

~~INVESTMENT~~ OPPORTUNITIES IN SECOND-TIER AND THIRD- TIER CITIES



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The Analysis Provided in a Document is Based on the Following Resources

- China-Briefing
- Chinadaily
- The Economist
- Forbes
- ChinaBusinessReview
- Reuters
- China Knowledge
- Doing Business



Executive summary

- Identified cities, which seem the most suitable for investment, are chosen by the criteria of dominant sector. Tertiary sector is the one we are looking for. Presence of service industry may indicate high level of development and wealth in the area. This means that these areas may be appropriate for European companies to find more potential clients
- Moreover, chosen cities are not Tier-1 financial giants, which are highly saturated with foreign firms and investment. On the contrary, the chosen areas are characterized by young or **emerging tertiary sector**. It may give good ground for European companies to settle in and find customers, while competition is not so high compared to tier-1 cities



Exective Summary

- Chengdu is the leader in development of the region, it is transforming into a major **financial center**
- Xi'an is the center for **high-tech industries**, it mainly attracts FDI in the areas of technological research
- Chongqing is the **center for auto industry**, where major car-makers, such as Ford, have their factories
- All three cities have special economics zones, whose primary goal is to attract FDI by **tax incentives**
- For information regarding specialization and presence of European companies in China's cities, not considered in presentation, look at **tables in Appendix**



Executive summary

- Although coastal regions scored highest overall on the ease of doing business. Yet there were good performers in the interior provinces, too. Chongqing, for example, had the greatest number of reforms and was in the top 10
- Tax incentives for FDI are across most of the Western cities, in particular Xi'an, Chongqing and Chengdu
- Although the Western China currently attracts much FDI, it is still behind the other regions; therefore, the region is still not saturated and there is space for further investment and developing
- Fast region's growth is promising, and more likely to result in many potential middle-class consumers



Attractive China's cities for FDI

- Middle West of China: Xian, Chongqing, Chengdu
- South of China: Shenzhen, Dongguan
- Middle East of China: Suzhou, Nanjing, Ningbo
- North of China: Shenyang, Dalian, Shijiazhuang

According to Fortune Magazine report, **Dalian, Suzhou, Ningbo, and Shenzhen** were among 5 China's best overall business destinations

According to Forbes, **Shenzhen, Nanjing, Ningbo, Suzhou** along with tier-1 cities were among top 10 best China's cities for business



Middle West of China





"Go West" campaign

- In 2012, China's state council approved the 12th Five-Year Plan for Large-Scale Development of the West
- "Go West" campaign is a part of Western development program, pursued by the government
- Consequences of Western development program include:

By 2012, **\$325 billion** was invested in infrastructure projects in the region

4,000 km West-East natural gas pipeline project

Some areas **eased corporate tax** commitment from usual 25% to 15%

Extension of Xianyang airport in Xi'an

Qinghai-Tibet railway, launched in 2006, runs for almost 2,000 km



Chengdu - "strategic base" of Western development

- Service sector, in particularly **finance**, prevails in Chengdu
- A lot of global companies have their branches in Chengdu: ANZ Bank, Nippon Steel Corporation, and Electricite De France, JP Morgan Chase, Henkel, GE, R&D of Motorola, Ericsson, Shell, Intel, Bosch, Foxconn, and Microsoft
- Chengdu had **15.2% economic growth** in 2011, compared to 8.1% Beijing, 8.2% Shanghai, and 10% Shenzhen
- 2013 Fortune Global Forum was held in Chengdu; only Shanghai, Beijing and Hong Kong was granted by this opportunity before

Chengdu is being highly attractive to FDI

- According to Fortune, Chengdu was an ideal place for hosting the Forum, because it reflects major economic trends of China including growing GDP, improving living standards, and **increasing economic influence of western China**





