars at 6.4 yuan to one dollar

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China's Consumer Economy to Surpass Capital Goods and Exports

The Chinese metro market consumer economy already exceeds US \$2 trillion. The growth rate of China's metro market consumer economy now greatly exceeds that of China's non-consumer economy (capital goods and exports). Rising factory-worker wages, plus the additional migration that they will cause, ensure that the growth of China's metro market consumer economy will continue.

Looking forward to 2015, it is likely that China's metro market consumer economy will produce more growth than the non-consumer economy will generate. As shown below in Figure 4, a continuation of past five-year growth rates will result in US \$1.3 trillion more growth from China's metro market consumer economy than from all Chinese capital goods and exports.

Figure 4

Source of PROJECTED Chinese Economic Growth¹⁵

	Projected	Projected Absolute Growth	
	Rate of Growth	Total in 2015	Increase Since 2010
Metro Market Consumer Economy	2005 – 2010 CAGR 24%	\$6.2 Trillion*	\$4.1 Trillion*
Non-Consumer Economy	11%	\$6.9 Trillion*	\$2.8 Trillion*

* US dollars at 6.4 yuan to one dollar.

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By 2015, China's metro market consumer economy will be US \$6.2 trillion and the rest of the economy will be US \$6.9 trillion at current exchange rates. These projections show that China's consumer economy will be 47% of its total GDP by the year 2015. Based on these trends, China's consumer economy will exceed capital goods and exports the following year.

Implications for Business

Because measures of China's economic potential are based on inaccurate urban population data and a lack of knowledge about China's metro market consumer economy, businesses are missing important near-term market opportunities and misdirecting their emerging market investments. Not knowing where people live and what they spend creates mistakes in marketing and sales plans. Underestimating the population of major Chinese cities understates their business potential and overstates the amount of success that foreign businesses think they are achieving.

Underestimating the true size of China's urban population and China's metro market consumer economy causes two serious business problems. First, the current revenue potential of China's metro markets is understated by as much as 40%. Second, the future economic potential of China's metro markets is underestimated.

As a result of these two problems, the resources devoted to building metro market businesses in China are often misallocated and usually too small. Finally, the reported level of success (market share) achieved in China's major metro markets is overstated. This leads to incorrect financial projections and investment decisions. The solution to these problems is to build business plans based on China's actual urban population and real consumer markets.

For more information or to discuss, please contact Roger Urban at MetroChina.Biz or (781) 862-0033.

¹ China Daily – Friday, May 6, 2011

² MetroChina.Biz Data Collection and Analysis

³ China Daily - Friday, April 29, 2011

⁴ CIA World Fact Book

⁵ China Daily.com.cn/ Xinhua - September 1, 2010

⁶ China Daily.com.cn/ Xinhua - July 11, 2011

⁷ United Nations, Department of Economic and Social Affairs, Population Division World Urbanization Prospects: The 2009 Revision

⁸ 10 Things to Know About Shenzhen – UNESCO City of Design – June 2009

⁹ Economist: Special Report on the Future of the State – March 19, 2011, p.13

¹⁰ Shanghai Daily - April 29, 2011 (National Bureau of Statistics)

¹¹ China Daily.com.cn – February 26, 2011

¹² China.org.cn – March 24, 2011

¹³ Guangzhou News - March 24, 2011

¹⁴ Suzhou Daily News - May 10, 2011

¹⁵ MetroChina.Biz analyses of data from National Bureau of Statistics of China

¹⁶ CIA World Fact Book