

### Chongqing Municipality



Source: Fiducia Management Consultants

#### Introduction

Chongqing is the largest municipality and has the highest population among China's four centrally administered municipalities. It is 80,000km<sup>2</sup> in area and much of this is considered rural land. It has a population of about 31 million people.

It is also the newest municipality in the People's Republic of China. Until 1997 it was considered a sub-provincial city in Sichuan province. When it was set up in 1997, this municipality was merged

with the prefecture level districts of Fuling, Wanxian and Qianjiang.

Historically, Chongqing is considered the home of the ancient kingdom of the Ba people, which was overrun by the king of Qin in 316 BC. It has been home to the kingdoms of Daxia in 1361 and Daliang in 1621 before becoming the first inland port open to trade with foreigners in 1891.

Government of the Republic of China moved to Chongqing during the Second World War and with this many industrial companies as well as universities were relocated to Chongqing. That changed the make up of Chongqing from a trading port into a city with heavy industries.

Chongqing is located on the upper reaches of the Yangtze River at the intersection with the Jialing River. The city is located on the edge of the Yungui Plateau. The area also has a number of hills including Daba Mountain, Wu Mountain to the east, Dalou Mountain on the south and Wuling Mountain on the southeast. These hills help give the city its famous mountainous formation.

The weather in Chongqing is typical of Southeast Asia, hot in the summers with an average temperature of 35° C and about 9° C in the winter. Pollution can be quite high at times and it can also be quite foggy. The municipal government has placed environment protection in Chongqing in the priority list of government goals.



Since Chongqing became centrally administered municipality, its economy has been growing continuously. It has started to benefit from the central government's "Go West" policy. The pillar industries of Chongqing include:

- Aluminium production
- Automobiles
- Chemicals
- Electronics
- Farming with the main crops being rice and fruit (particularly oranges)
- Textiles
- Mining (strontium and manganese)
- Food processing

Under the central government's "Go West" program, Chongqing has spent most of the funds it has received on improving the infrastructure to attract more foreign investment to the city. Roads and railways have been expanded to connect the city to the rest of the country. This has had some success. Ford and Mazda in the automotive sector have set up joint ventures with local auto producer Chang'an Automobile Group.

Tourism is also a major industry in the city. Sites that tourists tend to visit are the Three Gorges Dam and the Dazu Stone Carving.

## Industries

### Aluminium Production

Chongqing is one of the three major aluminium producers of China. One of Chongqing's large metal producers is Bosai Minerals Group, which was set up in 1988 and currently employs 3,500 employees. The company processes the following types of metals:

- Calcined bauxite and corundum

- Brown-fused alumina
- Metallurgical-grade alumina
- Aluminum metal
- Coke

Bosai Minerals Group has 15 production plants located in China, Guyana and Germany. It produces about 500,000 tons of metallurgical alumina and 300,000 tons of metallurgical and chemical grade coke annually. Bosai Metals is also expanding its aluminum metal capacity to 200,000 tons per year by the end of 2008. Whether Bosai will be able to reach this goal depends on how quickly it can rebuild its aluminium smelter. Bosai's smelting facility was based in Wenchuan County, the center of the earthquake, which struck Sichuan province in May of 2008.

### Automotive Industry

The automotive industry in Chongqing is growing rapidly. According to the Canadian Trade Commissioners service, there are four key factors driving growth of automotive industry in the city – most involve local auto producer Chang'an Automobile Group:

- Chang'an Automobile is ranked 4<sup>th</sup> among China's car manufacturers. The company is known for its minivans but it has also created a large presence in the sedan industry in the last few years. In 2006 its total production output reached 710,000 units.
- The US automotive company, Ford entered into a joint venture with Chang'an in 2001. That JV began producing cars in 2003 and has seen significant growth over the last five years. This has helped a number of OEM auto parts suppliers to form JVs in the area in order to supply necessary components to Ford-Chang'an JVs.



- Suzuki formed a JV with Chang'an about 10 years ago and has helped the company to enter the sedan market in China.
- Chongqing Li Fan Group, well known producer of motorcycles in the area, moved into production of automobiles from its own designs two years ago. The company has received a lot of local and central government support for its new venture. It is actively searching for local auto-parts suppliers and foreign partners with whom it can form joint ventures to build its brand in the market.

Besides Chongqing Li Fan Group and Chang'an Automobile Group, there are more than 20 other automobile producers in the city. Ten of those producers are in chassis production and the rest are manufacturing special purpose vehicles such as ambulances. At the end of 2007, the total production capacity of all the automotive producers in Chongqing reached 1.3 million units. This is expected to reach 1.8 million units by 2010. Many of the vehicles in Chongqing are shipped by water to other parts of China.

