

## **SHENZHEN – THE ICT HUB OF CHINA**

One of the major cities in the Greater Pearl River Delta Region, Shenzhen is expanding to become a “high tech industry corridor.” Read on for an overview of the region that covers everything from investment incentives to typical costs of doing business.

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### 1. Introduction

Many Western ICT companies from the US, UK, France, Germany, Australia and other developed countries in Asia such as Hong Kong, Taiwan, South Korea and Singapore have successfully entered the China market. To date New Zealand ICT companies have been very cautious about business opportunities in China and have tended to favour the US, UK, Australia and other Asian markets such as Singapore. Doing business in China is difficult and there are many examples of Western ICT companies, large and small that have failed to develop a successful business in China.

New Zealand ICT companies need to carefully assess the costs, benefits and risks of doing business in China. Whilst an assessment of the market opportunities and the risks of doing business in China is outside the scope of this report a very high level overview of the potential business opportunities is provided as a guide to the most attractive ICT sub sectors. An update on Intellectual Property Rights (“IPR”) in China has also been provided as this has been noted by NZTE as one of the key reasons preventing New Zealand ICT companies entering the China market.

### 2. China ICT market

The China ICT market offers huge potential for New Zealand companies. IDC forecast China's IT market to reach US\$35 billion in 2006 and the telecom services market to amount to US\$72 billion in 2006. Annex 1 contains a summary of the potential opportunities for New Zealand companies seeking trade and investment in the China ICT market.

### 3. Intellectual Property Rights in China

New Zealand ICT companies have raised concerns about China's poor IPR and have cited this as one of the key reasons for deciding not to enter the China ICT market. There is no doubt that China's track record of protecting IPR is poor. However, the Chinese Government is determined to improve IPR protection and has implemented a number of measures to step up IPR protection. China's Action Plan on IPR 2006 is being launched and covers trademark, copyright,

patent and import-export. It encompasses nine areas of protection: legislation, law enforcement, mechanism building, publicity, training and education, international exchange and cooperation, promotion of business self discipline, provision of services to right holders and topical research.<sup>1</sup>

#### 4. China ICT Beach Head

A number of High Tech zones offering attractive incentives for foreign companies have sprung up across China. However, many of the High Tech zones have not lived up to their expectations in terms of providing adequate infrastructure and proximity to potential suppliers and clients.

This report examines the attractiveness of Shenzhen, with its numerous High Tech parks, as a potential ICT Beach Head for New Zealand companies. The following areas are covered:

- An overview of Shenzhen
- Key economic data
- Shenzhen's High Tech Industry
- Foreign investment in Shenzhen
- Investment incentives
- Typical costs of doing business

##### 4.1. Shenzhen Overview

Shenzhen is one of five<sup>2</sup> special economic zones ("SEZ") set up in the 1980s. Shenzhen's initial Economic Trade Development Zone, the Shenzhen Science and Industry Park, is now fully occupied with a number of big name enterprises such as Compaq, Great Wall, IBM, and TCL. The area is now being expanded to form a 'high-tech industry corridor.' Shenzhen is also developing a central business district that will provide the focal point for providers of finance, trade, information, and cultural services.

Shenzhen is one of the major cities in the Greater Pearl River Delta Region. Shenzhen is linked by rail to Guangzhou (1 hour away) and Hong Kong (45 minutes away). Expressways connect the city to Guangzhou (2 hours away) and other major cities in the delta region. Shenzhen's Bao'an airport offers an extensive network of flight connections to other Chinese Mainland cities and is extending its international reach.

Shenzhen is the number one city in China for exports and is the fifth largest city in terms of GDP.

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<sup>1</sup> See Hong Kong Trade Development Council Business Alert – China "Action Plan on IPR Protection Soon to be Launched" and "Practical Guide to IPR Protection in China : How to Protect Your Brand" available at <http://bookshop.tdctrade.com>

<sup>2</sup> The other 4 SEZs are: Xiamen, Zhuhai, Shantou and Hainan

## 4.2. Key Economic Data

Total area	(square kilometers)	1,953.00
Census Population 2000	(million persons)	7.01
Total GDP in 2004	(US \$ billion)	41.34
Real GDP growth 2004	(per cent)	17.3
Official per capita GDP in 2004	(US\$)	7,161.00
Gross industrial output in 2004	(US \$ billion)	78.61
Total trade in 2004	(US \$ billion)	147.28
Growth in exports 2004	(per cent)	23.60
Utilised foreign direct investment in 2004	(US \$ billion)	2.35

\*Note: Statistics reported for the jurisdictions in the Pearl River Delta are based on data from the jurisdictions' Statistical Yearbooks or statistics bureaux. Data for the year 2004 are preliminary.

