

30 June 2006



# China Country Report on Zhejiang Province

## Map of China



Source: chinatoday.com/city/a.htm

### 1. GEOGRAPHY

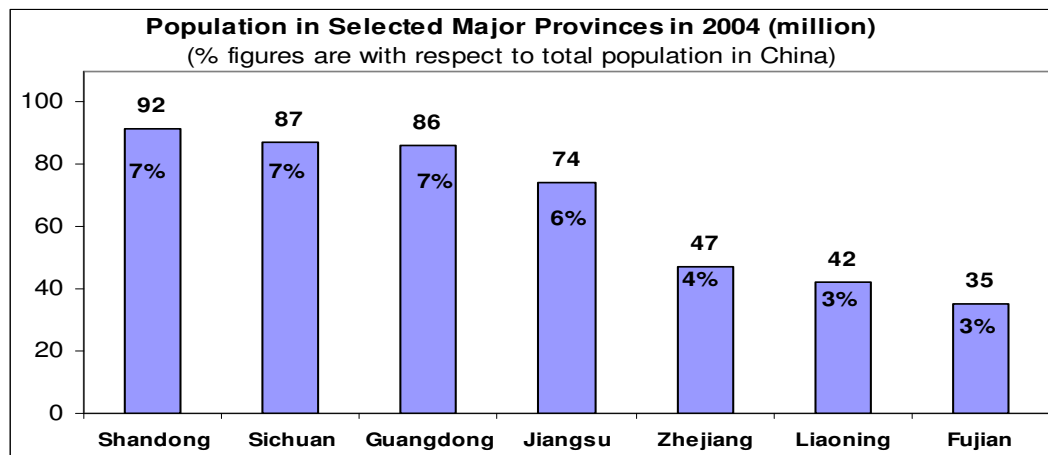
- **Total area:** 101,800 km<sup>2</sup> (approx. 149 times that of Singapore's)
- **Capital:** Hangzhou
- **Administrative Divisions in Zhejiang (11 prefecture level cities):**

Hangzhou	Lishui	Taizhou
Huzhou	Ningbo	Wenzhou
Jiaxing	Quzhou	Zhoushan
Jinhua	Shaoxing	

- **Major Cities within Yangtze River Delta:** Hangzhou, Ningbo, Jiaxing, Huzhou, Shaoxing and Zhoushan
- **Export Processing Zones (EPZs):** Hangzhou, Ningbo, Jiaxing

## 2. SOCIO-DEMOGRAPHY

- **Population:** 47 million in year 2004 (approx. 10 times that of Singapore's) and accounting for 4% of *China's total population*
- **Population growth rate (1999-2004 CAGR):** approx. 1% per year
- 54% of the population is urbanized, above the national average of 42%



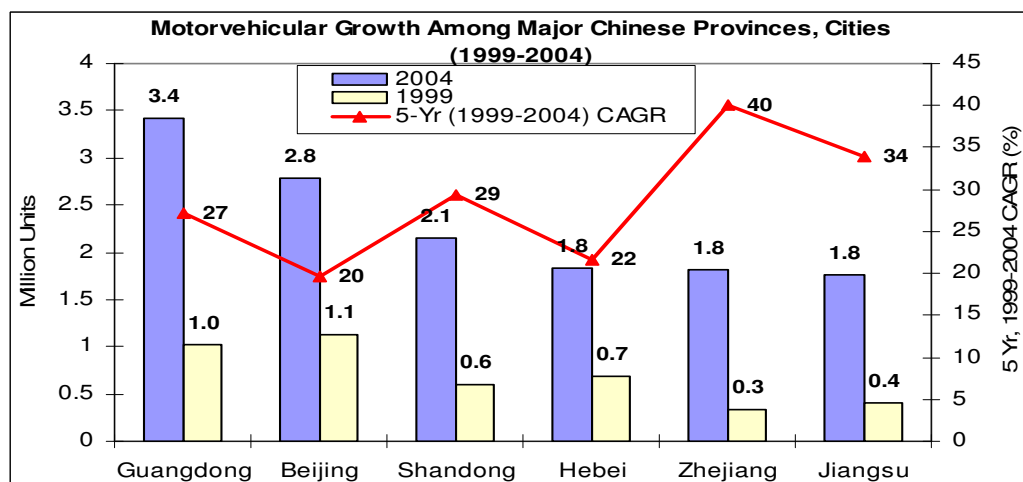
Source: CEIC

- **Languages:** Putonghua (Mandarin), Wu dialect, Min Nan dialect (southern Zhejiang, border of Anhui), Hui dialect (border of Fujian) and English

