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Beyond a Mega City: Investing in China's Mega City Clusters

A Definitive Guide to China's Most Investor-Friendly Megalopolises

Doing Business in China 2023 Series

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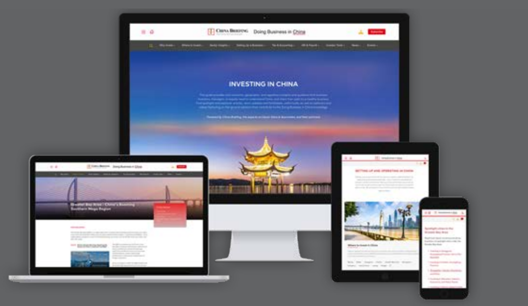

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This guide in the Doing Business in China 2023 series was produced by a team of professionals at Dezan Shira & Associates, with Zhou Qian and Arendse Huld as technical editors.
Creative design of the guide was provided by Nguyen Hoang Linh, Miguel Enrico Anciano, and Aparajita Zadoo.

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Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing legal, tax and operational advisory to international corporate investors. Operational throughout China, India, and ASEAN, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining, and growing their business operations in the region. With more than two decades of on-the-ground experience and a large team of lawyers, tax experts, and auditors, in addition to researchers and business analysts, we are your partner for growth in Asia.

Preface

ALBERTO VETTORETTI
Managing Partner
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Doing business in China has undergone significant changes in the past few years. While the country has been a magnet for foreign investment over the last three decades and is expected to remain so in the foreseeable future, businesses operating in China now encounter mounting challenges. These challenges stem from the uneven recovery of China's economy, increasing geopolitical risks, and various internal and external headwinds.

Given this, it is becoming increasingly crucial for executives to stay informed. Only those who align with Beijing's policy priorities and can navigate China's increasingly complex operating environment will be able to identify risks in advance and swiftly seize new market opportunities. In other words, they will be better positioned to not only survive but also thrive in the world's second-largest economy.

Mega city clusters, also known as "megalopolises," are the thrust of China's new urbanization plans and hold immense potential for foreign investment. These geographical concepts emerged in the 1980s, following China's reform and opening up. In the 14th Five Year Plan period (2021-2025), China made a strategic decision to prioritize the development of 19 mega city clusters across the country.

Among them, four mega city clusters—including the Yangtze River Delta, the Pearl River Delta (or the Guangdong-Hong Kong-Macao Greater Bay Area), the Beijing-Tianjin-Hebei (or Jing-Jin-Ji), and the Chengdu-Chongqing Economic Circle—are of paramount importance and are receiving special attention from China for improvement. These four regions, covering just eight percent of China's land, contribute to over 50 percent of the country's economic output and foreign investment. The well-established infrastructure, industrial supply chains, and coordinated development strategy of these regions are creating new investment frontiers with unparalleled convenience and advantages.

Businesses with current operations in China or those considering expansion into this vast market are strongly advised to thoroughly explore and understand the potential of these mega city clusters. In this guide, we offer a comprehensive introduction to the four mega city clusters, encompassing key parameters, such as economic performance, trade statistics, leading industries, preferential policies, and China's developmental plans for each region.

We hope this publication can enable foreign investors to gain a better understanding of the dynamics, priorities, and trends of the Chinese economy and take advantage of the opportunities presented by the next phase of China's urban, industrial, and technological development.

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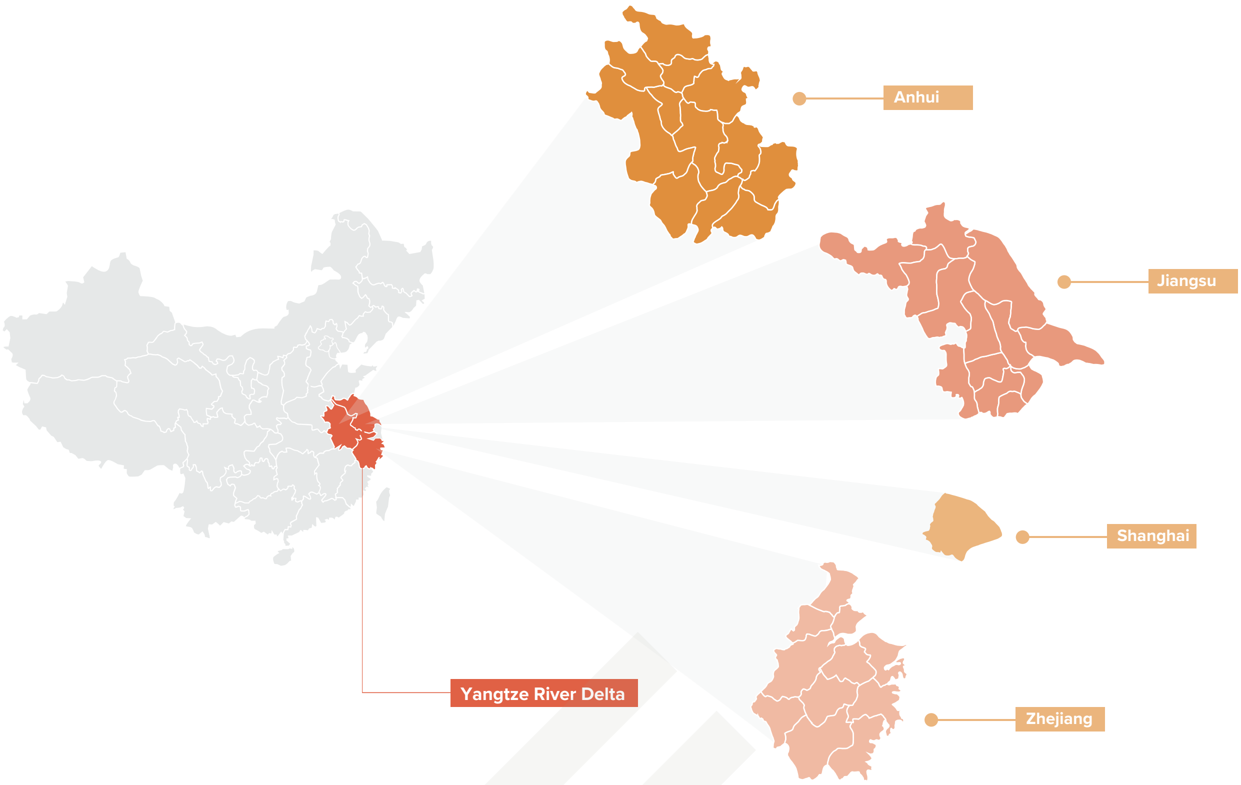
Yangtze River Delta Region



The Yangtze River Delta (YRD) region is in the lower reaches of the Yangtze River in China, bordering the Yellow Sea and the East China Sea. The YRD region includes the entire area of three provinces—Jiangsu, Zhejiang, and Anhui, as well as the city of Shanghai—covering an area of 358,000 square kilometers. By the end of 2022, the YRD region had a permanent population of 237 million, accounting for 16.8 percent of China's total population.

Respective areas in the region boast their own individual strengths. Shanghai is a logistics center and the Chinese Mainland's financial center; Jiangsu is a strong manufacturing base; Zhejiang has a strong private sector and enterprises based here play an important role in the digital economy; and Anhui has an abundance of natural resources and a well-developed manufacturing ecosystem as well.

As one of China's top-level city clusters, the YRD region is rightly considered a jewel in the crown of China's economic transformation. Unsurprisingly, the integration of the YRD has been elevated to a national strategy since 2018. The regional economy is advanced, innovative, and boasts of the highest degree of openness in the country.

Currently, the YRD region accounts for about a quarter of China's total economic output, one third of China's annual research and development (R&D) expenditure, one third of the number of invention patents in force in China, and one third of China's gross export, foreign direct investment (FDI), and outbound investment (ODI).

The Significance of the YRD Region in China

3.72%
of China's total size

16.8%
of China's total population

24.0%
of China's total GDP in 2022

35.8%
of China's total import and export in 2022

46.2 %
of China's total goods import and export in 2021

40.1%
of China's total actual utilized FDI in 2022

1/3
of China's total ODI

29.8%
of China's annual R&D expenses in 2021

25%
of China's "Double-First Class" universities

20%
of China's national key laboratories

26%
of China's annual invention patents obtained

40%
of the first prize in State Science and Technology Awards

58.3%
of the scale of China's integrated circuit industry

1/3
of the scale of China's bioengineering and pharmaceutical industry

1/3
of the scale of China's artificial intelligence industry

Economic overview

In 2022, the GDP of the YRD region reached RMB 29.03 trillion (US$4.32 trillion), accounting for 24.0 percent of China's total GDP. The YRD region's total import and export amount grew by 27.7 percent in the past five years, from RMB 11 trillion (US$1.71 trillion) in 2018 to RMB 15.07 trillion (US$2.24 trillion) in 2022, accounting for 35.8 percent of China's total import and export amount. As for the FDI, in 2021, the foreign investment actually utilized reached RMB 104.26 billion (US$16.16 billion), accounting for 48.9 percent of the national total.

Among the 41 prefecture-level cities in the YRD region, 27 are central-area cities, which are designed to play key roles in driving high-quality development of the region. The 27 central-area cities are:

27 Central-Area Cities of the YRD Region					
Shanghai (1 city)					
Jiangsu (9 cities)		Zhejiang (9 cities)		Anhui (8 cities)	
1.	Nanjing	1.	Hangzhou	1.	Hefei
2.	Suzhou	2.	Ningbo	2.	Wuhu
3.	Wuxi	3.	Wenzhou	3.	Ma'anshan
4.	Changzhou	4.	Huzhou	4.	Tongling
5.	Zhenjiang	5.	Jiaxing	5.	Anqing
6.	Nantong	6.	Shaoxing	6.	Chuzhou
7.	Yangzhou	7.	Jinhua	7.	Chizhou
8.	Yancheng	8.	Zhoushan	8.	Xuancheng
9.	Taizhou ( )	9.	Taizhou (台州)		

The largest city by GDP is Shanghai, with a total GDP of RMB 4.47 trillion (US$664.6 billion) in 2022, followed by Suzhou and Hangzhou, whose GDPs reached RMB 2.40 trillion (US$356.8 billion) and RMB 1.88 trillion (US$279.5 billion) in the same year, respectively.

At the city level, Wuxi has the largest GDP per capita in the YRD region, reaching RMB 198,400 (US$29,497) in 2022, followed by Suzhou and Shanghai, at RMB 186,000 (US$27,653) and RMB 180,400 (US$26,820), respectively.

The service sector is the largest driver of economic activity in the YRD, accounting for 55 percent of the region's GDP in 2022. That said, the YRD also has a strong secondary industry, which accounted for 41 percent of the region's GDP in 2022.

YRD Region Profile

Total area: 358,000 km^2

Total population: 237 million

Total GDP: RMB 29.03 trillion (US$4.32 trillion)

Total utilized foreign capital: US$75.9 billion

Total import-export: RMB 15.07 trillion (US$2.24 trillion)

No.	City	GDP	POP	EXIM	FDI
1	SHANGHAI	US$663.9 B	24.76 M	US$623.0 B	US$23.96 B
2	NANJING	US$2514 B	9.49 M	US$93.5 B	US$4.85 B
3	WUXI	US$220.8 B	7.49 M	US$16.5 B	US$3.83 B
4	CHANGZHOU	US$142.0 B	5.37 M	US$48.0 B	US$2.83 B
5	SUZHOU	US$356.2 B	12.91 M	US$382.4 B	US$7.42 B
6	NANTONG	US$169.2 B	7.74 M	US$54.5 B	US$2.95 B
7	YANCHENG	US$105.3 B	6.69 M	US$3.1 B	US$1.18 B
8	YANGZHOU	US$150.6 B	4.58 M	US$16.4 B	US$1.53 B
10	ZHENJIANG	US$74.6 B	3.22 M	US$2.3 B	US$0.57 B
11	TAIZHOU	US$95.2 B	4.51 M	US$2.9 B	US$1.14 B
12	HANGZHOU	US$278.8 B	12.38 M	US$112.5 B	US$7.81 B
13	NINGBO	US$233.5 B	9.62 M	US$188.4 B	US$3.73 B
14	JIAXING	US$100.2 B	5.55 M	US$65.4 B	US$3.16 B
15	HUZHOU	US$57.2 B	3.41 M	US$24.2 B	US$1.58 B
16	SHAOXING	US$109.3 B	5.35 M	US$54.9 B	US$1.02 B
17	JINHUA	US$82.7 B	7.13 M	US$104.4 B	US$0.26 B
18	ZHOUSHAN	US$29.0 B	1.17 M	US$51.9 B	US$0.27 B
19	TAIZHOU	US$89.8 B	6.68 M	US$41.2 B	US$0.24 B
20	HEFEI	US$178.6 B	9.63 M	US$53.7 B	US$1.21 B
21	WUHU	US$66.9 B	3.73 M	US$13.6 B	US$045 B
22	MAANSHAN	US$37.5 B	2.19 M	US$6.7 B	US$0.14 B
23	TONGLING	US$18.0 B	1.30 M	US$9.9 B	US$0.09 B
24	ANQING	US$41.1 B	4.16 M	US$3.9 B	US$0.04 B
25	CHUZHOU	US$53.7 B	4.05 M	US$6.3 B	US$0.16 B
26	CHIZHOU	US$16.0 B	1.33 M	US$1.7 B	US$0.02 B
27	XUANCHENG	US$28.5 B	2.50 M	US$3.3 B	US$0.06 B
28	WENZHOU	US$119.4 B	8.32 M	US$43.9 B	US$0.61 B

**Data are as of 2022. EXIM here refers to the total export and import trade amount, except for Shanghai and Hangzhou – where it indicates only the total import and export amount of goods. FDI here refers to utilized FDI in the current year.*

GDP Breakdown of the YRD Region by Industry Type, 2022			
Province/City	**Primary industry**	**Secondary industry**	**Tertiary industry**
Shanghai	RMB 9.7 billion	RMB 1,145.8 billion	RMB 3,309.7 billion
Jiangsu province	RMB 495.9 billion	RMB 5,588.9 billion	RMB 6,202.8 billion
Zhejiang province	RMB 232.5 billion	RMB 3,320.5 billion	RMB 4,218.5 billion
Anhui province	RMB 351.4 billion	RMB 1,858.8 billion	RMB 2,294.3 billion
YRD total	RMB 1,089.5 billion	RMB 11,914.0 billion	RMB 16,025.3 billion

Development of the YRD region

The breakneck development of the YRD region has a modern history of just over 40 years. As early as in 1982, the State Council put forward the idea of establishing the YRD economic circle with Shanghai as the center, also referred to as the Shanghai Economic Area, covering 10 cities in Shanghai, Jiangsu province, and Zhejiang province. In the later few years, the Shanghai Economic Area experienced two expansions but was finally canceled in 1988. In 1990, the state Council once again put the integrated development of the YRD on the agenda. By 2003, the YRD city cluster covering 16 cities in Shanghai, Jiangsu province, and Zhejiang province was formed. Then in 2016, Anhui province was added to the YRD region. In late 2018, the integration of the YRD region was officially announced as a national strategy when President Xi Jinping delivered a speech at the opening ceremony of the first China International Import Expo (CIIE) in Shanghai, now a national level trade event on the annual calendars of thousands of global firms.
Finally in December 2019, the State Council rolled out the Master Plan for Integrated Regional Development of Yangtze River Delta (the YRD Master Plan), which provides a strategic roadmap to increase the region's integration level and competitiveness on a global scale by 2025.

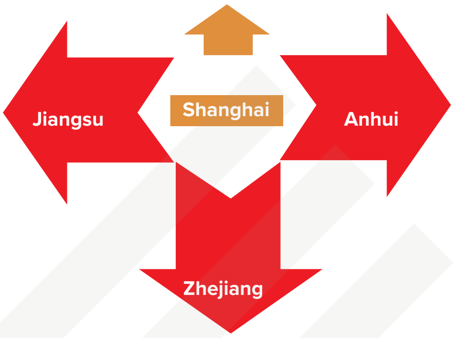
Among other priorities, the YRD Master Plan targets to foster a new pattern of coordinated development among regions by giving full play to the leading role of Shanghai, enhancing the strengths of Jiangsu, Zhejiang, and Anhui provinces, enhancing the integration level of metropolitan areas, and promoting the integrated development of urban and rural areas. Under this pattern, provinces and cities in the region will need to cooperate with each other and focus on their own comparative advantages so that duplication is avoided, areas complement each other, and synergies are maximized.