## 4.3. Shenzhen's High Tech Industry

Shenzhen is a leading city in China for high-tech industries and new business ventures. The telecommunications equipment, computers, and other electronics sector dominate the local manufacturing economy (representing US\$ 38 billion gross industrial output in 2003). Other leading sectors include electric equipment / machinery and printing / recorded media (US\$ 3.5 billion and US\$ 0.8 billion gross industrial output in 2003). Shenzhen accounts for almost 20 percent of the Chinese Mainland's software output and 25 percent of its integrated circuit design business. Numerous foreign firms and leading firms from all over the Chinese Mainland have set up in Shenzhen to take advantage of the infrastructure, workforce, and links to Hong Kong.

Shenzhen is also home to a number of international trade fairs and exhibitions covering a wide range of industries from nuclear power to food. Shenzhen's China High-tech Fair, the largest of its kind in China, attracts participants from around the globe. Shenzhen is home to one of two stock exchanges in the Chinese mainland and has been a leader in the opening of China's finance and insurance sectors.

Computers, telecommunications, integrated circuits, digitally controlled household electrical appliances, and biomedical products will be given priority under the Shenzhen government's current Five Year Plan. The authorities aim to enhance Shenzhen's role in commercializing technology for Chinese Mainland markets and are actively encouraging the expansion of the retail sector, particularly with regard to chain stores. They also plan to develop the city's role as a regional and international logistics centre, as well as a main urban exhibition and distribution centre for the Pearl River Delta region.

Shenzhen's new 'University Town' brings together branches of some of China's top universities on one campus.

#### 4.4. Foreign investment

There are thousands of foreign-invested enterprises in Shenzhen. International firms are prominent in the high-tech sector, with Compaq, DuPont, Epson, IBM, Hitachi, Hon Hai Precision, Intel, Lucent, Olympus, Oracle, Ricoh, Samsung, Sanyo, Seagate, Siemens, and Sony all having operations in Shenzhen. IBM claims its PC factory in Shenzhen is among its best in the world. Both Intel and Oracle have chosen Shenzhen for their first design centres in China.

There is also significant international presence in service sectors such as: banking, finance, and insurance (AIG, ABN Amro, Bank of Tokyo, BNP Paribas, Dresdner Bank, HSBC, IDG, and Standard Chartered), shipping and logistics (Maersk and Federal Express), business services (Ernst & Young, KPMG, and PricewaterhouseCoopers), and retailers (B&Q, Carrefour, Jusco, McDonald's, and Wal-Mart). A number of companies base their sourcing centres in Shenzhen. Wal-Mart's home office for overseas procurement is in Shenzhen. In 2004, Wal-Mart bought approximately US \$ 18 billion in commodities in China (an amount equal to more than one percent of China's GDP).

#### 4.5. Investment Incentives

Shenzhen offers a package of preferential policies and incentives to foreign investors, including

- reduced income tax rates (corporate income tax is 15% and there is no local tax);
- tax holidays for income and property taxes,
- reduced land use fees, and special VAT terms.
- Foreign investors who reinvest their share of profit in China for a period of no less than 5 years may, with the approval of the tax authorities, obtain a refund of 40% of the income tax paid on the reinvested amount.

#### 4.6. Typical costs of Doing Business

Electricity, telecommunication, office rents, salaries and other costs of doing business in Shenzhen are provided in Annex 1.

#### 5. Next Steps

More information on the business opportunities, costs and risks is required to build a detailed business case for establishing an ICT Beach Head in Shenzhen. From initial discussions with the Liaison Officer from Invest Shenzhen, the Government department responsible for providing information and advice, much of the required information (such as specific information regarding the type and number of foreign ICT companies that have established a presence in Shenzhen, profiles of Shenzhen's various High Tech Parks, updated information of the costs of doing business in Shenzhen) could be obtained from a face to face meeting with Invest Shenzhen.