## 3. MOTOR VEHICULAR AND TELECOMMUNICATIONS GROWTH

### A. Motor Vehicular Growth – Buses and Cars (civilian and private vehicles)

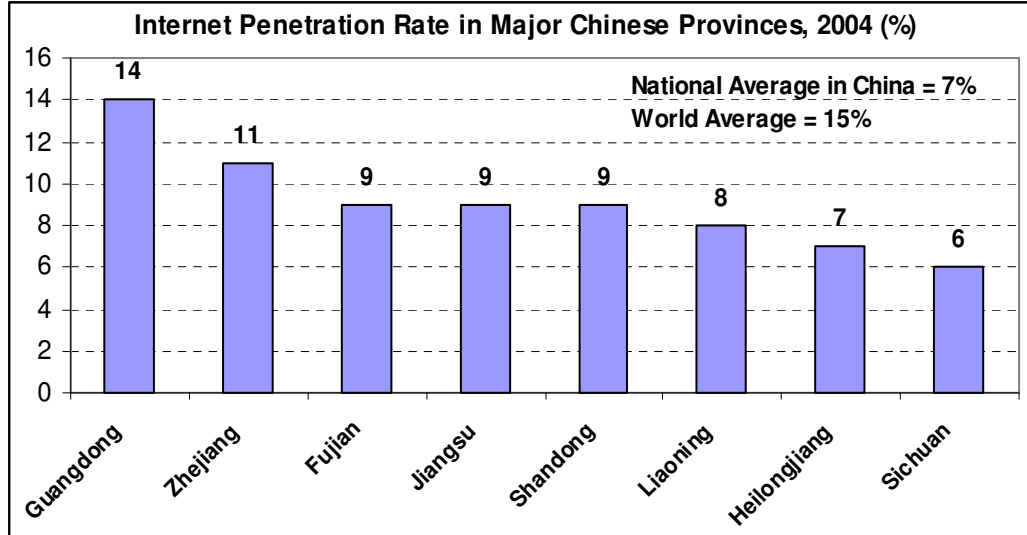
- Zhejiang had the 6<sup>th</sup> largest vehicular population in China in 2004. It was the fastest growing province and the 5-Year (1999-2004) CAGR of 40% exceeded the national average growth of 22%.



Source: China Statistical Yearbook, 2000 & 2005

## B. Internet Penetration

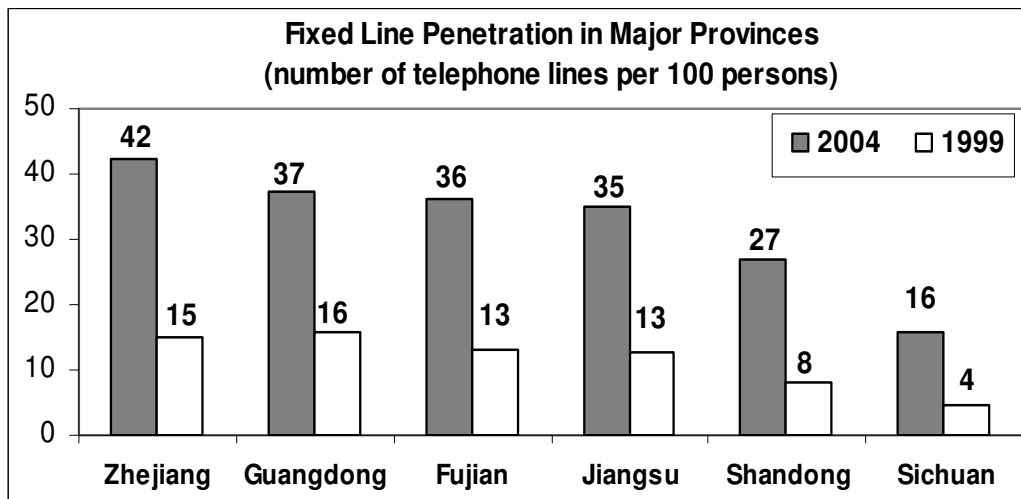
- Zhejiang's internet penetration rate of 11% is the second highest in China