Chongqing is being the largest commercial port in Western China

- Chongqing is a part of Sichuan province
- All three sectors(primary, secondary and tertiary) are considerable
- Chongqing specializes on **resource processing, motor vehicle, equipment manufacturing, high-tech, and finance**
- Many global companies have branches in Chongqing including Ford, Mazda, HSBC, Standard Chartered Bank, Citibank, Deutsche Bank, ANZ Bank, Scotiabank, Wal-Mart, Metro, Carrefour, Danone, Ericsson, and Honda



Chongqing is highly attractive to FDI

- Chongqing in the **fourth most attractive destination for FDI** after Beijing, Shanghai and Shenzhen
- In 2007, contracted FDI increased by over 260% - compared to the previous year - reaching \$4.07 billion
- Chongqing has 1,000 scientific research institutes and 29 higher education institutions
- Chongqing has a sound transportation system including highways, monorail, an airport and a commercial port



Xi'an's service sector expansion is not far away

- Xi'an's service sector is gradually developing although **manufacturing** still plays a major role(**44.5%**)
- Main areas of specialisation are **equipment manufacturing, tourism, and service outsourcing**
- International companies, which have branches in Xi'an, include ABB Group, Mitsubishi, Toshiba, Fujitsu, Coca-Cola, and Boeing
- Xi'an is located close to Beijing, which can be reached by a 90 minute flight



Xi'an: rapidly developing science hub

- Xi'an is a primary location for attracting **FDI in the areas of science and engineering research** including GM food research, which is politically restricted in many countries
- Xi'an offers **preferential rates** to foreign investors in the area of R&D; in other FDI areas, investment incentives such as **tax breaks** may be applied

13%
annual
economic
growth

79 of
Furtune
500
companies
represented

1,329
sq km of
urban area
by 2030





Special Economic Zones have been opening across Western China

- Xi'an Economic and Technological Development Zone

It was established in 1993. It is located close to Xianyang airport and several national highways. The main industries within the zone are **automotive, electronics, food, and new materials industry**. The Zone is one of the most popular destinations for FIEs in Shaanxi, with over 1,700 registered enterprises. The government expects to transform the zone into **national science park** in the future.

- Chongqing Economic & Technological Development Zone

It was established in 1993. The Zone is close to several highways and Chongqing-Guizhou expressway, which leads to seaports in southwest China. It specializes on **automobiles, auto parts, IT, pharmaceuticals and biochemical**. By 2006, of 4,166 enterprises, operating in the zone, 410 were foreign invested companies, with FDI reaching US\$2.5. FDI in high-tech industry is highly encouraged within The Zone.

- Chengdu Economic and Technological Development Zone

It was approved in 2000. It is 13.6 km to Chengdu. FDI within the zone is coming from 20 different countries. It specializes mainly on **mechanics, electronics, new building materials, medicine and food processing**.

**West Triangle
Economic
Zone**



Special Economics Zones give incentives to foreign investors

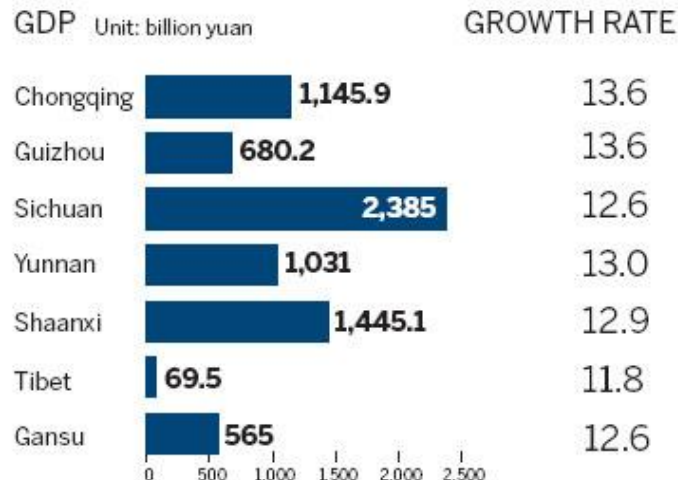
- Tax incentives
- **Greater independence** on international commercial activities
- Construction is mainly implemented through attracting and utilizing foreign capital
- Prevailing economic forms: **sino-foreign joint ventures, partnerships** and **foreign-owned enterprises**
- Products are primarily export-oriented
- Economic activities are primarily driven by market forces