**Potential opportunities for New Zealand ICT companies seeking trade and investment in China**

- China's telecom market is the largest subscriber market in the world. A number of overseas mobile companies have formed joint venture and distribution agreements with Chinese mobile data companies.
- The Chinese Software Industry has grown rapidly with the packaged software market reaching US\$2,650.5 million in 2004. IDC forecasts this market will reach US\$6,234.0 million in 2009 with a 2004-2009 compound annual growth rate (CAGR) of 18.7%. Private and foreign software companies dominate the market while many Chinese companies are starting to expand into international markets.
- Software Outsourcing & IT Services is a sector that is supported by the Chinese government and has received significant investment from foreign companies. The entry of more western and Indian companies will most likely result in significant growth in this sector.
- E-Commerce: The China B2C market is expected to maintain rapid development. However, logistics, distribution and payment system are issues, which potentially limit the growth of the sector.
- Online Gaming is growing rapidly with a market size of around US\$1 billion. The market is expected to grow with PC and broadband penetration increases and is estimated 5 and according to i-Research they forecast the market will reach US\$ 1.8 billion by 2010.
- IPTV presents an attractive prospect for providers of equipment and solutions as well as content. Analysys, predicts that users of IPTV in China will reach 1.2 million by end of 2005; 2007 will be a year of explosion of IPTV users, and finally by 2009 IPTV users will reach 16.7m users.

## SHENZHEN BUSINESS COSTS<sup>3</sup>

### 1. Electricity

	Common electricity	Large amount of consumption 101 to 3000 k VA	Over 3001k VA
Domestic	0.73		
Commerce and service industry	0.89	0.77	0.72
Industry	0.75	0.65	0.6

### 2. LPG

Domestic gas	10.37 yuan/m <sup>3</sup>
Commercial gas	13.48 yuan/m <sup>3</sup>

### 3. Communications

#### a) Fixed network communication fees

Basic monthly rental for non-residential users		35 yuan per month
Local call	Within operation area Operation Segments	0.22 yuan for the first 3 minutes, and 0.11 yuan for each minute since the fourth minute 0.2 yuan/once
Toll fees	Domestic International Hong Kong, Macao, and Taiwan	0.07 yuan/6 seconds 0.8 yuan/6 seconds 0.2yuan/6 seconds

#### b) Mobile communications fees

<sup>3</sup> Source: Shenzhen High Tech Industrial Park Website <http://www.ship.gov.cn/en/index.asp?bianhao=17>

	Basic monthly rental 50 yuan per user per month
Basic mobile conversation fees (local call fees)	0.4 yuan per minute
Toll call fees	Basic mobile conversation fees + corresponding toll call fees

#### 4. Price on assignment of land use right

Unit: yuan per square meter for building area

Commercial land	1260-2579
Office area	1225-1968
Residential land	679-1983
Industrial land	316-644

#### 5. Rent of office building/workshop/warehouse

Unit: yuan per metre per month

District	Nanshan	Futian	Luohu	Yantian	Longgang	Baoan
Office building	13-48	30-70	35-130	25-65	6-55	8-60
Workshop	12-28	15-40	8-15	13-22	4-13	5-14
Warehouse	10-17		6-10	10-25	4-8	4-14

#### 6. Average pay for employees

Unit: Yuan per month

-	Management	Professional technical	Production personnel				
			Senior technical personnel	Technical	Senior	Intermediate	Junior
Within SEZ	2100-20000	1800-13000	3200-7000	2600-6500	1200-5400	900-4000	680-3600
Out of SEZ	1000-8000	1100-8200	2100-4900	2000-4400	1100-4000	750-3300	610-2500

The labor cost mentioned above is an intermediate level and, according to Shenzhen's regulations, the lowest monthly pay within the SEZ is 595.00 yuan, while the lowest pay out of the SEZ is 46.00 yuan.

## **7. Insurance**

-	-	Undertaken by enterprises	Undertaken by individuals	Remarks
Social endowment insurance	Basic pension insurance	8%	5%	
	Local supplementary pension insurance	1%	-	
Basic medical insurance	Comprehensive medical insurance	7%	2%	Permanent residents
	Hospitalization medical insurance	-	2%	Temporary residents
Employment injury insurance		6.4-19.4	-	yuan per person per month
Unemployment insurance		8.6	-	yuan per capita per month
Public accumulation fund for housing construction		15%	-	
Total approximate insurance premium		31%	9%	

Note: The insurance premiums with % are to be calculated and drawn as per monthly pay.