Moving up the value chain

The Chinese character for Shu – the name adopted by the ancient state that once inhabited modern-day Sichuan – is said to have derived from the image of a silkworm in a mulberry tree. The Shu state was abundant in both, thus its people were prodigious silk weavers, fashioning brocades famed along the Silk Road.

But besides silk, the people gained renown for another fabric, heavier than the former and akin to flax, which was worn into battle. Rich in iron deposits, the Shu were also master manufacturers of weapons, forging blades that were often twice the length of their enemies’ swords.

In the early years of the People’s Republic of China, the main driver of Chengdu’s economy was actually agriculture. But by 1978, manufacturing had taken the lead, spurred by a government industrial plan. Chengdu became a manufacturing heartland for electronics and aeroplanes. However, after the Reform and Opening Up period, Chengdu still languished behind China’s coastal cities, where manufacturers opted to build factories – closer to major shipping ports and emboldened by government support.

But as wages and land prices along the booming coastline began to edge too high, some manufacturers retreated inland, bringing a new generation of production to Sichuan and its capital Chengdu. Today close to half the world’s iPads are made in Chengdu, at the Foxconn factory, and Intel has four chip factories spread across 600,000 square feet.

Made in China, innovated in China

In 2015 Beijing presented its ambition to modernise manufacturing through a plan called Made In China 2025 (MIC 2025). The general thrust of MIC 2025 is to spur innovation in manufacturing and encourage homegrown products. The central government has since selected a few cities to “pilot” this scheme. In 2017, Chengdu became the fourth city nationally and the only city in the western region to be designated a pilot zone for MIC 2025.

The designation is a vote of confidence from Beijing and a pledge of support to Chengdu. Meanwhile the local government has already outlined its ambitions for the project, taking the internet economy, carmaking, food and beverage, equipment manufacturing and bio-
Tianfu Software Park
High-Tech Zone

Chengdu’s High-Tech Zone is ranked third among China’s innovation centres in terms of capacity and innovation. Comprised of over 80,000 enterprises the zone contributed Rmb144 billion to the city’s GDP in 2016.

The High-Tech Zone is split into two sections – a smart manufacturing hub in the west, and a software innovation centre in the south. The western sector is home to the manufacturing arms of Microsoft, Dell and Foxconn, to name a few.

The southern hub is called the Tianfu Software Park and was ranked third among China’s “pillar software parks” in 2015. In 2016, the brand value of the Park was calculated as Rmb41.56 billion.

The Park, is at the centre of Chengdu’s newer CBD and combines office and campus space with residential property, greenery and commercial ventures – a complete economic ecosystem. The municipal government has also moved numerous offices to the Park.

Tianfu Software Park is owned by the Chengdu High-Tech Zone Investment Group: a government entity. As such the Park’s numerous favourable policies have the backing of the municipal government. New companies that enter the Park’s incubator are given rent-free office space for one year, and after graduation many are offered subsidised rent on more permanent offices. The Park also organises regular investment markets to help its residents find funding and new projects.

As for connectivity, the Park is situated on the city’s main thoroughfare, about an hour from the city centre (assuming rush hour traffic); the central subway line has a number of stops in the park; the city’s international airport is roughly 20 minutes away by car, with the forthcoming second airport a similar distance.

![Image of technology companies logos]
pharmaceuticals as its pillar industries. It plans too to “proactively develop” AI, VR and precision medical treatment as its “future industries”.

The scheme is wide-reaching, which is fairly typical for a Chinese city with an economy the size of a small country. To realise its dreams, the local government has raised a Rmb12 billion fund for supporting advanced manufacturing – particularly in the fields of electronic communications, rail, autos and bio-pharma.

Chengdu’s appointment as a pilot zone may not be entirely good news for foreign companies, however, as the MIC 2025 plan has faced criticism as being protectionist. The European Union Chamber of Commerce in China issued a lengthy report on the plan accusing the government in Beijing of attempting to “severely curtail the position of foreign business” with its “large-scale import substitution plan aimed at nationalising key industries”. And the Mercator Institute for China Studies also alleged: “In the long run, China wants to obtain control over the most profitable segments of the global supply chains and production networks.”

But many foreign manufacturers are already embedded in Chengdu – such as Intel, Microsoft, Dell, Phillips and Toyota – and others are still arriving. In February Global Foundries announced its plan to build a plant in the city, and in May it partnered with the municipal government to invest over $100 million in developing the local semiconductor industry.

Intel says that it chose Chengdu – more than a decade ago – because of its “strategic location, the quality of its educational system and well-trained workforce”.

**Beyond production**

Chengdu is not satisfied to be a manufacturing hub alone: it harbours other ambitions. In addition to adopting the MIC 2025 plan, Chengdu has its own Service Industry Development Plan 2025. This scheme wants the services sector to add Rmb1.7 trillion to the local economy in the year 2025, growing 7.8% annually until 2020 and then at 7.3% for a further five years.

Another municipal mission is to implement the “1+5” plan, which envisions Chengdu as “one hub” and “five centres” for West China. The “hub” is a logistics base (see
Liu Yonghao was born the youngest of four brothers in 1951. When he was 14 the Cultural Revolution began. Liu became a Red Guard and travelled to Beijing (no small feat in those days) to hear Mao speak. His mother told him that after hearing the Great Helmsman’s words he would be blessed and would soon be able to eat his favourite dishes of twice-cooked pork and spicy tofu. This turned out to be prophetic. By 2001 he was one of China’s richest people and could eat whatever he liked.

