

## Tianjin Municipality Province of China

### Introduction



Source : Fiducia Management Consultants

While Chinese cities such as Xi'an are considered to represent China's ancient past, the northern port city of Tianjin represents the country's recent past and its approaching future. The city is one of China's four municipalities that directly report to the central government. It is China's third largest city after Beijing and Shanghai. The population of the city as of 2006 was 10.8 million people.

Tianjin has been a trading centre since Sui Dynasty (518-618 AD) when the Grand Canal was built running through the region. The city's

name means "Heaven's Ford". The name comes from the fact that the Emperor had crossed the Hai River that runs by the city, while trying to reclaim the throne from his nephew.

In 1860, the city became a treaty port during the Second Opium War. By 1900, the British, French, German, Japanese, Italian, Belgium and Austro-Hungarian governments all had concessions in the city. These governments had foreign concessions in Tianjin right up until 1941, when the Japanese invaded the concessions (they had occupied the Chinese section of the city since 1937). The Japanese occupation lasted until 1945. The city was a US military base from 1945 until 1947, when a series of rapes of young Chinese women by US servicemen forced the Americans to pull out of the city.

Geographically, the city is flat and swampy near the Pacific coast, but there are hills in the northern end of the municipality where Yanshan Mountains pass through Tianjin. Tianjin has 15 urban districts and three counties. The Tanggu, Hangu and Dagang districts make up the Binhai New Area, which is seen by officials as one of China's new economic engines. The Binhai New Area will be home to the expanded Tianjin Port as well as an encouraged area for foreign companies to set up operations.

Tianjin has seen rapid development in the last few years. Its per capita GDP for 2006 was RMB



40,961. That is the third highest GDP in China after Shanghai and Beijing. In terms of personal income, the city was the fourth highest in the country with an income of RMB 12,639.

Forty percent of the city is farmland. The important crops are wheat, rice and maize. Fishing is a major industry along the coast. Dagang district has oilfields with total deposits of about 1 billion tons of petroleum. Tianjin also has a growing aerospace industry. Airbus will be opening their new A320 series assembly plant in the city in 2008.

## **Industry**

### **Aerospace**

As mentioned above, the European airplane company Airbus is building its first final assembly plant in Tianjin. The factory is 51% controlled by Airbus industry and the rest by the China Aviation Industry Corporation (CAIC).

The plant will have 600 workers and according to the original plan it was to open in the summer of 2008 and turn four planes per month by 2011. Now according to a report released by the Gerson Lehrman Group in late February 2008, this project is at least one year behind schedule. It is unknown when the project will begin to provide revenue for Airbus since up to 90% of the revenue generated from the manufacture of an aircraft can be collected only upon delivery of that aircraft.

CAIC has also invested in building a new plant to design rocket carriers for China's space program. The company signed an agreement with the municipal government in January of 2008. No further details were available as of the writing of this report.

The China Aerospace Science and Technology Corporation also manufactures its heavy-lift

launch vehicle for the country's space program at its plant in the city.

### **Automotive Industry**

Tianjin is considered as the manufacturing hub in Northern China for automobiles. In fact Tianjin is home to China's compact or economical car manufacturers. Toyota has a joint venture with China's First Automotive Works (FAW). The joint venture was set up in 2000 and it has three factories based inside the Tianjin Economic Development Area (TEDA). This joint venture currently manufactures Vios, Corolla and Crown models. The FAW-Toyota joint venture sold 34,139 cars in 2007, up 69.8% from the year before.

The TEDA location is ideal for the joint venture because it gives the company access to more than 200 automotive component producers that are located around Tianjin. TEDA also has 53,000 m<sup>2</sup> of space that is set aside for building automotive factories in the park.

### **Bicycles**

Bicycles are not seen as the great symbol of transportation in China as they were in the past but there is still a vibrant bicycle industry. Tianjin is the main place of production for many of China's mountain bikes. There are about 500 producers of bicycles and bicycle components in the city. Together they turn out about 30% of China's mountain bike production.