Advantage

- China's financial center
- Global logistics center
- High degree of openness
- Rich talent pool

Function

- Enhance Shanghai's service function and core competitiveness
- Make Shanghai a global economic, financial, trade, shipping, and innovation center
- Promote the export of Shanghai's brand and management model to achieve high-quality development of the YRD



Advantage

- Strong manufacturing base
- Rich scientific and educational resources

Development path

- Develop the Shanghai-Nanjing Industrial Innovation Belt
- Construct the Independent Innovation Demonstration Zone in southern Jiangsu and Nanjing Jiangbei New Area
- Build Jiangsu into an advanced manufacturing base with global influence

Advantage

- Distinctive manufacturing features
- Abundance of natural resources
- Vast hinterland

Development path

- Promote the coordinated development of Wanjiang City Belt
- Construct the Hefei-Wuhu-Bengbu Independent Innovation Demonstration Zone
- And build Anhui into a gathering place of emerging industries with important influence

Advantage

- Strong digital economy
- Strong private economy

Development path

- Promote the development of Hangzhou Bay Area, the Key Path, and the big metropolitan area
- Integrate and upgrade a number of agglomeration development platforms
- Build Zhejiang into a highland of digital economy in China

Meanwhile, the YRD Master Plan aims to improve the region's role in the global supply chain and value chain and strive for high-quality development by building a regional innovation community, strengthening industrial division and cooperation, and further integrating industry with innovation. In particular, the YRD Master Plan targets to:

- **Build 10 world-class manufacturing clusters,** covering electronic information, biomedicine, aerospace, high-end equipment, new materials, energy conservation and environmental protection, automobile, green chemical, textile and clothing, and intelligent home appliance.
- **Foster several internationally** competitive leading enterprises in 10 key areas, including integrated circuit (IC), new display, internet of things, big data, artificial intelligence (AI), new energy vehicles, life and health, large aircraft, intelligent manufacturing, and cutting-edge new materials.
- **Layout of several future industries in 8 areas**, including quantum information, brain-like chips, third-generation semiconductors, next-generation AI, targeted drugs, immune cell therapy, stem cell therapy, and gene testing.
- **Develop several platforms and clusters for 9 service sectors**, including modern finance, modern logistics, science and technology services, software and information services, e-commerce, cultural and creative, sports services, human resources services, and smart elderly care.
- **Promote services**, namely, R&D services, supply chain services, testing, global maintenance, general contracting, marketing, manufacturing digital services, industrial Internet, and services regarding energy saving.
- Explore new models of **trans-regional** cooperation in tourism and elderly care.

Moreover, the YRD Master Plan stipulates that the cities in the region will jointly improve the regional infrastructure, deepen opening-up, improve the business environment, and establish a unified market, etc. For example, since 2019, the YRD has been starting to facilitate cross-provincial taxation for enterprises, shortening the processing time of tax matters, and strengthening the sharing of taxpayer's tax-related credit information among local government departments.

Considering that the 14th Five Year Plan for National Economic and Social Development explicitly stipulates the YRD region as one of the five mega city clusters to be further optimized and improved, and also emphasizes the "three historical missions" that President Xi envisions for the YRD in the dual circulation strategy of China, the integration of the YRD region is expected to be actively and continuously promoted as a top priority.

Foreign trade in the YRD region

As a world-class advanced manufacturing center and one of the most economically developed, open, and innovative regions in China, the YRD region plays an important role in China's foreign trade. In 2022, the YRD region's total import and export amount reached RMB 15.07 trillion (US$2.24 trillion), accounting for 35.8 percent of China's total.

On the one hand, the YRD region has an active private economy, strong scientific and technological innovation vitality, and many high-end industries, so the foreign trade in the region is more resilient than others. On the other hand, the YRD region has the advantage of an industrial cluster, which can effectively reduce costs and improve product competitiveness. In addition, the advantages of logistics and ports in the YRD region have also laid the foundation for the steady growth of foreign trade in the region.

Imports and Exports in the YRD Region, 2022			
Province/City	**Imports**	**Exports**	**Total**
Shanghai	US$368.2 billion	US$254.7 billion	US$623.0 billion
Jiangsu province	US$292.0 billion	US$517.6 billion	US$809.6 billion
Zhejiang province	US$186.0 billion	US$510.3 billion	US$696.3 billion
Anhui province	US$41.1 billion	US$70.8 billion	US$112.0 billion
YRD total	US$887.4 billion	US$1,353.5 billion	US$2,240.9 billion

The top 3 cities for foreign trade in the YRD region are Shanghai, Suzhou, and Ningbo. In 2022, the import and export value of these three cities reached RMB 8.0 trillion (US$1.2 trillion), accounting for 53.3 percent of the YRD's total. Meanwhile, Wenzhou, the world-famous small commodities center of China, and seven other cities of the YRD saw over 20 percent growth in foreign trade in 2022.

The region's major trade partners include the United States (US), the European Union (EU), ASEAN, Japan, Hong Kong, South Korea, Russia, and countries in Africa and Latin America.

Top 4 Trade Partner of Shanghai in 2022

Country/Region	Imports	Exports	Total
EU	US$76.0 billion	US$46.8 billion	US$122.8 billion
US	US$30.9 billion	US$46.8 billion	US$77.7 billion
ASEAN	US$52.6 billion	US$31.5 billion	US$84.2 billion
Japan	US$38.6 billion	US$20.0 billion	US$58.5 billion

Mechanical and electronic products (MEP) and new and high-tech products (NHP) are the YRD region's major exports, accounting for 57 percent and 27 percent of the region's total exports in 2022, respectively. Meanwhile, although the export market and category of the YRD cities have a high degree of homogeneity, each province / city has their own characteristics. For example, Shanghai's top three MEP exports are electronic components, automatic data processing equipment and parts, and mobile phones, while Jiangsu's top 3 MEP exports are electric appliance and electronic products, machinery and equipment, and transport machine, and Zhejiang's top 3 MEP exports are general mechanical equipment, electrical equipment, and auto parts.

YRD's Mechanical and Electronic Products Exports in 2022

Province/City	MEP exports	Total exports	Ratio
Shanghai	US$162.0 billion	US$254.7 billion	64%
Jiangsu province	US$342.6 billion	US$517.6 billion	66%
Zhejiang province	US$227.9 billion	US$510.3 billion	45%
Anhui province	US$44.5 billion	US$70.8 billion	63%
YRD total	US$777.0 billion	US$1,353.5 billion	57%

Leading industries of the YRD region

With electronics, automobiles, and modern finance being at the core, the YRD region is committed to becoming a globally influential science and innovation base and an important modern service industry and advanced manufacturing hub.

Shanghai has well-established finance and education industries, Zhejiang province has mature textile, waste management, software, and service industries, and Jiangsu and Anhui provinces have strong advanced manufacturing industries, such as transportation equipment manufacturing and telecommunication equipment manufacturing.

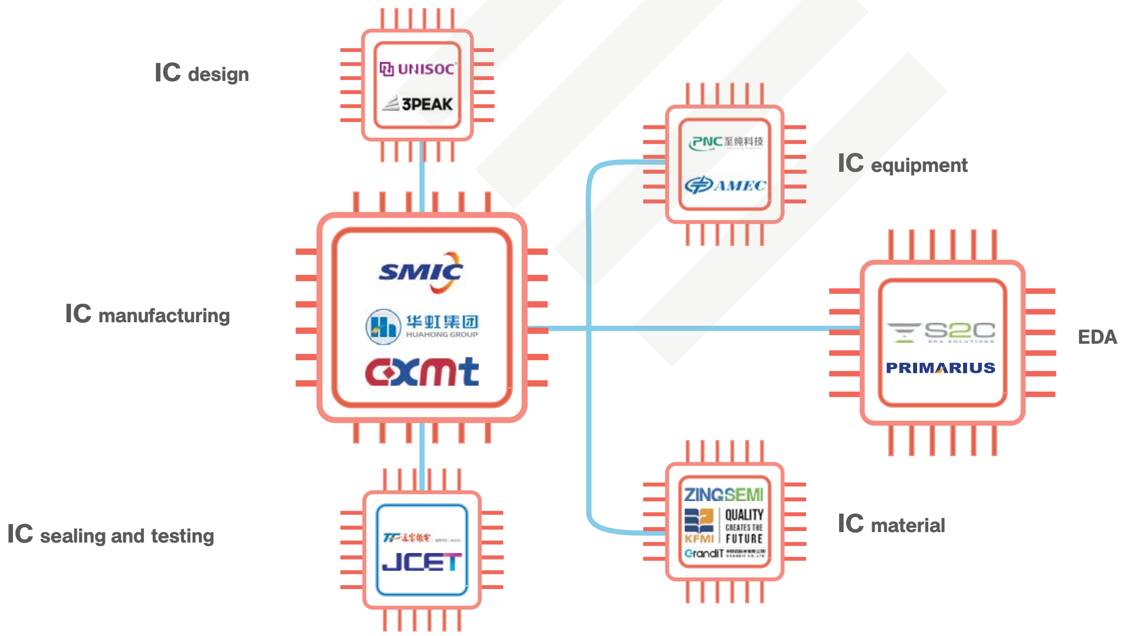
Key Industries in the YRD Cities
Shanghai Finance, shipping logistics, modern commerce and trade, information services, cultural creativity, tourism exhibition, automobile, electronic information, complete equipment, high-quality steel, petrochemical and fine chemicals, biomedicine, IC, AI, new material
Suzhou Electronic information, equipment manufacturing (high-end equipment, aerospace, automobile and parts, new energy, etc.), biomedicine, advanced materials
Nanjing Electronic information, petrochemical, automobile, steel, software and service outsourcing, smart grid, wind power and photovoltaic, rail transit, IC, biomedicine, aerospace equipment, cultural industry, tourism
Hangzhou Internet industry, fintech, e-commerce, digital content, cloud computing, big data, visual intelligence (digital security), intelligent computing, network communication, smart home appliance, intelligent equipment, modern textile, cultural industry, tourism
Ningbo Green petrochemical, energy-efficient and new energy vehicle, IC material and equipment, optical electronics, robot, intelligent forming equipment, high-end mould, rare earth magnetic material, intelligent household appliance, fashion clothing
Jiaxing Microelectronics, intelligent equipment, biomedicine, modern textile, new energy, new materials, automobile
Wuxi Internet of things, IC, biomedicine and medical devices, software and information technology service, high-end equipment, high-end textile and clothing, energy-saving and environmental protection, automobile and auto parts, new materials (special steel, petrochemical, metal products, graphene, etc.)
Hefei Household appliances, equipment manufacturing, panel display manufacturing, automobile and auto parts, agricultural products processing, photovoltaic, voice technology, public security, bio-manufacturing, housing industrialization

The YRD has also formed industrial clusters offering advantages in strategic emerging industries, such as IC, biomedicine, AI, and new energy vehicle industry.

Integrated circuits (IC)

At present, the size of the IC industry in the YRD accounts for 58.3 percent of the country, among which the IC design, IC manufacturing, and IC sealing and testing account for 48.9 percent, 47.2 percent, and 78.4 percent of the country, respectively. Six of the top 15 cities in China's IC industry are located in the YRD region – Shanghai, Wuxi, Hefei, Nanjing, Suzhou, and Hangzhou. In Shanghai alone, there are over 700 enterprises operating in the IC industry. Key players include Semiconductor Manufacturing International Corporation (SMIC), Huahong Group, ChangXin Memory Technologies (CXMT), JCET Group, etc.

YRD's IC industry cluster accounts for 58.3% of the China total



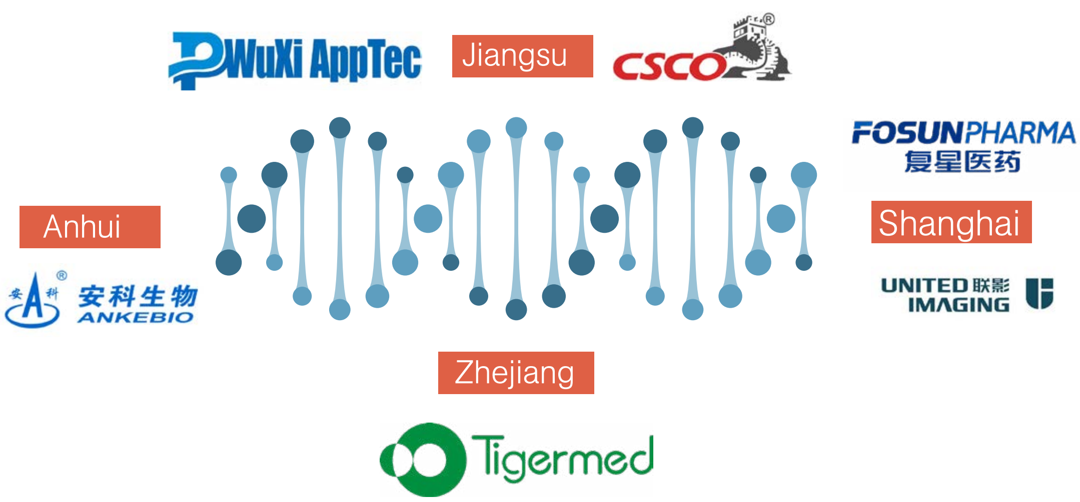
Biomedical industry

The YRD leads China in the biomedical industry. One-third of China's biomedical industrial parks are located in the YRD; 70 percent of China's new drugs approved in the recent three years (2019-2021) come from the YRD; 30 percent of China's pharmaceutical R&D enterprises are in the YRD; and seven of the top 30 institutions and universities in the field of biomedicine are in the YRD.

By the end of 2020, of the 64 biomedical companies listed on the Science and Technology Innovation Board (STAR market), 33 were from the YRD, accounting for more than 50 percent of the total, including 15 in Shanghai. The YRD has leading enterprises in almost the whole supply chain of biomedicine in China. Key players include Fosun Pharma, United Imaging, Wuxi Pharma Tech, Tigermed, and Anke Bio, among others.

Shanghai has prominent advantages in terms of the innovation chain – R&D institutions, large experimental facilities, clinical resources, innovation platforms, and international market relations, etc., thereby forming a perfect biomedical innovation system and industrial cluster. Jiangsu offers the strongest industrialization advantages in China with local characteristics, such as innovative medicine in Suzhou, biopharmaceutical and vaccine in Taizhou (泰州), nucleic acid industry in Kunshan, gene industry in Nanjing, etc. Zhejiang has made great strides in the integration of manufacturing and the digital economy as demonstrated in the Hangzhou National Biological Industry Base and the Taizhou (台州) National Chemical Raw Materials Base. Anhui also has well-respected expertise in traditional Chinese medicine.

YRD's biomedical cluster accounts for 1/3 of the China total



AI industry

The size of AI industry in the YRD accounts for about one-third of the country. Over 2000 YRD enterprises are engaged in the AI industry, accounting for around 30 percent of the national total. Among these enterprises, over 90 percent of them are engaged in AI applications in different scenarios; around 50 percent of them are engaged in AI technologies, such as computer vision and language processing; around 20 percent of them are engaged in AI basic technologies, such as AI chip, computer language, and AI algorithms. Key players include Sense Time, Hikvision, and iFLYTEK, among others.

At the city level, Shanghai has the leading role in YRD's AI industry, accounting for over 50 percent of YRD's AI enterprises. Zhejiang and Jiangsu ranked the second and third in YRD's AI industry, accounting for 27 percent and 20 percent of the region's total, respectively. Anhui's AI industry is still at the early stage of development, accounting for only four percent of the region's total enterprises.

At the industrial application level, the AI industry in the YRD mainly focuses on finance, automobile and transportation, logistics, robotics, and other advanced manufacturing fields.

Automobile industry

Having the most complete automobile production system in place, the YRD is home to one of six automobile industry clusters in China. Centered in Jiangsu and Shanghai, the YRD hosts more than 100 industrial parks in the automobile sector with an annual industrial output value of more than RMB 10 billion (US$1.4 billion), including thousands of large scale enterprises, such as SAIC Motor, Geely Group, Zotye Group, and Dongfeng Motor, etc. In 2022, the automobile output of Jiangsu, Zhejiang, Anhui, and Shanghai was 6.96 million units, accounting for 25 percent of the total vehicle production in China.

In recent years, the YRD has been focusing on the development of new energy vehicles (NEVs). By far, the YRD maintains the largest number of NEV production bases, producing over one-third of China's NEVs. Key players include Tesla, Nio, WM Motor, XPENG, etc.

