

Chinese Provinces of the Future 2014/15 Winners

SHANGHAI HAS BEEN CROWNED **fDi**'S CHINESE PROVINCE OF THE FUTURE 2014/15, WITH BEIJING AND GUANGDONG TAKING SECOND AND THIRD PLACES, RESPECTIVELY. **SCOTT FISHER** REPORTS



China continues to demonstrate its sustained ability to attract FDI with the news that in the first four months of 2014 it managed to attract \$40.3bn, representing an increase of 5% from the same period of the previous year. China's Commerce Ministry expects the flow of FDI to continue at this rate for the remainder of 2014. With a country and economy as large and diverse as China's, the country's provinces should warrant the attention of investors.

In **fDi**'s inaugural ranking, Shanghai has been named Chinese Province of the Future for 2014/15, with particularly impressive performances in the Business Friendliness and Connectivity categories, as well as placing second in the Economic Potential and Human Capital and Lifestyle categories.

Shanghai also lays claim to being the current most attractive province in China for FDI, receiving about one-fifth of all FDI projects for the period from January 2009 to December 2013, according to the greenfield FDI monitor **fDi** Markets.

Shanghai's power of knowledge

Shanghai attracts a more concentrated type of FDI than other provinces, with a higher level of tertiary investment than other provinces. According to **fDi** Markets, in the period between 2009 and 2013, Shanghai accounted for more than

one-third of China's total FDI in the business services sector, as well as about one-quarter in both financial services, and software and IT services. This is reflective of a modern and knowledge-based economy similar to those found in other Asian FDI hubs, such as Hong Kong and Singapore.

The opening of the Shanghai Pilot Free Trade Zone, the first in mainland China, will further encourage FDI into Shanghai if the impact of the zone replicates others across Asia. This seems to be the case with more than 7200 businesses now registered in the free trade zone, including more than 500 foreign businesses. One such firm is bearings company SKF Group, which in June this year opened a \$14.95m distribution centre that has an annual processing capacity of more than 510,000 orders.

Beijing takes second

Beijing's indicators in the Economic Potential and Human Capital and Lifestyle categories helped the province secure second place. The municipality places a strong emphasis on tertiary education, having the highest percentage of working population educated to university level in China, as well as housing six of the world's top 500 universities. This contributes to Beijing's low unemployment rate of 1.27%, resulting in a population with considerable disposable

income. Beijing continued to register strong retail sales of consumer goods, increasing 8.7% in 2013 from the previous year, reaching a total of Rmb837.5bn (\$132.75bn).

Chongqing rules the middle ground

Chongqing was the only middle-income province to feature in the top 10 of the overall rankings, thanks in part to strong performances in the Connectivity and Economic Potential categories. Chongqing benefits from high passenger and freight traffic as a result of investment in roads, railways and other infrastructure projects, in addition to high levels of inward FDI, with more than 200 of the world's top 500 companies having already established operations in the city by the beginning of 2013.

Sichuan leads in lower-incomes

Sichuan came out on top of the lower-income provinces. Sichuan in particular benefited from a strong performance in the Cost Effectiveness category, with the province finishing overall in sixth position for this category. When benchmarked against other provinces in the lower-income category, Sichuan excelled across all categories, topping three of the five categories (Economic Potential, Business Friendliness and Connectivity) and finishing third in the other two (Human Capital and Lifestyle, and Cost Effectiveness). ■

TOP 10 CHINESE PROVINCES OF THE FUTURE: OVERALL

| RANK | PROVINCE |
|------|-----------|
| 1 | Shanghai |
| 2 | Beijing |
| 3 | Guangdong |
| 4 | Zhejiang |
| 5 | Jiangsu |
| 6 | Tianjin |
| 7 | Shandong |
| 8 | Liaoning |
| 9 | Fujian |
| 10 | Chongqing |

TOP 10 CHINESE PROVINCES OF THE FUTURE – ECONOMIC POTENTIAL

| RANK | PROVINCE |
|------|-----------|
| 1 | Beijing |
| 2 | Shanghai |
| 3 | Tianjin |
| 4 | Guangdong |
| 5 | Jiangsu |
| 6 | Zhejiang |
| 7 | Liaoning |
| 8 | Fujian |
| 9 | Shandong |
| 10 | Chongqing |