The advantages the city provides to mountain bike manufacturers are numerous. With the component-manufacturing base in the region, companies can develop complete supply chains just from the manufacturers around Tianjin. That means it's much easier to control quality and cost. Tianjin's port also enables companies to easily ship their products by sea to other parts of



China or to the different export markets where their products are sold.

Tianjin is also where foreign companies turn when looking to invest in the China's bicycle industry. That investment brings new innovation techniques. The city's Bicycle Industry Association offers training as well to member companies in order to help keep their designs cutting edge. Some of the new designs that suppliers have developed include models with streamlined frames, transmission shafts and single-gear ratios.

### **Electronics**

Southern China may be better known internationally as an electronics manufacturing zone, but the Bohai-Rim Economic Zone is becoming a popular manufacturing area. The Bohai-Rim Economic Zone encompasses Tianjin as well as Beijing, Dalian in Liaoning province, Qingdao and Jinan in Shandong province. Thirty two percent of China's electronic output is manufactured in the region.

The Bohai Rim is also China's largest manufacturing hub for telecom products and computer manufacturing and it's a distribution hub for integrated circuits and finished electronics products.

Since the Bohai Rim is relatively new to electronics manufacturing in China, it enjoys the advantages of lower labour costs and strong research and development (R&D) talent than can be found in Southern China or around Shanghai. In terms of research, Tianjin alone has 30 R&D institutes and state level research centers that help ensure the region keep producing high-quality designs. Companies such as Motorola (for automotive electronics), Foxconn and Inventec (OEM and EMS producers) have all moved at least part of their operations to Bohai-Rim Economic Zone. The electronics industry in the

region is expected to have a growth rate of 30% this year.

Tianjin also hosts the three-day 'Bohai Electronics Week' every November to showcase the region's electronics products to the world. The 2007 event attracted 8,000 buyers and trade visitors from around China and international buyers.

The city is also emerging as a growing area for pan/tilt and dome camera production for CCTV systems. It is the number one producer of pan/tilt cameras in China and the number two producer of dome and speed dome cameras after Shenzhen. Total production value was estimated at US\$ 107 million in 2006. Cameras coming out of Tianjin have features such as 360-degree rotation and infrared vision for use in dark areas.

### **Information Technology**

One area of electronics manufacturing that Tianjin specializes in is information technology products. Forty different electronics and IT products manufactured in Tianjin rank in the top five in China and of those 17 are number one for their industry in the country. Tianjin is also the largest manufacturing base in China for mobile phones – 60% of the country's phones are produced in the city. International telecom equipment companies such as Motorola, NEC, Samsung and Panasonic all have mobile phone manufacturing operations in the city.

Approximately 20,000 people are employed in Tianjin's software manufacturing industry. Of those, about 90% are technical workers. With 30 R&D institutes, the city is developing a successful supply chain. The next step is to refine that supply chain in 2008 to help the industry increase output. In the next five to seven years the Tianjin government would like to increase the output of the city's electronic industry to RMB 300 billion or 25% of the city's GDP according to a report by



the Hong Kong Trade Development Council published in January 2007.

### **Services**

Since Tianjin has a per capita GDP of over RMB 40,000. The city's government thinks that it is in a good position to push its service sector as a way to keep the city's economy strong. The service industry has grown tremendously during 2007. The year-on-year growth rate for 2007 was 14% - the highest amount of growth that the city has experienced for 10 years. Its growth still lags behind China's other large cities such as Beijing and Shanghai and that is one of the reasons the city government wants to push the service sector forward.

The city's mayor envisions Tianjin's service economy encompasses financial services, logistics, trade and tourism. In order to make this a reality, the government plans to spend much of 2008 trying to improve the financial service system in the city and trying to attract every type of financial institution and encouraging foreign banks to set up regional headquarters in the city.

For logistics, commerce and trade, the Tianjin city government plans to spend more time investing in infrastructure projects. The city will also use upcoming events that it is hosting such as the Olympics and Summer Davos as impetus to improve its tourism infrastructure and make sure that its hotels and business centres help the city put its best foot forward as the gateway to northern China. By 2015, the service sector is expected to contribute up to 45% of Tianjin's GDP.