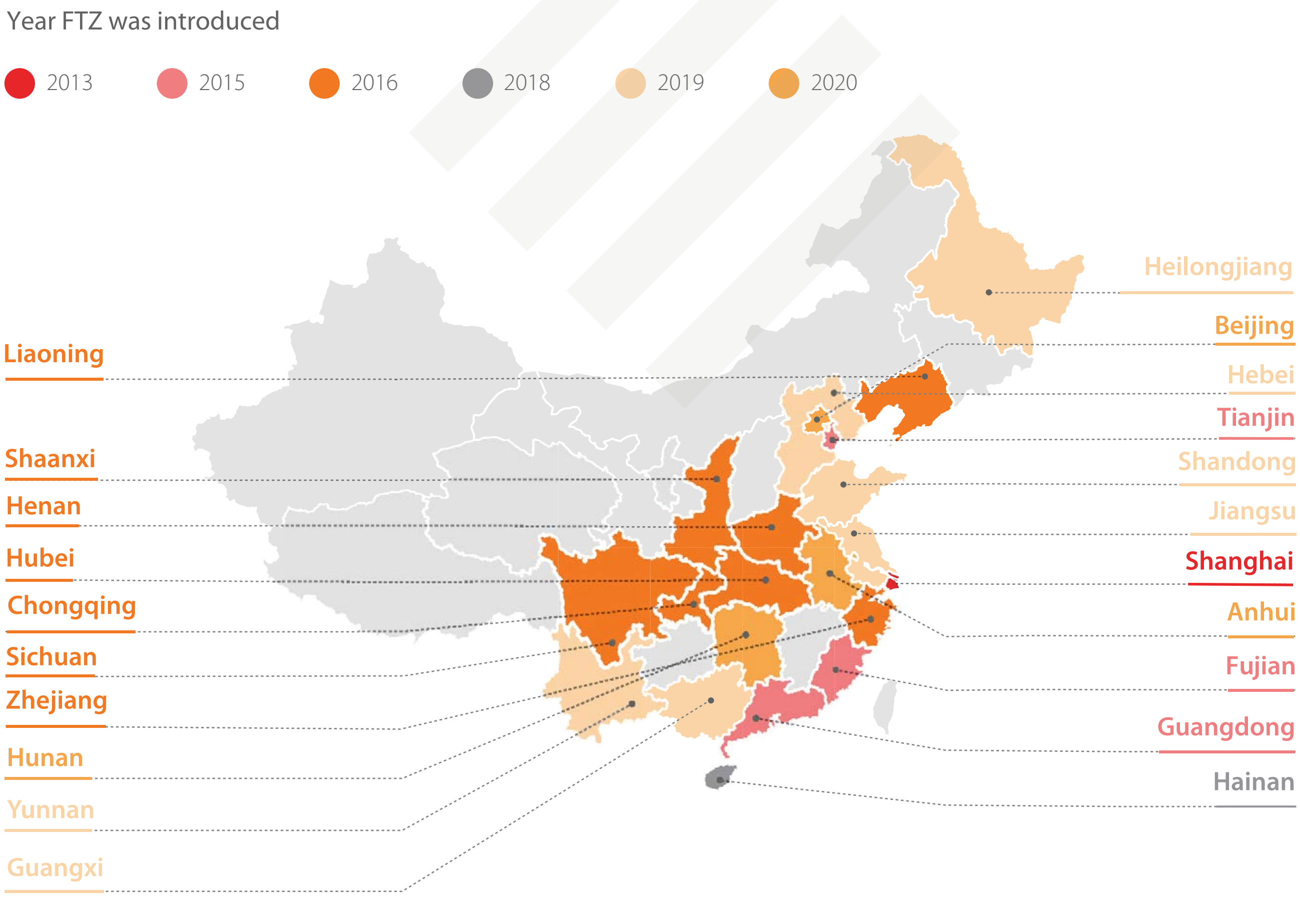
The YRD region's complete automobile supply chain continues to empower its auto industry. In 2022, 37 of the top 100 Chinese auto parts enterprises were located in the YRD region. Roughly 95 percent of Tesla Gigafactory Shanghai's auto parts were sourced in China, with the YRD alone contributing over 50 percent of them.

Preferential policies in the YRD region

Preferential trade and investment policies in the free trade zones

Since 2013, China has set up 21 pilot free trade zones (FTZs) in seven batches, and the YRD has four of them. To be more specific, the Shanghai FTZ was established in September 2013 as China's first pilot free trade zone. Jiangsu FTZ was established in August 2019, in the sixth batch. Zhejiang FTZ and Anhui FTZ were established in September 2020, part of the seventh batch. All three YRD provinces and Shanghai have their own FTZs.

FTZs in China



Though the specific goals and policies of FTZs vary from one to another, in general, FTZs play an important role in modernizing China's business landscape and serve as areas where authorities can experiment with pro-business regulation. Investment and trade policies are comparatively more preferential than non-FTZ areas.

Among other advantages, FTZs have a liberalized policy for foreign investment in specific industries or industrial capabilities that are not yet widely available in China. For example, foreign investors can invest in the field of market research and social surveys in the FTZs, while these two sectors are not open to foreign investment beyond the FTZs.

Additionally, the customs clearance process is more streamlined within the FTZs, particularly regarding clearance declarations and payments. For instance, firms can declare several batches of goods on a single form and make a collective declaration for imports and exports of goods. This reduces clearance costs and increases declaration flexibility for firms.

Moreover, FTZs usually have targeted tax, talent, investment, and financing policies to promote the development of the encouraged industries. For example, qualified AI, IC, biopharmaceuticals, and civil aviation enterprises in special areas of Shanghai Pudong can enjoy a reduced corporate income tax (CIT) rate of 15 percent; the Shanghai Lingang area provides a broad range of policy incentives for financial institutions, including various rewards and talent incentives; and Shanghai also provides incentives to foreign-funded R&D centers, including customs clearance facilitation for R&D supplies and a "green channel" for R&D talents.

Supportive policies in the cross-border e-commerce comprehensive pilot zones

As one of China's strongest regions in foreign trade, the YRD is always at the forefront of cross-border e-commerce (CBEC) development. It is not only home to China's first cross-border e-commerce comprehensive pilot zone (CBEC pilot zone), which was approved by the State Council to be established in Hangzhou, Zhejiang province in March 2015, but also home to 30 other CBEC pilot zones that were established during the period between 2016 and 2022. Now, the YRD region has in total 31 CBEC pilot zones, with one in Shanghai, five in Anhui, 12 in Zhejiang, and 13 in Jiangsu. All prefecture-level cities in Zhejiang and Jiangsu provinces have been approved to establish their own CBEC pilot zones.

The CBEC pilot zones offer advantages across all types of CBEC processing and administration, including convenient custom clearance, expedite logistics, simplified payment, and easier settlement of foreign exchange and tax refunds.

China has provided a series of other supportive policies for CBEC pilot zones, including:

- The CBEC retail export enterprises in the CBEC pilot zones that meet the prescribed conditions shall be exempted from VAT and consumption tax even if they have not obtained valid purchase certificates for the goods.
- The export enterprises in the CBEC pilot zones that meet the prescribed conditions could be subjected to CIT collection upon verification (查账征收) and the deemed profit rate shall be at four percent.
- The CBEC retail export enterprises in the CBEC pilot zones that meet the prescribed conditions can apply for customs clearance facilitation policy. To improve the efficiency of customs clearance and reduce the cost of customs clearance, the customs will adopt the convenient measures of "checklist verification, summary declaration" (清单核放，汇总申报) to carry out custom supervision.
- The CBEC retail imports will be subject to supervisions similar to goods imported for self-use of individuals. Traders are exempt from license, registration, or record-filing requirements for goods that are first imported in China.

Integrated tax services in the YRD region

On December 4, 2019, China's State Taxation Administration (STA) issued the Circular on the Measures Designed to Support and Serve the Development of the Regional Integration in the Yangtze River Delta (Shui Zong Han [2019] No.356).

The Circular proposed 16 measures to improve tax services for enterprises in the Yangtze River Delta, which include facilitating cross-provincial taxation for enterprises, shortening the processing time of tax matters, strengthening the interlocal sharing of taxpayer's tax-related credit information, and boosting smart tax services with the help of 5G, blockchain, and other technologies.

Among the 16 measures, the first three tax measures aim to further ease the cross-provincial tax collection and management of enterprises in the delta region.

Enterprises with a high tax credit rating of A or B relocating within the delta region will benefit from this as the local tax authorities of the two places within the delta region are supposed to automatically coordinate and handle the transfer of taxpayer's information.

The enterprise' tax credit scores, end-of-period VAT credit, and other rights and interests can be retained and transferred to the relevant tax bureau in the place where the business has relocated to.

In addition, taxpayers registered in one city can handle tax affairs at another city within the regions through the "electronic tax authority," including payment of property tax and urban land use tax.

VIVIAN MAO
Partner
Shanghai Office

Investing in China’s most economically dynamic region

The YRD region, as one of most international and economically dynamic regions in China, has attracted over 40 percent of China’s total FDI since “reform and opening up” in the 1980s.

The YRD region’s rich talent pool, advanced development of science and technology, developed manufacturing sector, relatively complete supply chain network, and great market potential with a relatively dense and affluent population make it the first choice of many foreign investors who plan to invest in or sell to the China markets.

Going forward, it will continue functioning as a key bridge for the ‘circulation’ between China and the rest of the world, amid a slowing global economy and rising tensions with the US.

The YRD Master Plan mentions that it will realize freedom in investment, trade, international transport, and facilitate entry and exits for foreign talents. The key projects behind this goal would be building the Lingang New Area of Shanghai FTZ, boosting the development of Shanghai as an international financial center, and improving the business environment of the whole region to attract more multinational corporate headquarters and global talents.

With YRD cities having a clearer understanding of their corresponding roles in the integrated development of the region and its industrial clusters, the YRD region will become an even more competitive and efficient investment destination for foreign investment.

“The Yangtze River Delta has been the first choice of many foreign investors to invest in or sell to the China markets, and will continue functioning as a key bridge between China and the rest of the world.”

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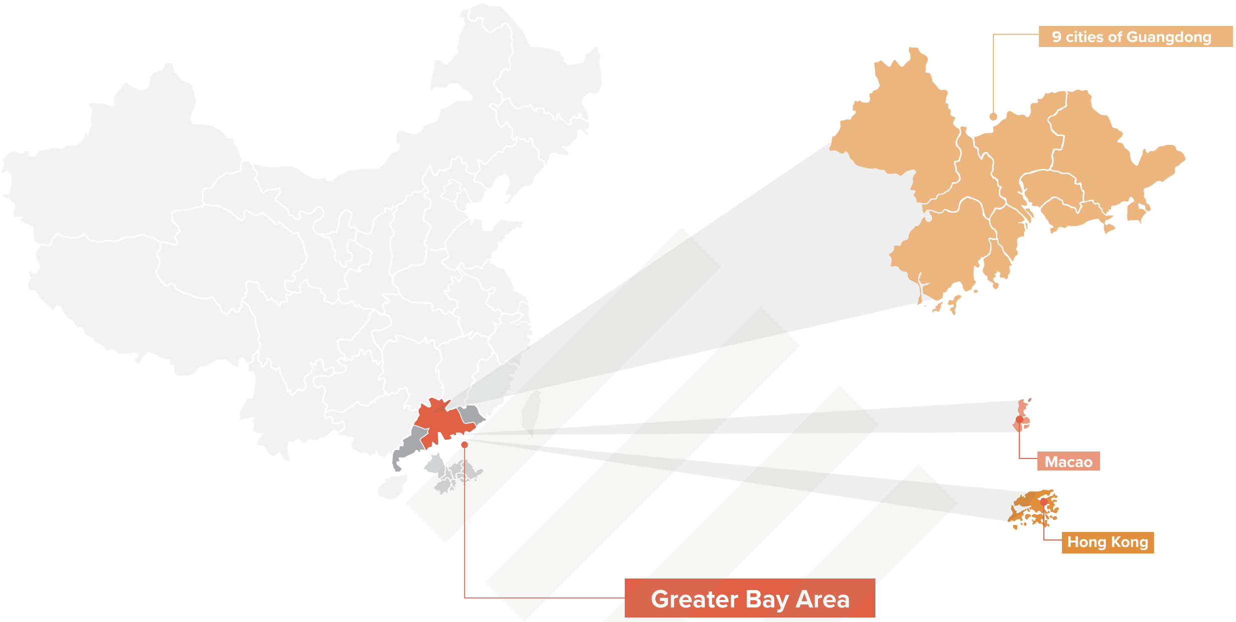
EXPLORE DETAILS

Guangdong-Hong Kong-Macao Greater Bay Area



The Guangdong-Macao-Hong Kong Greater Bay Area (GBA) is a mega city cluster located in the Pearl River Delta in China's southern Guangdong province. The city cluster is comprised of nine cities on the Chinese mainland, including the manufacturing and technology powerhouses of Guangzhou and Shenzhen, and, as the name implies, the two special administrative regions of Hong Kong and Macao.

The GBA is one of China's largest and wealthiest city clusters, second only to the Yangtze River Delta region in eastern China. The area has been a core driver of China's explosive growth since the economic reform of the 1980s and 1990s. The metropolises of Guangzhou and Shenzhen have been the center of China's manufacturing and innovation power for decades, fostering some of China's biggest names in tech, real estate, manufacturing, and more. The Port of Shenzhen is the third busiest in China and fourth busiest in the world, handling around 278.4 million metric tons of cargo in 2021.

Beyond the skyscrapers of the megalopolises, the smaller cities of the GBA now present a myriad of new opportunities for foreign businesses and investors. Deeper integration of the area through government policy, improved transport infrastructure, and specialized capabilities and resources of the various areas, means the smaller cities of the GBA are becoming increasingly attractive to foreign businesses and their staff.

In addition, with one of the highest per-capita GDPs in the country, the area is home to a large and wealthy consumer base and highly educated workforce, making the cities attractive destinations for foreign businesses to expand to the rest of the region and country.

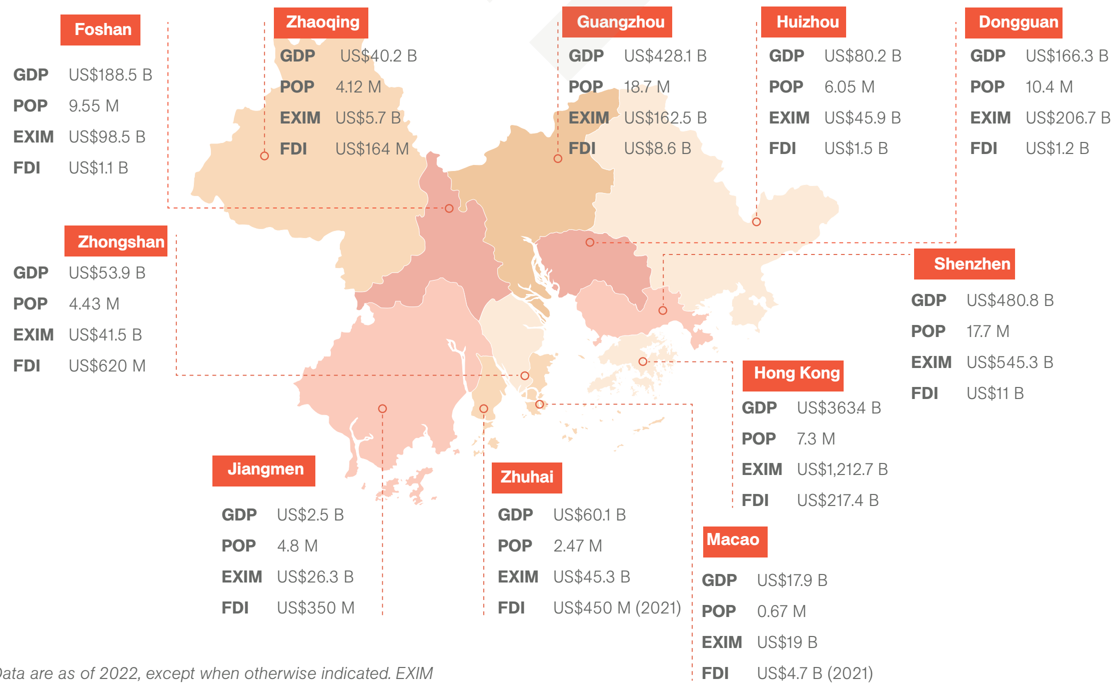
Economic overview

The economy of the GBA has grown by RMB 2.8 trillion (US$416.3 billion) in the six years since the signing of the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area (the GBA Framework), reaching RMB 13 trillion (US$1.93 trillion) in 2022. That puts the region's GDP roughly on par with that of Canada and accounted for 11 percent of China's total GDP in 2022, despite only occupying 0.6 percent of total land area.

The largest city by GDP is Shenzhen, with a local GDP of RMB 3.2 trillion (US$480.8 billion) in 2022, followed by Guangzhou, which reached RMB 2.9 trillion (US$428.1 billion). The GBA also has the highest GDP per capita of any region in China, reaching US$22,585 in 2021.

