

### Jiangsu Province of China

#### Introduction:



Jiangsu is today one of China's economic hubs, but began its life as an economic backwater. It only started to become a centre of commerce in 10<sup>th</sup> century when China's market economy began. From that time onwards, the province's cities such as Suzhou and Yangzhou have been known as places of commerce and luxury. The provincial capital, Nanjing was also the national capital for the early Ming dynasty (before a coup moved the capital to Beijing) and the Republican government during the early 20<sup>th</sup> century.

Jiangsu is located in a very flat area of China. 68% of the province is plain and another 18% is covered by water. This plus the fact that the province is well-

known for its irrigation system have earned the region the name 水乡 ("Land of Water"). The area is also subject to typhoons and rainstorms in the late summer and early autumn. It receives 800 mm to 1,200 mm of rain each year, mostly during the summer months when the province experiences a monsoon.

The province's irrigation system helps to keep a large system of agriculture running. Foodstuff found in the province includes wheat, rice, maize and sorghum. Cash crops include cotton, soybeans, peanuts, rape, sesame, ambary hemp and tea. There is also peppermint, apples, peaches, pears, spearmint, medicinal herbs and spearmint.

The area of the province around Lake Tai is known for its silk production. Jiangsu also has a wide selection of minerals such as coal, petroleum, natural gas, halite, sulfur, phosphorous and marble.

In terms of industries, the area is known for its textiles, food, chemicals and construction material industries.

The province's GDP per capita reached RMB 24,515 in 2006 and its annual income per capita that year was RMB 12,319, placing it in the top 10 provinces in the country in terms of wealth.

#### Foreign Investment:

Jiangsu's foreign investment plays a significant role in China's economy. In 2005, the province's FDI accounted for 21.9% of country's total, making it



the largest contributor of FDI to China's economy.

The province's focuses on encouraging foreign manufacturers to set up factories in the computers and accessories, electrical, petroleum, chemicals and traditional industries such as textiles and garments.

**Industries:**

**Steel:**

Jiangsu is home to China's largest private steelmaker, Jiangsu Shagang Group. The company currently has an annual capacity of 14.6 million tons of crude steel making it the world's 23rd largest steel company according to the International Iron and Steel Institute. Shagang's annual sales reached RMB 55 billion in 2006.

But it's not the company's status as the world's 23rd largest steel firm or as China's largest privately owned steel firm that has brought it to the world's attention. In 2001, Shagang purchased Thyssen Krupp's Dortmund-Horde steel mill in Germany for Euro 30 million. Instead of taking over management of the plant and using it as an export based to establishing a foothold in the European market, Shagang brought in workers and disassembled the factory and brought the whole thing back to Jiangsu province. Adding the Dortmund-Horde allowed Shagang to nearly double its capacity to 10 million after the purchase. The acquisition also helped Shagang bring the quality of its steel up to international standards.

Dortmund-Horde isn't the only purchase that Shagang has made, which has helped it to increase its capacity. In 1988, the company purchased a 75-ton arc furnace from the UK that was capable of producing 250,000 of reinforced steel bars. There was a lot of opposition to Shagang's purchase from the company's government supervisors (the firm was still state-owned at the time), but Shagang's president Shen Wenrong decided to go ahead with

the purchase anyway. The furnace didn't go into operation until 1992, but the time could not have been more perfect. At that exact same time China underwent an infrastructure construction boom and due to the arc furnace Shagang was able to provide the necessary supply to meet it and profiting handsomely in the process.

As the government is trying to discourage the construction of new steel plants by reducing the Value Added Tax (VAT) refunds that it used to grant to steel exporters, Shagang's president Shen knows that purchasing steel plants or equipment from abroad and importing them back to China is not the right method of expansion for the moment. According to the China Daily he's switched to acquisitions as his way to make sure Shagang reaches its production goals of 25 million tons by 2010 and 35 million tons by 2020.

Shagang already acquired Jiangsu Huaigang Steel Co. Ltd. in 2006 for US\$ 250 million. Shagang has not disclosed what other companies that it is looking to acquire, but Shen has said that he is concentrating on the smaller players around Jiangsu province.

Shen has used other techniques to help establish Shagang's reputation as a strong player in the Chinese steel industry as well. From 2001-2005 Shen proposed that Shagang help make its home base of as an environmentally friendly steel city. So Shagang invested a lot of money in reducing emissions and drainage runoff, making more efficient use of resources and starting an internal recycling program.