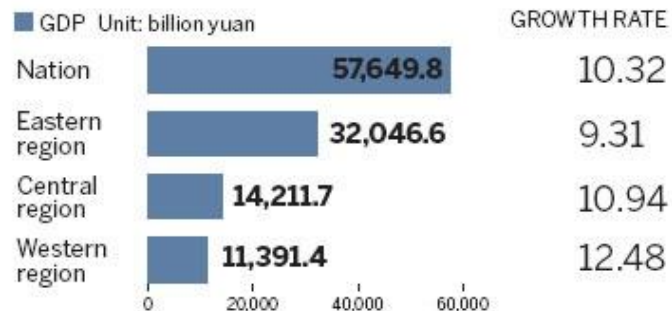
Western China needs more investment

- Chongqing(Sichuan province), Chengdu(Guizhou province), and Xi'an(Shaanxi province) in terms of GDP and growth rates(upper chart)
- However, the region is still far behind the others on the national level(bottom chart)

ECONOMIC DEVELOPMENT IN WESTERN REGION OF CHINA IN 2012



COMPARISON BETWEEN NATION AND DIFFERENT REGIONS



Source: Blue Book of Western China

FENG XIUXIA / CHINA DAILY



South of China





Shenzhen: one of the world fastest growing city

- Shenzhen's two main sectors are manufacturing&service, but service sectors is rapidly shrinking
- **Finance, electronics, telecommunications, and computer manufacturing** are the main industries in Shenzhen
- Shenzhen's annual **GDP growth** reached **25%** over the past years
- In 2012, the city's **GDP** was **US\$200 billion**, with **per capita figure of US\$20,000**



Shenzhen was the first SEZ in China

- Shenzhen is famous for attracting start-ups
- High-tech international companies settle in Shenzhen including **IBM, Intel, Siemens, Samsung and Hitachi**
- 162 companies of Fortune 500 are presented in Shenzhen
- Shenzhen has very close connections with Hong-Kong due to short distance: as a result, Qianhai Shenzhen-Hong Kong Modern Services Cooperation Zone was approved in 2012
- Shenzhen Special Economic Zone was the first such a zone, established in China in 1980



Dongguan: "The World's Factory in Transition"

- Service & **manufacturing** are leading sectors of Dongguan's economy: **electronics and communications equipment** prevail in manufacturing
- In 2012, GDP reached US\$80 billion
- Government expects Dongguan to become an important **modern manufacturing center** at the international level by 2015
- Rising minimum wage in Dongguan(RMB 1,100 per month, 9th from the top) indicates increasing level of economic activity
- Agriculture-Manufacturing-**Service**: 0.4:46.9:**52.7** (in 2012)



High-tech industries are encouraged in Dongguan

- **Foreign-invested enterprises increased its domestic sales by 34%** in 2011 compared to 2008, reaching RMB 247.9 billion
- "12th Five-Year Plan for Dongguan's Economic and Social Development"
- pursues the development of following industries: **advanced information industry, electric vehicle industry, solar energy industry, semiconductor lighting industry, biochemical industry, civilian nuclear industry, new material industry, energy-saving industry, marine industry**
- Productivity of labour is rapidly increasing: this is indicated by declining labor-intensive industry thought its increasing output



Middle East of China





Suzhou: "Venice of the East"

- Suzhou is mainly manufacturing city with **shrinking service sector**
- The city specializes on iron, steel, textile, and **tourism**, which largely contributes to its economy
- Around 1500 foreign companies in Suzhou new district
- including 27 listed countries
- In 2013, Suzhou's GDP exceeded RMB 1.3 trillion, with annual economic **growth of 9.6%**