Greater Bay Area Profile

- Total area: 56,098 km^2
- Total population: 86.7 million (2021)
- Total GDP: RMB 13 trillion (US$1.93 trillion) (2022)
- Total utilized foreign capital: US$153.74 billion (2021)
- Total import-export: US$3.5 trillion (2021)

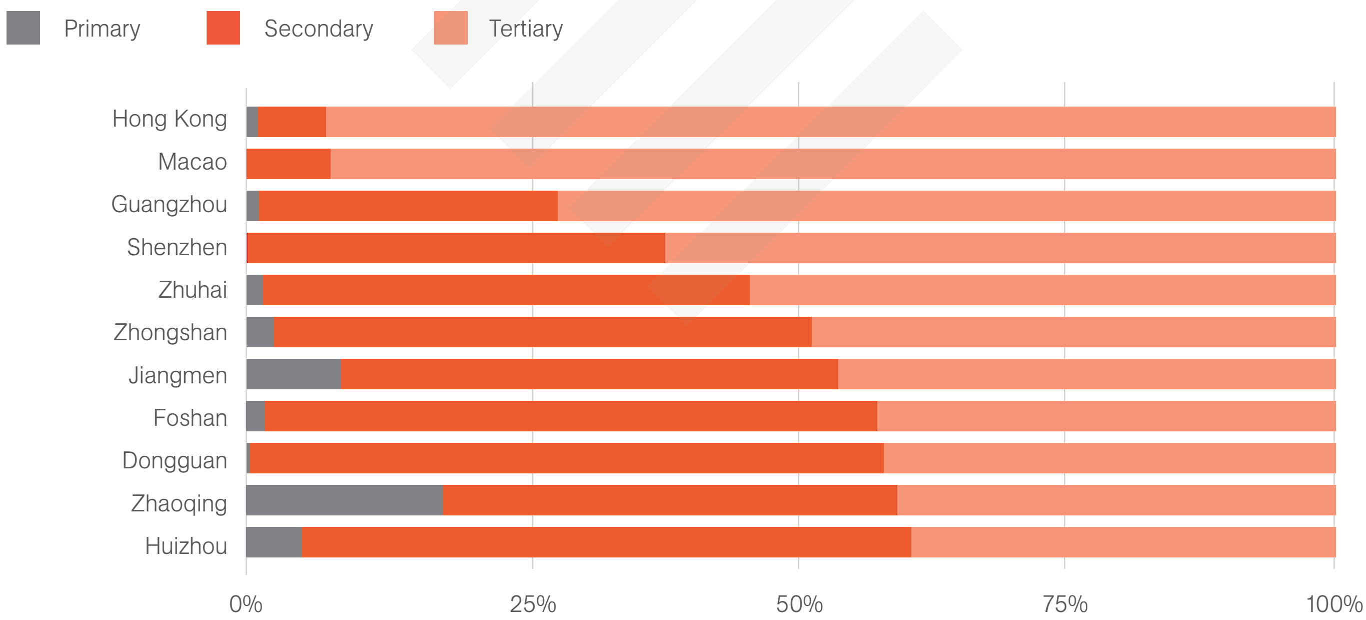


Note: Data are as of 2022, except when otherwise indicated. EXIM refers to the export and import trade amount. FDI refers to utilized FDI for mainland cities and FDI inflows for Hong Kong and Macao.

The service sector is the single largest driver of economic activity in the GBA, accounting for 64.8 percent of the region's GDP in 2021. Broken down by city, the contribution of services to the local GDP varies greatly, however. On the upper end of the scale are Hong Kong and Macao, which derive over 90 percent of their GDP from services. Meanwhile, several cities are still heavily reliant on secondary industries, with the manufacturing powerhouses of Dongguan, Huizhou, Zhongshan, and Foshan deriving over 50 percent of their GDP from the sector.

Shenzhen and Guangzhou, which have shifted to an increasingly service-oriented economy over the last decade, also still have substantial manufacturing industries, with secondary sectors accounting for 37 and 27.4 percent of the local GDP in 2021, respectively.

GDP Breakdown of GBA Cities, 2022



Source: Municipal statistics bureaus, Macao Statistics and Census Service, Hong Kong Trade and Development Council.

The range of economic profiles in the GBA cities exemplifies the ultimate goal of the GBA development plans: to leverage the strengths of each area in a way that complements other regions, fostering overall regional development. For instance, in manufacturing-heavy cities, the focus will not solely be on increasing the share of services in the economy. Instead, there will be an emphasis on upgrading and modernizing secondary industries through technological innovation and development, in which the neighboring cities of Shenzhen and Hong Kong have excelled.

For businesses, the GBA offers a diverse range of capabilities and infrastructure to tap into, creating an environment where various requirements in the supply chain can be fulfilled within the GBA itself. This includes everything from financing to R&D, manufacturing, and logistics.

Development of the GBA

The GBA has a rich history of foreign investment thanks to the legacy of the Shenzhen Special Economic Zone (SEZ). The SEZ, established in 1980, was one of the first areas in China that opened up to and actively encouraged foreign investment, and marked the beginning of the wider region as a thriving international business and investment hub.

The Origin of the GBA

1978	China launched its policy of "reform and opening-up" under Deng Xiaoping.
2008	The NDRC promulgated the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020) laying out the framework for the development of the Pearl River Delta.
2015	China initiated the development of the GBA as part of the country's Belt and Road Initiative, and the Greater Bay Area entered the State lexicon for the first time.
2016	The combined GDP of the 11 cities in the PRD region was RMB 9.35 trillion (approx. US$1.38 trillion).
2017	Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area signed.
2019	Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area released, providing a blueprint for the direction, objectives, and action plan for the future of the GBA.

In 2017, the National Development and Reform Commission (NDRC) signed the GBA Framework with the local governments of Guangdong, Hong Kong, and Macao. The GBA Framework seeks to establish a "mutually complementary cooperation relationship" with the express goal of building upon each region's unique economic strengths.

The GBA Framework lays out mechanisms for deepening economic ties between the different cities, including improving rail, air, and sea transport links, enhancing market integration, and promoting cross-regional collaboration and development.

In 2019, the State Council released the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (the GBA Development Plan), which details a strategy of shifting from intra-regional competition to collaboration through the development of productivity clusters. This plan emphasizes each city's respective industry focus and resource endowment to achieve complementary synergies.

Unlike other bay areas around the world, the GBA's industrial diversification will allow it to compete in multiple sectors on a world-class level. For example, Hong Kong is known as a world financial center, Shenzhen is known as China's Silicon Valley because of its innovation and startup culture, Guangzhou is known for its manufacturing industry and as a logistics hub, and Macao and Zhuhai are known for leisure and tourism.

The diversity of industries in the GBA region and high level of cooperation and integration between its respective regional markets thus provides a comprehensive ecosystem of infrastructure, talent, and resources required for industry and enterprise development.

Foreign trade in the GBA

The GBA is a huge trade hub, and many of the cities' economies are driven by exports of locally manufactured goods. Total import-exports of the nine mainland GBA cities in 2022 reached almost US$1.2 trillion, accounting for around 95.6 percent of the total trade of Guangdong province.

The largest exporting city in the GBA 2022 was Hong Kong, with exports reaching US$581 billion, followed by Shenzhen with US$325.8 billion.

Imports and Exports in the 11 GBA Cities, 2022

City	Imports	Exports	Total
Hong Kong	US$631.7 billion	US$581 billion	US$1.2 trillion
Shenzhen	US$219.6 billion	US$325.8 billion	US$545.3 billion
Dongguan	US$69.6 billion	US$137.2 billion	US$206.7 billion
Guangzhou	US$70.6 billion	US$92 billion	US$162.6 billion
Foshan	US$16 billion	US$82.6 billion	US$98.5 billion
Huizhou	US$15.5 billion	US$30.4 billion	US$45.9 billion
Zhuhai	US$16.7 billion	US$28.6 billion	US$45.3 billion
Zhongshan	US$7 billion	US$34.6 billion	US$41.5 billion
Jiangmen	US$4.8 billion	US$21.5 billion	US$26.3 billion
Macao	US$17.3 billion	US$1.7 billion	US$19 billion
Zhaoqing	US$1.7 billion	US$4 billion	US$5.7 billion

Note: Numbers may not add up due to rounding.
Source: Municipal statistics bureaus, Macao Statistics and Census Service, Hong Kong Trade and Development Council.

Guangdong province recorded strong trade numbers in 2022, although trade with some of its major partners fell. The top five trade partners of Guangdong in 2022 were:

- ASEAN, growing 9.1 percent to reach RMB 1.35 trillion (US$201 billion)
- Hong Kong, decreasing 9.7 percent to reach RMB 1.1 trillion (US$156.2 billion)
- The US, growing 5.4 percent to reach RMB1 trillion (US$152 billion)
- The EU, growing 4.6 percent to reach RMB 965.9 billion (US$143.4 billion)
- Taiwan, growing 1.6 percent to reach RMB 645.3 billion (US$95.8 billion)

The bulk of Guangdong's imports and exports were mechanical and electrical products, which accounted for 67 percent of the total export value and 64.6 percent of the total import value.

Among them, the value of exports of automatic data processing equipment and components thereof grew by 6.2 percent year-on-year, while the value of exports of household appliances and components decreased by 5.3 percent. Exports of integrated circuits also increased in value, up 8.8 percent year-on-year.

Meanwhile, Hong Kong's largest trade partner in 2022 was the Chinese Mainland, with bilateral trade reaching HKD 4.6 trillion (US$593.6 billion). Of this, mainland exports to Hong Kong reached HKD 2.1 trillion (US$265.3 billion) and imports were HKD 2.6 trillion (US$328.3 billion). Hong Kong's other major trade partners in 2022 were:

- ASEAN, reaching a total of HKD 1.3 trillion (US$165.3 billion, of which imports were HKD 934.4 billion (US$119.3 billion) and exports were HKD 351.7 billion (US$46 billion).
- Taiwan, reaching a total of HKD 741.6 billion (US$94.7 billion), of which imports were HKD 587.4 billion (US$75 billion) and exports were HKD 154.2 billion (US$19.7 billion).
- The EU, reaching HKD 523.8 billion (US$66.9 billion), of which imports were HKD 211.2 billion (US$27 billion) and exports were HKD 312.6 billion (US$39.9 billion).
- The US, reaching HKD 502.1 billion (US$64.1 billion), of which imports were HKD 209.4 billion (US$26.7 billion) and exports were HKD 292.7 billion (US$37.4 billion).

Leading industries in the GBA

The GBA boasts of one of the most dynamic and diverse industry landscapes in China. The traditional manufacturing sector, encompassing products like automobiles, electronics, and home appliances, remains robust and is rapidly undergoing modernization and automation. Concurrently, the high-tech industry, centered in Shenzhen, stands at the forefront of global innovation and application, with segments like artificial intelligence and robotics not only upgrading traditional industries but also propelling the growth of emerging sectors.

Moreover, the region possesses significant cultural capital and acts as a major attraction for tourists, contributing to the flourishing culture and entertainment industry, particularly in cities, such as Macao, Zhuhai, and Shenzhen, among others.

Key Industries in the GBA Cities

Hong Kong Financial services, tourism, trade and logistics, professional services, wholesale and retail, shipbuilding, electronics	
Macao Gaming, tourism, electronics, light industry (textiles and garments, toys, footwear)	
Guangzhou Advanced manufacturing, automobiles, electronics, petrochemicals, financial services, ships and marine engineering equipment, nuclear power equipment, numerical control equipment	
Shenzhen High-tech, scientific R&D, artificial intelligence, financial services, electronics, automobiles, culture and exhibitions, trade and logistics, tourism, media, film and television	
Foshan White goods and electrical appliances, smart home appliances, advanced materials, robotics, automotives, technology, textiles, plastics	
Dongguan Information technology, electronics, light industry (garment, footwear, toy, furniture manufacturing)	
Jiangmen Motorcycles and auto parts manufacturing, textiles and garments, paper-making, shipbuilding, food, packaging materials, bathroom accessories and sanitary hardware, printing, electromechanics.	
Huizhou Petrochemicals, new materials, electronics, automotive and equipment manufacturing, clean energy	
Zhuhai Electronic information, home appliances, electricity and energy, biopharmaceuticals and medical devices, petrochemicals, and precision machinery, tourism	
Zhaoqing Mining, modern agriculture and food production, electronic information, green petrochemicals, smart home appliances, automobiles, advanced materials, modern light industry and textiles	
Zhongshan Electronic information, biomedicine, semiconductors, equipment manufacturing, light industry and textiles	

Manufacturing

Despite the increase in the services sector as a proportion of GDP, manufacturing remains a mainstay industry in all nine mainland cities of the GBA. Major fields within the manufacturing industry are mechanical and electrical equipment, including home appliances, automatic data processing equipment and components, automotive and automotive components, high-end machinery, and integrated circuits, to name a few.

Traditional light industries and the production of labor-intensive goods, such as toys, garments, shoes, and furniture also remain an important sector. The smaller GBA cities, such as Dongguan, Foshan, Zhongshan, Jiangmen, and Huizhou, also have strong manufacturing bases with focuses on various fields. Foshan, for instance, is home to over 3,000 electrical appliance factories, of which about half are foreign-owned, and produce about 20 percent of the output of China's electrical appliance industry, while Jiangmen has large auto part, textiles, paper, and shipbuilding industries.

Technology

The GBA is home to some of China's most innovative and successful technology companies, many of which are at the cutting edge of their respective fields. The center of the technology industry in the region is Shenzhen, often dubbed the Silicon Valley of China. The city has fostered some of China's most famous technology giants, such as Tencent, Huawei, and DJI, to name a few.

Local governments in the GBA actively encourage the development of innovative technology companies by providing preferential tax and investment incentives in certain development zones, as well as incentives to attract tech talent to the region and to foster the establishment of start-ups.

Finance

The GBA is home to a thriving financial industry, which today expands far beyond the financial hub of Hong Kong. The financial services industry in the nine mainland cities has grown significantly over the last couple of decades, and in 2021, the added value of Guangdong's financial industry exceeded RMB 1 trillion (US$143.8 billion) for the first time.

The region also acts as a test bed for the further opening of the financial industry to outside investors and for the internationalization of the RMB. The China-Hong Kong stock connect program was extended to incorporate the Shenzhen Stock Exchange in 2016, enabling investors from the mainland to buy shares from companies listed in Hong Kong and providing streamlined access for Hong Kong and international investors to invest in Chinese A-shares listed on the mainland.

In October 2021, the GBA launched the Wealth Management Connect, the first two-way investment mechanism for individual investors in the region. Under the scheme, mainland residents of the nine Guangdong cities in the GBA are allowed to invest in certain products sold by banks in Hong Kong and Macao via the "southbound link". Meanwhile, Hong Kong and Macao residents can invest in eligible products distributed by mainland banks in the GBA via the "northbound link".

Furthermore, on May 15, 2023, following an announcement from Hong Kong and Mainland Chinese authorities, the northbound leg of the Swap Connect was officially launched. The Swap Connect, which is the name given to the "mutual access between the Hong Kong and Mainland Chinese interest rate swap markets", is a mechanism that allows overseas investors to participate in the Mainland Chinese interest rate swap market, providing an important tool to hedge against interest rate risks.

Preferential policies in the GBA

There are a range of preferential tax and investment policies available to foreign investors in the GBA, including both region-wide policies and local incentives.

Preferential IIT policies

To attract global talent to the region, the nine mainland GBA cities have introduced preferential individual income tax (IIT) policy to lower the effective IIT rate to 15 percent. The policy is in place until 2023, during which time, the portion of the IIT that exceeds 15 percent of the taxable income paid by qualified and in-demand overseas talent will be refunded as fiscal subsidies.

As there is no official nation-wide definition for "qualified" and "in-demand" overseas talent, eligibility is determined by each city to better meet local needs.

Currently, the IIT system of the Chinese Mainland adopts a seven-level progressive rate, ranging from three percent to 45 percent, which is much higher than Hong Kong's salary tax and personal assessment, which is at a five-level progressive rate, ranging from two percent to 17 percent or a standard rate of 15 percent. This policy therefore seeks to lower the IIT rate and offset the difference with Hong Kong.

Certain areas in the GBA have also extended this IIT policy for a longer duration and have implemented their own eligibility criteria for the foreign talent.

Hengqin

In January 2022, the Hengqin Guangdong-Macao Deep Cooperation Zone released details on the implementation of a reduced IIT policy for talent in the Hengqin Cooperation Zone.

Both domestic and foreign high-end talent that is in demand in the Hengqin Cooperation Zone are eligible for an IIT waiver for the portion of the tax burden on over 15 percent of their income. The policy will be implemented retroactively from January 1, 2021 until December 31, 2025.

