



EXECUTIVE SUMMARY

Best-Performing Cities China 2020

The Nation's Most Successful Economies

Perry Wong and Michael C.Y. Lin

The sixth edition of the Milken Institute's "Best-Performing Cities China" report delivers a data-driven framework for highlighting Chinese cities' economic performance at the prefecture level and above. It traces the key factors contributing to these cities' exceptional economic success in a crowded list of highly competitive cities.

In the past few decades, China has invested a large amount in its domestic infrastructure, attracted foreign investment, and leveraged its low-cost production factors. Since 2010, it has attempted to upgrade its industries. In particular, the nation has put tremendous resources into expanding international trade and fostering its high-tech sectors related to 5G technology, aerospace, and semiconductor chip design, and has achieved great success. Yet, since 2018, China has been facing various challenges for economic growth. The US-China trade war has set hurdles for China's high-tech development. For instance, Huawei, China's tech giant in information and technology infrastructure and devices, has taken a hit from the US ban on high-end computer chips.

Despite these impacts, the Chinese economy has continued its expansion. However, at the outset of 2020, China's first-quarter GDP was RMB 20,650 billion, which marked a sharp decline of 6.8 percent in year-over-year GDP.¹ In facing a pandemic-induced economic shock, the Chinese government swiftly put in place fiscal stimulus packages administrated on both the central and local levels.² China's aggressive effort on pandemic containment and quick economic policy delivery seemed to pay off. The national economy has subsequently rebounded by 3.2 percent and 4.9 percent in the second and third quarters.³ China appears to have the COVID-19 pandemic largely under control, and its economy resumes on an expansion path, though at much lower rates than in recent decades. By the third quarter in 2020, 26 of 31 provinces have matched economic levels from a year ago.⁴

When measuring the strength of a national economy, there is a tendency for many to focus on the nation's headline of macro and financial aggregates. However, the regional development landscape, allocation of production bases among locations, and the connecting supply-chains among regions perhaps reflect more industrial structure and resilience of the national economy. After all, the national economy is an aggregate of all provincial economies. Better quality development and higher economic growth among provinces elevates the national growth rate. The competition to build a better economy among provinces is fierce.

REGIONAL DEVELOPMENT

2020 marks the conclusion of China's 13th five-year plan. One of the core themes is to elevate China's growth through a greater focus on technology innovation and renew its effort to coordinate regional development. The nation's three superclusters, Beijing-Tianjin-Hebei, Greater Bay Area, and Yangtze River Delta, are designated to leverage central cities' economic power with a mandate of connecting and transmitting industrial production and commercial activities to smaller cities and counties within clusters. In recent rankings,⁵ this spatial development model and growth patterns are shaping up noticeably. Less developed regional economies' quick elevation in growth reflects China's commitment to infrastructure building. Thus far, recent rapid growth among regions and cities relies indispensably on the decades-long installation of high-speed rails and transportation routes.

1. "2020 First-Quarter GDP," National Bureau of Statistics, April 18, 2020, http://www.stats.gov.cn/tjsj/zxfb/202004/t20200417_1739602.html (in Chinese); Huileng Tan and Evelyn Cheng, "China Says Its Economy Shrank by 6.8% in the First Quarter as the Country Battled Coronavirus," CNBC, April 16, 2020, <https://www.cnbc.com/2020/04/17/china-economy-beijing-contracted-in-q1-2020-gdp-amid-coronavirus.html>.

2. Jianguang Shen, "China's 'Six Priorities' and Fiscal Stimulus Will Spearhead Its COVID-19 Recovery," World Economic Forum, June 8, 2020, <https://www.weforum.org/agenda/2020/06/china-stimulus-covid19-economic-recovery/>.

3. Huileng Tan and Evelyn Cheng, "China Says Its Economy Grew 3.2% in the Second Quarter this Year, Rebounding from Coronavirus," CNBC, July 15, 2020, <https://www.cnbc.com/2020/07/16/china-economy-beijing-reports-q2-2020-gdp.html>; Evelyn Cheng, "China Says Its Economy Grew 4.9% in the Third Quarter," CNBC, October 18, 2020, <https://www.cnbc.com/2020/10/19/china-economy-q3-gdp-2020.html>.

4. "Provincial GDP by Quarter," National Bureau of Statistics of China, October 2020, <https://data.stats.gov.cn/english/easyquery.htm?cn=E0102>.

5. Perry Wong, Michael C.Y. Lin, Joe Lee, "Best-Performing Cities China 2017: The Nation's Most Successful Economies" (Milken Institute, September 11, 2017), <https://milkeninstitute.org/reports/best-performing-cities-china-2017-nations-most-successful-economies>; Perry Wong and Michael C.Y. Lin, "Best-Performing Cities China 2018" (Milken Institute, August 24, 2018), <https://milkeninstitute.org/reports/best-performing-cities-china-2018>.

