

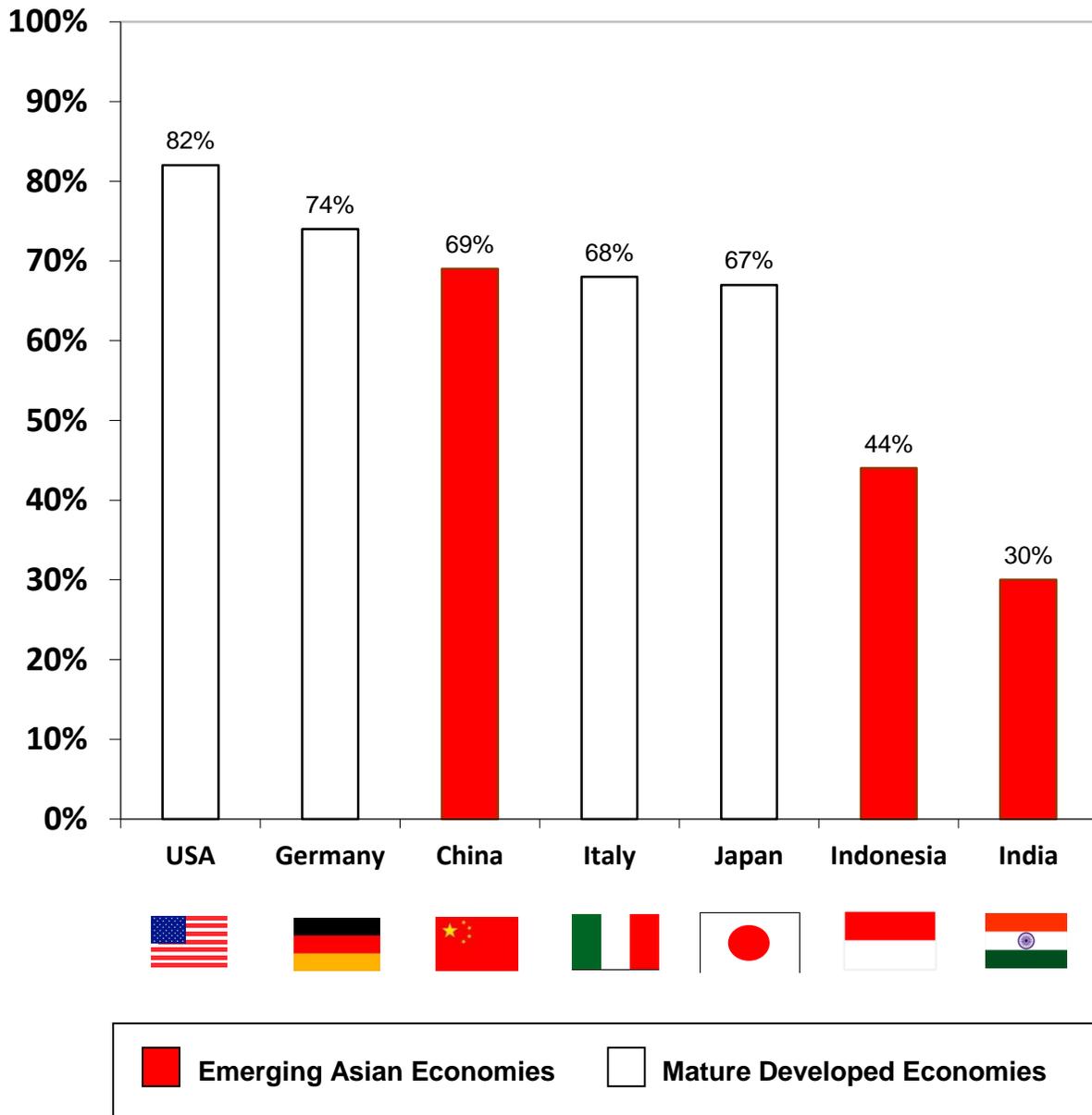
Why China Will Outgrow India for the Next 30 Years

Today, more than twice as many Chinese live in urban areas as in the countryside. In India, the ratio is reversed. China is no longer a nation of farmers, but India remains so.

