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## Industrial Relocation Development in Chongqing

The central government upgraded Chongqing to a municipality in 1997 and made it a stronghold for the development of the western region through measures to promote its industrial and economic development. Chongqing's infrastructure, including external transport links, has greatly improved after the upgrade. Investments by companies continue to grow, with electronics manufacturing and automotive industries as its two economic pillars. The Chongqing municipal government actively woos light industries from the coastal areas in a bid to maintain balanced industrial growth between the coastal areas and inland regions. Since Chongqing has cheaper land use costs than the Pearl River Delta (PRD) region and an ample supply of labour, Hong Kong companies may consider extending their reach to the municipality in line with their corporate development strategies.

### Economic Development Steadily on the Rise

Chongqing's economy has been steadily growing since its upgrade to municipality status. Its gross domestic product (GDP) soared from Rmb792.6 billion in 2010 to Rmb1,426.5 billion in 2014, representing a real annual growth rate of 13.3%, much higher than the national average of 8.1%. Although China's economic growth has been slowing down in recent years, Chongqing's growth rate still leads other parts of the country. Its GDP rose by 10.9% in 2014, 3.5 percentage points higher than the national average. It was still able to maintain a growth rate of 10.7% in the first quarter of 2015, 3.7 percentage points higher than the national average.



Chongqing's Economic Development in Recent Years

	2010	2014	Average growth (%) 2010-2014
GDP (Rmb billion)	792.6	1,426.5	13.3 <sup>1</sup>
Total Import Value (US\$ billion)	4.94	32.04	59.6
Total Export Value (US\$ billion)	7.49	63.41	70.6
Added-Value of Industrial Output (Rmb billion)	369.8	517.6	15.9 <sup>1</sup>
Foreign Capital Actually Used (US\$ billion)	6.37	10.63	13.7
Total Retail Sales of Consumer Goods (Rmb billion)	293.9	509.6	14.8
Urban Annual Per-Capita Disposable Income (Rmb)	17,532	25,147 <sup>2</sup>	9.4

Note: <sup>1</sup> Real growth

<sup>2</sup> The figure shown in the 2014 Statistical Communiqué is the per-capita annual disposable income of permanent urban residents.

Source: Chongqing Statistical Yearbook and Statistical Communiqué

Chongqing's imports and exports showed strong growth in 2014, with total value of imports and exports amounting to US\$95.45 billion, up 37.6% from 2013, a growth rate 35.3 percentage points higher than the national average. Of this, the total value of exports amounted to US\$63.41 billion, up 34.1% and 29.2 percentage points higher than the national average. Electromechanical products were the dominant export products, accounting for 67.1% of total exports. The total value of imports amounted to US\$32.04 billion, up 45.1%, representing a growth rate 45.7 percentage points higher than the national average. Electromechanical products also played a dominant role, accounting for 56.4% of the total value of imports.

Industrial development is the main engine of Chongqing's economic growth. Since the central government implemented the Western Development Strategy in 2000, the automobile and laptop manufacturing industries have swiftly developed into Chongqing's main economic growth engines thanks to increased investment in transportation and infrastructure and favourable policies to attract businesses to Chongqing and the western region. The National Development and Reform Commission implemented the new *Catalogue of Encouraged Industries in the Western Region* on 1 October 2014 to attract even more investment in the western region and further narrow the gap between the coastal and western regions. Enterprises with projects encouraged in the *Catalogue* as their main business are eligible for enterprise income tax at a reduced rate of 15% if their income from this main business accounts for more than 70% of their total income that year.

### Two Pillars: Automotive and Electronics Manufacturing

Chongqing's automotive and electronics industries have formed relatively mature supply chains and industry clusters. While expanding their production bases in Chongqing, big companies like Changan Automobile, Foxconn and Hewlett Packard have also persuaded upstream and downstream parts manufacturers and supporting enterprises to set up business for vertical integration in the region. The automotive industry has now built "1+10+1000" production bases in the municipality, including "1" industry leader, that is, Changan Automobile, "10" major domestic and foreign carmakers, and "1,000" supporting automotive enterprises. Laptop manufacturers have also formed a



“5+6+800” industry cluster in Chongqing (five brand vendors, six major subcontractors and 800 makers of parts and components). Chongqing became China’s biggest car production base in 2014 with a total output of more than 2.6 million vehicles. It is also estimated that a third of the laptops, printers and network terminals sold worldwide are assembled in Chongqing.

Chongqing’s automotive and electronics manufacturing industries have been growing well and already account for more than 40% of its industrial value. The gross output value of its automotive industry was Rmb384.5 billion in 2014, up 19.9% from 2013 and accounting for 20.5% of the municipality’s total industrial output value.[1] The gross output value of its electronic information products also increased by 22.2% to Rmb368.4 billion, accounting for 19.7% of Chongqing’s total industrial output value.

### Development of Industrial Relocation

Chongqing is actively wooing the relocation of light industries from the coastal areas. The National Development and Reform Commission approved the construction of a demonstration zone in Chongqing for industrial relocation from the coastal areas in 2011. Domestic capital actually utilised by Chongqing between 2011 and 2013 amounted to Rmb1,684.2 billion, with 69% coming from the eastern coastal areas. Industrial clusters producing electronic information product parts, auto parts, fine chemicals, textiles, garments and consumer goods were groomed during these three years. Industrial parks catering to the needs of different industries were also built, providing enterprises with standard factory space and logistics support.

