



Nanjing

Introduction

The Nanjing Chapter of the European Chamber was established in April 2004 and currently has about 130 members. Members consist of both large multinationals, as well as small and medium-sized enterprises (SMEs). They represent a wide range of industries in the goods, mainly advanced manufacturing followed by the chemical and automotive industry and services sectors. Regularly-scheduled meetings offer members a platform to share information and experiences with industry experts.

With support from the local government, the Nanjing Chapter organises regular meetings with government departments at both the provincial and municipal levels. The goals of these meetings are to establish an ongoing information exchange between government and industry to facilitate business operations for companies in Nanjing. The meetings also contribute to the further development of Nanjing as an investment location. The main focus of the dialogues was on issues related to human resources and logistics, as well as the investment and operational environment for SMEs.

Recent Developments

Jiangsu is a strong economy in China, and famous for its textiles, machinery, electronic products, oil chemical and construction materials industries. In 2011, the provincial GDP reached EUR 604 billion¹, an increase of 11 per cent over the previous year, and the GDP per capita reached EUR 7,250. In the future, the Jiangsu Government gives priority in developing modern and high-efficient agriculture, manufacturing equipment, electronic information, biology and medicine, new material, and modern textile industries. The Nanjing city covers an area of 6,600 km² in Jiangsu and has a population of over 8 million. From 2008 to 2010, the GDP of Nanjing city maintained an average growth rate of 12.3 per cent. In 2012, the city achieved an aggregate economic volume of EUR 550 billion with GDP per capita nearly EUR 10,700 and budgetary revenue exceeding EUR 55 billion. Not only is Nanjing

famous for its role as a major manufacturing base, it is also has a highly developed services sector. Currently, after a series of measures, the service sector accounts for half of the total GDP of the city. Furthermore, this proportion is expected to increase in the next five years, moving in the long-term towards a knowledge-based economy. Nevertheless, manufacturing still contributes the largest share of city tax income, thus the development of advanced manufacturing is still important.

Since 2005, Nanjing has prioritised the software industry and programmes, including the creation of a special development zone launched to promote Nanjing as a software city. The rapid growth rate over the past five years has formed a new pillar industry composed of software services and service outsourcing bringing a new dynamic into the city, as well as job creation.

According to the 12th Five-Year Plan of the Nanjing Municipal Government, the main goal is to transform the city into a regional high-tech innovation centre and integrated national transportation hub. Steps will be taken to realise the five main growth strategies: (1) innovation-driven growth; (2) increased household income; (3) integrated development of the urban and rural areas; (4) green growth and (5) the internationalisation of the city.

For the 12th Five-Year Plan period Nanjing has identified key tasks for its economic and social development. Technological innovation is and continues to be emphasized and supported by dedicated development zones and parks, as well as human resource projects to attract talent. The industrial structure is modernised by further strengthening the pillar industries, emphasizing modern services and developing emerging industry clusters. Foreign investment is guided towards supporting these goals. The set-up of research and development (R&D) centres, distribution organisations and regional headquarters in Nanjing is also encouraged. The emerging industries grow fast in Nanjing. In 2012, the main business income was generated by new communication technology, biological medicine, saving energy, high-tech equipment

¹ Jiangsu Government, 2011, viewed on 23 May 2013, <<http://www.js.gov.cn/zgjszjs/jjtz/zhs/>>.



manufacturing, smart-grid, new energy car industries totalling CNY 360.7 billion, a 20.5 per cent year-on-year increase.

Furthermore, the 2013 Asian Youth Games (August) and 2014 Youth Olympic Games (August) will be held in Nanjing. Olympic athletes' family members from 205 countries and regions will gather in Nanjing during these events providing an excellent opportunity and platform to showcase Nanjing and China.

Key Recommendations

1. Improve the Investment and Operational Environment for SMEs

Concern

Through support from local authorities, Nanjing generally offers a positive investment environment. However, compared to large companies, SMEs are more sensitive to changes in the business environment. Therefore, support tailored to the specific needs of European SMEs is required to foster local economic growth.

Assessment

SMEs are highly important to a city's economy as they offer innovation, create jobs and generate tax income. In addition, they are highly relevant for the operations of multinational corporations (MNCs) which depend on smaller companies as part of their supply chain.

Smaller enterprises in China are not only limited by the lack of resources and experts in order to initiate, guide and execute their investment strategy, but also by the language barrier in China, which is an additional hurdle for business operations. As the process for company registration in Nanjing lacks clarity, in combination with language barriers, the paper work involved is highly cumbersome and time-consuming. This makes the approval of investments, or adjustments of investment plans, complicated and unpredictable.