TOP 10 CHINESE PROVINCES OF THE FUTURE – HUMAN CAPITAL AND LIFESTYLE

| RANK | PROVINCE |
|------|-----------|
| 1 | Beijing |
| 2 | Shanghai |
| 3 | Guangdong |
| 4 | Zhejiang |
| 5 | Tianjin |
| 6 | Jiangsu |
| 7 | Fujian |
| 8 | Shaanxi |
| 9 | Hubei |
| 10 | Liaoning |

TOP 5 UPPER-INCOME CHINESE PROVINCES OF THE FUTURE

| RANK | PROVINCE |
|------|-----------|
| 1 | Shanghai |
| 2 | Beijing |
| 3 | Guangdong |
| 4 | Zhejiang |
| 5 | Jiangsu |

TOP 5 UPPER-INCOME CHINESE PROVINCES OF THE FUTURE – ECONOMIC POTENTIAL

| RANK | PROVINCE |
|------|-----------|
| 1 | Beijing |
| 2 | Shanghai |
| 3 | Tianjin |
| 4 | Guangdong |
| 5 | Jiangsu |

TOP 5 UPPER-INCOME CHINESE PROVINCES OF THE FUTURE – HUMAN CAPITAL AND LIFESTYLE

| RANK | PROVINCE |
|------|-----------|
| 1 | Beijing |
| 2 | Shanghai |
| 3 | Guangdong |
| 4 | Zhejiang |
| 5 | Tianjin |

TOP 5 MIDDLE-INCOME CHINESE PROVINCES OF THE FUTURE

| RANK | PROVINCE |
|------|-----------|
| 1 | Chongqing |
| 2 | Shaanxi |
| 3 | Hubei |
| 4 | Hebei |
| 5 | Henan |

TOP 5 MIDDLE-INCOME CHINESE PROVINCES OF THE FUTURE – ECONOMIC POTENTIAL

| RANK | PROVINCE |
|------|-----------|
| 1 | Chongqing |
| 2 | Hainan |
| 3 | Hubei |
| 4 | Jilin |
| 5 | Shaanxi |

TOP 5 MIDDLE-INCOME CHINESE PROVINCES OF THE FUTURE – HUMAN CAPITAL AND LIFESTYLE

| RANK | PROVINCE |
|------|-----------|
| 1 | Shaanxi |
| 2 | Hubei |
| 3 | Hainan |
| 4 | Jilin |
| 5 | Chongqing |

TOP 5 LOWER-INCOME CHINESE PROVINCES OF THE FUTURE

| RANK | PROVINCE |
|------|----------|
| 1 | Sichuan |
| 2 | Anhui |
| 3 | Guangxi |
| 4 | Jiangxi |
| 5 | Yunnan |

TOP 5 LOWER-INCOME CHINESE PROVINCES OF THE FUTURE – ECONOMIC POTENTIAL

| RANK | PROVINCE |
|------|----------|
| 1 | Sichuan |
| 2 | Jiangxi |
| 3 | Anhui |
| 4 | Guangxi |
| 5 | Yunnan |

TOP 5 LOWER-INCOME CHINESE PROVINCES OF THE FUTURE – HUMAN CAPITAL AND LIFESTYLE

| RANK | PROVINCE |
|------|----------|
| 1 | Guangxi |
| 2 | Anhui |
| 3 | Sichuan |
| 4 | Yunnan |
| 5 | Jiangxi |

IN FOCUS

SHANDONG OPENS UP

While China's economy has seen some slowdown in the past couple of years, for the province of Shandong, the economic waters have remained relatively smooth. The city of Qingdao saw its GDP rise by 10% in 2013 to Rmb800.66bn (\$129.88bn), while the provincial capital, Jinan, also experienced strong growth.

The US remains the leading trade partner for the province, and FDI is quite focused on the manufacturing industry. However, that is not to say that the variety of investment opportunities is narrow. Indeed, as Shandong's industries grow, a new set of opportunities are presenting themselves.