The in-demand talent includes skilled talent working in the tech R&D and high-end manufacturing industries, core and management roles in culture, sports, tourism, exhibitions, business, and trade, the modern financial industry, among others.

Preferential CIT policies

Several cities in the GBA have implemented a reduced corporate income tax (CIT) rate for companies operating in "encouraged" industries. China's national CIT rate is 25 percent, and for industries operating in encouraged industries in certain areas of the GBA, the rate is typically reduced to 15 percent.

The industries eligible for the reduced CIT rates also differ slightly from region to region, but typically cover technology, high-end manufacturing, and modern services and finance industries.

Qianhai

Qualified enterprises engaged in encouraged industries in the Shenzhen Qianhai Area can enjoy a reduced CIT rate of 15 percent from January 1, 2021 to December 31, 2025.

Foreign-invested enterprises (FIEs) can refer to the 2021 Version of the Catalogue for Encouraged Industries Eligible for CIT Preferential Treatment to check whether they are engaged in the encouraged industries. This catalogue covers 30 sectors under five broad industry categories – modern logistics, information services, technology services, cultural and creative industries, and commercial services.

To be eligible for the reduced CIT rates, companies must derive at least 60 percent of their revenue from one of the industries in the catalogue. On June 2, 2022, the Shenzhen Municipal Government released a guide to determining eligibility for the reduced CIT rate.

Hengqin

Qualified industrial companies located in the Hengqin Cooperation Zone can enjoy a reduced 15 percent CIT rate.

To be eligible for this policy, the company must derive at least 60 percent of its main business income from one of the industries in the Guangdong-Macao In-Depth Cooperation Zone in Hengqin Corporate Income Tax Preferential Catalogue (2021 Edition). The catalogue includes 150 sectors across high-tech, science and education R&D, traditional Chinese medicine, tourism, modern services, finance, and more.

They must also carry out a "substantive operation", which means that the actual management of the enterprise is located in the Hengqin Cooperation Zone and implements substantive and comprehensive management and control over the production and operation, personnel, accounting, property, and other aspects of the company.

For companies that are headquartered in the Hengqin Cooperation Zone, the 15 percent preferential CIT policy only applies to the income derived by the headquarters and any eligible subsidiaries that are also located within the zone. For companies that are headquartered elsewhere, the preferential CIT policy only applies to the eligible subsidiaries that are located within the zone.

Nansha

In June 2022, the State Council issued a new plan for deepening cooperation between Guangdong, Hong Kong, and Macao, which includes a reduced CIT rate of 15 percent for companies engaged in encouraged industries. The reduced CIT rate will be applicable for companies situated in the Nansha area of the Guangdong FTZ, specifically Nansha Bay, the Qingsheng Hub, and the Nansha Hub.

As in the other areas, to be eligible for the CIT rate, companies must derive at least 60 percent of its main business income from industries in the encouraged industries catalogue – the Nansha Guangzhou Preferential Corporate Income Tax Catalogue (2022 Edition). They must also carry out substantial operations within the area, which means meeting certain requirements for their production, operation, personnel, accounts, property, and so in the Nansha area of the Guangdong FTZ.

Preferential policies for headquartering in the GBA

Several areas of the GBA offer incentives for multinationals to headquarter in the respective city or development zone.

Shenzhen

For the establishment of headquarters of companies (subject to the requirements of The Implementations Measures for Encouraging the Development of Headquarters in Shenzhen), subsidies granted may be up to RMB 20 million (US$3 million).

For financial enterprises headquarters, subsidies may be up to RMB 10 million (US$1.5 million) and 50 percent of support for relocation costs. In the case of establishments of logistics companies, such aid may be around RMB 10 million (US$1.5 million), depending on the amount of registered capital of the company in question.

Investing in the international first-class bay area

The GBA is one of China's most investor-friendly areas with a long history of foreign engagement. Its dynamic and comprehensive industry landscape offers an attractive base for companies seeking to streamline production and supply chains.

The allure of the GBA stems not only from its mature industries but also from its wide and diverse talent pool. The region's capacity to attract highly skilled talent is expected to further improve as enhanced infrastructure allows for rapid commutes between cities, and talent policies facilitate seamless recruitment and relocation of employees across the region.

Thanks to the GBA's favorable policies, the region serves as an ideal destination for companies aiming to contribute to the development of key industries, especially high-tech sectors, and create new and innovative products and services. Additionally, the presence of a large and affluent local consumer base makes it an attractive point of entry to the Chinese market in its own right.

CATHY GONG
Partner
Shenzhen Office

"The GBA presents new opportunities for foreign investors as local jurisdictions roll out incentive policies for the development of various industries."

SERVICES

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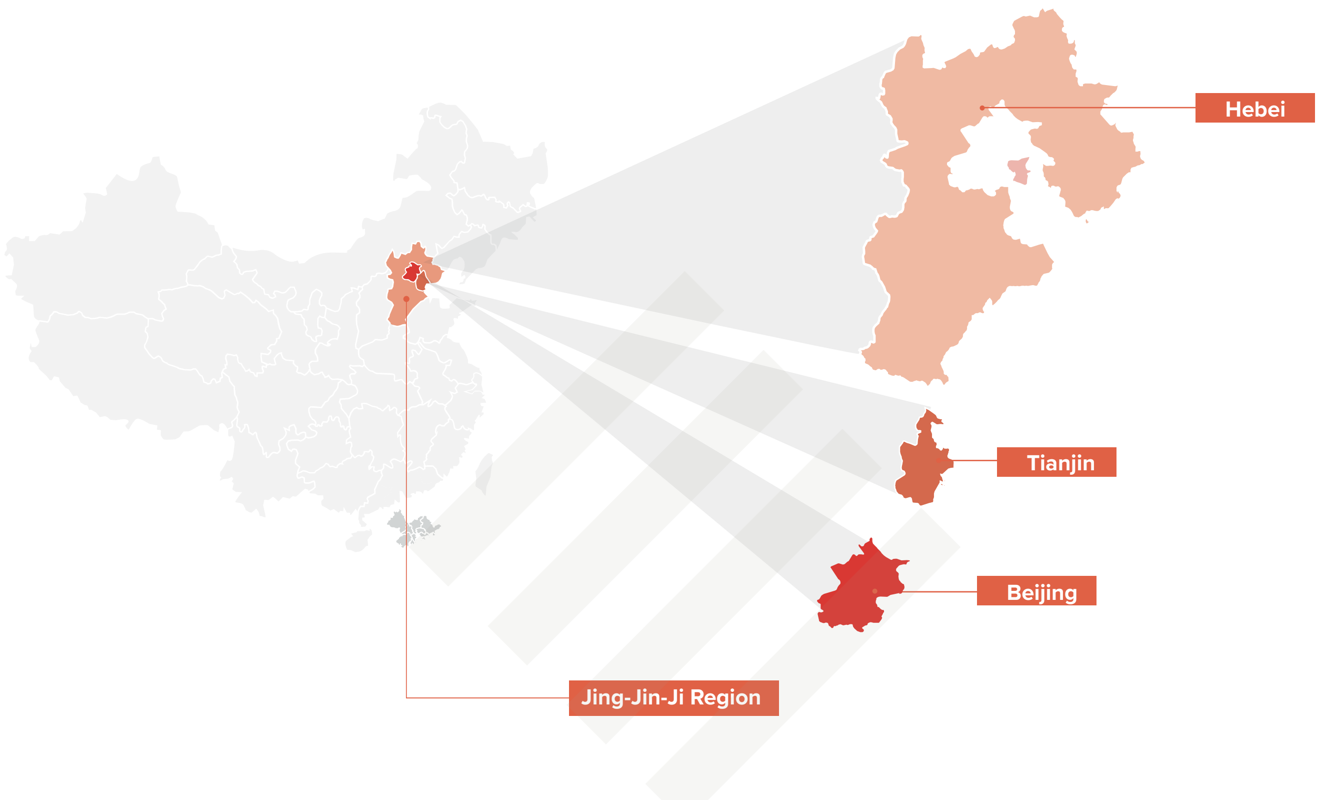
EXPLORE DETAILS

3

Jing-Jin-Ji Economic Region



The Beijing-Tianjin-Hebei Economic Region, known as the Jing-Jin-Ji Economic Region, is an economic city cluster comprised of the municipalities of Beijing and Tianjin and 11 cities in the surrounding Hebei province. The region, which is home to around 109 million people, is the center of economic activity in northern China and an area of rapid industry growth and development.

Each area within the Jing-Jin-Ji region has its own economic strengths in specific areas. Beijing is known as the political, educational, cultural, and R&D center of the region and China. Meanwhile, Tianjin acts as one of northern China's major logistics centers and trade hubs, with one of the busiest ports in the world. The surrounding Hebei province has historically been known for its heavy industries, in particular steel production, but is now transforming into a hub for high-end manufacturing and technological innovation.

Economic overview

In 2022, the GDP of the Jing-Jin-Ji Region reached RMB 10 trillion (US$1.5 trillion), constituting approximately 8.2 percent of China's total GDP. Within the region, Beijing alone contributed 41.6 percent of this figure, achieving a GDP of RMB 4.2 trillion (US$617.7 billion) in the same year. Following closely, Tianjin accounted for 16.3 percent of the region's GDP, while Tangshan accounted for 8.9 percent.

Jing-Jin-Ji Economic Region Profile

Beijing   Tianjin   Hebei

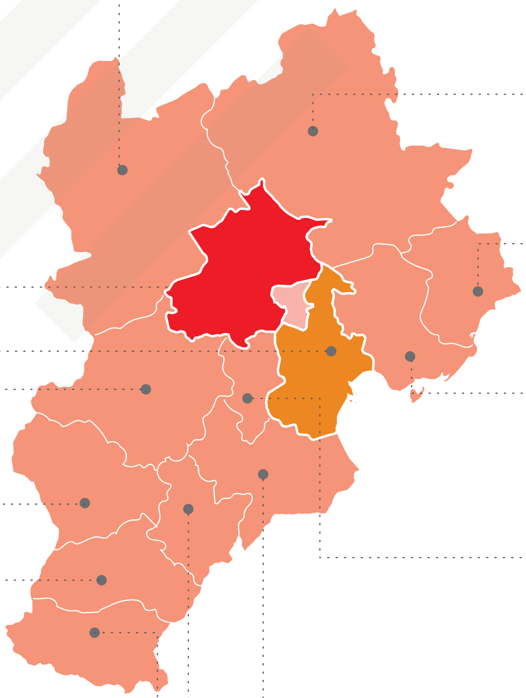
Total area: 217,156 km^2

Total population: 108.6 million

Total GDP: RMB 10 trillion (US$1.5 trillion)

Total utilized foreign capital: US$32.4 billion (2021)

Total import-export: RMB 5.05 trillion (US$749.6 billion)

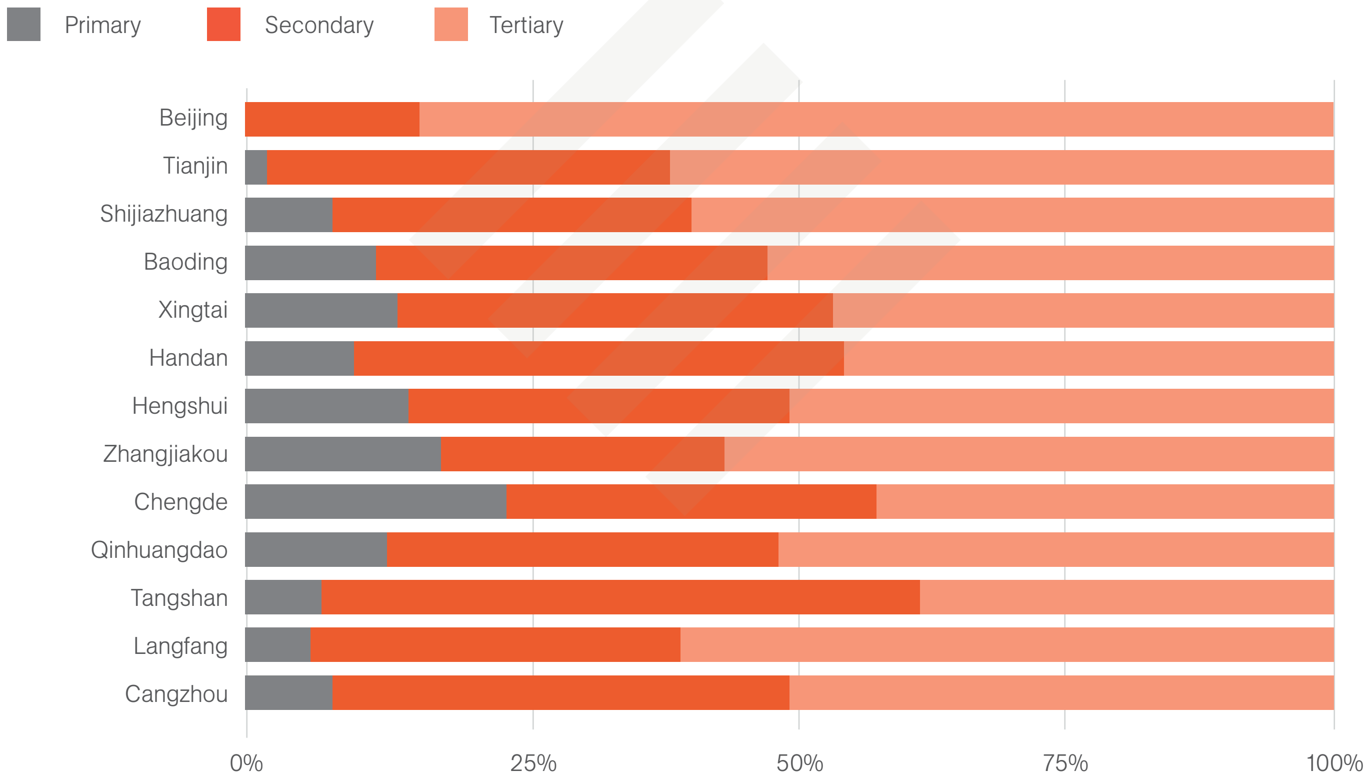


City	POP	GDP	EXIM	FDI
Zhangjiakou	4.1 M	US$26.4 B	US$815 M	US$74.2 M
Chengde	3.3 M	US$26.4 B	US$329.5 M	US$19.2 M
Qinhuangdao	3.1 M	US$28.3 B	US$6.7 B	US$92.1 M
Tangshan	7.7 M	US$132.1 B	US$22.9 B	US$262.2 M
Langfang	5.0 M	US$53 B	US$8 B	US$563.3 M
Cangzhou	7.3 M	US$65.2 B	US$7.2 B	US$48.3 M
Beijing	21.8 M	US$617.7 B	US$541 B	US$17.4 B
Tianjin	13.6 M	US$242.1 B	US$125.4 B	US$6.0 B
Shijiazhuang	11.2 M	US$105.4 B	US$18.3 B	US$294 M
Baoding	9.1 M	US$57.6 B	US$6.6 B	US$41.7 M
Xingtai	7.0 M	US$37.8 B	US$3.3 B	US$75.7 M
Handan	9.3 M	US$64.5 B	US$5 B	US$130 M
Hengshui	2.3 M	US$26.7 B	US$3.9 B	US$25.2 M

** Data are as of 2022. EXIM refers to the export and import trade amount. FDI refers to utilized FDI in the current year.*

The region as a whole is still heavily dependent on secondary industries, although this dependence is not equally distributed across the different cities. In addition, the services sector has continued to increase in proportion over the last decade. In 2022, services accounted for 83.9 percent of Beijing's local GDP. By contrast, in Tangshan, secondary industries accounted for 55.4 percent of the local GDP, while services accounted for 37.5 percent.

GDP Breakdown of Cities in Jing-Jin-Ji, 2022



Source: Municipal statistics bureaus.

Actual use of foreign capital in the Jing-Jin-Ji region reached US$25 billion[1] in 2022, of which around 70 percent (US$17.4 billion) was poured into Beijing. The second largest recipient was Tianjin with US$6 billion, followed by Langfang with US$563.3 million.

1. In 2022, some cities of the Jing-Jin-Ji region, such as Tangshan, revised its statistic method for foreign investment, so that the 2022 actual use of foreign capital data is not directly comparable to the previous years' data.

Development of the Jing-Jin-Ji region

The National Development and Reform Commission (NDRC), China's macroeconomic planner, first proposed the Jing-Jin-Ji project over a decade ago, and the concept later appeared in the 12th Five Year Plan (2011-2015). Recent years have seen accelerated integration plans as the region seeks to leverage and integrate the advantages of the various city to create a synergistic relationship, improve development and productivity, avoid redundancy.

