

ANALYSIS OF CHINA'S 12 MAJOR PROVINCIAL CITIES

China's not so much a country as one huge continent. So there are lots of options when it comes to doing business there. The so-called "second tier" cities may not have the infrastructure of the those on the eastern seaboard, but they may well be more cost effective solutions.

(excerpt from NZTE's China 5-year strategy)

Chengdu

The capital of Sichuan province, Chengdu has advanced computer and precision manufacturing industry and is the financial and IT hub for southwest China. Intel is one major investor with several factories and more being built. According to Cendant, 36 per cent of companies expect it to be an active assignment location in the next three years. According to local expats, "Chengdu is swapping its older Chinese flavour for a more modern, stylish Chinese look, but despite its efforts, Chengdu still remains chaotic in traffic patterns, hygiene standards, and construction methods".

An increasing number of foreigners are moving in, bringing an 'explosion' of foreign restaurants, and clothing shops such as Peter's Tex Mex, the Grandma's Kitchen restaurant chain, Joyce's Barbeque, United Colours of Benetton, and Lapis Lazuli.

In terms of infrastructure, metro construction has begun, and the city has also started "an incredible make-over project", residents say, with intersections, lights, flower beds, sidewalks all looking 'disturbingly modern and clean'. There is also a major effort to make air breathable – heavy industry must now exist outside of the second ring road and there is now a noticeable difference in the air quality.

Chongqing

Chongqing every day gains an estimated 137,000 sq m of new floor space for buildings, RMB 99 million in economic growth and 1,370 people from the countryside.

Its 31 million population makes it the world's largest city by some definitions – although its metropolitan area has only 12 million people approximately, expected to grow to 20 million in 10 years. Chongqing is still very much a Sichuan city. Located in a rugged valley, and bisected by the Yangtze and Jialing Rivers, it has for centuries been a strategically important city for trade in and out of China's heartland.

During the Sino-Japanese War, it was transformed into a heavy industrial city, with military industries that thrived after 1949. Since the 1980s, many of these enterprises turned from producing military goods to mostly civilian goods. Chongqing has undergone dramatic development over the past few years, with high rise tower blocks and many new logistic facilities. Excellent transport links exist, by rail, road, and river, to the rest of China. Pollution is a major issue, however, and the city waste dumps are struggling to absorb 3,500 tonnes of rubbish daily. For this reason, it seems to be somewhat less popular amongst the expatriate community than its near neighbour Chengdu.

Dalian

Dalian is a well run, modern city – clean streets and top-class facilities - with an educated and reasonably affluent young population supporting international shops.

Thirty minutes from the station on a new light rail system take you to Dalian Development Area, which is a whole new town built in 20 years. The city has friends in high places – the Minister of Commerce, Bo Xi Lai, was Dalian's mayor and Liaoning's provincial governor before going to Ministry of Commerce.

Dalian is an excellent location for businesses involved in metal and lumber processing, component parts consolidation and distribution. The quality of life is excellent according to both locals and expats and in the Cendant study on expectations for expat assignments, 29 percent of companies expected it to be a destination in three years, compared to 15 percent now.

Harbin

Harbin is the capital of Heilongjiang Province. Bordering Russia to the North and East, Harbin is a major rail logistics centre connecting China to the vast expanse of Russia and is a conduit for the trading of both Chinese and Russian goods.

Its main industries are forestry and wood processing, as well as the logistics elements of Sino-Russian trading and the related services industries. There is a developing biotechnology industry.

Although agriculture is limited due to the harsh winters, the Chinese medicinal industry is flourishing due to the exploitation of certain arctic plants and fungi that do prosper in this sub-Siberian climate.

Harbin is undergoing some impressive new developments in upgrading its city centre, with a new bar and entertainment complex having been completed and up market stores and brands such as Lane Crawford along the main high street. Property prices are increasing due to the growth in logistic and services industry, tied in strongly to Russian trade and goods transiting via Harbin en route to Japan, Korea and the Mainland market. Cheap Chinese goods go the other way. Although cold for five months of the year, the standard of living is relatively high and there are plenty of bars, restaurants and hotels to choose from.

There is only a small amount of western investment in Harbin at this stage, however for businesses wishing to develop trade or services between China, Russia, Japan and Korea then Harbin is the focal logistics hub for accessing these markets

Kunming

Kunming is the capital of Yunnan province and one of China's most attractive tourist cities. Because of its remote location, Kunming was somewhat ignored by China's rapid economic growth in the 1990s. However, recently the city has received more attention, launching it into an international hub to access Southeast Asia. Several railroads and highways have been planned to connect Kunming to areas of Thailand, Vietnam, and Laos, providing direct access to ports.

The salt and phosphate mines around Kunming are some of China's best. It is developing as a major international flower centre, and fresh blooms are everywhere, and inexpensive, often sold by the roadside.

Central Kunming is a fairly sterile modern city, but the area around the Cuihu Park is nice, full of peacocks nesting in trees and a whole area of bars and restaurants on the west shore. There are some decent bars and cafes such as Hump Over The Himalayas and Café Francais Lan Bai Hong. Kunming is also a golfing destination with a Jack Nicklaus signature course in nearby Yiliang.

Nanjing

Nanjing sits astride the Yangtze, its port a key waterborne transport hub. It is East China's second largest business centre, with leading industries such as heavy chemicals, petrochemicals, electronics, automobiles, iron and steel, food, garment and building materials.