China's actual percentage of city dwellers is now 69%¹. India's is 30%². China's percent urbanization equals that of many mature developed countries, such as Italy or Japan, and is much greater than the urbanization of its largest Asian neighbors, Indonesia and India.

Figure 1

China's Urban Development Equals Mature Developed Countries



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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.

China's Biggest Demographic Change in the Last 20 years

During the last decade, China's total population has grown only one half of one percent each year. However, migration from the countryside into China's cities has caused China's urban population to grow nearly 5% each year during the last decade. During this period, the actual rate of growth of uncounted migrant workers was more than 7% each year. As a result, the number of non-*hukou* residents in China's cities has doubled since 2000.

China currently has a migrant worker urban population of 260 million people.³ Because China's official census misclassifies these city dwellers as rural residents, the reported percent of urbanization in 2010 is dramatically understated at 49.68%.⁴ Actually, China's urban population passed 50% ten years ago in 2002.⁵

Urbanization Drives per capita GDP

Percent urbanization is the portion of a country's total population that lives in a metropolitan area. Urbanization was identified by Ian Morris, a Professor of History and Archeology at Stanford University, as one of four factors that measure social development throughout history.⁶ It turns out that the single most important factor explaining today's differences in a country's per capita GDP and its rate of per capita GDP growth is that country's percent urbanization.

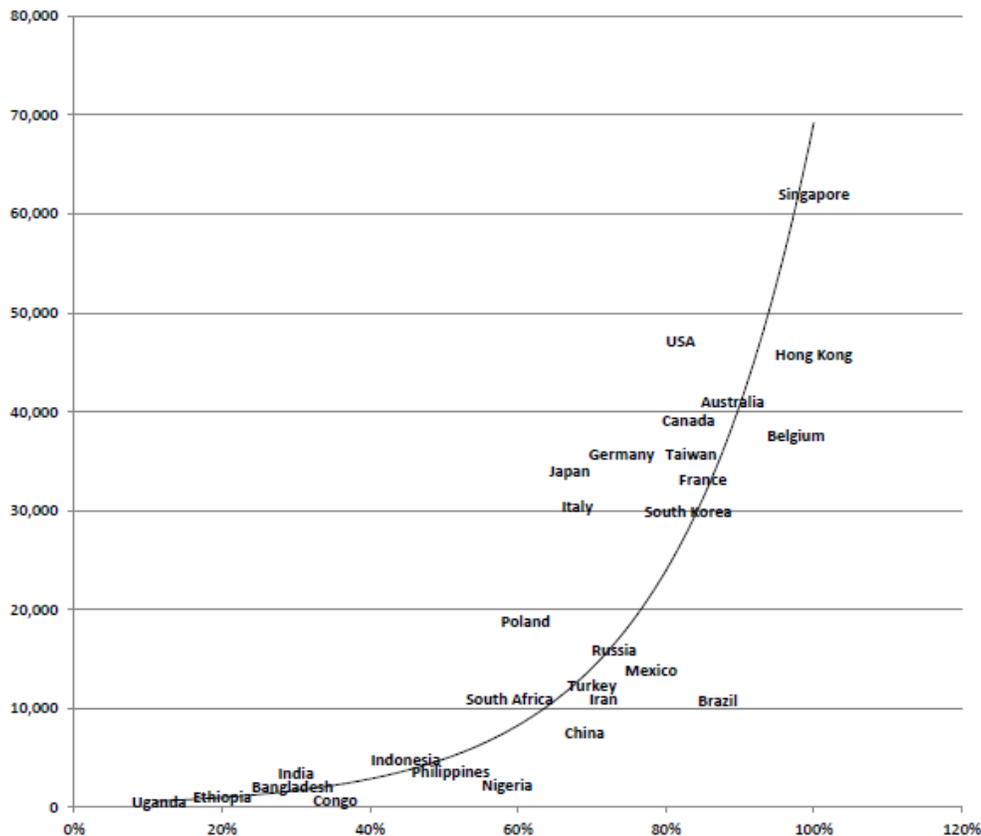
An analysis (Presented as Figure A in the text box), of the relationship between percent urbanization and annual per capita GDP in 80 countries that comprise 92% of the world's population, reveals three startling conclusions:

- Differences in percent urbanization account for more than 80% of the variability of a country's per capita GDP.
- Countries with less than 40% urbanization experience slow per capita GDP growth.
- After a country reaches 60% urbanization, its per capita GDP growth accelerates.