The Jing-Jin-Ji project seeks to rebalance resources within the region to create more optimal production and even development. This includes optimizing industries where there is overcapacity and adapting different areas according to their current strengths. The region is also one of the core drivers of China's next stage of economic development: moving up the value chain.

For Hebei province, a key task under the project is to move away from heavy polluting industries by upgrading and modernizing its industrial base. For Tianjin, it is in the process of becoming an R&D center for manufacturing and a pilot area for financial innovation and reform. Tianjin's FTZ will benefit from policy pilot programs and looser restrictions.

Meanwhile, Beijing has already begun transferring some non-essential industries that do not enjoy a comparative advantage, including factories and wholesale markets, to Tianjin and Hebei.
The decision to transfer non-essential resources out of Beijing is in part also to alleviate the "urban diseases" the city is facing, such as congestion and air pollution. Due to its legacy of heavy industries, cities in Hebei have been some of the most polluted in China. To improve the air quality and make the wider region's economic development more sustainable, Hebei province was designated as an important ecological protection area, with national and forest parks surrounding the capital.

To this end, President Xi Jinping announced the creation of the Xiong'an New Area in 2017, a new development zone in Hebei's Baoding city, which is set to host many of Beijing's "non-capital functions".

According to the Xiong'an government, more than 240 key projects completed a cumulative investment of over RMB 510 billion (US$75.7 billion) in 2022. A significant number of projects for the new region were launched in February of the same year. These include three industrial park projects intended to serve China's three major telecom operators, namely China Telecom, China Mobile, and China Unicom, as well as the first batch of projects functional to China's centrally administered state-owned enterprises (SOEs). These examples can all be considered as part of the greater plan to shift Beijing's functions not necessary to its role as the capital to Xiong'an New Area.

Another one of the roles of Xiong'an is to transform into an eco-friendly smart area. To work towards greater sustainability, the region has coordinated its environmental management with the wider region, including with the Jing-Jin-Ji Plan for Prevention and Control of Air Pollution. China also recently announced that it aims for Xiong'an to run on 100 percent renewable energy.

The Jing-Jin-Ji project also aims to foster more inclusive and equitable economic development in the region. Social and public services, such as hospitals and education facilities, will be developed outside of Beijing, focusing on areas that are generally less affluent than the capital city. In the case of Hebei, the development of these services will contribute to the province's industrial upgrading and modernization efforts.

These new urban centers outside of Beijing will act as "urbanization demonstration areas", opening up opportunities for businesses that are able to offer innovation in improving social and public services and easing urban transitions.

Foreign trade in the Jing-Jin-Ji region

The Jing-Jin-Ji region is the largest trade hub in northern China, home to four ports – Port of Tianjin, Port of Tangshan, Port of Qinhuangdao, and Port of Huanghua near Cangzhou. The Port of Tianjin is the largest in northern China and ninth biggest in the world, handling around 549 million metric tons of cargo in 2022.

Overall trade in the Jing-Jin-Ji region reached RMB 5.05 trillion (US$749.6 billion) in 2022, a year-on-year increase of 13.7 percent. This growth rate outpaced the national average by six percentage points and accounted for 12 percent of China's total trade that year. Total imports to the region reached US$555 billion while exports reached US$194 billion. Imports to the region accounted for 32 percent of the country's total in 2022.

The Port of Tianjin is the main maritime export port for the city of Beijing, which is the largest city by trade in the region. Beijing's imports and exports reached RMB 3.6 trillion (US$541 billion) in 2022, an increase of 19.7 percent from the previous year. Tianjin was the second largest city in the region by trade, with imports and exports totaling RMB 844.9 billion (US$125.4 billion) in 2022, decreasing 1.4 percent year-on-year. Tangshan, also a major trading city thanks to its strong manufacturing industry and access to the port, was the third largest city by trade volume in the region, with total trade volume valued at RMB 154 billion (US$22.9 billion), showing a year-on-year growth rate of 8 percent.

Imports-Exports of Cities in the Jing-Jin-Ji Region, 2022			
City	Imports	Exports	Total
Beijing	US$453.6 billion	US$87.4 billion	US$541 billion
Tianjin	US$69 billion	US$56.5 billion	US$125.4 billion
Shijiazhuang	US$6.4 billion	US$11.9 billion	US$18.3 billion
Baoding	US$592.3 million	US$6 billion	US$6.6 billion
Xingtai	US$313.2 million	US$3 billion	US$3.3 billion
Handan	US$1.1 billion	US$3.9 billion	US$5 billion
Hengshui	US$206.3 million)	US$3.7 billion	US$3.9 billion
Zhangjiakou	US$130.6 million	US$684.3 million	US$815 million
Chengde	US$68.3 million	US$261.3 million	US$329.5 million
Qinhuangdao	US$2.6 billion	US$4.1 billion	US$6.7 billion
Tangshan	US$13.7 billion)	US$9.1 billion	US$22.9 billion
Langfang	US$4.9 billion	US$3.1 billion	US$8 billion
Cangzhou	US$2.8 billion	US$4.4 billion	US$7.2 billion

Note: Numbers may not add up due to rounding.
Source: Municipal statistics bureaus.

Main traded commodities

In 2021, crude oil, metal ores and mineral sands, automobiles, natural gas, and grains ranked among the top five imported commodities in the Jing-Jin-Ji region. These commodities saw a significant increase in import value compared to the previous year, with the import of crude oil, metal ores and ore sand, and natural gas together boosting the growth rate of the region's overall import value by 15.6 percentage points over the same period. The growth is attributed in part to the rise in commodity prices globally.

Meanwhile, refined oil, pharmaceuticals, steel, mobile phones and electronic components were among the top five export commodities, with the export of these goods increasing by 104 percentage points in value in 2021. In Tianjin alone, the export of medical materials and medicine increased by a whopping 136.9 percent, indicating increasing competitiveness in the city's biopharma space.

In Beijing, the main export commodities by value in 2022 were refined oil, electronics, and high-end technology products, which reached a total export value of US$4.9 billion, US$3.1 billion, and US$1.7 billion, respectively. Meanwhile, Beijing's main imports included crude oil (US$17.1 billion), electronics (US$6 billion), natural gas (US$3.3 billion), and agricultural products (US$2.6 billion).

Tianjin's main import and export commodities were mechanical and electrical products. In 2022, Tianjin Port exported a total of RMB 421.6 billion (US$62.6 billion) in mechanical and electrical products, accounting for 39.8 percent of the total export value from the port that year. The port is also the country's largest exporter of steel, with steel exports growing 37.6 percent year-on-year to reach RMB 232.8 billion (US$34.6 billion) in 2022.

The city imported a total of 280,000 automobiles in 2022. This makes the city the second-largest importer of automobiles by volume in the country, and largest by value, with a total import value of RMB 119.1 billion (US$17.7 billion). Imports of agricultural products broke through the RMB 200 billion mark, reaching RMB 209.8 billion (US$31.1 billion), an increase of 344 percent year-on-year.

Main trade partners

In recent years, the trade of the Jing-Jin-Ji region with its top three trade partners has continued to grow. The EU stands as the region's largest trade partner, with imports and exports contributing to approximately 14 percent of the total trade value. Simultaneously, ASEAN accounted for approximately 10 percent of the overall trade, and the US accounted for around 10 percent as well. Notably, trade with the US experienced significant growth of 37.8 percent year-on-year in 2021, representing the most substantial increase among major trade partners.

The main trade partners remain mostly consistent across the region. Both Tianjin and Beijing's largest trade partners were the EU, US, and ASEAN. Other major trade partners include Australia, South Korea, Japan, and countries along the "Belt and Road", which cover a broad range of countries, including 16 in western Asia, nine in southern Asia, and five in central Asia.

Leading industries in the Jing-Jin-Ji region

The Jing-Jin-Ji region is home to a diverse array of industries, and the overall composition is rapidly diversifying and modernizing.

Key Industries in the Jing-Jin-Ji Cities
Beijing Technology, software services, financial services, petrochemical, pharmaceutical, R&D, new energy vehicles, education, tourism, professional services
Tianjin Automobile manufacturing, machinery manufacturing, aviation, electronics, light industry, alcohol, tourism, professional services
Shijiazhuang New generation information technology, new energy vehicles, biopharmaceuticals, finance, LED, probiotics, paper products, textiles, aluminum and iron
Baoding High-end equipment manufacturing, petrochemical (biogas), hydrogen energy, new energy, auto components manufacturing, e-commerce, general aviation, eco-tourism
Xingtai New materials, dairy, medical equipment, advanced energy conservation technology, smart logistics, new energy vehicles and connected vehicles
Handan High-end white goods, hydrogen energy equipment, equipment manufacturing (automatic packaging machines, white goods, tractors), OLED, petrochemical, biopharmaceutical
Hengshui Equipment manufacturing (energy storage equipment, robots, smart AFS systems, etc.), prefab building materials, new material biopharmaceutical, e-commerce, petrochemical, textiles
Zhangjiakou New energy and smart grid, high-end manufacturing, modern logistics, ceramics, modern agriculture, mineral water
Chengde New steel materials and components thereof, clean new energy, new energy vehicles and components, engine manufacturing, culture tourism
Qinhuangdao Biopharmaceutical, new energy and smart grid, equipment manufacturing, food and beverage, building materials, steel, textiles and garments
Tangshan Equipment manufacturing, information technology, new energy and smart grid, new materials, advanced energy conservation
Langfang High-end manufacturing (robots, smart equipment), modern services (headquarters, business services), new generation information technology (internet+, cloud computing), smart home furnishings and appliances, aviation
Cangzhou Metal 3D printing, food and beverage, biopharmaceutical, petrochemicals, new energy vehicles and connected vehicles, rail transit equipment manufacturing, auto components, aerospace engines

High-end manufacturing

Manufacturing remains a significant and vital industry in the Jing-Jin-Ji region, particularly in the Hebei area. The industry has experienced rapid modernization, primarily due to a focused effort on innovation and increased investment in technological capabilities. Notably, during the period of the 13th Five Year Plan (2016 to 2020), the province's investment in R&D of manufacturing enterprises above designated size grew by an average of 11.9 percent annually.

Currently, the region places emphasis on high-end, intelligent, and green manufacturing. Industrial technology and equipment continue to improve, leading to substantial enhancements in productivity. The proportion of added value of high-tech industries in the overall added value of industries above designated size has risen from 16 percent in 2015 to 19.4 percent in 2020. Furthermore, the proportion of production capacity of the top 15 iron and steel enterprises in the province has increased from 54.2 percent in 2015 to 76 percent in 2020.

Among the manufacturing sectors, the automobile manufacturing industry has become the largest in the region's equipment manufacturing sector, while products like industrial robots and wind turbines have witnessed notable growth. The density of industrial robots in key industries has reached 120 units per 10,000 people.

Technology and innovation

Beijing is the center of the region's technology industry and has rapidly developed into a technological superpower. Supported by an excellent higher education system and research credentials, as well as active government backing, the city has become a world leader in AI and advanced manufacturing.

Beijing frequently appears in the top tier of rankings for innovation ecosystems. It boasts of a mature start-up ecosystem and has become a key incubator for tech unicorns, which numbered 98 at the end of 2022, according to start-up database IT Juzi.

There are currently well over a thousand AI-focused businesses in Beijing. Zhongguancun Science Park, located the city's northwest district of Haidian, is the center of most of these technological innovation activities, both in terms of start-up growth and corporate research and development. Some of the city's most well-known tech accelerators and incubators are based in this area, including Innovation Works, Legend Star, Tsinghua University Science Park, and Microsoft Accelerator.

Moreover, to help China become the world's leading AI power in the near future, the regional Beijing administration has invested US$2.1 billion in building an AI innovation park in Zhonggcuancun. The center will be able to house up to 400 AI start-ups once constructed. The project will be finalized by 2024.

Under the Jing-Jin-Ji region's development plan, Tianjin will act as the center of R&D and innovation. The city is among the world's top 25 cities for scientific research output as tracked by the Nature Index and ranks third in China by R&D expenditure after Beijing and Shanghai. It is home to multiple notable institutes of higher education in northern China, including Tianjin University, Nankai University, and Tianjin University of Technology.

In 2014, the total turnover of technology contracts exported from Beijing to Tianjin and Hebei was RMB 8.32 billion (US$1.2 billion), which increased to RMB 35.04 billion (US$5 billion) in 2021, an average annual growth rate of 22.8 percent.

Aviation industry

The Jing-Jin-Ji region stands as China's northern aviation powerhouse, and part of its development plan involves creating a "world-class airport cluster" by integrating the services and capabilities of various airports in the region.

There are several major airports in the region, including the newly completed Beijing Daxing International Airport, Tianjin Binhai International Airport, and Shijiazhuang Zhengding International Airport. Through this integration, they have optimized the use of resources. For example, the Civil Aviation Beijing Terminal Control Center now coordinates and commands the operation of mid- and low-altitude flights at Beijing Capital Airport, Beijing Daxing International Airport, and Tianjin Binhai International Airport. In the future, it will also oversee Shijiazhuang Zhengding International Airport.

Tianjin serves as the center of the region's aviation industry, boasting significant production, assembly, R&D, and service capabilities. In the first five months of 2022, the industrial output of Tianjin's aviation production chain reached RMB 5.79 billion (US$831.7 million), marking a 154 percent increase from the same period the previous year. Additionally, Airbus, the European aircraft manufacturer, commenced the assembly of its A321 single-aisle aircraft at its final assembly line in Tianjin in 2022.

Furthermore, Tianjin is becoming the region's logistics hub. In 2021, the Tianjin branch of China Post Group signed a strategic cooperation agreement with Tianjin Binhai International Airport to expand the scale of international mail transit through the airport. This move aims to allow the airport in Tianjin to share some of Beijing's freight load and contribute to China's international aviation logistics capacity.

Pharmaceuticals and biotechnology

As mentioned above, the region is a major exporter of medical materials and pharmaceuticals, with Tianjin experiencing rapid growth in the sector. The city's pharma industry is centered in the Tianjin Economic and Technological Development Zone in the Binhai New Area. In 2021, the annual output value of the pharmaceutical industry in the development zone reached RMB 4046 billion (US$5.8 billion), contributing more than 50 percent to the industrial growth of the development zone. The zone is home to over 400 biopharmaceutical companies which form a complete industrial system covering biopharmaceuticals, digital medicine, traditional Chinese medicine and natural medicines, cellular medicines and genetic diagnostics, and biological materials.

However, Tianjin is not the only city with a thriving biomedicine industry. The Beijing-Cangzhou Bohai New Area Biomedical Industrial Park, first approved in 2016, is situated in the Bohai New Area of Cangzhou city. The park has signed 160 projects with a total investment of RMB 48.7 billion (US$7 billion). These projects include 13 listed companies, 61 high-tech enterprises, seven foreign-invested enterprises. It has also signed 98 Beijing projects with a total investment of RMB 27.4 billion (US$3.9 billion). Well-known pharmaceutical companies in the park include the wholly US-owned FibroGen, the Sino-Japanese joint venture Beijing Continent Pharmaceuticals, Tianjin Pharmaceutical Group, and CR Double Crane.

In the future, the park will focus on the development of high-end raw materials, pharmaceutical preparations, modern Chinese medicine, and the general health industry, among others.

Preferential policies in the Jing-Jin-Ji region

The Jing-Jin-Ji region offers a range of incentive policies for companies that make contributions to the region's industrial and economic development. These incentives are usually available only in specific development zones, and are often geared toward industries that the authorities are seeking to grow, such as technology and digitalization. Below we list a few of the incentives available for companies in the region.

Incentives for technology and digital companies in the Xiong'an New Area

In order to boost technological development and innovation, the Xiong'an New Area has rolled out a range of incentive policies for companies. In 2022, the area's local government launched a series of measures to promote the development of "specialized, unique, and new" companies and core industries in the digital economy. The measures include discounts on loans, subsidies for the leasing of office spaces, and even one-time rewards for companies that meet the eligibility criteria and move to the area. There are a wide range of subsidies and benefits available and include up to RMB 50,000 (US$7181.84) in subsidies for office leases and rewards of up to RMB 6 million (US$861,821) for economic contributions to the area. To be eligible, the company needs to be established in the area and generally must meet certain funding, R&D expenditure, and talent requirements.

Incentives in the Beijing Economic and Technological Development Zone

In January 2022, the Beijing Economic and Technological Development Zone in Yizhuang district of Beijing introduced a new set of measures aimed at promoting the development of an "international science and technology innovation center" within the zone.

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Partner
Beijing Office

These measures encompass financing incentives for companies undertaking projects that facilitate the relocation of industries from Beijing. Specifically, companies engaging in such projects will receive 50 percent financing for their R&D expenditure. Additionally, certain new "little giant" companies will receive 20 percent financing for their R&D expenditure.