### West China (Chongqing) Watch Timing and Precision Processing Industrial Park

The Chongqing municipal government signed the Strategic Agreement of Development and Promotion of Hong Kong’s Clock and Watch Brands with the Hong Kong Watch Manufacturers Association in April 2013 to promote the relocation of Hong Kong’s clock and watch industry there.[2] By April 2014, more than 10 Hong Kong watch and clock manufacturers had signed letters of intent to move to the West China Watch Timing and Precision Processing Industrial Park in Dianjiang, Chongqing. These included projects for watch movement manufacturing, watch assembling, machining and production of watch bands, needles, surfaces and cases. Four Hong Kong watch companies have since set up business in this park, including watch and clock manufacturers and factories producing watch bands and buckles.

The head of a Hong Kong watch and clock company in Dianjiang county said his company had decided to build a new production plant in Chongqing because it needs to expand its Shenzhen production line and develop its retail market in Chongqing and western China. The company’s long-term strategy is to gradually shift all production procedures to Chongqing, leaving the Shenzhen plant for research and production of electronic clocks and watches as well as parts, while maintaining an office in Hong Kong for marketing and soliciting orders. The parts and raw materials used in its Chongqing factory are mainly sourced from overseas or the PRD and air freighted to Chongqing. Clocks and watches can bear higher logistics costs because their parts and accessories are small and their price is less sensitive than other products. Staff stability and labour costs are more important than transportation costs. As more supporting enterprises move into the park, it should be able to source parts locally, thus further reducing production costs. The company now has its own stores in Dianjiang county and at Jiangbei Airport, and plans to gradually expand the local retail market.



The Dianjiang county government is also actively catering to the development needs of enterprises in the industrial park. For example, it encourages the local technical schools to train watch and clock technicians so that their graduates can provide a steady source of labour to these enterprises. The county government's aim is to entice relocating enterprises through the vertical integration of industry chains, that is, using the upstream suppliers and downstream supporting enterprises in the county to attract these enterprises. The industrial park will thus become more and more professional in future.

### Hong Kong Industrial Park

The Hong Kong Industrial Park in Chongqing's Ba'nan district was launched in September 2013. Divided into A, B and C zones, this park mainly caters to light industries such as manufacturing of hardware and electromechanical products, jewellery, toys, garment-making and logistics. At present, 270,000 square metres of standard factory space has been completed in Zone A and is ready for the relocation of Hong Kong's small and medium-sized enterprises. Average monthly rent is about Rmb15-25 per square metre. Some big companies have already moved in although the park is still in its start-up stage. For example, the China South City and Blue Moon Group has built its own factory premises in the park and the JD E-Commerce Industrial Park, Huike Electronics and Shengmei Precision Industrial have officially started operation and production there.



Standard factory premises in Chongqing's Hong Kong Industrial Park.



The factory of Shengmei Precision Industrial in the Hong Kong Industrial Park.

### Labour and Land Costs Lower Than in PRD

Labour costs in Chongqing are 10%-25% lower than in the PRD. The minimum monthly salary in Chongqing is Rmb1,250 compared to Rmb1,510 in Dongguan. It is understood that the average monthly salary is about Rmb2,500 in Chongqing and Rmb3,000-plus in Dongguan. Moreover, the labour supply is relatively stable in Chongqing. The municipality has a working population in excess of 22.4 million, with more than 100,000 university graduates and 200,000 graduates of vocational schools providing local enterprises with technical staff each year. Chongqing used to be a labour exporter, but economic growth in recent years has lured some migrant workers back to the municipality, thus providing the local enterprises with an ample supply of labour. With the help of employment agencies, labour agents and labour dispatch companies, Chongqing managed to call back 300,000 migrant workers in 2014.

According to the *National Standards for the Minimum Transfer Prices of Land for*



*Industrial Purposes*, land use cost in some parts of Chongqing is significantly lower than in the PRD. For example, land in Dongguan is classified as fifth grade and costs Rmb384 per square metre on average. For places like Ba'nán district and Dianjiang county in Chongqing, land grades range between 8 and 14, with average prices standing at Rmb252 and Rmb84 per square metre respectively. However, the rent for some of the newly built standard factory premises closer to the city may be similar to the current level of rent in the PRD.

### Opportunities for Hong Kong Businesses

Chongqing is actively preparing for the relocation of light industries and the upstream and downstream supporting enterprises of their industry chains. The local government and the management committees of the industrial parks are actively catering to their development needs. Industries will develop in the direction of diversification in future. Greater stability of labour and land supply than the PRD in the long run is advantageous to its development of labour-intensive industries, especially industries less sensitive to transport and logistics costs. With the gradual development of supporting industrial facilities, Hong Kong businesses may consider shifting their production lines to Chongqing not only for export purposes but also to supply the central and western markets on the mainland.

The spending power of local residents cannot be ignored as Chongqing's total retail sales of consumer goods and urban annual per-capita disposable income continue to rise. Total retail sales of consumer goods increased by 12.0% in the first quarter of 2015, slightly higher than the national average of 10.2%. A survey by the Hong Kong Brand Development Council discovered that the "Hong Kong brand" is widely recognised by local consumers in Chongqing and the western China market as a regional brand. Local consumers tend to associate Hong Kong brands with favourable attributes like "safety", "good quality", "trendiness" and "low risk". The survey also found that most consumers in Chongqing and western China accept a price premium of 20%-30% for Hong Kong brands over similar products.[3] Local consumers have a good impression of "Hong Kong brands". Hong Kong businesses should make good use of this leading edge as well as the good quality, safety and other strong points of Hong Kong products to expand their retail markets in Chongqing and western China.

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[1] *Statistical Communiqué of Chongqing Municipality on the 2014 National Economic and Social Development*.

[2] Source: Hong Kong Watch Manufacturers Association Co Ltd

[3] *Survey Report on Chongqing and Western China Market Consumers' Perception of Hong Kong Brands*, Hong Kong Brand Development Council, June 2014.

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