Source: China Internet Network Information Centre and CEIC

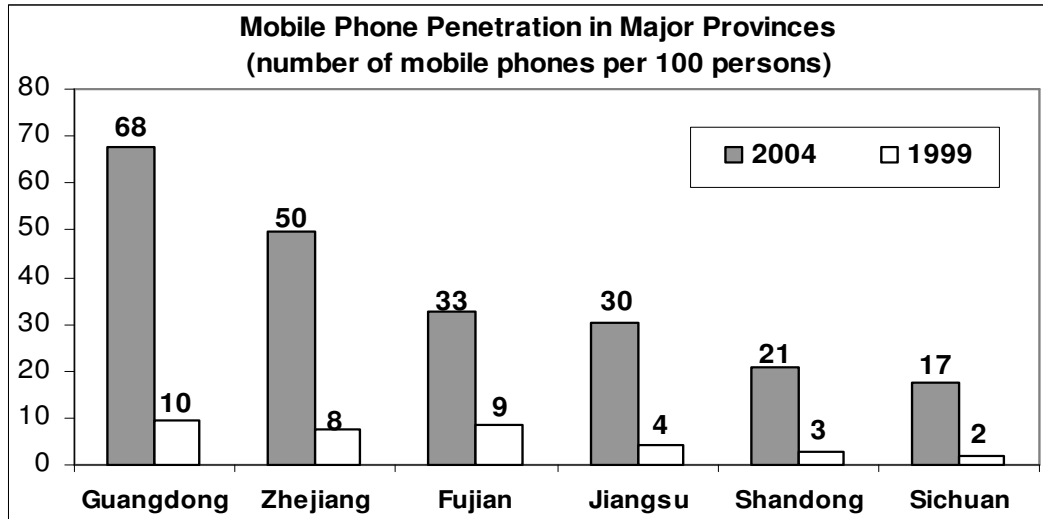
## C. Telephone Penetration Rates

- Zhejiang has the highest level of fixed line penetration among the major provinces. Fixed line penetration more than doubled from 15 per 100 persons in 1999 to 42 per 100 persons in 2004.



Source: CEIC

- Zhejiang has the 2<sup>nd</sup> highest mobile phone penetration among major provinces. The penetration rate increased more than 6 times from 8 per 100 persons in 1999 to 50 per 100 persons in 2004.



Source: CEIC

## 4. ZHEJIANG ECONOMY

### A. Overview

- Zhejiang ranks 4<sup>th</sup> in GDP and per capita GDP among all provinces. Its GDP is expected to rise by 14.5% in 2005, reaching RMB 1,344 billion. Zhejiang is the 4<sup>th</sup> largest industrial production base in China after Guangdong, Jiangsu and Shandong.
- In terms of retail sales, Zhejiang ranks 4<sup>th</sup> in China. Per capita income of urban households ranks 3<sup>rd</sup> in China, after Shanghai and Beijing.
- Northeastern Zhejiang (covering 6 cities – Hangzhou, Ningbo, Jiaxing, Huzhou, Shaoxing and Zhoushan) is the province's economic hub. They form part of the Yangtze River Delta metropolitan region.
- Among the earliest places to develop non state-owned enterprises, Zhejiang has a thriving private sector and is well known for entrepreneurship. The private sector contributed nearly 35% of the province's gross industrial output (RMB 1,873 billion) in 2004.

## Major Cities in Zhejiang Province



## B. Gross Domestic Product

- The secondary industry is a major contributor to GDP, providing 54% of Zhejiang's GDP in 2004.