To spur innovation, Shagang invest US\$ 66 million in the Shagang Iron and Steel Research Institute. The company invited internationally renowned researchers to work there. The institute's post-doctorate program would focus on introducing new technologies, while its research center would concentrate on innovative and new processes and



technologies, which would help Shagang solidify its market position.

**Automotive:**

Nanjing is the home of the Chinese automobile. The city's Nanjing Automobile (Group) Corporation was founded in 1947 and one of the oldest automobile companies in the country. As of 2004, the group had over 14,000 employees and an annual capacity of 200,000 vehicles. The company's specialties are cars, trucks and bus coaches.

The company has been producing light trucks since 1958 and in 1980 was the first Chinese company to install diesel engines in light trucks. In 1982, Nanjing Automobile (Group) Corporation bought a set of truck cab molds from Isuzu, which allowed the company to develop trucks with a modern design that helped to make the leader in the Chinese truck market. About the same time, the company introduced technology from Iveco, a subsidiary of Fiat S.p.A. and the company's annual production capacity increased from 250,000 to 650,000 units.

In 1996, Nanjing Automobile began to establish a number of joint ventures with foreign automakers:

- Nanjing Viejo Automobile Co.
- Nanjing Fiat Company (established in 1999)

In the late 1990s, the company also reformed its domestic brands, Soyat (cars) and Yuejin (trucks).

Soyat-brand cars are produced at the Wuxi Soyat Branch about 150 km east of Nanjing. The company manufactures cars and sport utility vehicles under license from Volkswagen and Isuzu. The cars are mostly sold inside Mainland China.

The Yuejin Motor Group's vehicles on the other hand have been exported to countries such as Argentina, Chile, South Africa, Sudan, Ivory Coast,

Namibia, Djibouti, Tanzania, Cyprus, Togo, Italy and Spain. The Group's vehicles include light duty trucks, buses, cross-country vehicles and small-sized cargo and transportation vehicles as well as special purpose vehicles and automotive components such as chassis.

Nanjing Automotive Group probably has gained most of its recognition from the global automotive community because of its purchase in 2005 of MG Rover. The company has decided to have three production sites for its MG Rover line. Some lower end components are produced in Nanjing whereas the sites at Longbridge in the UK and Ardmore in the US are used for high-end production of models such as MG TF, ZT and ZT-T sports cars. Research and development will be done in China and the US. The company will also use the brand's sales network to gauge customers' responses to the new MG models from Nanjing.

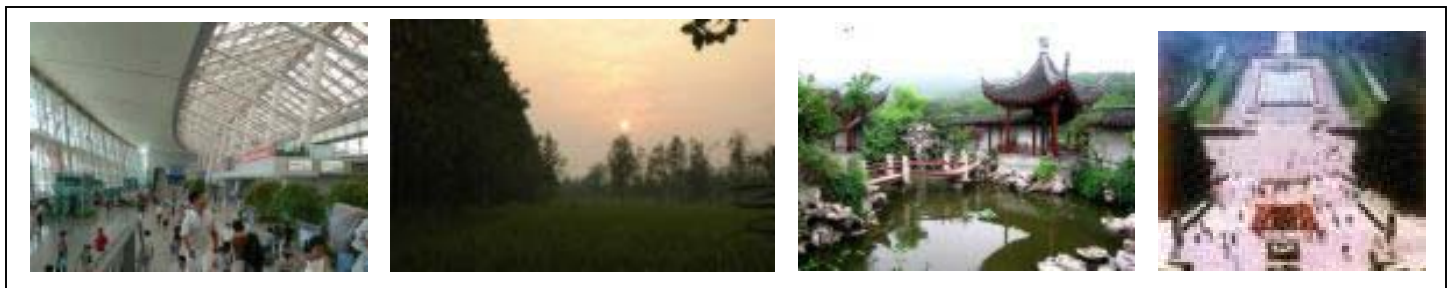
Production of the MG Rover began again in May 2007 at the Longbridge plant in the UK.

**Wooden Products:**

In early October, RGM International of Singapore signed an agreement with the city of Rudong Jiangsu province to open a factory that will take imported wood chips and turn them into dissolved pulp which can be used as a raw material for the province's textile industry according to China Daily.

The factory is set to produce up to 400,000 tons of dissolved pulp annually. Part of this output will be used for a new viscose rayon plant that is being built at Rudong's Yangkou port and the rest of it will be sent to textile producers in other areas of the Yangtze River Delta.

