

Ancient city, modern city





A brief history of Hangzhou

The city of Hangzhou sits on China's east coast, about 200 kilometres southwest of Shanghai. During China's fractured past it has served as the capital of a kingdom, the capital of a dynasty, and now it is the capital of Zhejiang province. Although the city's name and identity have evolved over the centuries, its place as an indispensable feature of Chinese heritage has been ensured by its natural beauty, immortalised in the Chinese language itself through the idiom “上有天堂下有苏杭” (Paradise in Heaven, Hangzhou on Earth).

The traditional phrase sometimes couples Hangzhou with Suzhou declaring: “Above there is heaven, below there is Suzhou and Hangzhou”. That perhaps accounts for why many Chinese tour groups will visit both cities on a single trip.

The reputation of the city's landscape perhaps first came to popular attention during the Tang Dynasty (618-907) – a period renowned for its appreciation of aesthetics and literature. In the middle of this era, the poet Bai Juyi served as governor of Hangzhou, which at the time was already important economically owing to its position as

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the southern terminus of the Grand Canal. But he inherited a legacy of mismanagement: the lake to the west of the city had been neglected; its old dyke had fallen, allowing the lake to dry out and wreak drought upon the surrounding farmland.

Bai Juyi ordered the construction of a new dyke, which reinvigorated the lake and restored the livelihoods of the farmers. Next he had a causeway built across the lake, so that people could enjoy walking over its waters and between its scenic areas. In this way the lake not only served the agricultural economy but also drew tourists in from far afield. Bai called it the West Lake and today it remains at the heart of Hangzhou's tourism industry.

Following the collapse of the Tang Dynasty, Hangzhou was consumed by



Hangzhou played a key role in the development of China's silk industry, for centuries one of the country's most famed and prized exports



REUTERS



“Today, making money is very simple. But making sustainable money while being responsible to society and improving the world is very difficult”

Jack Ma, Alibaba boss and Hangzhou's most famous resident

the Wuyue Kingdom (907-978) which spread across modern Zhejiang, Shanghai, and the southern portion of Jiangsu. Hangzhou – then named Xifu – was taken as the kingdom's capital. The kings of Wuyue followed the practice of Bai Juyi and harnessed the city's water resources to bring prosperity to the region. But rather than merely focus on Hangzhou's rivers and lakes they exploited the ancient capital's position as a coastal city and encouraged foreign trade and relations. If you ask people in Hangzhou today they will tell you that it was this early role as an international port that has left them so welcoming to foreign ideas.

The last king of Wuyue submitted the kingdom to the mightier Song without resistance, sparing the area from the pillages of war and placing it in good favour with the new rulers. Thus the Wuyue Kingdom dissolved into the Song Dynasty (960-1279).

It wasn't until invading armies from the north forced the Song court southwards – and into the period known as the Southern Song Dynasty (1127-1279) – that Hangzhou was named the capital. Initially this new status was intended as temporary, but when prospects of recapturing the north seemed bleak, the city was further developed to better suit the imperial court.

During this time, Hangzhou became the centre of Chinese commerce and culture. Its population surged,

purportedly creating the largest city in the world; arts and trade flourished, education excelled, tourism thrived and the economy boomed, resulting in the world's first production of government-issued paper money around the year 1120 (according to the Cambridge Illustrated History of China).

Eventually the Southern Song fell to the Mongolian hordes and became part of the Yuan Dynasty (1271-1368). China's capital was moved to Beijing, but Hangzhou remained one of the nation's largest and richest cities, serving as a popular holiday destination for emperors through to the end of the Qing Dynasty (1644-1912).

In 1949, when the Chinese Communist Party won control of China, Hangzhou was initially prized by the new government as a rich agricultural centre.

But in 1953 AC Maxim, a Soviet advisor, attended a Hangzhou city planning meeting whereupon he grasped why the city had impressed China's emperors. He proposed that Hangzhou be developed as a centre for tourism, culture, recreation and international conferences. Maxim dubbed Hangzhou: 'The Geneva of the East'.

