

A guide to investing in western China

iF International Forum Design GmbH
White Paper



Executive Summary

Since opening to foreign investment in the 1980s, China has been very attractive to investors. For 20+ years, however, most investment has been funneled to the first-tier cities and coastal regions. Now, increasingly more investors are looking beyond the traditional eastern regions and towards western China for emerging opportunities.



Chengdu, the capital of Sichuan province, is undoubtedly a rising star in western China, attracting the world's attention in recent years. Since 1980, the city has transformed into a vibrant mega city (population 16 million, 4th largest in China) and **an economic powerhouse, accumulating significant industrial growth and rapid urbanization.**

The future of Chengdu is bright. With the Belt and Road Initiative focusing on infrastructure investment and the deepening of China's Western Development Plan since 2013, the municipal government has developed a comprehensive and ambitious plan to capitalize on this strategic opportunity for the region, aiming to develop a model industrial system and **make Chengdu a livable garden city for its inhabitants.**

For investors both conservative and adventurous, establishing a foothold in Chengdu is of strategic importance and worth serious consideration. Now is an ideal time to do so, in order to benefit from current preferential policies and achieve long-term growth with the **imminent rise of western China.**

Fast facts

- Regional capital with 11 districts, 5 county-level cities and 4 counties
- Urban area of 3,680 square kilometers
- Famous for its unique giant panda breeding and research foundation
- Humid and mild climate with an average temperature of 16.6 °C
- Forest coverage of 39.5%, the highest of all Chinese provincial capitals
- Per capita disposable income for city dwellers was USD 6218.7 (2017)
- Foreign direct investment in 2017 amounted to USD 10.04 billion, ranking number one in central and western China
- 2018 GDP was USD 226.48 billion, a 8% year-on-year growth

History and economic development

Chengdu, capital city of Sichuan province, known as the Land of Abundance, is one of the most dynamic and fast-developing cities in China. The city's history extends back 2,300 years and has long been regarded as a place of culture, history and gastronomy by the Chinese people.

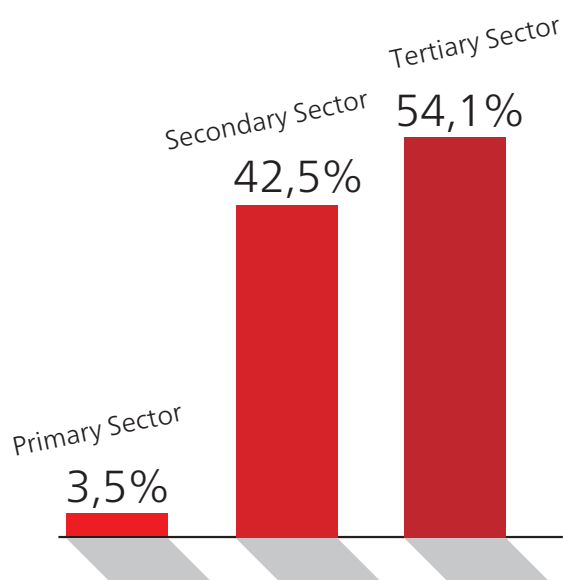
In the last 35 years, this once sleepy city in western China has undergone phenomenal development and transformation. In the 1950s and 1960s, Chengdu benefited from state investments and formed an industrial economy. During China's economic reform starting in the late 1970s and early 1980s, Chengdu leveraged this existing industry base to develop an industrial system with a strong focus on electronics/IT, machinery manufacture (including automotive), pharmaceuticals and food processing. By 2000, the city had diversified its industrial system and tripled in size. Since then, the city has further consolidated its position as the transportation and commercial capital of western China. **In 2015, the GDP of Chengdu was nearly double that of 2010.**



One painful constraint to Chengdu's growth vis-à-vis coastal cities has been its inland location, limiting access to overseas markets. To address this issue and further accelerate development in western China, the Chinese government launched the Western Development Plan in 2000, offering policy incentives to encourage domestic and foreign investment. As one of the largest cities in western China, Chengdu capitalized on this opportunity and became more integrated into the global economy. Export and foreign investment now play an important role in Chengdu's economy. In 2017, the total value of import and export commodities through customs is 8.6 billion.

Furthermore, the Belt and Road Initiative, launched in 2010 with the aim of enhancing the economic and cultural connection between Eurasian countries, will closer connect Chengdu with international markets.

