

# Living in the West

A fertile business environment coupled with the Sichuanese talent for good living is helping Chengdu to become a more attractive option for both investors and employees

By Kirsten A Allen

**U**NTIL QUITE RECENTLY, China's international business community saw Sichuan's provincial capital, Chengdu, as the hinterlands – a home for pandas, but not for your average multinational executive. But with the arrival of more and more high-profile investors, top spots in *Forbes* magazine's lists of the world's fastest growing cities and best Chinese cities for business, and the 12th Five Year Plan's emphasis on the Chengdu–Chongqing Economic Zone, this is no longer the case.

Chengdu's foreign direct investment (FDI) amounted to USD6.12bn in 2010 alone. Around 170 Fortune 500 companies are reported to have set up shop in the city, and this number is growing steadily.

As MNCs come to appreciate the features that make Chengdu a hot spot for investment, international executives are also coming to see the city's growing potential for both working and living.

## Western Promise

Chengdu's rise as an international business destination was made possible with the implementation of the government's

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Go West programme, the Urban–Rural Integration programme, and the development of the Chengdu–Chongqing Economic Zone.

Before the introduction of the Go West programme in 2000, Chengdu lagged behind coastal cities because it lacked funding and a developed infrastructure. The Go West programme was designed to attract companies and investment through various preferential taxes and other incentives, to spark an economic boom similar to the one occurring along the east coast.

“Chengdu enjoys preferential policies, reductions in business income tax from 25 per cent to 15 per cent,” says Tim Summers, managing director of XTEChina Consulting Ltd and former British consul-general in south west China.

These incentives proved enticing for new investors, as did the promise of as yet unrealised potential: “When I first came to Chengdu in 2000 it was still developing; it was like a virgin island,” said Zhao Yong, chairwoman of the British Chamber of Commerce Southwest China and director of TGCI Group, which invests in and manages projects from various industries across mainland China. In Chengdu, there was plenty of room for growth.

The government also helped to put in place the hardware needed to make those investments a success. According to a KPMG report, in 2000-2009 the central government invested nearly USD322bn in developing western China. In Chengdu, the authorities' development strategy included shifting manufacturing out beyond the Third Ring Road and creating purpose-built zones for specific industries as well as much needed infrastructure. As a result, today the city boasts connections via land, waterways, air and rail.

Chengdu has access to two ports, one in Chongqing and the other in Leshan. The Chengdu Shuangliu International Airport – the largest in western China – serves 72 domestic routes and 33 international routes and there are plans to construct a



The growing inland markets are encouraging new investments and further development. Pictured: A mass shopping spree in central Chengdu. © Hupeng | Dreamstime.com

# Chengdu

Ranking No.1 among the next decade's fastest growing cities  
Forbes Magazine 2010

Top investment destination of US companies in China  
American Chamber of Commerce(2008,2009,2010)

Ranking No.1 for hospitality among 30 cities in China for global image  
Gallup 2010

## Right Place, Right People



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new airport east of the city, which will have five times the passenger capacity of the existing airport. Cargo and freight handling is also improving with the development of more advanced facilities such as the new cold storage units.

An extensive rail network with four major railway lines has been built, and at least seven more are in the pipeline. Additionally, the rail network includes high-speed connections to Chongqing, Dujiangyan, and Shanghai. A new eastern railway station has been completed, and a new railroad, linking Chengdu to Guilin and Guangzhou, is under construction.

Finally, Chengdu is continuing to improve its highway system, which will provide fast links to cities across the country - trucking times to ports in Tianjin and Shanghai currently take three days on average.

**Hard Times**

Unexpectedly, the global financial crisis and the devastating 2008 earthquake may

have provided some long term benefits, building on these strong foundations

While a decade of development helped to stimulate a notable increase in business investment over the last two plus years, the

**The city's focus for the next five years will be directed at high-tech and service-oriented industries**

trend was supported by the large influx of investment for rebuilding and improving infrastructure following the Wenchuan earthquake.

Moreover, because its economy did not rely primarily on exports, Chengdu was cushioned from the more severe effects of the global economic downturn and was spared from many of the difficulties, slowdowns, and layoffs faced by the east coast.

Chengdu's economic growth took off between 2005 and 2010, with GDP growing at approximately 13.9 per cent year-on-year. In 2010, Sichuan ranked fifth nationally in GDP growth. However, Sichuan still ranks only 25th in the country in per capita GDP. Although this national ranking may not be the highest, Chengdu residents have seen their disposable income increase by 11.7 per cent since 2001. Also on the rise for 2010 were FDI, fixed asset investment, and real estate investment.

Growth is creating an upward spiral; western China's increasing spending power brings in even more investment.

Domestic market potential is one reason Volkswagen opened a factory in Chengdu.

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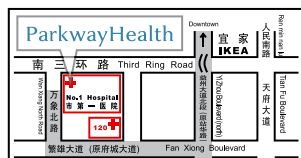
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“All our local Chinese production is exclusively for the Chinese market. Our products are in demand and we need to be operating at full capacity to satisfy our customers,” says Jan Scheidgen, marketing director for western China.

“The potential of the domestic inland market is, in fact, the ultimate focus of many international companies now operating in the Chengdu area, including ones that are not currently serving the local market,” says Elizabeth Wharton, economic officer at the American Consulate in Chengdu.

Many companies have now established themselves in Chengdu with a long-term focus on the developing inland market, building up their presence now to ensure they are ready to serve this market as it grows.