Suzhou's service sector is rapidly shrinking

- Primary industry: RMB 21.4 billion (3% increase), secondary industry: RMB 685 billion (7.5% increase), service industry: RMB 594 billion (10.7% increase)
- **Service sector accounts for 45.7% of GDP**
- Tourism largely contribute to service sector in Suzhou with the revenue of RMB152 billion (11.9% increase)in 2013
- Nearly 2,000,000 foreign tourists visited the city in 2013
- The city's gross industrial output reached RMB 3.57 trillion (3.4% increase)



Suzhou offers tax incentives for FDI in high-tech areas

- The main areas attracting FDI in Suzhou are **Suzhou Wuzhong Economic Development Zone** and **Suzhou Industrial Park**
- Suzhou Wuzhong Economic Development Zone was ranked as top-10 economic development zones of Jiangsu Province
- It currently hosts around 6,000 domestic and foreign companies
- The zone offer tax incentives for FDI in the following sectors: **machinery manufacturing, electronics and IT, bio-medicine, new energy, and new materials**



Shenzhen tops the table of China's wage rates

- Shenzhen SEZ comprises 6 districts: Luohu, Futian, Nanshan, Yantian, Bao'an, and Longgang.
- FDI is highly welcome in Shenzhen and supported by various tax incentives
- **15% preferential income tax** within Shenzhen SEZ
- In accordance with “Regulation on Commercial Registration in the Shenzhen Special Economic Zone ” on October 30, 2012, commercial registration fee is no longer collected by commercial registration authorities
- Shenzhen is the city with **highest minimum wage in China**, which currently stands at RMB1,500 per month



FDI in Suzhou is encouraged across various sectors

- Suzhou's local government offers preferential tax and financial support for investment in the following areas:

Manufacturing	Service
<ul style="list-style-type: none">• Modern Biological• Pharmaceutical Industry• New Materials• Electronic• Telecommunicatios• Automobile Manufacturing• Ship Manufacturing• Petrochemical• Fine Chemical Manufacturing• Fine Steel Manufacturing	<ul style="list-style-type: none">• Banking• Logistics• Wholesale and Retail Trade• Scientific Research• Comprehensive Technology Services• Real Estate• Tourism• Consulting Outsourcing



SIP: preferential tax opportunities

- A limited partnership venture capital company is entitled to preferential tax in Suzhou Industrial Park if:
 1. it is only engaged in capital investment
 2. it invests in an unlisted small or medium-sized enterprise, specializing on high-tech production
 3. 2 years of equity investment within a pilot period
 4. 70% of the total VC enterprise investment by the partners may be deducted from the taxable income
 5. If a single investor invests in several enterprises within the SIP, the deductible investment and taxable incomes may be calculated on a consolidated basis



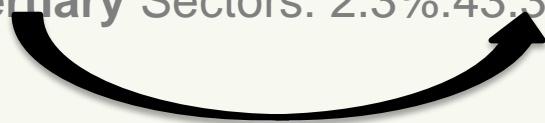
Nanjing: a centre for heavy industry and service

- Nanjing is originally manufacturing city, with currently quickly developing **service sector, which accounts for 54.4%**
- "Five pillar industries": **electronics, cars, petrochemical, iron and steel, and power**
- Foreign companies, in particular car-makers, presented in Nanjing include Volkswagen Group, Iveco, A.O. Smith, Sharp, and Mazda
- Largest domestic companies, based in the city, are **Suning Appliance, Nanjing Iron & Steel, Nanjing Central Emporium Group, Jiangsu Hongtu High Technology, Nanjing Pharmaceutical**



Tertiary sector has yet surpassed manufacturing in Nanjing

- Largest domestic companies, based in the city, are **Suning Appliance, Nanjing Iron & Steel, Nanjing Central Emporium Group, Jiangsu Hongtu High Technology, Nanjing Pharmaceutical, and Shanghai Automotive Industry Corp**
- Nanjing's average **GDP growth is 13.1%** per year
- In 2012, city's GDP reached RMB720.2 billion and **RMB801.18 billion in 2013**, with **GDP per capita of RMB98,011**
- Primary-Secondary-Tertiary Sectors: 2.3%:43.3%:**54.4%**