Motorcycles are still popular in Chongqing as All Terrain Vehicles (ATVs). There has been a consolidation in the industry as domestic sales have slumped. This is due to the rising income of Chinese citizens making them much more brand conscious. Even rural customers are turning to Japanese or mid- to high-range Chinese companies. Thus Chongqing based suppliers are putting more emphasis on exports.

### Information Technology

The IT companies in Chongqing are coordinating with their operations in Chengdu, capital of Sichuan province, to build the region into the backbone of IT production for Western China. But the IT industry in Chongqing lags behind the industries located in more developed provinces in Eastern China. The companies here will need to

work to build up their capabilities and the capabilities of their staff to compete with IT companies in Beijing and Shanghai.

There are more than 260 universities, community colleges and research institutes in the area around Chongqing. Therefore, there is a large pool of qualified persons from which foreign companies can pick up talent.

Chinese firms such as Lenovo, ZTE and Huawei have representative or sales offices in the region. Foreign companies such as Siemens, Honeywell, Sun, Sony, Ericsson, Nokia, Microsoft, HP, Intel, Oracle, Alcatel, NEC, EMC, CISCO, SAP and NTT have representative offices, R&D centers or manufacturing centers in the region.

Some key factors for the success of the IT sector in Chongqing include:

- Hiring of Chinese speaking foreign management staff.
- Developing connections with key local decision makers.
- Partnering with a well connected and credible local enterprise.
- Hiring a local team that truly understands the needs of the local market.

Some of these tips may sound like common sense, but one should always remember that in China it is a good idea to make sure that the management team has a grasp of the situation of the local area before beginning their business plan.

Below is a summary of three specific sectors within Chongqing's IT industry that have seen significant growth:

- **Telecom and wireless applications:** Telecom in Southwest China is expected to see 50% growth per year until at least 2010.



Currently the center for research in this area is Chongqing University of Post and Telecom (CQUPT). It is currently doing research on the key chips needed to develop China's 3G mobile phone standard TD-SCDMA. The service is already in use in some cities such as Shanghai and Beijing. As TD-SCDMA service is spread across the country, it is expected to drive the industry in mobile value-added services such as multimedia short messages, wireless Internet service and mobile gaming. It is expected that there will be 50 million mobile phone subscribers in Southwest China by the end of 2008. That is a large market to take advantage of. Many Chinese mobile phone companies do not yet have the capabilities with 3G technology that many foreign companies do and this is an area where many foreign companies can move in and fill the gap in the industry. For those seeking to be involved in TD-SCDMA transmission equipment, it is best to consider some sort of partnership with a Chinese company. The central government is expected to favor Chinese firms in the issuing of licenses for TD-SCDMA equipment.

- **Photonics:** Photonics have many applications in the Chinese market including e-commerce, education, healthcare and communications. But the Chinese companies are lacking in technological know-how for effective use. This is where foreign firms can be of use. Many of China's telecom companies are currently overhauling their IT infrastructure, which is spurring the growth of the domestic fiber optic cable market. While over capacity may be a problem in the future, at present this is a good opportunity for foreign firms.
- **Multimedia and animation:** Multimedia and animation has been made a priority industry

by the Chongqing city government. The industry lacks investment and creative staff to compete with the companies of Canada, the UK and Japan. It would be a good opportunity for foreign equipment makers and education providers to take advantage and help to develop the Chongqing animation sector.

### Machinery

Chongqing has had a strong machinery industry ever since Second World War when many companies moved to the city to escape the Japanese bombing. Chongqing Jinrun Machinery Electron Co. Ltd. produces oil-treatment equipment. The company's specialty is its macromolecule vacuum purification technique. Its products are exported to Canada, the US, Ireland, Turkey, South Africa and Thailand.

One of the most important events of the machinery industry organized in Chongqing is the China International Industry Fair (CIIF), which is held every fall. This fair displays the following types of machineries:

- Metal and non-metal processing machinery
- Industrial tools and dies
- Automation systems
- General machineries such as valves, pumps and fans

The CIIF is of particular interest to appliance, automotive, environmental, industrial machinery, IT and shipbuilding equipment manufacturers. It is also a good place to start if a company is looking for suppliers from the Chongqing region.