For example, one of the province's largest industries is wine production. And as companies such as wine producer

Changyu look to innovate and perfect their products, foreign investment and talent are becoming ever more important to expanding these brands.

However, it is the opening up of the economies throughout the region that is really spurring growth. "Leveraging its marine economy... Shandong province has embarked on a new venture to develop itself to a greater international metropolis with high-energy efficiency, an eco-friendly environment and deep co-operation with experts from across the world," said Qingdao party chief Li Qun in an open letter published in *China Daily* last year.

And as these goals are realised, more and more attractive investment projects are coming to the fore. A high-speed rail line was recently announced to link Jinan and Qingdao, with more than 20% of its funding

slated to come from foreign investors such as Singapore's sovereign wealth fund, Temasek Holdings.

Qingdao will also continue to push a strategy of 'six innovations' to attract further growth and investment over the coming year. These innovations are the 'going global' policy; the transformation from traditional foreign trade to modern international trade; ensuring that domestic trade operates to the same standards as foreign trade; the optimisation and improvement of modern investment promotion mechanisms; the transformation and upgrading of economic parks; and the fusion and improvement of commercial development.

And if the figures of growth from the past few years are anything to go by, it seems that Shandong is more than capable of meeting these goals.

IN FOCUS

ZHEJIANG SHOWS INNOVATIVE SPIRIT

China's Zhejiang Province has seen its economy grow significantly in recent times, pushed forward by a commitment to innovation and new industries in its capital Hangzhou, as well as other large cities such as Ningbo and Wenzhou.

Hangzhou is often known outside of China for its natural beauty – its name translates as 'Heaven of the Earth' – but thanks to its favourable FDI policies in industries such as electronics, environmental protection, biopharmaceuticals, new energy and modern services, its GDP rose 8% to Rmb834.35bn (\$135.4bn) in 2013. Although this is not quite the double-digit growth that some areas in China are experiencing, like the rest of Zhejiang, the city is trying to invest in its future by building up new industries.

"Our competitiveness comes from our ability to present a comprehensive package of services, resources and opportunities to foreign investors," said Xie Shuangcheng, vice-mayor of Hangzhou, while filming a recent documentary about the city. Preferential business policies and an attractive working environment mean that about 12,000 foreign firms have now invested in the city.

Of the other cities in the province, Wenzhou has a reputation for being the home of entrepreneurial spirit in China, while its second city, Ningbo, is also doing its bit to boost foreign trade.

Ningbo has seen its economy grow in recent years, and its reputation a hub for investment collaboration has risen. One example of this collaboration is the China-UK education project for the development of the University of Nottingham Ningbo China, while this year's Investment and Trade Symposium in the city saw delegations from 17 countries, including Germany, France, Russia, Japan and Israel, discuss further avenues for investment and the province's willingness to attract more companies and foreign talent to the region.

While the province is not necessarily recording the strongest growth numbers in China's developing areas, the commitment to innovate and re-invest means that Zhejiang's prosperity looks set to continue.

TOP 10 CHINESE PROVINCES OF THE FUTURE – BUSINESS FRIENDLINESS

| RANK | PROVINCE |
|------|-----------|
| 1 | Shanghai |
| 2 | Beijing |
| 3 | Zhejiang |
| 4 | Guangdong |
| 5 | Jiangsu |
| 6 | Tianjin |
| 7 | Liaoning |
| 8 | Shandong |
| 9 | Fujian |
| 10 | Hebei |

TOP 10 CHINESE PROVINCES OF THE FUTURE – COST EFFECTIVENESS

| RANK | PROVINCE |
|------|----------------|
| 1 | Shaanxi |
| 2 | Qinghai |
| 3 | Guizhou |
| 4 | Jiangxi |
| 5 | Inner Mongolia |
| 6 | Sichuan |
| 7 | Henan |
| 8 | Heilongjiang |
| 9 | Guangxi |
| 10 | Hunan |