Nanjing: business environment is favorable for foreign investors

- According to Forbes, in 2011, Nanjing was ranked 5th in terms of overall competitiveness among Chinese cities
- **Nanjing Economic and Technological Development Zone** offers investment opportunities in the following areas: **electronic information, biopharmaceuticals, machinery, and new materials**
- In the first half of 2011, **FDI reached US\$4.69 billion**, which is 42.2% more than in the previous year
- Major foreign investors within Nanjing ETDZ, mainly high-tech companies including **Sharp, Bosch, Siemens, Hannstar, HeeSung Electronics, AO Smith, Radiant, SAC, LG Philips**



Ningbo: private economy takes over 80%

the most promising city
in China

...top five
most
competitive
city in China

- Shanghai University of Finance and Economics(2013):
- In 2013, Ningbo's **GDP reached RMB 712.89 billion** (US\$115.12 billion), which grows annually by 9.26%
- Primary industry: RMB276.4 billion; secondary industry:RMB374.17 billion(8.2% increase); tertiary industry: RMB311.08 (8.8% increase)
- Private economy contributes over 80% of total city's GDP



Ningbo provides all opportunities for FDI

Several zones offer opportunities for investment including:

- **Ningbo Economic & Technological Development Zone**

It is one of the largest and earliest zones developed in China. It offers investment opportunities such as areas as petrochemical, equipment manufacturing, auto parts, and new clean energy.

- **Ningbo Daxie Development Zone**

The zone offers state-level preferential policies in main areas including transportation of energy, liquid chemicals and containers.

- **Ningbo Free Trade Zone**

It is the only one free trade zone in Zhejiang Province. It offers various opportunities for investment in the areas of international trade, advanced manufacturing and logistics.



High-tech and service companies are welcome in Ningbo

- It attracts over 60 domestic and foreign companies in the areas of **banking and finance**
- **Preferential tax policies** are created to encourage investment in the following areas:





Ningbo: incentives for FDI are encouraging

In particular, **Free Trade Zone in Ningbo** offers investors the following easing policies regarding investment:

- Some imported goods such as equipment, spare parts, building materials, and office facilities may be **not obliged by import duty and import-related value-added tax(VAT)**
- Preferential corporate tax of 15%
- Foreign invested enterprises, which have been operation for more than 10 years, are **exempted from corporate tax for first 2 years**
- Manufacturers, who undertake high-tech research projects, are provided with fiscal support



North of China





Shenyang: leading manufacturing sector

- Shenyang is among top 15 cities with largest **GDP**, which reached **RMB715.86** in 2013
- Manufacturing sector is leading in Shenyang although service sector is shrinking rapidly
- Primary-Secondary-Tertiary sectors: 4.7%:51.8%:43.5%
- GDP per capita reached RMB86,850 in 2013, with **8.8% average growth rate**
- **Six-pillar industries include: equipment manufacturing, automobiles& auto-parts, pharmaceuticals&chemicals, agricultural products-processing, nonferrous metallurgy&construction products** major international car-makers such as BMW, Toyota, Mitsubishi and many others.



Tourism and banking are rapidly shrinking in Shenyang

- Service sector has been growing fast generating value added industrial output of RMB 311.38 billion in 2013
- Tourism largely contributes to service sector revenue amounting RMB89.07 billion
- Over **75.03 million tourists** travelled Shenyang in 2013
- Banking is another major part of tertiary sector in Shenyang; major foreign banks, such as HSBC, are represented in the city
- According to Economist Intelligence Unit, the city was included to the list of 20 emerging cities of China



Shenyang encourages FDI in high-tech

- There are two major investment zones including **Shenyang Economic and Technological Development Zone** and **Shenyang High-tech Industrial Development Zone**
- In 2013, utilized **FDI approached US\$5.81 billion**. Shenyang is the second largest destination for FDI in Liaoning, after Dalian
- Shenyang Economic and Technological Development Zone encourage investment in the areas of equipment manufacturing, automobiles, auto parts, chemicals, and medicine
- Shenyang High-tech Industrial Development Zone provide investment incentives in electronics, information technology, advanced manufacturing, biology, medicine, and new materials