Hangzhou's assumption of this 'Eastern Geneva' role had little chance to be realised, as the People's Republic slowly became more and more secluded from the world. But when China began reopening its doors and welcomed President Nixon on his historic trip in 1972, Hangzhou was one of the three cities he visited (the other two were



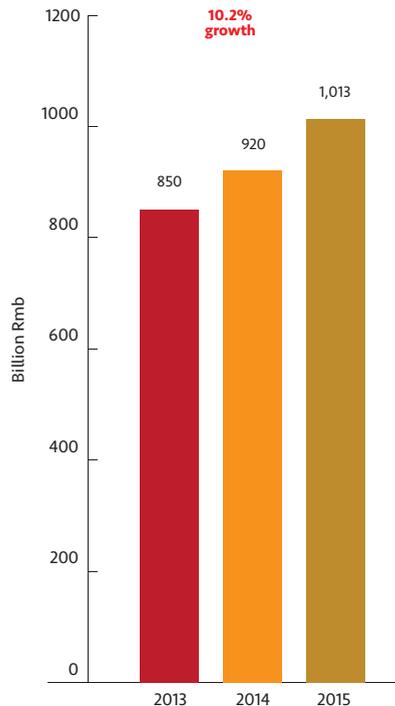
Hangzhou's GDP

Hangzhou's economy grew 10.2% in 2015, which meant the city's total GDP increased last year by over Rmb1 trillion (\$153 billion – greater than the national GDP of Hungary or Angola).

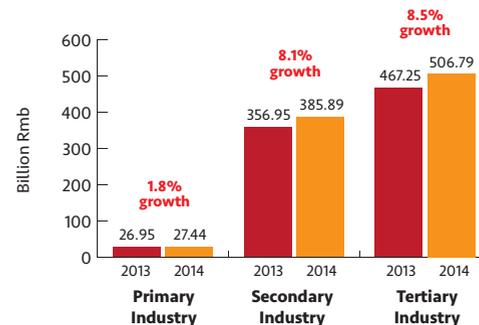
A large part of this growth was due to government spending on the tech sector beginning in Autumn 2014 under the proviso of 'Project Number 1' – a policy drive to develop a 'smart city'. Project Number 1 boosted the city's GDP by 23% in the first half of 2015.

Meanwhile the city's 2014 GDP per capita ranked 20th in the country (Shenzhen 5th, Guangzhou 9th, Wuxi 10th, Nanjing 17th).

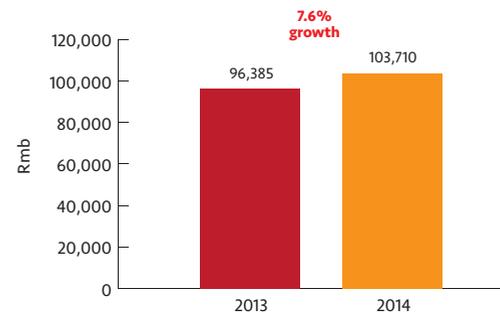
Hangzhou GDP



Hangzhou GDP by industry



GDP/capita (based on permanent population)





Hangzhou was one of the three cities President Richard Nixon visited on his historic 1972 trip to China

Beijing and Shanghai).

As China opened its doors under the guidance of Deng Xiaoping in the 1980s, Hangzhou soon took advantage of its location as a coastal city to develop a thriving manufacturing industry. Between 1978 and 2007, the city's GDP grew 45.5 times bigger from Rmb2.8 billion to Rmb410.34 billion. In 1989, Zong Qinghou founded the Hangzhou Wahaha Group, which would grow to become the largest soft drinks manufacturer in China.

The local government estimates that GDP crossed Rmb1 trillion last year, thanks to growth of 10.2% (see page 9).

In the early 1990s, the city began establishing a number of special development zones, beginning with the High-Tech Industrial Development Zone (HTIDZ) in 1991. These zones, were designed to support modern industries, and enjoyed financial aid and policy support from the local government. In 2014, the GDP of the HTIDZ reached Rmb69.28 billion (\$10.51 billion), an increase of 11.5% on the year before.