TOP 5 UPPER-INCOME CHINESE PROVINCES OF THE FUTURE – BUSINESS FRIENDLINESS

| RANK | PROVINCE |
|------|-----------|
| 1 | Shanghai |
| 2 | Beijing |
| 3 | Zhejiang |
| 4 | Guangdong |
| 5 | Jiangsu |

TOP 5 UPPER-INCOME CHINESE PROVINCES OF THE FUTURE – COST EFFECTIVENESS

| RANK | PROVINCE |
|------|----------------|
| 1 | Inner Mongolia |
| 2 | Shandong |
| 3 | Liaoning |
| 4 | Fujian |
| 5 | Jiangsu |

TOP 5 MIDDLE-INCOME CHINESE PROVINCES OF THE FUTURE – BUSINESS FRIENDLINESS

| RANK | PROVINCE |
|------|-----------|
| 1 | Hebei |
| 2 | Chongqing |
| 3 | Hubei |
| 4 | Shaanxi |
| 5 | Hainan |

TOP 5 MIDDLE-INCOME CHINESE PROVINCES OF THE FUTURE – COST EFFECTIVENESS

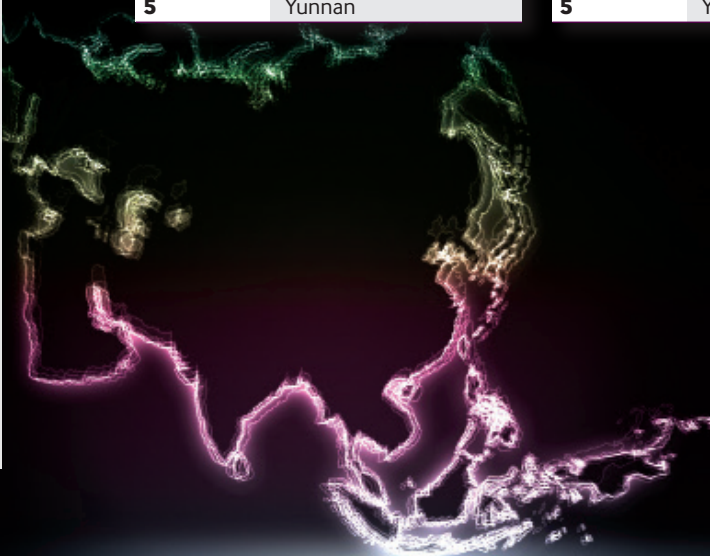
| RANK | PROVINCE |
|------|--------------|
| 1 | Shaanxi |
| 2 | Qinghai |
| 3 | Henan |
| 4 | Heilongjiang |
| 5 | Hunan |

TOP 5 LOWER-INCOME CHINESE PROVINCES OF THE FUTURE – BUSINESS FRIENDLINESS

| RANK | PROVINCE |
|------|----------|
| 1 | Sichuan |
| 2 | Anhui |
| 3 | Guangxi |
| 4 | Jiangxi |
| 5 | Yunnan |

TOP 5 LOWER-INCOME CHINESE PROVINCES OF THE FUTURE – COST EFFECTIVENESS

| RANK | PROVINCE |
|------|----------|
| 1 | Guizhou |
| 2 | Jiangxi |
| 3 | Sichuan |
| 4 | Guangxi |
| 5 | Yunnan |



TOP 10 CHINESE PROVINCES OF THE FUTURE – CONNECTIVITY

| RANK | PROVINCE |
|------|-----------|
| 1 | Shanghai |
| 2 | Beijing |
| 3 | Guangdong |
| 4 | Zhejiang |
| 5 | Jiangsu |
| 6 | Tianjin |
| 7 | Shandong |
| 8 | Fujian |
| 9 | Chongqing |
| 10 | Sichuan |

TOP 5 UPPER-INCOME CHINESE PROVINCES OF THE FUTURE – CONNECTIVITY

| RANK | PROVINCE |
|------|-----------|
| 1 | Shanghai |
| 2 | Beijing |
| 3 | Guangdong |
| 4 | Zhejiang |
| 5 | Jiangsu |