### **Textiles**

Tianjin's modern textile industry is over a century old. The industry is still a vibrant part of the city's economy. So much that the government has constructed the Tianjin Textile Museum in the

Tianjin Airport Processing Zone to demonstrate how the industry has had a major impact on Tianjin over the last 100 years.

Many suppliers in the region are large export trading companies such as Tianjin Wantex Import & Export Co. Ltd.

Tianjin Wantex has been in the textiles business for more than 40 years. Its product range includes home textiles; knitwear and woven garments and its clients come from North America, Europe, the Middle East and Japan. Instead of producing its garments and textiles in-house, the company works with 150 long-term suppliers who fill orders based on the specific needs of Tianjin Wantex's customers. Tianjin Wantex handles all the quality control and shipment issues and necessary customs documentation itself.

This business model allows Tianjin Wantex to handle large orders without having to pay the overhead of maintaining a large workforce or facilities. However, this means that it must provide a mark-up on its products and is therefore more likely to suffer from a loss of sales when its customers, such as the US, are experiencing an economic slowdown.

There are also companies in Tianjin that have manufacturing operations, but these tend to be small in size than the larger trading companies and only focus on one or two types of garments such as baby garments made of woven or knitted materials.

### **Tourism**

Tourism is an important part of Tianjin's economy. This year tourism is expected to account for 5.6% of the city's GDP. The city is expecting 65 million domestic tourists along with 1.3 million foreign tourists. Most will come to Tianjin, as it is one of the Chinese cities that will co-host the 2008 Olympics with Beijing.



But the city is not all about the Olympics. Tianjin's tourism officials are trying to create a lasting impression in people's minds by promoting the city as the place to be if you want to see the history of China during the 20<sup>th</sup> century. The head of the city's tourism bureau, She Qingwen, told China Daily that the city has been home to many of the advancements that China made in the last 100 years. These include the introduction of western education, architecture, technology and financial systems – things that can all be seen in different aspects of the city.

As Tianjin is expected to be a city of massive future growth for the country, She is also expecting the city's new aerospace and shipbuilding industries as well as the Binhai New Area to attract tourists as well.

"The economic development of Binhai New Area and Tianjin as a whole will fuel the local tourism segment, and vice versa. We will drive the local tourism segment not only for the sake of developing the sightseeing industry, but also fuelling the city's overall economic growth. Through promoting Tianjin as a tourism destination, we want to market Tianjin's overall resources and branding, and eventually promote Tianjin's power," he told China Daily.

Tianjin's city government is going to invest RMB 52 billion over the next five years into 20 local tourism projects such as Panshan Mountain Cultural City, an ocean park and an air carrier theme park. The tourism authority is also pushing urban tours. To do this the city government has built eight attractions inside the urban core.

To handle the rise in tourists that are expected to come to see these new attractions, the city is training more tour guides to add to its already 10,000-strong force. Tianjin's city government hopes that tourism will account for 8% of the city's GDP by 2015.

## Transportation:



Source: Fiducia Management Consultants

Tianjin has an extensive railway system running through the city. The city has four railway stations. The primary station, Tianjin Railway Station is located in Laolongtou in the East of the city. There are also the West Railway Station and the North Railway Station and smaller stations at Tanggu Railway Station in the port area of Tanggu district and the TEDA Railway Station located inside the Tianjin Economic Development Area (TEDA). There are four major railways that run through Tianjin:

- The Jingshan Railway that runs from Beijing to the Shanhai Pass in Hebei province
- The Jingpu Railway that runs from Tianjin to Nanjing, the capital of Jiangsu province
- The Jinji Railway that runs from the urban centre of Tianjin to Ji county in the city's suburbs
- The Jinba Railway that runs from Tianjin to Bazhou in Hebei province



Tianjin's subway system is currently expanding from three to nine lines. Eventually the subway will run through the city and out into the Binhai New Area in order to provide convenient transportation to the businesses in that region.

In terms of roadways, the city has three ring roads that act as express highways through and around the city. There are also highways connecting Tianjin to Hebei province, Liaoning province and the municipalities of Beijing and Shanghai.