GDP by industry sectors 2018



Source:

Chengdu Statistical Yearbook 2018

Primary Sector – raw materials

Secondary Sector – Manufacturing

Tertiary Sector – Services

Chengdu GDP 1980 - 2015

in millions USD	1980	1990	2000	2010	2018
GDP	694.50	2,911.35	17,351.85	83,269.95	1226481.61
Primary Sector	189.00	608.40	1,745.40	4,276.35	7714.19
Sec. Sector	344.70	1,156.05	6,331.95	37,213.50	96188.44
Ter. Sector	160.80	1,146.90	9,274.50	41,780.10	122577.89

Importance of Chengdu today

Today Chengdu is a national central city in China and one of the most important economic, financial, commercial, cultural, transportation and communication centers in western China.



It is the top destination for foreign direct investment in central and western China, and number one in terms of import and export volume in central and western China.

Chengdu is the largest inland aviation hub in China. In 2018, Chengdu's Shuangliu International Airport handled over 52.95 million passengers. A new Tianfu Airport is due to be completed in 2020 with six runways and capacity to handle 90 million passengers annually.

Chengdu has a very extensive railway transportation system and is the largest railway hub in southwestern China. **From 2013, it has operated a Chengdu-Euro cargo service that reaches Europe in under 14 days.**

Chengdu has created two state-level industrial parks: **Chengdu Hi-tech Industrial Development Zone (site of the iF design center Chengdu) and Chengdu Economic & Technological Development Zone.** A new pilot free trade zone was launched in April 2017.



Research

Chengdu is the leading research hub in western China. It is home to over 50 universities and 30 national level research institutes. It has a significant talent pool at its disposal, with two million professionals benefiting from its concentration of higher education institutes and other educational resources.

As of March 2017, 278 of 500 Fortune companies were represented in Chengdu. Sixteen countries have consulates in Chengdu, the 3rd highest concentration of foreign consulates in China.



Chengdu's rapid growth in the media

17 best places to visit in 2017

<https://edition.cnn.com/travel/article/best-places-to-visit-in-2017/index.html>

Top 10 Chinese cities with highest GDP in 2018

<https://www.chinadaily.com.cn/a/201902/11/WS5c60a841a3106c65c34e88cf.html>

First 5G subway station put into service in Chengdu

<https://global.chinadaily.com.cn/a/201901/07/WS5c32b0fba31068606745f325.html>

Top 10 cities in China for startup business - Fortune China 2015

<http://bit.ly/startup-chengdu>

Best city for business in Mainland China - Forbes China 2014

<http://bit.ly/forbes-chengdu>

The No. one city in Western China - The Economist & Citibank 2012

<http://citi.us/2iiQHvb>

Global fastest-growing cities - The Economist 2012

<http://bit.ly/fast-growing-chengdu>

Industry

The electronics & information industry is the most important in Chengdu, which also has a leading position in areas such as computer information systems, new display technology and network security. It achieved USD 92.99 billion in revenue in 2017, nearly half of which was generated from software. **The world's major hardware manufacturers such as Microsoft, Intel, IBM, Dell and AMD all have manufacturing facilities in Chengdu.**

Tourism

Famed for its scenic beauty, rich history, spicy food and as home of the panda, Chengdu is one of the most popular destinations in China for both domestic and international tourists. In 2017, the total revenue from tourism was USD 44.7 billion. Chengdu was named one of the 17 preferred destinations in the world 2017 by CNN, and it is the only Chinese destination to be selected.

Automotive

Chengdu is the major automotive manufacturing hub in western China, producing 1.32 million cars valued at USD 30.3 billion in 2017.

International car manufacturers including Volkswagen, Volvo, Peugeot and Toyota have set up joint ventures and are making cars Chengdu. Each year, the city hosts an international exhibition for automobiles and accessories, which is the largest of its kind in western China.



Finance

Chengdu is the financial center of Western China, hosting **regional headquarters of The People's Bank of China** and banking and insurance regulators. Over sixteen foreign banks, including **HSBC, Citibank, ABN AMRO, MUFG and BNP Paribas**, have branches in Chengdu. In 2015, banking revenues amounted to USD 16.2 billion or 10.7% of the total GDP.

Rail and Transit

One of the five largest industries in Chengdu, rail and transit engages over 100 companies, with strong R&D support. In 2017, the total revenue amounted to USD 8.67 billion.

Life in Chengdu

Chengdu is a city known for its numerous teahouses, delicious cuisine and local specialities, contributing to a perfect work/life balance. Currently there are almost 17,000 foreign citizens living and working in Chengdu, making it the most popular city in central and western China for expats.

Education

There are 30 international schools in Chengdu: Chengdu International School, Léman Chengdu International School and QSI International School of Chengdu, offering education for children aged from three to eighteen years old.