### Zhejiang's GDP versus China's (2004)

	Zhejiang (RMB billion)	China (RMB billion)	As a % of China
Primary	81.6	2,096	3.9
Secondary	604.5	7,390	8.2
Tertiary	438.2	6,502	6.7
TOTAL	1124.3	15,988	7.0

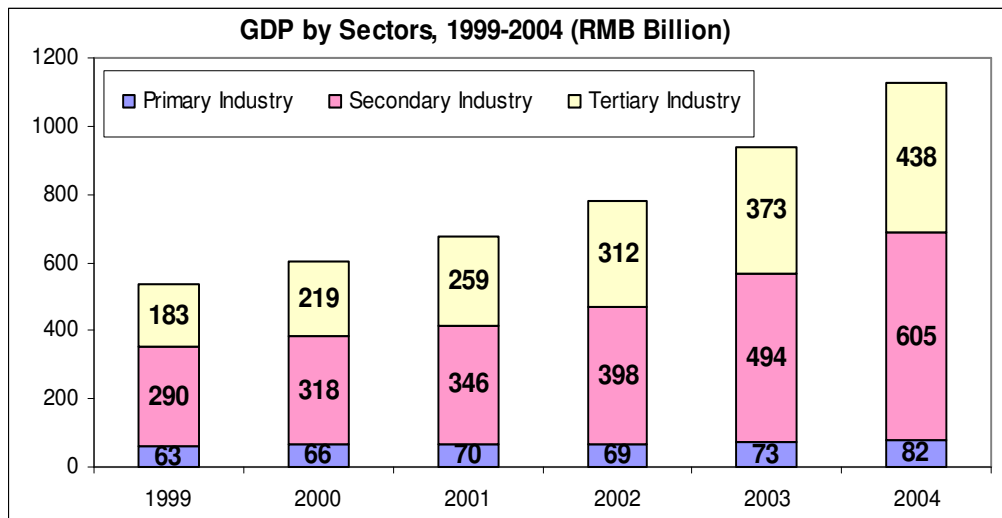
Source: CEIC

Note: Primary Industry: Agriculture (farming, forestry, animal husbandry, fishery etc)

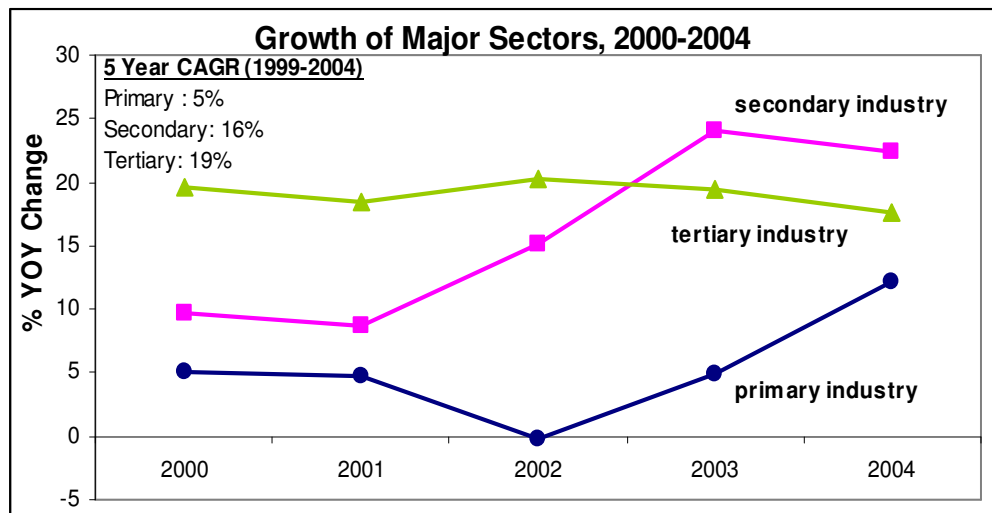
Secondary Industry: Processing & Manufacturing (mining, manufacturing, electricity, gas, construction etc)

Tertiary Industry: Service-based (wholesale & retail, trade, finance, insurance, real estate, health care etc)

- The 5-year (1999-2004) CAGR growth for the secondary industry was 16%, higher than the growth for the primary (5%) but less than the tertiary industries (19%).