The Tianjin Binhai International Airport is located in the East of the city and provides service to most destinations in Mainland China as well as Mongolia, South Korea, Japan and Hong Kong. The airport is also a main cargo transportation hub.

The most beneficial to Tianjin businesses in terms of transportation is city's port. It is the largest in North China and handled 30 million tons of cargo in 2007, a growth of more than 20% over 2006. The turnover of TEU or 20-foot equivalent units was 7.103 million. The port authorities hope to raise that to 330 million tons of freight traffic and 8.5 million TEUs of containers in 2008.

There are currently more than 100 shipping companies that are based in the port. These companies service more than 400 ports in over 180 countries and regions. Currently the port can accommodate ships with dead-weight-tonnage below 250,000. The Tianjin city government is investing US\$ 6.2 billion in port infrastructure over three years (2007 to 2010). The goal being that by 2010, the port can accommodate vessels with 300,000 dead-weight-tonnage.

There is also the Tianjin-Dongjiang Bonded Harbour, which is seen by the Tianjin government as being part of the economic engine of the city. Phase one of the project began operations in

December 2007. The 4km<sup>2</sup> area accommodates warehouses, processing and logistics zones and container terminals. The remaining 6km<sup>2</sup> will be operational by 2010. The benefit of having operations in the bonded harbour includes faster customs clearance, as well as preferential treatment in taxes, land purchases, foreign exchange and financing. Businesses that are allowed to set up in the harbour include those involved in international transfer of goods, distribution of goods, purchasing, transit trade and export processing.

### Industrial Parks

The Tianjin Economic Development Area (TEDA) is one of Tianjin's largest and finest industrial development areas. TEDA is not designed to be just another industrial park but in fact it is a small city within Tianjin. Its website describes the area as being one for both processing and manufacturing but with a focus on high-tech industrial products including electronics and biopharmaceuticals as well as technological innovation. It is this description that has helped TEDA to be considered as one of the engines of growth for Northern China and the country as a whole.

Some of the major companies that are located in TEDA include Motorola and Samsung. Services in the area are also top notch. There are branches of all the major Chinese state-owned banks as well as Standard Chartered, BNP Parisbas and HSBC among others.

TEDA's West Zone is currently under development. Projects that are being carried out there include a bio-pharmaceutical park. There is also a sports park under development inside TEDA to provide workers and all residents of the area a place for physical and leisure activities. The sports park is expected to be completed by the end of 2008.



## Areas for Improvement

Tianjin may seem to be far ahead of many other cities in Northern China as its main pillar industries are high-tech electronics and a rapidly growing service industry. But Tianjin is not content with the progress that it has made. To keep pushing the city's economic engine forward Tianjin is putting its hopes on the Binhai New Area, which is located within TEDA.

The Binhai New Area is being developed as an area to build the financial services industry of Tianjin and China. That includes developing private equity funds and insurance reform as well as experimenting with other financial products that are new to China. It currently has 46 financial institutions including 22 banks.

One of China's first state-owned private equity funds, Bohai Industry Investment Fund, was created in Tianjin in January of 2007. It will invest in manufacturing, transportation and energy projects in the Binhai New Area and around the Bohai Bay. It is currently valued at RMB 6 billion. In late 2007, the Bohai Industry Investment Fund made its first investment. The fund paid approximately RMB 1.5 billion for less than 20% of the state-owned Tianjin Pipe (Group) Corp. No further news about any of its future investments

has been released so far.

The Binhai New Area will also be used to develop customs reforms. One of the ways that the city government will do that is to continue investment in the Tianjin-Dongjiang Bonded Harbour, possibly beyond the initial investment scope of 2010. In the future, the government hopes to bring more industrial manufacturing to the Tianjin port to bring it closer to the bonded area.

## Conclusion

Tianjin is on way to a bright future - at least in the planning. As it can be seen from the sections above, work on the implementation of most of the plans has just started and in many cases it is still in the development stage. How well these plans will be realized is anyone's guess. Should Tianjin be able to fulfill its commitments, it will definitely become the growth engine for North China.



**Confederation of Indian Industry**



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