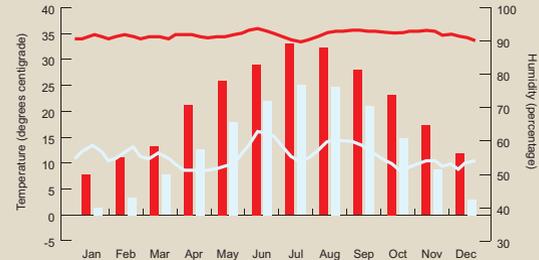
In 1999, Alibaba – now one of the world's preeminent e-commerce businesses – was founded in Hangzhou. From its humble beginnings in CEO Jack Ma's apartment, the company's 150,000 square metre headquarters opened in 2009 in the HTIDZ. The development of the HTIDZ and particularly the success of Alibaba has reinvented Hangzhou as not only a tourist hub but also as China's capital of e-

commerce. This duality is reflected in the nickname bestowed on the HTIDZ: Paradise Silicon Valley.

Today the city is finally assuming Maxim's envisaged role as the Geneva of the East – a picturesque powerhouse and a host for international conferences. It was announced late last year that Hangzhou will hold this year's G20 Summit: the first such event to be hosted by China. As China plays an ever greater role in the world it evidently wants to show its best side, and for that, President Xi Jinping has chosen to welcome 19 of the world's other leaders to Hangzhou. 🌐

Hangzhou weather

Temperature (bars) and **humidity** (lines). The reds are the average monthly highs and the whites the lows





Some key statistics

All data is from 2014 unless otherwise stated

City

Permanent population	8.89 million (6.67 million urban residents)
Area	8,488km ²
Average disposable income	Rmb39,099 (the highest in Zhejiang province, 7.1% real growth YOY)
Minimum wage	Highest in Zhejiang province

Private enterprise (value added)	Rmb550.3 billion (59.8% of GDP)
Number of private enterprises	276,000 (+21.9% YOY)
Import-Export value	\$67.9 billion (+4.5% YOY)
Import	\$18.83 billion (-7.2% YOY)
Export	\$49.17 billion (+9.8% YOY)



Foreign Investment

Enterprises with foreign investment	1,095 (2014)
Utilised FDI	Rmb33.5 billion (2013)

Tourism

Gross revenue	Rmb188.63 billion (+17.6% YOY)
Number of travel agents	658 (+4.1% YOY)
Number of star-rated hotels	199
5-star	22
4-star	46
Scenic spots	Three AAAAA (top grade); 32 AAAA

Education

General colleges and universities	38
Students	474,700
Postgraduates	48,000
Vocational colleges	19
Students	128,800

Technology

Patents filed	14,800 (+5.3% YOY)
Patents approved	5,559 (+13.1% YOY)
R&D funding	3% of GDP



An insider's view of Hangzhou

“Hangzhou is a very dynamic city and in recent years has been very prosperous”

To get a better understanding of the business situation in Hangzhou, Sinopolis spoke with William Wu, HSBC's head of corporate Eastern China, at his office in the city:

What are the city's main economic growth drivers?

Generally speaking I think Hangzhou is a very dynamic city with a wealth of history and heritage. It was the capital of the Southern Song Dynasty (1127-1279) so it has traditionally been famous for its culture and tourism. In recent years, Hangzhou's economy has grown to be very prosperous, becoming well-known for its innovation and TMT (technology, media and telecommunications) industries. Founders of some of China's largest and most notable tech companies, such as Alibaba and NetEase, come from Hangzhou, which has improved its image as an innovation centre. At the same time, Hangzhou has also taken a lot of effort to upgrade its traditional industries. So some manufacturing companies – although they are still manufacturing – have been upgraded to be more high-tech.

What new industries are being encouraged at the moment by the local government?

The industries that are being encouraged were actually published in the city's 12th Five-Year Plan. Currently we're preparing for the 13th Five-Year Plan, but in the city's 12th they defined several industries on which to focus, such as e-commerce, TMT, high-end



William Wu



manufacturing industries, tourism, financial industries and new energy. These industries are the ones the city has been focusing on.