Healthcare

Foreign citizens can enjoy quality medical care at five hospitals (West China Hospital, Chengdu Second People's Hospital, etc.) which offer western medicine as well as Traditional Chinese Medicine services for both outpatients and inpatients.

Leisure

The most popular Western food chains are represented in Chengdu, and the city has a growing number of western-styled restaurants. A large number of fitness facilities and sports clubs are scattered throughout the city. Bicycle clubs and trekking clubs are popular amongst the expats in Chengdu for exploring the city and surrounding environs.

Chengdu and Design

Industrial design is relatively new in China, the first design company having been established in Shanghai as late as 1986. However, the design industry is developing fast in Chengdu to meet the growing needs of consumers and the market. Local companies, such as IDING design and Top-Creative have won prestigious awards in the past (including the iF DESIGN AWARD). **Leading Chinese design companies such as New Plan, LKK and Artop all have offices in Chengdu.**

Chengdu also hosts two design events: **Sichuan-Taiwan Industrial Design Awards and Chengdu Creativity & Design Week**. The former is to encourage the exchange of industrial design between Sichuan and Taiwan, the latter focuses more on culture and creativity, aiming to facilitate the development of the cultural and creative industries in Chengdu.



For the municipal government, the development of a design culture is a key objective in helping develop the manufacturing industry and increasing the core competitiveness of the city. As a result, the government is actively encouraging the wider adoption of industrial design by industry and companies, in many cases offering administrative and financial support in funding design processes. In terms of human resources, the government has adopted a set of new measures to attract both highly skilled Chinese and overseas professionals, offering startup funds, green cards for top expats and preferential policies on housing and healthcare.

Opportunities for foreign companies

Looking ahead, the future of Chengdu is even more promising than the recent past. Although some already argue that Chengdu will one day become a world city given the rise of China, it may be still too early to make such a prediction. Nevertheless, there are definitely strong indicators that the city has a great potential to play a much more important role both regionally and within China.

At a national level, China's future growth and long-term prosperity are linked with the successful development of the central and western regions.

The **Western Development Plan, One Belt One Road Initiative and the Yangtze River Economic Belt programs** by the central government mark successive systematic assistance for the economic development in western China, and have already brought major strategic opportunities to Chengdu, the city which may well benefit the most from such preferential policies and the overall development momentum.



At a city level, the local government is determined to further its **modern industrial system, ecological urbanization and internationalization of the city**, to play an even more important role at the regional, national and international level. According to Chengdu's 13th Five Year Plan (2016-2020), it aims to maintain an overall economic growth at mid-fast pace. The GDP goal by 2020 is to triple that of 2010, at the same time developing and improving its industries to a technology and knowledge intensive modern industry system, encouraging innovation, green and sustainable growth. **Chengdu hopes to attract multinationals as well as start-ups, Chinese and international talents and experts, and accordingly offers an ideal environment for business and for living.**

Environment

How is the environment for foreign-funded enterprises to set up a company in Chengdu?

- Registration system reform
- Optimize the transaction process of foreign-invested enterprises
- Increase the protective degree of intellectual property rights of foreign-invested enterprises

Are there any preferential policies for the foreign-funded enterprises settled in Chengdu?

- The government supports foreign-invested enterprises to set up R&D institutions, technology centers, and national manufacturing industry innovation centers according to the city's industrial development.
- Encourage foreign-invested enterprises in Chengdu to participate in formulating various standards.
- From January 1, 2019 to December 31, 2021, the tax will be reduced by 50%.

Is it convenient for foreigners to work and live in Chengdu?

- Foreign high-level talents set up science and technology enterprises in Chengdu, enjoying "national treatment" in project declaration, product promotion, investment and financing.
- Fully promote the work permit system for foreigners coming to China, reduce the application materials, the time for approval process and optimize the service process, implementing the "one-window" service.
- Establish a talent green card system and lean toward high-quality talents and highly skilled personnel in terms of entrepreneurship support, housing medical care, children's enrollment, and spouse employment.
- Provide short-term accommodation, RMB credit card processing, personal wealth management, and secured loans for foreign talents.

Structuring investments

The **FIPE (Foreign Invested Partnership Enterprise)** is the newest and least known of the options. Although the government is not actively promoting this model, it offers the advantage of no minimum registered capital, while still allowing business owners to hire, collect payments and issue invoices, as well as apply for work and residence permits.

The following three options fall under the rubric of Limited Liability Companies, although there are differences among the rights and requirements of each.