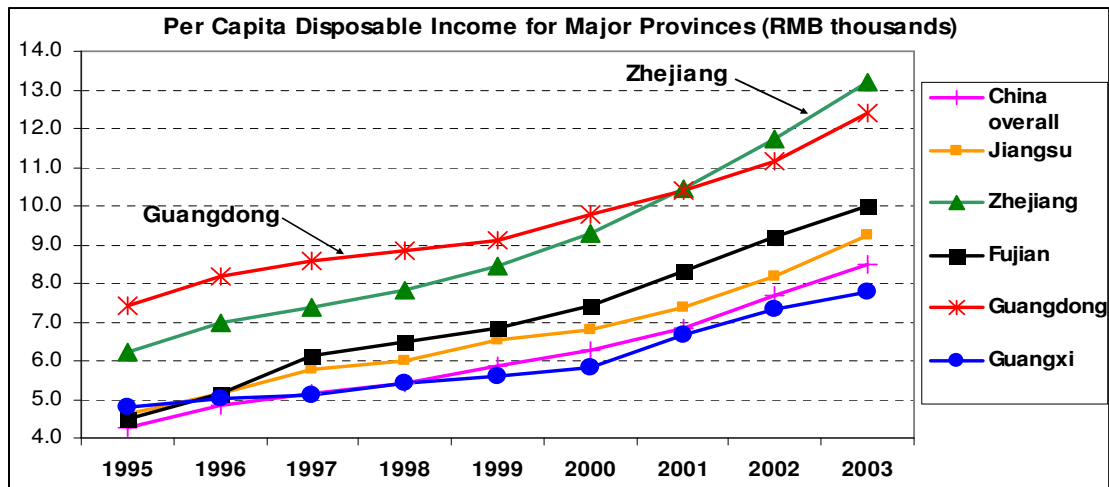
Source: CEIC



Source: CEIC

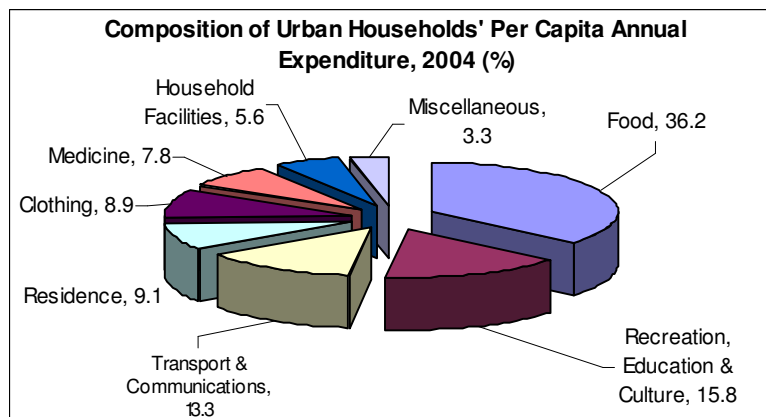
### C. Consumption

- Consumption accounted for 30% of GDP in 2004
- Since 2001, Zhejiang has overtaken Guangong as the province with the highest per capita disposable income
- Major consumer markets are located in Hangzhou, Ningbo, Wenzhou, Shaoxing, Taizhou and Jiaxing

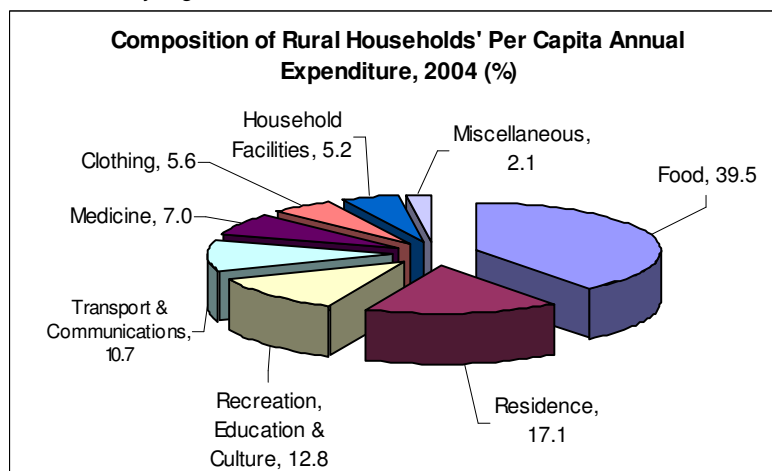


Source: CEIC

- On average, urban consumers in Zhejiang spent 2.7 times that of rural consumers, less than the national average of 3.5 in 2004. Top 3 consumption categories for urban households were food, recreation and transport and communications.