The effect is particularly prevalent among the Greater Bay Area and Yangzi River Delta. However, other key markets, such as Henan and Hubei provinces, have shown similar development direction in recent years. The central government and policymakers have focused on the comparative advantage of regional development in the domestic market to spur growth among less developed but lower-cost regions. This strategy apparently can have several distinctive externalities. First, it can help utilize otherwise underutilized resources such as land. Second, it can help alleviate the environmental burden of congestion and pollution on megacities. Third, and perhaps most importantly, this policy will help reduce development disparities and poverty among regions and cities. Last, the Chinese government will continue to fortify growth leaders such as Shenzhen to become global cities.

Though it is still too early to determine this strategy's success, the results of our last three years of rankings have shown improvement in growth disparity. For example, in this year's rankings, more areas perceived to be less robust regional economies rank higher than expected. There are increasing occurrences of the previously high-ranking cities performing below lesser-known ones.

KEY FINDINGS

- China's regional development has elevated to a new level. Cities from the West and Western-North regions dominate the top rankings in the first- and second-tier cities list this year. Lanzhou of Gansu Province, Chengdu of Sichuan Province, and Xian of Shaanxi Province ranked first, third, and fourth. The first-time cities from the Western region took three of the top five spots in our rankings. Shenzhen holds onto the second position as it did last year.
- Fuzhou and Xiamen from Fujian Province ranked fifth and eighth, respectively. It is the first time Fuzhou is in the top 10 list. Guangzhou, Guangdong's provincial capital, ranks sixth and is the first time the city placed on the list. The rest on the list includes Beijing ranked seventh, Nanjing of Jiangsu Province ranked ninth, and finally Hefei of Anhui at 10th. Nanjing and Hefei are on the list for the first time.
- Anhui Province dominates in the top 10 third-tier cities, with three cities ranked third to fifth. Both Guangdong and Shaanxi provinces have two cities among the top 10 list. Most of these cities have benefited from the expansion of their neighboring major cities. Heyuan, Guangdong is first among third-tier cities. As part of the Greater Bay Area and a regional logistic point, Heyuan has recently received many domestic and foreign investments that drive its economic growth.
- The remaining three cities in the top 10 third-tier cities are Xinxiang, Zhangzhou, and Dazhou. Xinxiang and Dazhou are close to Zhengzhou and Chongqing, the key commercial and production centers in their respective provinces. Zhangzhou, a city next to Xiamen, has had noticeable GDP growth in recent years.

This year's top 10 rankings reveal several significant regional development trends. First, the supercluster development strategy is taking shape. The Greater Bay Area cluster, for example, anchored around Guangzhou and Shenzhen (and Hong Kong), are making strides. Second, the more significant Western regional development elevates economic activities with sustaining momentum, placing Xian and Lanzhou on top this year after favorable rankings in the last several years. Third, heightened growth has migrated inward further from the Eastern Coastal cities to more central locations. The cities of Nanjing and Hefei, for the first time, appear in the top 10. Incidentally, both cities have a long history of being the educational centers and critical research bases in the nation.

RANKINGS

First- and Second-Tier Cities

- 1 Lanzhou, Gansu (甘肃省, 兰州市)
- 2 Shenzhen, Guangdong (广东省, 深圳市)
- 3 Chengdu, Sichuan (四川省, 成都市)
- 4 Xi'an, Shaanxi (陕西省, 西安市)
- 5 Fuzhou, Fujian (福建省, 福州市)
- 6 Guangdong, Guangzhou (广东省, 广州市)
- 7 Beijing (北京市)
- 8 Xiamen, Fujian (福建省, 厦门市)
- 9 Nanjing, Jiangsu (江苏省, 南京市)
- 10 Hefei, Anhui (安徽省, 合肥市)

Third-Tier Cities

- 1 Heyuan, Guangdong (广东省, 河源市)
- 2 Baoji, Shaanxi (陕西省, 宝鸡市)
- 3 Xinxiang, Henan (河南省, 新乡市)
- 4 Chuzhou, Anhui (安徽省, 滁州市)
- 5 Wuhu, Anhui (安徽省, 芜湖市)
- 6 Xuancheng, Anhui (安徽省, 宣城市)
- 7 Shangluo, Shaanxi (陕西省, 商洛市)
- 8 Zhangzhou, Fujian (福建省, 漳州市)
- 9 Dazhou, Sichuan (四川省, 达州市)
- 10 Dongguan, Guangdong (广东省, 东莞市)