### Natural Gas

Chongqing has natural gas resources of 30,000km<sup>2</sup> and reserves of 20,000m<sup>3</sup> and the region produces about a quarter of China's total



natural gas output. The city has developed a large industry for natural gas chemistry. The following Chinese and foreign companies have set up operations in the city:

- China National Petroleum Corporation (CNPC)
- China Petrochemical Corporation
- BP Company of the UK
- Mitsubishi Gas Chemical Company
- Degussa (Germany)
- Kingboard Chemical Holding Co. Ltd.
- Air Liquid (France)

CNPC and China Petrochemical Corporation are using the city's reserves to provide Chongqing with natural gas. They are expected to provide the city with 9 billion cubic meters gas by 2010.

CNPC will be building a natural gas pipeline running from Myanmar via Chongqing to Kunming in Yunnan province. The company will also open a PX refinery in Chongqing with an annual capacity of 10 million tons per year to take advantage of the region's natural gas reserves.

Honeywell's specialty Materials Group is also considering setting up operations in the city.

### **Textiles**

Chongqing has had a strong textile industry for many years. One of these companies is Chongqing Lingda Industrial Co., Ltd. It was founded in 1988 and specializes in textiles for the automotive industry. Its products include knitted fabrics and jacquard fabric. The company produces about 1.8 million square meters fabric per year.

To enhance its appeal to international customers, Lingda made two improvements that have helped it gain international customers. First, it entered

into a joint venture with a Taiwanese company in 1993 and second it works with a European design studio to develop new products. This allows it to offer international customers products that meet the standards of the end users in their markets, while still offering a China price for manufacturing.

Not all of Chongqing's textile companies have done as well as Lingda. Some of Chongqing's textile companies who could not get orders from either the US or European markets have turned to Africa where they have been able to do well because of lower quality standards.

### **Transportation:**



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**By Air:** Flying to the Chongqing Jiangbei International Airport is the easiest way to get to Chongqing. There are flights from Chongqing to 40 cities in China including the Western Chinese cities of Kunming, Lhasa and Urumqi. There are



also international flights to cities such as Bangkok, Thailand and Nagoya Japan.

**By Rail:** There are three national rail lines that run through Chongqing:

- Chuan-Qian Railroad runs north to south from Chongqing to Guiyang
- Cheng-Yu Railroad runs east to west from Chongqing to Chengdu
- Xiang-Yu Railroad runs east from Hubei province to Chongqing

These railway links connect Chongqing with national rail network, which makes it very easy for transportation of goods to other parts of the country.

**By Road:** Chongqing is linked to the rest of China by national highways. Long-distance buses are also available to travel to many regional cities such as Chengdu, Luzhou, Qianjiang, Guiyang and Xishui.

**Waterways:** There are regular ferries from Chongqing to cities such as Wuhan and Yichang in Hubei province.

## Industrial Parks

The Jingqiao Industrial Park is a municipal-level industrial park in Chongqing located over an area of 10km<sup>2</sup>. It focuses on the following industries:

- Electronics
- Food processing
- Information technology
- Logistics
- Medicine/pharmaceuticals

Companies from the US, Italy, Canada, France, Germany, Japan, South Korea and Saudi Arabia have opened their operations in the park or have planned to make an investment there.

The park is located in the center of the city. Its location has also given it an advantage in terms of fast-growing infrastructure. For foreigners, this means a better quality of life. Other industrial parks in the city include the Haier Chongqing Industrial Park, which is Haier's production hub for Western China and the Chongqing Economic and Technological Development Zone.

## Areas for Improvement

Chongqing is a busy growing city with strong industries, but still lags behind Eastern China. The suppliers in Chongqing can provide foreign companies products but they may need more training or monitoring compared to those in the east. Chongqing is a city with factories that manufacture items for domestic consumption and therefore may not be that familiar with Western standards of production. Some companies such as Chongqing Lingda Industrial Co., Ltd. work with foreign design studios to make sure their products appeal to the foreign markets.

Companies that are looking for setting up enterprises in Chongqing should be prepared to educate their staff and suppliers about their specific standards. Companies with China experience may already have training programs in place. However, they may need to be updated to meet the learning curve that exists in Chongqing.

Points to cover in training programs could include:

- Quality assurance standards
- Training in machinery operations and safety standards for factory staff
- Training in accounting and ethics for office staff

By carrying out such programs, Western companies are not only ensuring that they receive



products from Chongqing suppliers that meet Western specifications but also raising the bar for Chongqing as a whole. That way may be one day the city can act as an export center.

### Conclusion

Chongqing is developing as a major city in Western China. It will become a major hub in the region as the 'Go West' policy continues to develop the area. There is need to put more emphasis on building up high-tech industries such as telecom and multimedia sectors. By doing this, Chongqing can have a sustainable future even after the region has moved beyond an industrial economy.



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