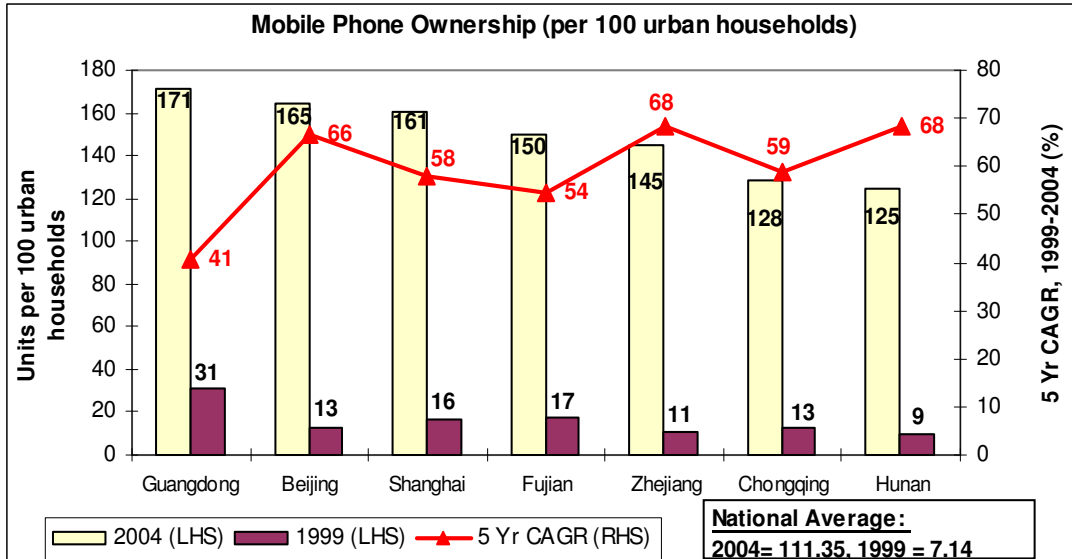


Source: Zhejiang Statistical Yearbook 2005



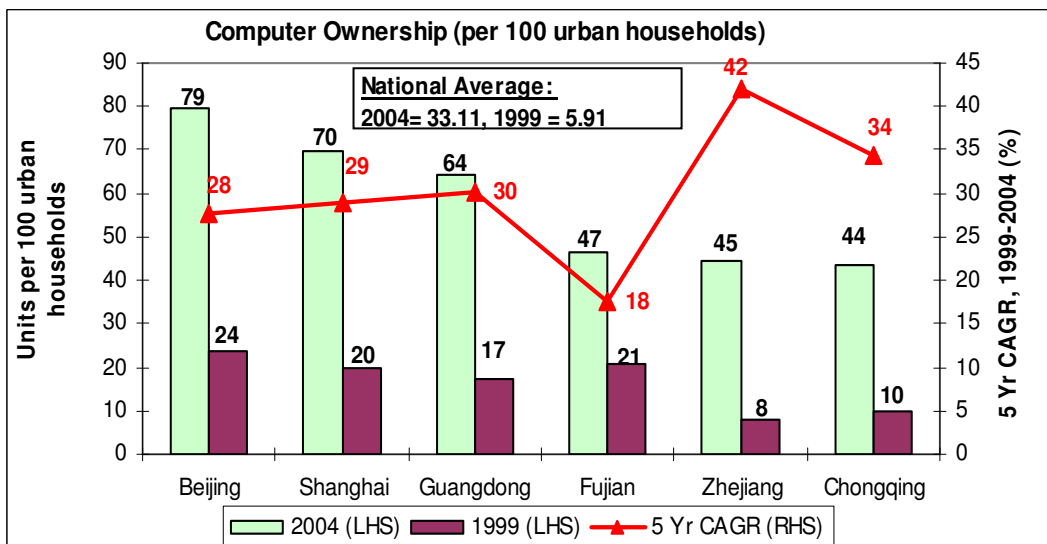
Source: Zhejiang Statistical Yearbook 2005

- Zhejiang was the 5<sup>th</sup> largest province in terms of mobile phone ownership in China in 2004. With a 5-Year CAGR of 68%, Zhejiang and Hunan shared the highest consumption growth of mobile phones among the major provinces and municipalities. Zhejiang's 2004 ownership level of 145 units per 100 households was above the national average of 111