Moreover, one-time financial rewards are available for specific companies and innovation and R&D centers. For national-level innovation centers, laboratories, and engineering research centers that have newly entered the development zone, the reward is RMB 10 million (US$1,436,368). New "Beijing-level" technology innovation centers, scientific research and development institutions, and engineering research centers will receive a reward of RMB 1 million (US$143,636).

Investing in the new era of the capital region

The Jing-Jin-Ji region offers an optimal location for companies that are looking to be located in the proximity of China's political and economic center without having to pay the higher labor and rent costs of the city. The strong logistics infrastructure in the form of airports, seaports, and dense train networks greatly facilitates the sourcing and transport of commodities, as well as exports. In addition, the comprehensive industry structures and mature supply chains for many sectors mean that much of the sourcing and production can be carried out in the same region, helping to increase productivity and better utilize resources.

The rapid growth of new industries in the region and upgrading of traditional sectors also presents a range of new opportunities for investors seeking to enter China. With the widespread restructuring and reform that the region is undergoing, there are a host of opportunities for companies that will contribute to the region's development.

"The Jing-Jin-Ji region offers an optimal location for companies that are looking to be located in the proximity of China's political and economic center. The rapid growth of new industries in the region and upgrading of traditional sectors also presents a range of new opportunities."

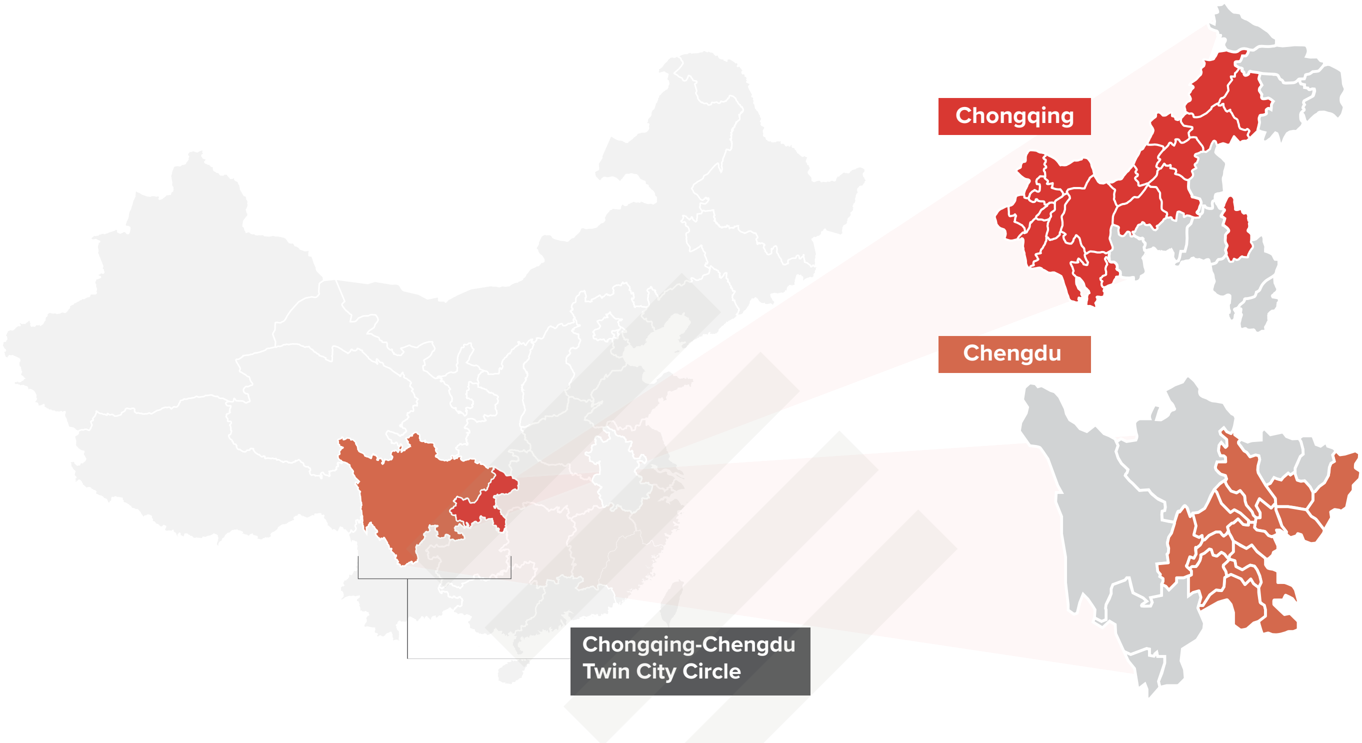
SERVICES

For professional assistance on location selection, business establishment, tax and accounting, IT, and compliance in the Jing-Jin-Ji region, please email china@dezshira.com.

EXPLORE DETAILS

4

Chengdu-Chongqing Twin City Circle



The new Chengdu-Chongqing Twin City Circle ('Twin City Circle') is the fourth economic city cluster to be built in China and the first in the west of the country. The Twin City Circle covers an area of 185,000 square meters and is divided into the Chongqing and Sichuan areas. The Chongqing area includes all nine districts of the Chongqing city center and a further 20 suburban districts and counties. Meanwhile, the Sichuan area covers the provincial capital of Chengdu and 14 sub-provincial cities in Sichuan, including Mianyang, the second-largest city in the province and an emerging technology hub, and the major manufacturing cities of Nanchong and Deyang.

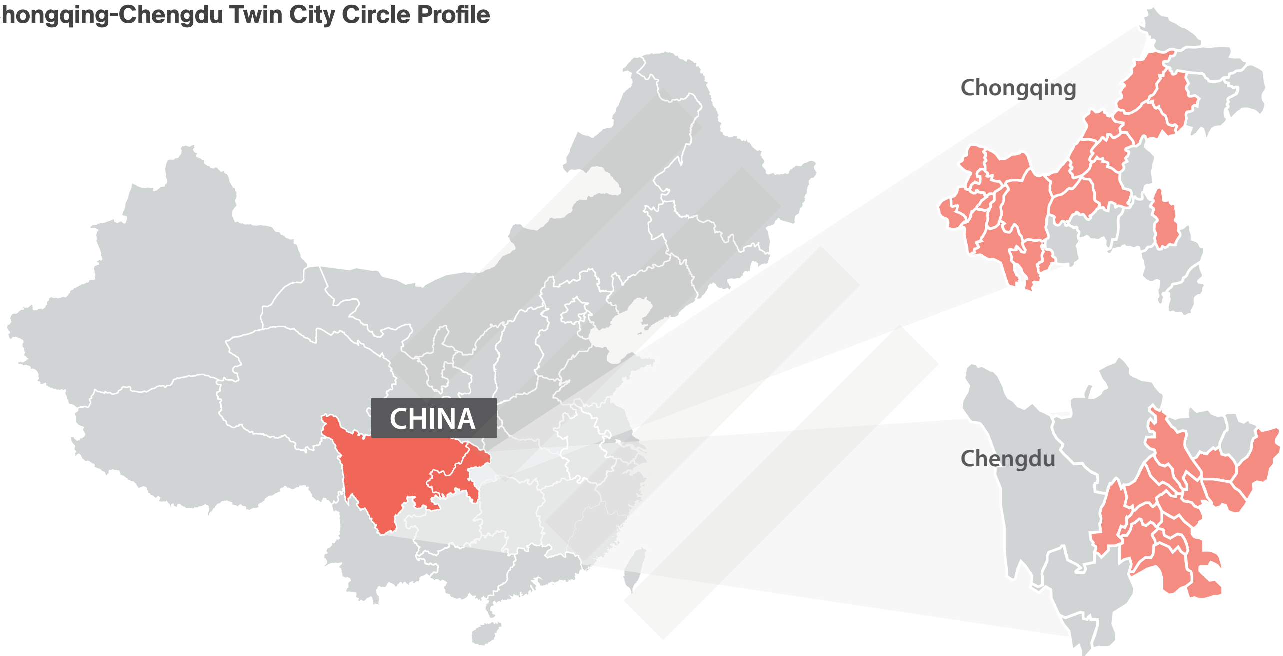
This region has had a pivotal role in the development of western and southwestern China and is the center of western China's economic activity. In 2019, the Twin City Circle was officially given an economic cluster designation on par with the Guangdong-Hong Kong-Macao Greater Bay Area, the Beijing-Tianjin-Hebei Metropolitan Region, and the Yangtze River Delta Economic Zone. The project aims to address developmental imbalances by integrating two of the most economically active cities in western China – Chongqing and Chengdu – into a mega city cluster, focusing on developing key infrastructure and industries.

If successful, the Twin City Circle will help to cultivate new opportunities for an area with considerable developmental potential, while greatly facilitating the movement of people and goods across the region. It will also help create an 'economic corridor' to access more remote and isolated parts of China, such as Tibet and northwestern China, and act as a trade hub for the region with Central Asia, Europe, and South Asia.

Economic overview

The combined GDP of the Twin City Circle reached RMB 7.76 trillion (US$1.2 trillion) in 2022, growing 3 percent year-on-year, according to the Chongqing and Sichuan statistics bureaus. This accounted for 6.4 percent of the country's total GDP and 30.2 percent of Western China's GDP that year.

Chongqing-Chengdu Twin City Circle Profile



- Total Area: 185,000 km^2
- Total Population: 97 million
- Total GDP: RMB 7.76 trillion (US$1.2 trillion)
- Total retail sales of consumer goods: RMB 3.4 trillion (US$511.5 billion)
- Total import-exports: RMB 1.7 trillion (US$249.2 billion) (2021)

Chongqing area

GDP: RMB 2.6 trillion (US$370.9 billion) (2021)
City districts: Yuzhong, Jiangbei, Nan'an, Jiulongpo, Shapingba, Dadukou, Beibei, Yubei, Banan Suburban counties and districts Wanzhou, Fuling, Qijiang, Dazu, Qianjiang, Changshou, Jiangjin, Hechuan, Yongchuan, Nanchuan, Bishan, Tongliang, Tongnan, Rongchang, Liangping, Fengdu, Dianjiang, Zhong, Kaizhou (partial), Yunyang (partial)

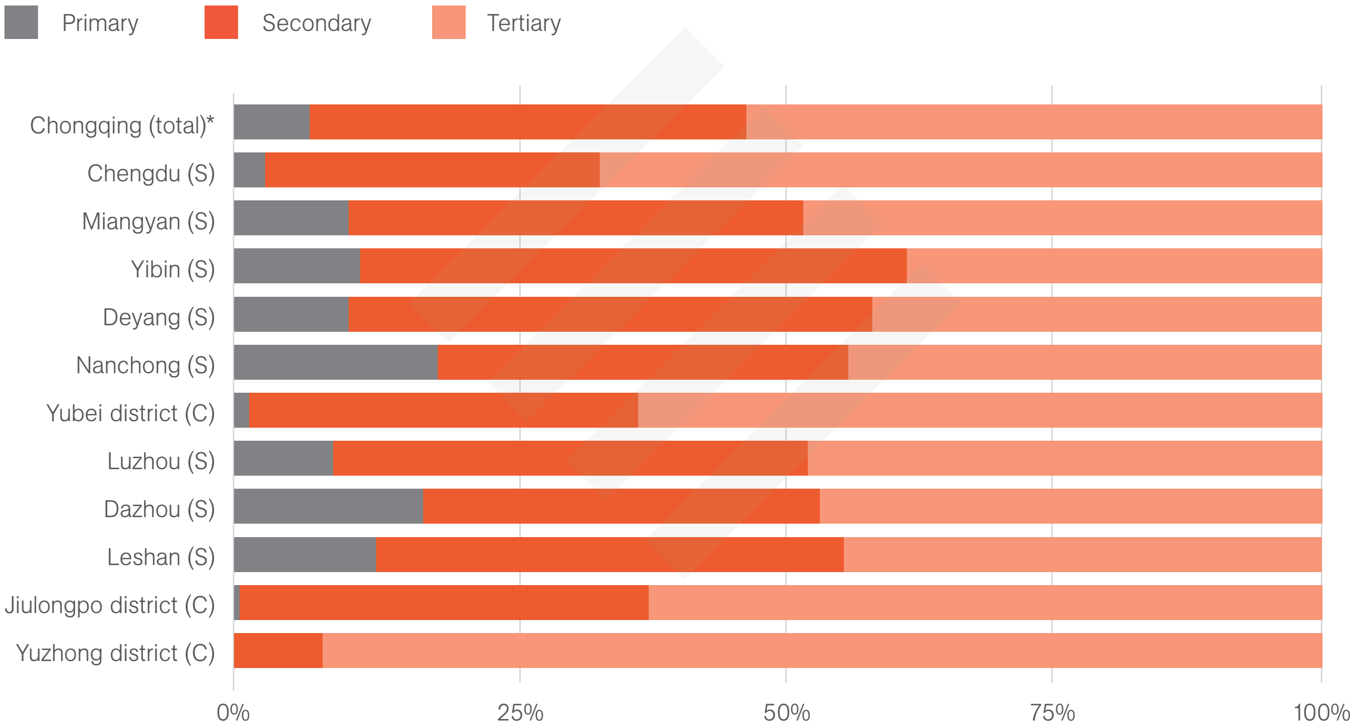
Sichuan area

GDP: RMB 4.8 trillion (US$689.4 billion) (2021)
Cities: Chengdu, Zigong, Luzhou, Deyang, Mianyang (excluding Pingwu and Beichuan counties), Suining, Neijiang, Leshan, Nanchong, Meishan, Yibin, Guang'an, Dazhou (excluding Wanyuan city), Ya'an (excluding Tianquan and Baoxing counties), Ziyang

Note: Data are as of 2022, except when otherwise indicated.

In 2022, industrial enterprises with a main annual business income of over RMB 20 million (US$3 million) in the Twin City Circle achieved an operating income of RMB 7.7 trillion (US$1.1 trillion), an increase of 3.9 percent over the previous year. Total profits of these companies also grew 6.3 percent year-on-year to reach RMB 591.7 billion (US$87.2 billion), 10.3 percentage points higher than the national level.

GDP Breakdown of Main Twin City Circle Cities and Districts, 2022



S: Sichuan; C: Chongqing.

**The GDP numbers of the Chongqing districts and counties are included in the total Chongqing figure.*

Source: Municipal statistics bureaus.

Secondary industries still make up the bulk of economic activity in the region, but the service sector is growing rapidly. In Chongqing, tertiary sectors accounted for 52 percent of GDP in 2022, growing 1.9 percent year-on-year. Secondary industries, however, outpaced this growth, increasing 3.3 percent year-on-year. In Chengdu, the service sector accounted for 66.4 percent of GDP and grew 1.5 percent year-on-year. However, manufacturing was the largest contributor to the city's GDP in 2022, accounting for 59.6 percent of GDP growth despite only making up 30.8 percent of the overall GDP.

Development of the Twin City Circle

On October 21, 2021, the Central Committee of the Communist Party of China (CCCPC) and the State Council jointly issued the Plan Outline for the Construction of the Chengdu-Chongqing Twin City Circle (the 'construction plan'), an extensive document detailing a new plan to create a new city cluster in China's western regions.

The construction plan provides a blueprint for further integrating the industries and infrastructures of the two regions and developing their respective economies. These include plans to expand the transport network to better connect various cities and counties, both within the region and beyond, as well as upgrading and expanding key infrastructures, such as telecom and utilities.
In addition, the construction plan provides a vision for the development and expansion of key industries, most notably manufacturing, modern services, and high-end technology.

The construction plan also proposes specific goals to achieve by 2025. These include:

- Reaching a 66 percent urbanization rate of the permanent population.
- Building an intercity railway enabling one-hour travel between Chongqing and Chengdu.
- Expanding the railway network to cover 9,000 km in total and connect all cities with a population of over 200,000.
- Building a shipping and logistics center for the upper reaches of the Yangtze River.
- Expanding 5G coverage to cities, towns, and key settings.
- Investing approximately 2.5 percent of GDP in R&D.

Foreign trade in the Twin City Circle

Given its strategic position in the center of China, the Twin City Circle is an important trade corridor, with inter-provincial railways carrying goods to southern and western China. It also has overland rail links to Central Asia and Europe, carrying goods, such as electronics, machinery, automobiles and auto parts, and medicines. In 2021, over 4,800 freight trains ran from Europe to Chengdu and Chongqing, trading a total of 400,000 twenty-foot equivalent units (TEU) of cargo.