Infrastructure is improving – the city opened a new subway system in autumn 2005 - and the railway station underwent a major refurbishment. A new high-speed rail link from Nanjing to Hangzhou and Ningbo begins construction in 2006. The newly-expanded Shanghai-Nanjing expressway joins the cities in two hours. Other recent developments include a second road tunnel under Xuanwu Lake, a new road from the airport that allows quick access to central, and the opening of Zhongshan International Golf Club.

Ford is one investor currently making a big commitment, with a new engine plant opening in 2007. Three factors brought Ford here, according to reports: 1) a “good deal on land”; 2) the city's port, allowing easy shipment of parts; and 3) a booming local car market.

Nanjing also has one of China's highest per capita tertiary education rates. As an official said, “the average salary is lower than in Shanghai, but the number of engineers is twice as high”. But the city doesn't seem to suffer from Shanghai's turnover and high retraining costs.

Ningbo

Ningbo is not just an ordinary city – it has the same authority as provincial governments for economic administration – and has a port second only to Shanghai. Unlike Shanghai, the port is deepwater and capable of handling 300,000 tonne vessels. By 2007, cargo throughput will be 250 million tonnes and container throughput 7 million TEUs, and by 2010 300 million tonnes and 10 million TEUs.

With bulk container breakdowns, hugely improved logistics, and massive chemical and foodstuff processing developments, Ningbo could yet win the race with Shanghai as port of choice for servicing the east coast.

According to foreign business people in the city property prices are rising dramatically. Industrial land is now twice that of similar land around Shanghai. There are some concerns about local corruption and as ever extensive due diligence and knowing who your partners really are is a must.

Qingdao

Qingdao boasts a consistently high ranking for quality of life and is also a leading tourist resort. It has a large port, handling 7 million TEUs and over 160 million tonnes of cargo annually.

Qingdao is home to famous brands such as Haier, Hisense and Tsingtao Beer. No surprise to find 24 percent of respondents to Cendant expecting it to be an expat destination in the next three years.

Some observers wonder, however, if the city can juggle its potentially-competing trio of industry, port and tourism. Frank Wen, GM of the Shangri-La in Qingdao, told *China Economic Review*, “frankly, there is concern that the government is in danger of pushing industrial investment too much”, possibly at the expense of tourism, with locals nervous about the impact of a new chemical and oil refinery on Qingdao’s famously clean air.

Shenzhen

Although considered a provincial city, Shenzhen is not at all a second-tier city. In 1979 Deng Xiaoping used Shenzhen as a test for free-market principles. With that test Shenzhen has grown from a population of 300,000 to approximately 7 million in less than thirty years.

It has also progressed from being a mostly agrarian economy to being one of China’s hi-tech leaders. The relatively freewheeling atmosphere as a Special Economic Zone was conducive to establishing what is now one of China’s only two stock exchanges (the other being Shanghai).

Wuhan

“A huge, sprawling beast of a city”, as the *South China Morning Post* put it, Wuhan is a conglomeration of three towns around the confluence of the Yangtze and Han rivers. At the very centre of China, it marks the intersection of the Beijing-Zhuhai and the Shanghai-Chongqing expressways and is the biggest river port in the Yangtze’s middle reaches.

Wuhan is notable for its universities too – it has seven of China’s top 100 universities, and 13 other large education institutions.

About 90 percent of Wuhan’s imports and exports – dominated by the car, electronics and petrochemicals industries – are shipped along the Yangtze. The prices are competitive – RMB 2,000 to ship a container by barge to Shanghai, compared to RMB 5,000 by rail and RMB 8,000 – 10,000 by road. In other infrastructure developments, it has the the largest marshalling yard in Asia, new high-speed trains connect Wuhan to Shanghai in 10 hours instead of 18 previously and it will also become one of China’s new “regional hubs” for air traffic.

Expensive bars and cafes occupying the old European colonial buildings along the Shanghai-style waterfront lend Wuhan an air of commercial sophistication. But business people report that profits are low. Willy Zhang, manager for a Swedish packing firm, told the *South China Morning Post*, “foreign investors need to understand it will take 10 years to make a profit here, not three”.

Xiamen

Xiamen is an attractive coastal city and the major commercial centre in Fujian. It enjoys an excellent living environment and is rightfully regarded as one of China’s most pleasant coastal cities. Xiamen has long held close ties with Taiwan, and with direct links being re-established with the mainland, the city will benefit.

Xiamen itself is a Special Economic Zone and as a result has attracted a significant amount of foreign direct investment (FDI). There are excellent port facilities and a successful free trade zone here as well. The city is host to the annual China International Trade Fair every September.

Xian

Xian, capital of Shaanxi, is an ancient city with a fascinating history and culture, the start of the Silk Road and China's capital for 2,000 years. Today it is best known for the Terracotta Warriors, but the city itself is fascinating with massive city walls stretching some 20 kilometres and several important sites with pagodas, towers and temples all very well preserved. Indeed, tourism is one industry that the city is hoping to develop with FDI.

Xian is very much a forward looking city and has made huge strides in the development of its engineering and hi-tech industries and boasts some of China's finest education facilities, with five universities in the top 100.

[Source New Zealand Trade and Enterprise, 2007]