SMEs typically have a gradual market entry strategy. They tend to start with assembly in rented premises to test product and operational suitability in the Chinese market. Once this is established, sizeable investments and the transfer of R&D activities follow. This approach generally does not suit development zones which target high initial investments.

Once operations are in place, both the lack of transparency and the inconsistent implementation of newly issued regulations and policies make it difficult for SMEs to stay properly updated on requirements. Furthermore, implementation often occurs with little prior notice, making planning difficult. This can be especially challenging outside the larger development zones where the quality of the services provided may be lower.

Recommendation

- Facilitate 'on time' information for company registration processes by publishing material in English.
- Establish more 'one-stop service' desks to further assist investing companies in their day-to-day operations.
- Designate areas within development zones that cater to the gradual market entry strategy of SMEs (i.e. implement policies to enable SMEs to rent factories and establish multilingual service desks for all aspects of enterprise operation).
- Present new regulations and policies prior to implementation.

2. Reduce the Increasing Burden of Human Resources Costs

Concern

Nanjing is home to one of the nation's top universities, producing a large number of highly qualified graduates. Nevertheless, it can be a challenge for foreign invested companies to attract and retain qualified white collar specialists to work in the development zones. Concerns continue to exist regarding the increase in human resource costs.

Assessment

Compared to Shanghai, in 2012 the consumer price index of Nanjing citizen was 105.4, while Shanghai was 105.2. At the same time, the average salary of Nanjing citizens in 2012 was RMB 3,990 per month, according to Nanjing statistics Bureaus' data², while Shanghai was RMB 5,653 per month according to Shanghai statistics Bureaus' data³. This shows that, although Nanjing citizens get a much lower salary each month than people who live in Shanghai, the cost of living is the same. Due to high salary expectations, it can be difficult

2 Nanjing Statistics Bureau, 2012, viewed on 23 May 2013, <<http://www.njtj.gov.cn/>>.

3 Shanghai Statistics Bureaus, 2012, viewed on 23 May 2013, <<http://www.stats-sh.gov.cn/>>.

to attract qualified white collar specialists from first-tier cities to come to Nanjing. This is becoming a particular challenge for foreign invested companies, which are viewed as less attractive because they are considered to be less stable and less able to offer benefits compared to jobs within government departments and state-owned enterprises (SOEs).

Nanjing's labour costs have reached levels close to those in first-tier cities, meaning that Nanjing on average has higher labour costs than other second-tier cities⁴. Last year, the increase in the local baseline for social security contributions also led to an additional increase in labour costs. Three years ago, Nanjing had a much lower social security baseline than Beijing and Shanghai, whereas now it is nearly the same. Furthermore, the implementation of the new social insurance law may potentially increase benefit costs for employers. High turnover rates in some smaller foreign invested companies can further increase costs, and may potentially, in the near future, have a negative impact on the production quality in Nanjing.

Recommendation

- Increase the attractiveness of Nanjing for employees through the introduction of tax rebates for employee benefits, such as supplementary pensions and subsidiaries for professional development programmes.
- Provide clearer guidelines for how the local government defines the social security baseline for company contributions.

3. Further the Development of Nanjing as an International Logistics Centre in China

Concern

With investments in transportation infrastructure and facilities under way, including investments in the port, airport, railways, and highways, Nanjing offers an attractive logistics hub. However, in order to fully take advantage of the established infrastructure, the provincial communications department, in coordination with the Transport Commission should intensify their efforts to further the development of Nanjing as an international logistics centre for China.

Assessment

Nanjing is located downstream of the Yangtze River harbour, which is one of the larger inland harbours on the river and an important junction connecting rivers in eastern China. To further the position of Nanjing as a logistics centre, the local government has invested in dredging the Nanjing harbour to a minimum depth of 12.5 metres and a project to allow ocean ships to access the port is expected to be finalised by 2015.

The Nanjing South Railway Station, which opened mid-2011, is expected to be the largest passenger railway station in Asia. In addition to the Nanjing-Beijing railway, Nanjing is situated within an East-West water transport network and a South-North land transport axis which provides Nanjing access to a considerable cluster of cities in the surrounding area.