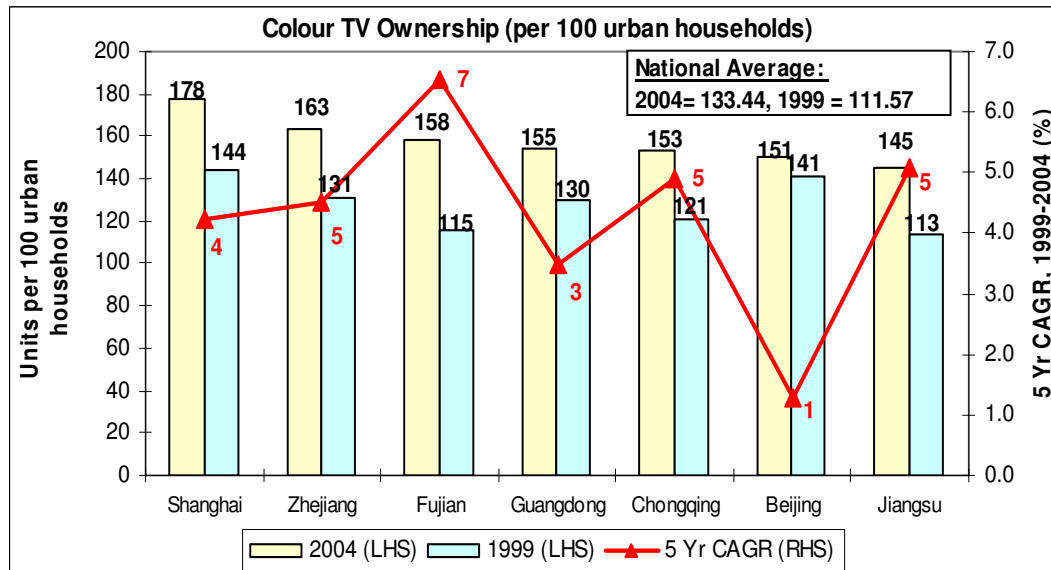
Source: China Statistical Yearbook 2000, 2005

- Zhejiang was the 5<sup>th</sup> largest province in terms of computer ownership in China in 2004. With a 5-Year CAGR of 42%, Zhejiang posted the highest consumption growth among the major provinces and municipalities. Its 2004 ownership level of 45% was above the national average of 33%



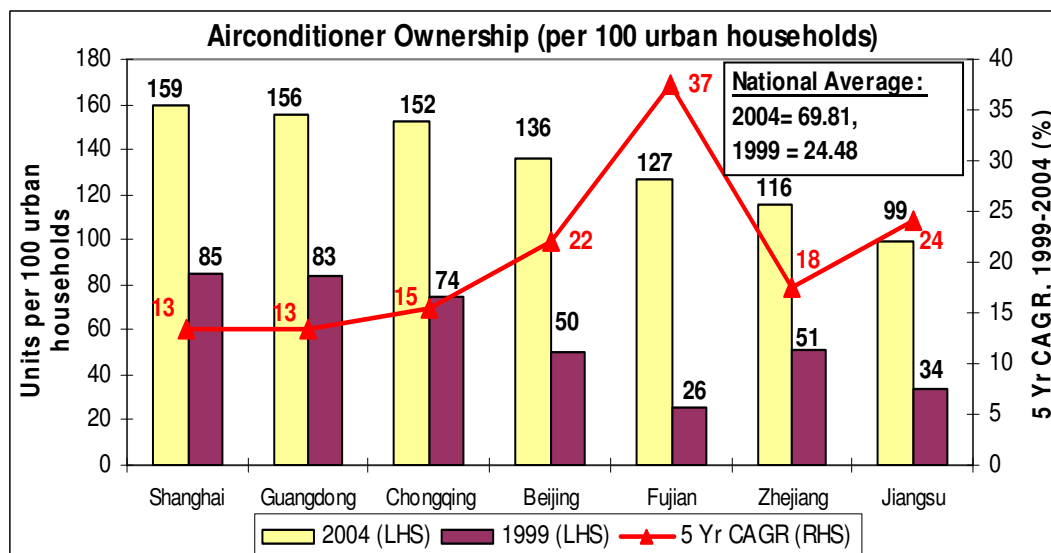
Source: China Statistical Yearbook 2000, 2005