A **Representative Office (RO)** has the least rights, serving merely as an outpost in China of a foreign company. While ROs are permitted to engage in business meetings, share technologies and conduct research, they are by no means allowed to conduct operations, sign contracts or deal with money transactions.

A **Wholly Foreign Owned Enterprise (WFOE)** is a limited liability company owned completely by a foreign investor or entity. Originally conceived for larger manufacturing companies, this form is now also used by service providers, software companies and traders with moderate or higher revenues.

Joint ventures, either **Cooperative Joint Ventures (CJV)** or **Equity Joint Ventures (EJV)**, are promoted by the Chinese government and rewarded with low labor and production costs.

Hiring in China

There are different routes to hiring in China, depending on the business structure and the employee's nationality:

JVs and WFOEs can hire Chinese employees directly or through local employment agencies. ROs cannot, however, and must recruit through an intermediary company. Don't underestimate the value of hiring local Chinese staff which are familiar with the market, the laws and regulations, and who speak the language.

Hiring foreign nationals is more difficult, requiring approval from the local Human Resources and Social Security Bureau. The employer must demonstrate why local employees cannot fill the position. Certain professionals and experts are exempt from these requirements.

The Labour Law of China sets out detailed requirements on labor contracts, working hours and holidays, wages, and social insurance and welfare, and how labour disputes should be dealt with. The last amendments of the Labour law were made in 2013 to reflect the evolving labour situation in China.

Business Culture in China

Due to the vast cultural and historical differences, the business culture in China sometimes can seem to be the exact opposite of the Western world. It can be a challenging and frustrating experience for a person who sets out to do business in China without some understanding of the business culture in China.

Patience

In China the progress of business matters can be slow and fast simultaneously. The Chinese can be surprising flexible or impenetrably rigid, and it is not always possible to anticipate which is coming. Therefore, patience is necessary to understanding their mindset, the business framework they operate in to get closer to the end results.

While the Western thinking orientation is more rule based, concerned with following laws and regulations, the Chinese view tends to take context and the evolving situation into the consideration. This makes the way the Chinese conduct business more fluid and less constant. This can cause confusing and frustration for Western business partners.

Trust

In China, building a personal relationship is important to business. Unlike in the Western world, where a transaction is first conducted and then a personal relationship follows, the Chinese take time to get to know their potential business partner before entering serious business discussions. Once a trusting relationship has been established, commercial transactions will follow and the resulting relationship tends to last for a very long time.



Respect

The Chinese society is hierarchical, and this applies for the business world as well. Subordinates show respect for their superiors and rarely contradict them. The same is expected from the business partners. As in the West, business cards are common in China as a formal way of introducing oneself in a professional setting. A business card should be presented with two hands and the Chinese version facing up, towards the person receiving the card. When presented with a business card, accept it with two hands as well. Handshakes are common upon meeting someone. When shaking hands, start with the most senior person in the group, then move to the less senior and so on.

In summary, doing business in China is like any kind of initial contact with an unfamiliar culture, if you show respect and a desire to understand, be patient and perseverant, it will bear fruit in the end.

Information and support

The Chengdu Investment Promotion Commission is a government body set up by Chengdu Municipal Government to facilitate and aid foreign investors throughout their investment project. It provides the information about the city, the industrial parks as well as legal and taxation information. It also has presence in the Investment Promotion Center in other major cities, Beijing, Shanghai and Shenzhen.

**It operates a free consultation hotline for investment matters
at (+86) 800 8867 888
<http://cdtcw.chengdu.gov.cn>**

The commission can also put investors directly in touch with the companies and the organizations that provide professional services.

Information about the iF design center Chengdu & opportunities

If you are considering doing business in Chengdu or entering the Chinese market, you might consider investigating our new iF design center Chengdu, which is set to open in November 2019.

We offer a number of exhibition spaces and temporary offices for designers and design-minded companies.

See the **iF WORLD DESIGN GUIDE** for more information.



What to do next

First, get in touch with the **Chengdu Investment Promotion Commission** to understand if your investment falls into any of the key industries that the city is trying to promote and what are the policies, if there is any incentives for the investors, any existing industrial parks can host your business etc, to have a general understanding about the business environment and the policies governing your investment.

Secondly, if there is a specific industrial park suitable for your investment project, get in touch and start the conversation with the industrial park, which all provides a dedicated service to assist potential investors. They provide one stop service that brings all the government bodies involved in one office building. This greatly speeds up the process and provides better efficiency.

Thirdly, pack your suitcase and go to Chengdu and see it for yourself. Hold discussions with the officials, the industrial park and your potential local business partners, see the opportunities offered by this energetic city and envisage how your business can be developed here.