Chengdu was the largest trading city in the region, with imports and exports totaling RMB 834.6 billion (US$123.9 billion) in 2022, at a year-on-year growth rate of 1.6 percent. This accounted for 82.8 percent of the total trade of Sichuan province that year. Meanwhile, Chongqing's total trade in 2022 reached RMB 815.8 billion (US$121.1 billion), growing 2 percent year-on-year.

Import-Exports of Main Cities in Twin City Circle, 2022			
City	**Imports**	**Exports**	**Total**
Chongqing (total)	US$43.2 billion	US$77.8 billion	US$121.1 billion
Chengdu (S)	US$50 billion	US$74.3 billion	US$123.9 billion
Mianyang (S)	US$1.4 billion	US$2.6 billion	US$4 billion
Yibin (S)	US$1.7 billion	US$3 billion	US$4.7 billion
Deyang (S)	US$862.5 million	US$1.9 billion	US$2.7 billion
Nanchong (S)	US$66.8 million	US$840.2 million	US$906.9 million
Yubei district (C)	US$7.7 billion	US$20.8 billion	US$28.6 billion
Luzhou (S)	US$1.2 billion	US$1.7 billion	US$2.9 billion
Dazhou (S)	US$87.52 million	US$1 billion	US$1.08 billion
Leshan (S)	US$224.9 million	US$1.4 billion	US$1.6 billion
Jiulongpo district (C)	US$309.9 million	US$2.3 billion	US$2.6 billion
Yuzhong district (C)	US$826.8 million	US$705.1 million	US$1.5 billion

S: Sichuan; C: Chongqing.
Note: The trade numbers of the Chongqing districts and counties are included in the total Chongqing figure. Numbers may not add up due to rounding.
Source: Municipal statistics bureaus.

The Twin City Circle's major trade partners include the US, ASEAN, the EU, and countries in southern and central Asia.

In 2021, Chengdu's top three trade partners were as follows:

1. The US, with trade reaching RMB 1884 billion (US$27.1 billion), accounting for 22.9 percent of the total trade volume.
2. ASEAN, with trade reaching RMB 166.5 billion (US$23.9 billion), accounting for 20.3 percent of the total trade.
3. The EU, with trade reaching RMB 162.2 billion (US$23.3 billion), accounting for 19.7 percent of the total trade.

Meanwhile, 31.6 percent of the trade was conducted with countries along the "Belt and Road," encompassing a broad range of countries, including 16 in western Asia, nine in southern Asia, and five in central Asia. The top three trade partners among these Belt and Road countries were Vietnam, Malaysia, and Israel.

In 2021, Chengdu's exports were primarily composed of mechanical and electrical products, accounting for 87.7 percent of the total exports. The total imports and exports grew by 12 percent, reaching RMB 424.8 billion (US$61.1 billion). Notably, Chengdu exported:

- RMB 130.06 billion in laptop computers, representing a 16.5 percent year-on-year increase.
- RMB 99.28 billion in integrated circuits, showing a 3.1 percent year-on-year increase.
- RMB 75.94 billion in tablet computers, experiencing a decrease of 34 percent year-on-year.

Additionally, the export of labor-intensive products from Chengdu, such as toys and garments, surged by 98.7 percent year-on-year, reaching RMB 28.32 billion and accounting for 5.9 percent of total exports.

In 2021, Chengdu imported RMB 305.31 billion (US$43.9 billion) worth of mechanical and electrical products, demonstrating a 6.5 percent year-on-year increase and accounting for 90.3 percent of the total value of Sichuan's foreign trade imports. Among these imports, Chengdu acquired RMB 229.74 billion (US$33 billion) worth of integrated circuits, representing a year-on-year increase of 5.9 percent. Additionally, the import of agricultural products reached RMB 4.51 billion (US$648.2 million), showing a year-on-year increase of 34.3 percent.

On its part, Chongqing's top three trade partners in 2021 were:

1. ASEAN, with trade amounting to RMB 129.2 billion (US$18.6 billion), accounting for 16.2 percent of the total trade.
2. The EU, with trade amounting to RMB 124 billion (US$17.8 billion), accounting for 15.5 percent of the total trade.
3. The US, with trade amounting to RMB 119.9 billion (US$17.2 billion), accounting for 15 percent of the total trade.

Meanwhile, trade with countries along the Belt and Road for Chongqing reached RMB 220.7 billion (US$31.7 billion).

In 2021, Chongqing stood as China's largest exporter of laptop computers and fuel motorcycles both in terms of volume and value. Chongqing exported over 78 million laptop computers in 2021, experiencing an 18.7 percent year-on-year growth and reaching a total value of RMB 200 billion (US$28.7 billion). Additionally, 4.2 million fuel motorcycles were exported in 2021, witnessing a year-on-year increase of 28.9 percent, with a total export value of RMB 14.67 billion (US$2.1 billion).

ICs, mobile phones, and tablet computers together accounted for 30.6 percent of Chongqing's total exports in 2021, with a value of RMB 36.5 billion (US$5.2 billion), RMB 29.37 billion (US$4.2 billion), and RMB 22.79 billion (US$3.3 billion), respectively.

Leading industries in the Twin City Circle

The Twin City Circle is home to a broad range of industries. Traditional manufacturing of products, such as foods, beverages, garments, and chemicals, are concentrated in the smaller sub-provincial cities and suburban districts, whereas modern services, such as finance, software, and information technology are growing rapidly in the large urban centers.

Key Industries in Main Twin City Circle Cities and Districts
Chengdu Integrated circuits, new displays, innovative drugs, high-performance medical devices, high-end software, AI big data, aviation, finance.
Mianyang Advanced manufacturing, electronic information, automobiles, new materials, energy conservation and environmental protection, high-end equipment manufacturing, food and beverage
Yibin Alcohol (liquor), chemical materials, non-metallic materials processing, smart terminals, energy, machinery, paper, building materials
Deyang Machinery, chemicals, pharmaceuticals, new energy vehicles and components
Nanchong Electronic information, new materials, auto parts, biomedicine, energy conservation and environmental protection
Yubei district Automobiles, electronics, finance, medical care, education, software, information services
Luzhou Alcohol (liquor), electronic information, green building materials, modern medicine, equipment manufacturing, new textiles, energy and chemicals
Dazhou Electronic information, new materials, light industry and garment manufacturing
Leshan Tourism, food and beverage, optoelectronics, solar panels, green chemicals, nuclear technology
Jiulongpo district Biopharmaceuticals, culture and tourism, automobiles and motorcycles, new materials, high-end equipment, intelligent industry
Yuzhong district Finance, culture and tourism, blockchain, e-commerce, software, information technology

Manufacturing

As is the case in many areas across China, economic development in Sichuan and Chongqing has been largely driven by manufacturing. Although the two cities' economies are shifting inexorably toward the service industries, secondary industries still have an important role to play. Around 40 percent of Chongqing's GDP in 2020 still came from manufacturing industries; for Chengdu, it was just over 30 percent. This is even more true for smaller prefecture-level cities: Mianyang, the second-largest city in Sichuan, derived over 44 percent of its GDP from manufacturing, compared to just over 43 percent from services.

The government is seeking to further spur the industry to drive economic growth, focusing on key traditional industries – such as auto and motorcycle components manufacturing – but also shifting gears to focus on new and emerging industries – integrated circuits, industrial robots, and CNC machine tools.

The electronics manufacturing industry is also one of the prime drivers of growth in the region, in particular, semiconductors, new displays, computers, and mobile phones. In 2021, the total output value of the electronics industry reached RMB 14 trillion (US$201.2 billion) and is expected to exceed RMB 2 trillion (US$287.5 billion) by 2025. The manufacturing of electronic goods is primarily concentrated in the areas surrounding Chengdu. Currently, Sichuan packages and tests around half of the world's laptop computer chips and produces around 50 percent of Apple's tablet computers.

Sichuan's energy equipment industry has also seen strong growth in recent years, with the annual output value exceeding RMB 300 billion (US$43.3 billion) and accounting for about one fifth of the entire domestic industry. The province is also home to the world's largest solar silicon material production base and its solar cell production capacity ranks first in the country.

Digital industries

With the region shifting toward a service-oriented economy – especially in highly urbanized Chengdu – the government is keen to use its other key tool for boosting the economy – digital industries.

But first, in order to enable the digital industry to take off, the Twin City Circle's construction plan sets out goals for building the requisite infrastructure, which involves accelerating the construction of 5G networks, advancing optical fiber access networks, deploying next-generation Internet based on IPv6, and promoting national-level Internet exchange points for broadband expansion.

Meanwhile, the construction plan lays out a vision for the development of the digital industry, aiming to develop fields such as ICs, new types of displays, and intelligent terminals. It also seeks to cultivate innovative applications, such as ultra-high-definition video, AI, blockchain, and digital creative industries, while promoting the upgrading and digitalization of traditional industries.

Yubei District in central Chongqing is also home to a thriving software and information service industry. By the end of 2021, there were a total of 107 software and information service companies in the district, which reached a combined revenue of RMB 23.68 billion (US$3.3 billion). A further 26 companies were established in the first six months of 2022. The district's industry is expected to reach a combined revenue of RMB 70 billion (US$9.8 billion) by 2025.

Modern service industries

Helping to tie together the services and manufacturing industries are several peripheral service sectors that the government is also keen to develop. These cover sectors such as R&D and design, technology services, business consulting, and human resources.

Among other sectors, the construction plan seeks to further strengthen Chongqing and Chengdu's positions as logistics hubs. The construction plan proposes to achieve this partially through the creation of a joint international freight center, as well as regional logistics centers in places, such as the Sichuan prefecture-level cities of Zigong, Suining, and Dazhou, and the Chongqing districts of Wanzhou and Fuling.

The creation of a 'western financial center' is another one of the construction plan's core goals. The construction plan envisions cultivating a wide range of financial services, including cross-border renminbi businesses, overseas renminbi investment funds, fintech, and green finance. The construction plan aims to further integrate the financial markets and regulatory jurisdictions of the different areas and promote cross-border cooperation in fields such as guarantees, venture capital, and private equity. The construction plan also calls for the creation of a bankruptcy court and improving the financial adjudication system, building up the regulatory and legal infrastructure to cultivate a healthy financial market.

Potential preferential policies in the Twin City Circle

As the Twin City Circle is a very new project, and the construction plan was only released in October 2021, the concrete incentives and preferential policies for businesses have not yet been released. However, the construction plan does provide an overview of the types of industries that are encouraged in the region and directly calls upon the local governments to implement policies aimed at attracting talent, developing key industries, improving incentives for innovation, and more.

Policies for attracting talent and collaboration with foreign universities and institutes

The construction plan calls on the implementation of policies to attract high-level talent, which includes rolling out pilot programs to attract foreign talent to the region and encouraging local universities to recruit foreign students.

It also proposes support for collaboration with both Chinese and foreign universities and scientific research institutes to establish joint research institutes and R&D centers and establish long-term, flexible, and attractive scientific research positions.

Policies for upgrading manufacturing

The government is seeking to further spur the industry to drive economic growth, focusing on key traditional industries – such as auto and motorcycle components manufacturing – but also shifting gears to focus on new and emerging industries – integrated circuits, industrial robots, and CNC machine tools.

The construction plan offers a two-pronged approach to developing the industry, dividing different manufacturing sectors largely into the north and south of the region. In the north, the construction plan aims to integrate and develop industries, such as the manufacturing of advanced materials, automobiles, and motorcycle accessories; in the south, the development will focus on F&B, equipment manufacturing, and energy and chemicals, among other industries.

The construction plan also outlines the creation of an 'internationally competitive' industry cluster driven by smart connectivity and new energy industries, calling to jointly build a high-level automotive industry R&D and manufacturing base. Other industries of interest are aerospace, rail transit, energy equipment, industrial robots, instrumentation, CNC machine tools, and motorcycle components.

Finally, the construction plan proposes the construction of new industrial development zones and further integration of existing industrial zones in the two areas. Newly built industrial zones would either cross provincial boundaries, such as across Guang'an city in Sichuan province and the Yubei district in Chongqing or create individual 'enclave' parks in the other regions' jurisdictions.

Policies for developing digital industries

The construction plan aims to develop the region's digital sectors by improving infrastructure to support the industry. This includes accelerating 5G network construction, expanding gigabit optical fiber access, and establishing next-gen internet (IPv6) and cloud-edge computing data centers. The plan envisions fostering digital industries like integrated circuits, new displays, and intelligent terminals, while promoting innovative applications such as AI, blockchain, and digital creative industries. Traditional industries will also be upgraded and digitalized.

Investing in western China's economic powerhouse

The Twin City Circle holds significant economic potential. Successful implementation of the construction plan is expected to bring about a dynamic economy, fostering new industries and businesses in the area.

Similar city integration models have yielded prosperity and innovation in other Chinese regions. The Twin City Circle's central location provides an advantage, serving as an ideal hub to access emerging markets in western and northern China, while its lower labor costs may appeal to cost-conscious companies located in pricier coastal cities.

Although specific infrastructure and industry development details will be outlined in future policy documents, further incentives for foreign companies and investors are anticipated. In the meantime, businesses can benefit from the region's high growth potential, favorable costs, and burgeoning innovation and development.

INES LIU
Senior Manager
International Business Advisory
Beijing Office

"The Twin City Circle has huge economic potential amid China's efforts to develop its central and western regions."

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Summary

The scale of China's urbanization over the past four decades is a staggering feat in human history. Mega city clusters, as the primary form of China's new urbanization, play crucial roles in supporting the country's economic growth, promoting coordinated development among regions, and enhancing its international competitiveness. Since the implementation of China's reform and opening up policy in the 1980s, its city clusters have experienced rapid development, propelling the country's economy to become the second-largest in the world.

While magnetic large-scale cities like Beijing, Shanghai, and Shenzhen have always attracted foreign businesses, the mega city clusters, formed by cities with robust industrial infrastructures serving as satellites to the central hubs, have emerged as China's new investment frontier and economic powerhouses. Understanding their advantages and differences, including strengths in innovation, preferential tax policies, and key transport arteries, has never been more critical to achieving commercial success.

Four of China's 19 mega city clusters—the Yangtze River Delta, the Pearl River Delta (or the Guangdong-Hong Kong-Macao Greater Bay Area), the Beijing-Tianjin-Hebei (or Jing-Jin-Ji), and the Chengdu-Chongqing Economic Circle—are among the most important areas that China is actively working to optimize and improve.

Despite covering only eight percent of China's land, these four city clusters account for over 50 percent of the country's economic output and foreign investment. The Yangtze River Delta alone contributed to 24 percent of China's total GDP and 40 percent of China's total actual utilized FDI in 2022.

Given the efforts of authorities to attract foreign investors, businesses with operations in China or those planning to expand to this enormous market are strongly advised to seriously consider and fully understand the potential of these mega city clusters. It is essential for them to grasp the direction of China's development in the coming decade and to select the most suitable region for their investment.

Below, we provide a brief summary of these four regions.

Comparison of China's Four Mega City Clusters				
Mega city clusters	**YRD**	**GBA**	**Jing-Jin-Ji**	**Chengdu-Chongqing**
Location	**East China**	**South China**	**North China**	**West China**
Size	358,000 km^2	56,098 km^2	217,156 km^2	185000 km^2
Population	237 million	86.7 million*	108.6 million	97 million
GDP	US$4.32 trillion	US$1.93 trillion	US$1.5 trillion	US$1.2 trillion
Import-export	US$2.24 trillion	US$3.5 trillion*	US$749.6 billion	US$249.2 billion
Major trading partner	US, EU, ASEAN, Japan, Hong Kong	ASEAN, Hong Kong, US, EU, Taiwan	EU, ASEAN, US	US, ASEAN, EU
Leading industries	Electronics, automobiles, modern finance, integrated circuit, biomedicine, artificial intelligence, etc.	Mechanical and electrical equipment, traditional light industries, technology companies, finance, etc.	High-end manufacturing, technology and innovation, aviation industry, pharmaceuticals and biotechnology	Electronics manufacturing, energy equipment, auto and motorcycle components manufacturing, digital industries, modern service industries, etc.
Preferential policies	More liberalized policy for foreign investment, more streamlined custom clearance, and targeted tax, talent, and financing policies in the FTZ; supportive tax and custom clearance policies in the CEBC pilot zones; integrated tax services among YRD region cities.	Preferential IIT policy for foreign talents in the GBA; preferential IIT policy in Hengqin; preferential CIT policies in Qianhai, Hengqin, and Nansha; preferential policies for headquartering in Shenzhen, etc.	Incentives for technology and digital companies in the Xiong'an New Area; incentives in the Beijing Economic and Technological Development Zone, etc.	Policies for attracting talent and collaboration with foreign universities and institutes; policies for upgrading manufacturing; policies for developing digital industries, etc.

Note: The data in this table is as of 2022, except for the population and import-export data of the GBA, which is as of 2021.