The double-digit increases look likely to continue into the next decade as Chengdu benefits from the 12th Five-Year Plan, which seems to follow the structure of the previous two plans with goals including the ongoing improvement of infrastructure and the reduction of the existing wealth divide. This time, however, the central government has made the new Chengdu–Chongqing Economic Zone a national priority. Guy Dru Drury, chief representative of the Confederation of British Industry in China, thinks that this prioritisation will

further encourage businesses to set up in Chengdu, though it should be noted that the specifics of how Chengdu intends to implement these plans have not yet been released in full.

### Local Specialities

Another reason for Chengdu’s rise has been its ability to nurture specific industries by providing tailored facilities and solutions suited to a sector’s needs.

The Tianfu Software Park (TFSP) at the south park of the Chengdu Hi-Tech Industrial Development Zone is one example of the city’s many purpose-built industrial parks. Victor Jansson, vice president of TFSP, explains that such parks make a smooth set-up much easier for companies new to Chengdu. TFSP can help a company to register, locate trained staff, conduct staff training, and in some cases, initiate projects even before the company is officially operational.

This approach has helped Chengdu to become a new home for industries ranging from information and communications technology and aerospace, to shoe production and agricultural processing.

The city’s focus for the next five years will be directed at high-tech and service-oriented industries, specifically in fields including biomedical, aerospace, biotechnology,

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business aircraft, solar photovoltaic and energy-saving projects, high-performance fibre and composite materials, and new energy vehicles, among others. These industries are enjoying the benefits of increasing specialisation.

### Talent Pool

In 2006, Mark Johnson and his team at Sigma Precision Components Ltd, a British aerospace company, set up a production facility in Chengdu’s West High-Tech Zone. The zone was built to accommodate the needs of manufacturers. For many companies entering the Chengdu market the concern has been finding reliable, trained staff. “[When] we looked at various parts of China, Chengdu, Tianjin, and Suzhou were strong possibilities, but Chengdu was chosen because of its people—its young generation is incredibly enthusiastic. The people in Chengdu seem more settled and prepared to spend longer in a role, learning and developing before moving jobs.”

On the downside, as more international companies move to Chengdu, they all look to hire from the same pool of two million university degree holders. Phillip Benusa, branch manager of Crown Relocations, says, “We found a large labour pool available but the level of experience varies. Chengdu is benefitting from foreign-educated students and locals with work experience from tier-one cities returning to Chengdu. But while the average skill sets are improving, turnover has increased with employees’ willingness to move between the increasing numbers of international companies.”

Still, Wharton noted that overall, companies have reported that Chengdu employees job-hop less than those in cities with a work force dominated by migrant workers. The stable labour pool



Commerical developments at the Tianfu Software Park in Chengdu’s Hi-Tech Industrial Development Zone.

is large in Chengdu, and increasingly well educated. Chengdu has 50 institutions of higher education including some that are nationally ranked, such as Sichuan University and Southwest University of Finance and Economics.

## Chengdu's urban labour pool is also expected to get larger as the city's *hukou* reform project kicks off next year

Chengdu's urban labour pool is also expected to get larger as the city's *hukou* reform project kicks off next year. To reduce the urban-rural divide, Chengdu plans to gradually cease to distinguish between urban and rural *hukou* in the entire municipal area. The *hukou* is the national identification card that every Chinese citizen must have. It is a household registration record officially identifying a person as resident of an area, and it affects their access to employment, education, and healthcare.

Paul Sives, chairman of the European Union Chamber of Commerce, Chengdu Branch, is looking forward to the reform as many engineers in his company have had problems with the *hukou* system. "For an employee to receive their refund for medical care, they have to go back to their hometown. We had one employee who had to take leave for several weeks so they could go for regular check-ups. If they would have been able to go to the Chengdu hospital they would have needed just a few days here and there." The *hukou* reform will alleviate such problems for some rural residents, but its full effect has yet to be seen as Chengdu gauges the reform's success.

### Friends in High Places

Another reason for Chengdu's success with operational businesses is that the

municipal government takes an active role in meeting businesses' needs, proving to be relatively transparent when dealing with businesses, upfront in providing information, and most of all, accessible.

Through the Chengdu Association of Enterprises with Foreign Investment (CAEFI), the mayor's office holds quarterly meetings during which companies discuss business-related problems directly with city decision makers. Sunshine Yuan, Secretary General of the CAEFI, says her office is responsible for arranging forums between business associations in Chengdu, Chongqing, Xi'an, and businesses in the east and west, and will continue conducting monthly dialogues between service departments in municipalities and the companies that use their services.

Besides helping companies with business-related requirements, Chengdu's municipal government also makes an effort to accommodate the needs of expatriate employees, helping to facilitate the move with international relocation services and the like.

### Work-Life Balance

The city is now able to offer more and more expat-friendly facilities in the form of essentials like its five international schools, two foreign medical clinics, a new

maternity hospital and youth programmes for families. Some of the new business parks also offer amenities for employees.

The increasing demand for services and products catering to expatriates' global tastes has also helped to stimulate the market for international cuisine and hotels, and more varied housing options.

Even before these developments, the city was known for its creature comforts: Residents are famously laid back, and enjoy marathon sessions in the city's tea houses and restaurants, where they can eat the incredible local food that made Chengdu Asia's first 'UNESCO City of Gastronomie' earlier this year.

The region is also a hub for travelling out into Sichuan's rural areas. The Jiuzhaigou National Park, Leshan's Giant Buddha, and Gongga Mountain are all relatively nearby.

"I like how living here allows me to have an authentic China experience without being too far away from Western comforts," Benusa says. "And I cannot help being impressed by the scope and speed of development here". With this winning combination of business potential and good living, Chengdu is likely to become an increasingly attractive option for both employers and employees. **SBR**



More international-standard amenities and services in Chengdu make the city a viable option for executives and their families.