Figure 2, below, shows the relationship between percent urbanization and annual per capita GDP. We found that percent urbanization is an extraordinarily strong predictor of a country's annual per capita GDP. As the line becomes steeper, the impact of increases in urbanization on annual per capita GDP becomes greater.

In order to show how this graph relates to the real world, twenty-six countries and two city states have been placed according to their actual percent urbanization and per capita GDP data. These twenty-eight entities account for 70% of the world's population and 75% of the world's GDP. Their percent urbanization ranges from 13% to 100%, their annual per capita GDP ranges from \$300 to \$62,100.

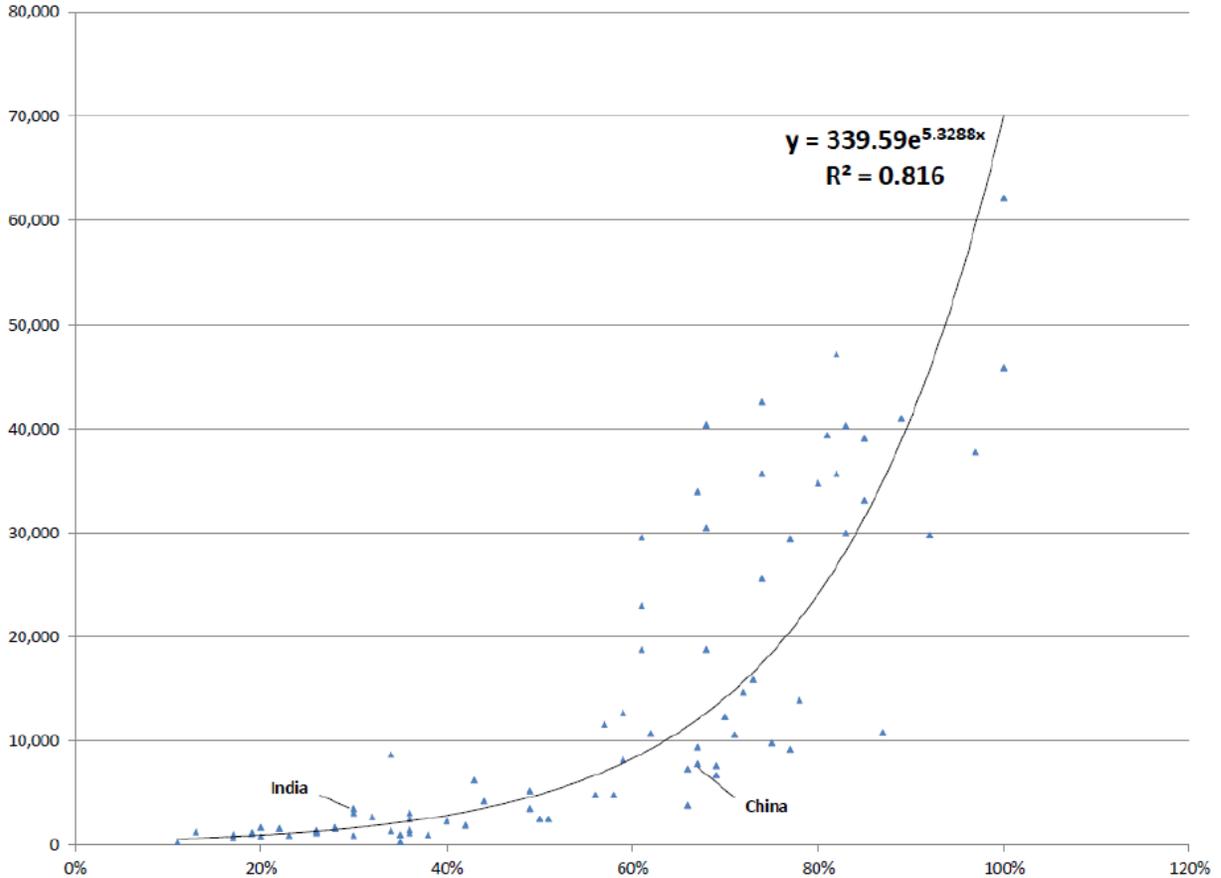
Figure 2



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Figure A

Percent Urbanization Predicts a Country's Annual per capita GDP



Data Source: CIA World Factbook and MetroChina.Biz Analysis

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A least-squares exponential curve provides an excellent fit to the data, with a substantial growth rate beginning at approximately 60%. The corresponding R-squared statistic indicates that more than 80% of the variability in per capita GDP can be explained by percent urbanization.

The coefficient of correlation between the two variables explained by the exponential fit is 0.9 and the fit is statistically significant at better than a 99% confidence level.

Since the data represent more than 92% of the world's population, it is reasonable to assume an exponential relationship exists between percent urbanization and annual per capita GDP.

Economic Consequences

The force of urbanization in driving per capita GDP is better understood by examining just what this relationship means.

Because the relationship between these two variables (percent urbanization and per capita GDP) is exponential, growth of per capita GDP is modest when urbanization is less than 40% and becomes quite large after urbanization reaches 60%. The table below summarizes the actual amount of change in per capita GDP measured by this relationship as urbanization increases.

Figure 3

Impact of Increasing Urbanization on per capita GDP

	Change in Percent Urbanization	Change in Per Capita GDP	Multiple Units of Change One Unit = \$ 800
India →	20% → 30%	+\$700	0.9
	30% → 40%	+\$800	1.0
	40% → 50%	+\$1,700	2.1
China →	50% → 60%	+\$3,800	4.8
	60% → 70%	+\$6,000	7.5
	70% → 80%	+\$10,000	12.5
	80% → 90%	+\$16,000	20.0

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Conclusion