Yangkou port is an excellent location for the project as the port has 62 deepwater berths for 50,000 to 300,000-ton ships.



**Energy:**

Jiangsu is in the process of building two 1,000 MW nuclear power plants as part of the second phase of its Tianwan nuclear power plant project. The project is being developed by Atomstroyexport a Russian company. The Tianwan project began in 1999 when two nuclear reactors were installed with a total capacity of 1,060 MW. This is the largest project between Canada and Russia. Phase I was valued at US\$ 3.5 billion and the value of phase II was not disclosed, according to the China Daily.

All four nuclear reactors feature Russian pressurized water technology.

**Textiles:**

Jiangsu province has a strong history as a textile centre. Some of its local famous brands include Bosideng down coats, Skyrun garments and Hubao shirts.

The province's textile industry is known for its abundant raw material supply and established factory and quality management systems. This has made Jiangsu a leading exporter of knitwear products such as gloves and scarves, silk products and men's pullovers and sweaters.

The advantages from sourcing products from the province include the fact that there are about 1,500 suppliers in the industry with most being medium-sized and specialized in high-end products. The majority of these suppliers have integrated facilities that allow them to provide buyers with a finished product while keeping prices lower than manufacturers who must outsource part of their production.

Jiangsu province also has a wider range of yarn and accessories than province such as Zhejiang, one of Jiangsu's main competitors within China, so manufacturers can provide more value-added designs than their competitors.

In terms of quality, the large number of textile trading companies in the province allows manufacturers more information about what international buyers are looking for in terms of quality and designs. Most companies also have English-language trade staff who can take customers' orders and on-site QC staff to make sure buyers' quality specifications are maintained through out production.

The excellent logistics facilities that can be found in the Yangtze River Delta allows for easy shipping of knitwear from Jiangsu to pretty much anywhere in the world.

**Chemicals:**

Jiangsu province focuses its chemical production in two areas: the production of petrochemicals made from alkenes and aromatic hydrocarbons and the production of fine chemicals.

The province has more than 2,000 small chemical factories in the Wuxi area; this has helped to make it one of the top chemical manufacturing provinces in the country.

**Machinery:**

Jiangsu is one of China's lead sources of production machinery. The machinery produced in Jiangsu includes:

- Numerically controlled machine tools
- Numerically controlled production systems
- Engineering and construction machinery
- Farming machinery
- Special purpose machinery

There are currently 25 major machinery manufacturers in the province that have a production and sales value over RMB 1 billion. They include:



- Yangzhong Electrical Power and Appliance
- Wujiang Power Cable
- Changzhou Urban Transportation Trolley Vehicle & Parts
- Qidong Electrical Tool
- Jiangyan Automotive Key Spare Parts
- Kunshan Moulding and Tooling

**Electronics/IT Products:**

In recent years, Jiangsu has become a base for high-technology and IT companies looking to enter the Chinese market. Most are from the island of Taiwan and are attracted to the southern cities of Kunshan and Wujiang. One of the province's most famous local brands is Shinco, a major manufacturer of home electronics such as DVD players.

**Service Sector:**

The service sector is becoming a more important part of the Jiangsu economy. In 2005, foreign investment in the service sector accounted for 14.1% of the total foreign investment in the province. Popular areas for investment by foreign companies included real estate and logistics.

**Transportation:**



Source: Fiducia Management Consultants

With its location on China's eastern coast, Jiangsu has a large network of transportation links that makes traveling through the province quite convenient.

For those people wishing to travel by air, the province has eight major airports in the cities of Changzhou, Lianyungang, Nanjing, Nantong, Suzhou, Wuxi, Xuzhou and Yancheng. Shanghai's two major airports are a little over an hour's drive from the city of Suzhou and are very accessible for people looking to take internationally flights from that location.

The province also has seven major railway lines that make it easy to ship goods into central China. They include:

- The Jinghu Railway
- The Longhai Railway
- The Ninghang Railway
- The Ninghe Railway
- The Ningwu Railway
- The Ningqi Railway
- The Xin-Chang Railway

For those wishing to travel by road, the province has a network of highways connecting most major cities as well as being linked along national networks connecting to major cities and provinces such as Shanghai, Beijing, Guangzhou and Sichuan province.

Jiangsu is also home to China's longest underground tunnel that runs under Dushuhu Lake in Suzhou. The tunnel stretches for 7.37km and opened to the public in October 2007 after one year of construction.