Dalian: "China's industrial base"

- The city is regarded as the **biggest free trade port** in Northern China
- In 2013, Dalian's GDP reached RMB765.08 billion with **9% growth rate**
- Industrial sector is crucial in Dalian's economy with industrial output of RMB343.86 billion in 2013, which is 10% bigger than in the previous year
- Major manufacturing industries include: shipbuilding, machinery manufacturing, petroleum refining, biological engineering, and digitalized technology



Service sector is the fastest growing sector in Dalian

- Primary sector: RMB47.76 billion (4.8 % increase); secondary sector: RMB389.2 billion (9.4 % increase); tertiary sector: RMB328.12 billion (9.1% increase) annually
- **Financial industry and tourism** make a large contribution to Dalian's service sector
- In 2013, Dalian financial industry hosted **639 new financial organisations**
- Being “National Garden City”, Dalian attracted over 53.3 million domestic and foreign tourists in 2013, who together brought around RMB90.08 billion revenue



Various opportunities are offered to investors in Dalian

- Dalian Economic and Technological Development Zone

By 2013, the zone hosted around 2,300 FIEs. It offers investment incentives for enterprises in the following areas: **petro chemistry, automobile & components, equipment manufacturing and light industry.**

- The Dalian Free Trade Zone

It is the largest free trade zone in China. The main sectors within the zone are **processing, trade, logistics and warehousing.**

- Dalian High-Tech Zone

The zone hosts over 4700 enterprises, 90% of which are specialising in high-tech. As a result, the leading sectors within DHTZ are **software and service outsourcing.**



Dalian Free Trade Zone offers incentives

- Materials, used for processing export products, such as raw materials, spare parts and others are bonded within the zone.
- Transit goods and goods stored in the zone are treated as bonded goods
- Imported goods into the DFTZ are exempt from import tariff and import linkage tax if:
 1. Construction material is used for infrastructure building
 2. Production and management equipment is delivered for enterprises withing the zone
 3. Reasonable quantity of office supplies and maintenance parts used by the DFTZ enterprises

**Manufacturing
Industry**

**Municipal
Infrastructure
Industry**

IT

**Modern Service
Industry**

**Service
Outsourcing
Industry**



Shijiazhuang encourages high-tech

- Wage level in Shijiazhuang is **RMB1,320 per month**, which is 6th from the top
- The city mainly specializes on **pharmaceutical, textile and cotton**
- production
- There is considerable number of foreign companies settled in the city, including German, Italian, American and others
- Shijiazhuang High-Tech Industrial Development Zone is divided into three districts with different specialization
- Within the zone, Eastern district is the main and specializes on establishment of **high-tech enterprises**
- Western district focus on **pharmaceutical and the petrochemical sectors**
- Since its approval, 2,560 companies have settled in the zone, of which 185 are being foreign



Wage level rank of analysed cities

City	Wage (RMB per month)	Region
Shenzhen	1,500	South
Ningbo	1,470	Middle East
Suzhou	1,320	Middle East
Nanjing	1,320	Middle East
Shijiazhuang	1,320	North
Xian	1,150	Middle West
Dongguan	1,100	South
Shenyang	1,100	North
Dalian	1,100	North
Chongqing	1,050	Middle West
Chengdu	1,050	Middle West



Western regions show considerable growth with comparatively low wage level

- High wage level may be regarded negatively by entrepreneurs
- However, if we take into account that China is currently in the process of development, which is different across regions, **high labour rates are more likely to indicate high growth rates and great future potentials of the region**
- All cities introduced in the report have comparatively high wage rate although **Eastern regions are in the top of table**
- **Western regions have comparatively low wage rate**, although Xi'an is an outlier with wage rate close to Eastern cities