TOP 5 MIDDLE-INCOME CHINESE PROVINCES OF THE FUTURE – CONNECTIVITY

| RANK | PROVINCE |
|------|-----------|
| 1 | Chongqing |
| 2 | Hunan |
| 3 | Henan |
| 4 | Shaanxi |
| 5 | Hebei |

TOP 5 LOWER-INCOME CHINESE PROVINCES OF THE FUTURE – CONNECTIVITY

| RANK | PROVINCE |
|------|----------|
| 1 | Sichuan |
| 2 | Anhui |
| 3 | Guangxi |
| 4 | Yunnan |
| 5 | Jiangxi |

METHODOLOGY

To create a shortlist for fDi's Chinese Provinces of the Future 2014/15, the fDi Intelligence division of the Financial Times collected data using the specialist online FDI tools fDi Benchmark and fDi Markets, as well as other sources. Data was collected for 31 provinces under five quantitative categories: Economic Potential,

Human Capital and Lifestyle, Cost Effectiveness, Connectivity, and Business Friendliness.

Each category was made up of a selection of datapoints, each which carried a weighted score depending on their relationship with FDI in the province. This gave the various winning locations in the individual categories.

To get the overall results, each category was then weighted again, and the weight of 100 was distributed as follows:

- Economic Potential – 30
- Human Capital and Lifestyle – 10
- Business Friendliness – 25
- Cost Effectiveness – 10
- Connectivity – 25

Provinces were categorised according to their gross

regional product (GRP) per capita. Provinces with a GRP per capita rate of more than Rmb50,000 were classed as upper-income provinces. Provinces with a GRP per capita figure of between Rmb30,000 and Rmb50,000 were classed as middle income, while provinces with a GRP per capita figure below Rmb30,000 were classed as lower income.

LIST OF DATA POINTS

ECONOMIC POTENTIAL

- Population growth rate (2008 to 2012)
- Gross regional product (in yuan)
- Gross regional product per capita (in yuan)
- Unemployment rate
- Household consumption expenditure (yuan)
- Total retail sale of consumer goods (per capita)
- Outward FDI per 100,000 (January 2008 to December 2012)
- Inward FDI per 100,000 (January 2008 to December 2012)
- Labour productivity in terms of total output value of construction (yuan/person)
- Number of patent applications per 100,000 people
- Total value of exports per capita (\$)
- Average annual growth in value of exports (2008 to 2012) per capita (%)
- Total value of imports per capita (\$)
- Average annual growth in value of imports (2008 to 2012) per capita (%)
- Total value of imports and exports by foreign-funded companies per capita (\$)

HUMAN CAPITAL AND LIFESTYLE

- Ownership of mobile phones per 100 households
- Average disposable annual income of urban households per capita (yuan)
- Five-year growth in total savings deposits of urban and rural households per capita
- Ownership of mobile phones per 100 households
- Average disposable annual income of urban households per capita (yuan)
- Five-year growth in total savings deposits of urban and rural households per capita

BUSINESS FRIENDLINESS

- Number of corporate enterprises per capita
- Number of legal entities per capita
- Average investment per foreign funded enterprise (\$)
- Number of foreign-funded companies as a percentage of total business enterprises (%)
- Number of Fortune 500 companies
- Number of Top 1000 World Banks
- Number of companies in the high-tech

CONNECTIVITY

- Download speed (kilobytes/second)
- Percentage of administrative village with access to broadband internet (%)
- Number of broadband subscribers
- Number of 3G mobile phone subscribers
- Business volume of postal and telecommunication services per capita (100m yuan)
- Total annual cash consumption expenditure for transport and communication per capita as a percentage of total annual cash consumption per capita (%)
- Expenditure for transportation per capita
- Number of public transportation vehicles per 10,000 people
- Passenger traffic (10,000 people)
- Number of international destinations served
- Number of ports
- Freight traffic (10,000 tonnes)
- Land for construction as a percentage of area under land survey (10,000 hectares) (%)
- Rate of urban population with access to tap water and gas

COST EFFECTIVENESS

- Retail price index
- Average salary (yuan)
- Value of houses (yuan/square metre)
- Cost of four-star/five-star hotel in city centre location
- Ratio of profits to total industrial costs