Despite this advantageous infrastructure position and the investment into Nanjing's logistics network, Nanjing has not yet developed into an international logistics centre due to various operational and policy weaknesses. The short opening hours of the Nanjing's Customs office and its restrictions on customs clearance for certain commodities, the low frequency of international flights and sailings on air and shipping routes, the existence of different taxation along the river and in the port, as well as lack of clarity and a lack of uniform implementation of criteria for commodity and quarantine inspection are all causes for concern for foreign invested companies in Nanjing.

Local traffic conditions within Nanjing itself are also of additional concern. Frequent traffic jams on the Yangtze River Bridge, which hinder access to the industrial parks located in the northern part of the city, makes working in these areas less attractive. There is also additional work to be done towards synchronising means of transportation locally, such as in adapting bus schedules to train arrival times.

Recommendation

- Extend the opening hours of the customs office.
- Expand international shipping and air routes, as well as the frequency of flights and ships.
- Ease restrictions on customs clearance for certain commodities.
- Provide access for vessels larger than 1,000 twenty-foot equivalent units (TEU).
- Harmonise taxation along the river and in the port.
- Enforce transparent and uniform implementation of

⁴ Nanjing Municipal Human Resources and social security Bureau, 2012, viewed on 23 May 2013, <<http://www.njhrss.gov.cn/>>.



commodity and quarantine inspection criteria.

- Increase the visibility of Nanjing as an international port among both shippers and buyers.
- Improve the city's transport system into development zones and synchronise various means of transport locally.

4. Design and Implement a Green and Livable City

Concern

Nanjing's heavy industrial structure has created large amounts of industrial pollution. Since fossil oils, coal and natural gas are the main energy resource for Nanjing's industries, the air quality is severely affected by waste gas caused from burning fuel. In 2010, the sulphur dioxide emissions rate in Nanjing was the highest of the entire Jiangsu Province. In June 2012, the Nanjing Environmental Protection Bureau (NEPB) announced on its official micro-blog that the air pollution index reached 478, making Nanjing the most polluted city among the 120 cities published in the same index.

Assessment

In 2009, China announced its commitment to reduce carbon intensity by 40-45 per cent compared with 2005 levels by 2020. Since then, under National Development and Reform Committee's (NDRC) guide, Jiangsu set up the modern low-carbon technology institute in July 2010.

On 6th September, 2012, 51 mayors from 16 countries gathered together in Nanjing to attend Mayors' Forum 2012. The main topic of the forum was about how to build up a livable city. The future vision was given by Mr. Ji Jianye, Mayor of Nanjing city. The Nanjing Government is going to build Nanjing as an important base for culture and creative industries and a renowned historical and cultural city with significant influence at home and abroad. The Government also plans to speed up the building of a modern and international city with a green environment.

According to 2012 State of the Environment in Nanjing, Nanjing invested RMB 620 billion on the industrial pollution, 143 transform projects were given in 2012.⁵

Meanwhile, the air quality of Nanjing still has not achieved the second level of National Ambient Air

Quality Standards. The acid rain rate of Nanjing in 2012 was 31.9 per cent in 2012 mainly due to the fact that 40 per cent of the air in urban area consists of dust.⁶ The water quality of Qinhuai River was not as good as 2011, as a result of the poor cycling capability of sanitary sewage.

According to Nanjing Municipal Development and Reform Commission, in 2012 the city's public transport passenger volume was 1.81 billion.⁷ Compared to 2011, the year-on-year growth rate is 5.2 per cent. Eleven new transit lines were arranged, 38 transit lines extended the operating hours and 411 new taxis were on road in 2012.

Recommendation

- Design and implement a sustainable and green development plan to put Nanjing on a low emissions track.
- Implement a "waste to resources" valorisation approach by converting waste into reusable material.
- Increase the number of non-polluting taxis, especially during rush hours.

Abbreviations

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| MNCs | Multinational corporations |
| NDRC | National Development and Reform Committee |
| NEPB | Nanjing Environmental Protection Bureau |
| POEs | Privately owned enterprises |
| R&D | Research and development |
| SMEs | Small and medium-sized Enterprises |
| SOEs | State-owned enterprises |
| TEU | Twenty-foot equivalent units |

⁶ Nanjing Atmospheric Pollution and Control Measures, 2012, viewed on 23 May 2013, <http://www.njhb.gov.cn/art/2012/10/30/art_450_36936.html>.

⁷ Nanjing Municipal Development and Reform Commission, 2012, viewed on 23 May 2013, <<http://www.njdpc.gov.cn/>>.

⁵ Nanjing Environment Protection Bureau, 2012, viewed on 23 May 2013, <<http://www.njhb.gov.cn/>>.