Liu won a place at university after the Cultural Revolution subsided, and entered government service after graduating. But in 1982 as China was transforming thanks to Deng Xiaoping’s reforms Liu and his brothers quit the security of their government jobs and started a business raising chickens and quails. As competition in the quail business grew, New Hope began to diversify and started to make a superior pig feed in the late 1980s. In 1995 the brothers split up the Hope Group, creating East Hope, West Hope, Continental Hope and leaving Liu Yonghao with New Hope.

Liu listed his company in Shenzhen in 1998 and continued to diversify into real estate, dairy and finance. Liu helped found Minsheng Bank, now one of the largest non-state owned banks, taking a 7% stake.

Liu’s wealth today is a stark contrast to the poverty he endured as a child. Famously his family was so poor that they could not afford to buy him shoes. Liu hasn’t forgotten these humble beginnings. He established the Guangcai Programme, which supports poverty alleviation in Western China.

Liu has said he is focusing his efforts on developing agricultural cooperatives to help peasant farmers expand the scale of their farms from family plots to large industrialised tracts, claiming his company had helped set up more than 100 such cooperatives, as well as 16 underwriting companies that assist small farmers to obtain loans to expand production.
<table>
<thead>
<tr>
<th>Name</th>
<th>Wealth ($ million)</th>
<th>Company</th>
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<tbody>
<tr>
<td>Liu Yonghao</td>
<td>6,340</td>
<td>New Hope</td>
</tr>
<tr>
<td>Ke Zunhong</td>
<td>3,280</td>
<td>Kanghong Pharmaceuticals</td>
</tr>
<tr>
<td>Liu Hanyuan &amp; Guan Yamei</td>
<td>2,760</td>
<td>Tongwei</td>
</tr>
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<td>Yang Keng</td>
<td>2,010</td>
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<td>Liu Canglong</td>
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<td>Wang Junmin</td>
<td>1,360</td>
<td>Haisco Pharmaceutical</td>
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<td>Song Rui</td>
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<td>970</td>
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HURUN RICH LIST, 2016
Infrastructure) while the five centres are: economy, cultural and creative industries, foreign cultural exchanges, science and technology, and finance.

Chengdu has a pedigree in finance as well as manufacturing. In ancient times the city’s merchants created jiaozi, or paper-based bills – a financial innovation born of necessity (when the ruler in Sichuan banned coins made of any metal but heavy iron).

More recently, the city played host to G20 finance ministers and central bank governors during their convention in July last year, and the city is currently developing a 5.1 square kilometre area that it dubs the “Financial City” (one of the main strips in Financial City is Jiaozi Avenue). Many financial institutions have already moved to there, following clients who have relocated to the surrounding CBD.

The Financial City is being developed in three stages, and in its third stage, it will build industry parks tailored to their occupants, such as China UnionPay. Fang Zhao, chairman of the government-owned Chengdu Financial City Investment and Development Group, claimed last year that roughly 90% of phase I and phase II properties had been purchased, with 329 institutions collectively investing Rmb42 billion in the area.
Fortune’s bounty

Out of the approximately 300 Global Fortune 500 firms that are in Sichuan, almost all of them have established offices in Chengdu. Domestically Chengdu has a great appeal for well-established and early-stage companies alike. The combination of low rents for offices and apartments, the city’s location at the heart of Southwestern China, and government policies that support arriving businesses, all tempt firms to the city. But it does face a significant challenge in competing against China’s more internationally high-profile cities, such as Beijing, Shanghai and even Guangzhou.

Part of Chengdu’s solution to this is brand awareness. Last year, the government-run High-Tech Industrial Development Zone pledged Rmb5 billion in funding to establish “offshore overseas talent bases” to attract foreign professionals. These “bases” are essentially overseas recruitment zones. The latest was opened in San Diego, raising the total number of overseas talent zones to 13, globally.

The second part of the plan is to create incentives for the recruiters to offer foreign talent. In July this year the local government released a slew of new policies to do exactly this, promising “top” overseas talent low-rent flats, one-on-one foreign-language medical consultations, and more rapid immigration policies to make it easier for companies to hire key staff from overseas and to bring their families with them.

280 Global Fortune 500 firms are established in Chengdu
Chengdu aspires to be an important automobile manufacturing base by 2020, boosting its production capacity to 3 million cars – or more than double the 1.15 million vehicles the city produced in 2016.

Chengdu holds a strong position geographically, not only as a hub for Western China, but also as a node connecting China to Europe. Components roll off production lines and onto freight trains to be shipped (Geely sends parts to Minsk and SUVs to Central Asia). The city’s main auto manufacturing centre is in Chengdu’s eastern Longquanyi district, in the Chengdu Economic and Technological Development Zone (CEDZ). Toyota and Volkswagen both have factories for their joint venture’s with FAW in the CEDZ, and Volvo and Geely have production sites there too.

Geely opened its factory in 2007 and brought Volvo to Chengdu after purchasing the brand in 2010. Chengdu was Volvo’s first manufacturing plant on the Chinese mainland. The Chinese automaker is building another plant in the city in partnership with the local government, with an expected annual capacity of 200,000 units. The duo are also developing two further plants for New Energy Vehicles (NEVs): a hybrid manufacturing site with annual capacity of 300,000 vehicles and an electric car production line with a 100,000 capacity.

Li Donghui, the executive vice-president of Geely, expects his company’s total annual output value in Chengdu to reach Rmb100 billion when all the projects are finished. But evidently Geely doesn’t expect all of the output to be sold domestically. “We will build the Chengdu base into one of our most important strategic centres for new energy vehicles to serve the markets along the Belt and Road,” Li said.

These markets could be in Europe or closer to home. Chengdu’s largest commercial vehicle manufacturer Sinotruk, for example, delivered 1,500 heavy-duty trucks to Myanmar in July this year. The Bangladesh-China-India-Myanmar economic corridor is expected to be another of China’s commercial thoroughfares bringing business to Chengdu.