## Infrastructure:

### Industrial Parks:

Jiangsu has many industrial parks. One of the most well-known is the Suzhou Industrial Park (SIP) in the south of the province. SIP was founded in 1994 as a joint venture between the Chinese and Singaporean governments. The park was an attempt to bring Singaporean management techniques to China.

The park was built at the same time as the Suzhou New District Industrial Park. This created a controversy at that time as the Suzhou city government had a 35% minority stake in SIP and a majority stake in the Suzhou New District Industrial Park. This meant that the city government largely ignored SIP and concentrated on promoting the Suzhou New District Industrial Park.

After US\$ 90 million in losses over a five-year period, the Singaporean government decided to reduce its stake in SIP to 35% forcing the Suzhou city government to raise its stake in the park. The Singaporean government also reduced its physical share in the park from 70 km<sup>2</sup> to just 8 km<sup>2</sup>. This forced the Suzhou city government to promote the SIP and in 2000. The park turned into a profit making venture.

Today SIP is home to major corporations such as Nokia, Logitech and Bosch. It is home to the first Sino-British university, the Xi'an Jiaotong-Liverpool University (XJLU). The XJLU is an independent university that, once it is fully operationally, will have up to 10,000 students and offer degrees in electronics, communications, computer science and management, including financial mathematics and e-commerce. SIP is also home to an independent customs house, inland port and a logistics center. It also has many infrastructure services such as foreign and Chinese retail banks, restaurants and cafes that are attractive to many foreign-invested

companies' employees.

## Areas for Improvement:

### The Environment:

During May this year, there was an outbreak of algae in Lake Tai, China's third largest fresh body of water and located near the city of Wuxi in Jiangsu. The outbreak caused local authorities to cut the supply of drinking water to Wuxi. This was seen as a surprise in the Chinese media, but according a report in the International Herald Tribune, the algae was caused by the chemical companies that are based around Lake Tai's shores.

The chemical companies were based on the shores of Lake Tai because the lake provided two things the firms were in great need of: water and a place to dump the waste from the production of chemicals. The northern shores of Lake Tai are currently home to 2,800 chemical factories in areas that were at one-time rice fields. Most of the companies received incentives from the local governments to build factories there. That is because promotion in the Chinese civil service is measured by the amount of GDP the government officials create for an area, and not how they manage the environment of that area.

This may soon be changing however. During the Communist Party of China's 17<sup>th</sup> Party Congress (CPC), China's President and Secretary General of the CPC stated that the government wanted to promote "a conservation culture" and clean industries. Analysts are still undecided on how much of Hu's call to clean up the environment is driven by events such as the Olympics in Beijing in 2008 and the World Expo in Shanghai in 2010 and how much of it is actually driven by a general desire by the central government to clean up the environment.

It is recommended that the foreign companies



operating in China follow strict environmentally guidelines and even go above Chinese standards wherever possible, as foreign companies will be the first ones to face enforcement measures from the Chinese government.

It has been mentioned in the international media that the chemical companies around Lake Tai were offered incentives by local governments in central China to move their factories to those regions with the unspoken rule that the company's possibly polluting policies would be "overlooked" in the name of development. Foreign companies cannot expect the same treatment however, and should follow the local and central government environmental regulations at all times.

be necessary for the province to balance the cost to the environment with its desire for businesses to thrive so that the progress it has created can continue.

### **Conclusion:**

Jiangsu province is full of economic progress. It has created an environment where Chinese and foreign business can thrive and help bring benefits to all of China as well as the businesses themselves. This, however, does not come without costs as can be seen in the environmental summary above. It will



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中国国际贸易促进委员会 中国国际商会  
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China Chamber of International Commerce (CCOIC)

**Contact:**

Ms Harshit Sehgal  
Deputy Director

**Confederation of Indian Industry**

The Mantosh Sondhi Centre, 23 Institutional Area, Lodi Road, New Delhi-110003  
Tel: +91-11-24616023; Fax: +91-11-24021298; Email: [harshit.sehgal@ciionline.org](mailto:harshit.sehgal@ciionline.org)

**CII China Office**

Mr. Madhav Sharma,  
Director & Chief Representative

**Confederation of Indian Industry**

Room No 11A47/49, Shanghai Mart, 2299 Yan'an Road (West), Shanghai 200336, China  
Tel: +86 (21) 62360969; Fax: +86 (21) 32283510; Email: [madhav.sharma@ciionline.org](mailto:madhav.sharma@ciionline.org); Website: [www.cii.in](http://www.cii.in)

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