I think the city has been moving in this direction over the past four to five years and we can see a tremendous amount of progress in this respect. One example of this movement is Hangzhou Steel: it used to be a fairly big steel production plant occupying a large area in a suburb of the city, but last year it was announced that the government would shut down that steel mill and convert the land for other uses. So they have moved this production capacity elsewhere, and left the city to upgrade to more modern and advanced industries.

What are the advantages of investing in Hangzhou?

As I say, this city is very dynamic, so it exhibits a strong combination of modern, entrepreneurial, and also traditional cultures. Its long history has generated a refined culture and a mature educational system. Since Hangzhou is the capital of Zhejiang province all of the province's best educational resources are located in this city, such as Zhejiang University, which is among the top 10 universities in China, as well as many other higher education institutions. Thus the most promising people in the province tend to move to Hangzhou for education or for its lifestyle. This outfits the city with especially exceptional human resources.

Hangzhou is also very conveniently located in the centre of the Yangtze River Delta, making commutes to the other cities of the delta more feasible. Hangzhou is 45 minutes to Shanghai, 1.5 hours to Nanjing, and 1 hour to Ningbo by high-speed train. So it is extremely well connected to all the other hubs in the Yangtze River Delta.

Moreover, as I mentioned before, Hangzhou's TMT industry is of particular renown, thanks to Alibaba, so it has attracted a lot of key venture capital firms to support start-up companies. This has provided a solid financial foundation for the development of the city.

In total, aside from the benefits of policies favourable to foreign investment, what is perhaps of greater significance to companies thinking of investing in Hangzhou is its convenient location, its human resources and also that dynamic environment here, with an almost tangible level of entrepreneurial spirit.

Has the high-speed rail connection to Shanghai had much effect on Hangzhou?

I believe it's had a huge effect. Although I am located in Hangzhou I do have a lot of need to travel to Shanghai, Nanjing and Ningbo. Previously I had to either take a low-speed train or a car, both of which are time-consuming and not a very good travel experience. But nowadays the high-speed trains are so clean, so silent and so convenient. It gives people a lot of incentive to

“Hangzhou's high-speed trains are now always full – it is now only 45 minutes by train to Shanghai”



“People in this city are very well educated and have a very high entrepreneurial spirit”

move around the region.

Also, from my personal observations, when the high-speed train first opened three to four years ago, there were often some empty seats on the train, but now it is always full. When you want to take the high-speed train you need to book three to four days in advance, especially for the weekend. So I think it is obvious that the popularity of the connection has grown.

And looking at the flow of people, there's a definite benefit to the local economy, because the ease of transport saves a lot of costs: the high-speed line is very low cost to run, very punctual, very convenient and safe. So in my view it has had a very positive effect on Hangzhou's economic development.

How has Hangzhou's history and culture helped shape its current economic model?

This city has always had a view of the macro situation rather than one of the micro, because it used to be the capital of China. So it is willing to accept change.

Also, because of the long history, people pay great attention to education. Generally speaking, people in this city are very well educated, which has helped them to open up to the external world and accept new things. This in turn has created a situation in this city where people have a very high entrepreneurial spirit: they are willing to set up new companies, to try new things. I think this is very unique.

What is the significance of Hangzhou being chosen to host the G20?

Everyone in Hangzhou is very excited by this news. It's exciting because it means all the top leaders of the top countries are likely to come to Hangzhou this year, so to be selected as the venue is evidence of the attention the city is receiving from China's highest level officials. Evidently they think that this is the right place to hold the meeting. I believe it will bring in a lot of positive things, because of course it will help it become a very well known city all over the world. Hangzhou is very well known in China and also to those international businessmen but once it becomes very well known to everyone, it will uplift the image of the city further.

Plus, in preparation for the meeting it is possible that Hangzhou will receive more attention from the central government, providing incentives to further develop infrastructure, construction, and a lot of other areas. So I think we will see a lot of positive things. I think all the people in the city are very excited and are looking forward to the event in September.