Expect Chinese per capita GDP to grow rapidly during the next decade as Chinese urbanization goes from 69% to 80%. China's 69% urbanization places the country at the takeoff point of the exponential growth phase of per capita GDP. The data in Figure 3, indicate that China's per capita GDP will grow 10 times faster than India's. Businesses should expect huge growth in China's domestic market during the next decade. China's cities will be the engine for this growth.

Expect India to remain a nation of farmers as its urbanization struggles to reach 40%. Because India's percent urbanization is only 30%, expect India's annual GDP growth rate and absolute increases in per capita GDP to be much less than China's. India is stuck in the low growth condition that results from having less than 40% urbanization. Because India's urban population is growing only 2.4% a year while its total population grows 1.3% each year, it will take India 4 to 5 decades to reach the 50% level of urbanization at which per capita GDP starts to grow rapidly.⁷

Implication for Business

Because most of any country's economic activity and retail sales occur in metro areas, a country's percent urbanization is the critical factor for determining current and future per capita GDP. The failure to understand that urbanization is the essential condition for rapid and substantial economic growth results in understated projections of China's GDP and overstated projections of India's GDP. The result is an overall misallocation of emerging market business investments.

China is Now

Most business forecasts for China are based on an incorrect measure of China's metro area population and its percent urbanization. China's current high level of urbanization is a powerful driver of economic growth. As China becomes even more urbanized, expect its consumer economy and per capita GDP to accelerate exponentially.

India Must Wait

With urbanization of only 30%, India is stuck in a low growth prison. Rural economies are not rich ones. Because it will take many decades for India to reach just 40% urbanization, per capita GDP in India will grow slowly for the foreseeable future.

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

¹ "In China, One Quarter of All City Residents are Not Counted" MetroChina.Biz paper, Roger Urban, December 2011

² CIA World Factbook

³ China Daily – Friday, May 6, 2011

⁴ China Daily – Friday, April 29, 2011

⁵ MetroChina.Biz Analysis of Population Data Collected for December 2011 Paper

⁶ *Why the West Rules- For Now*, 2010, Ian Morris, Professor in Classics and History at Stanford University

⁷ CIA World Factbook