- Zhejiang was the 2<sup>nd</sup> largest province in terms of color TV ownership in China in 2004. The average growth of about 5% between 1999 and 2004 was comparable to that of the other provinces. Zhejiang's 2004 ownership level of 163 units per 100 households was above the national average of 133



Source: China Statistical Yearbook 2000, 2005

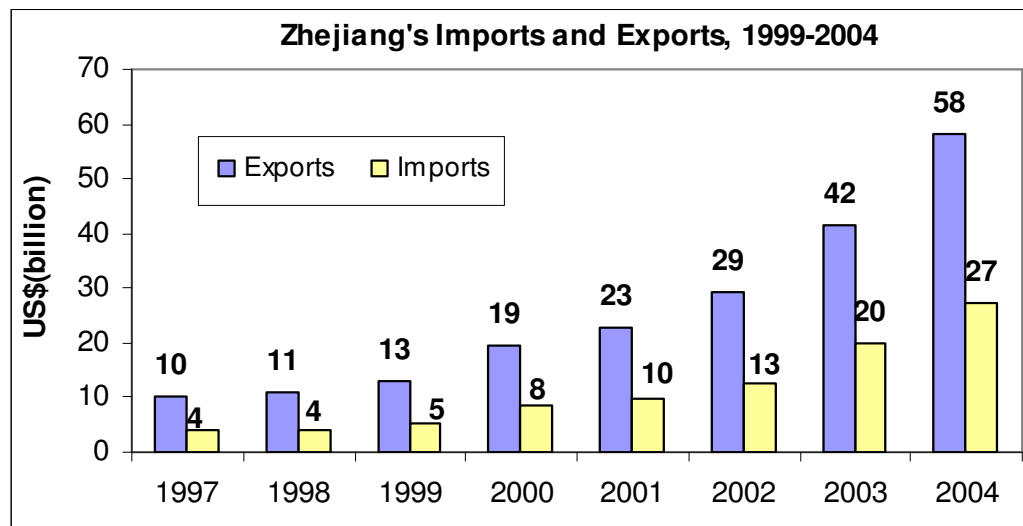
- Zhejiang was the 6<sup>th</sup> largest province in terms of air-conditioner ownership in China in 2004. Average growth between 1999 and 2004 was about 18%, close to the other provinces. Its 2004 ownership level of 116 units per 100 households was above the national average of 70



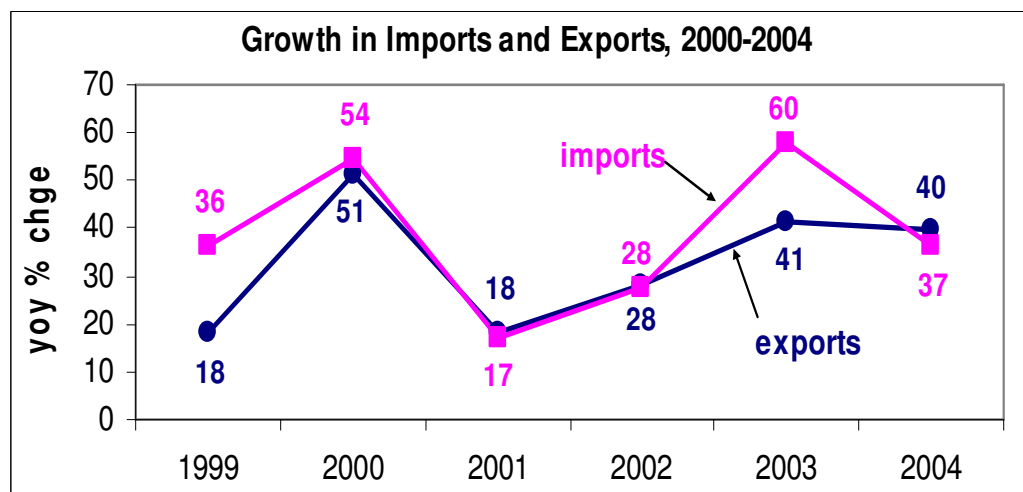
Source: China Statistical Yearbook 2000, 2005

## D. Foreign Trade

- As an export-oriented province, foreign trade grew significantly from 1999 to 2004. Exports increased by 4.5 times and imports 5 times between 1999 and 2004. Total exports surged by 40% to US\$58 billion in 2004 from US\$42 billion in 2003.

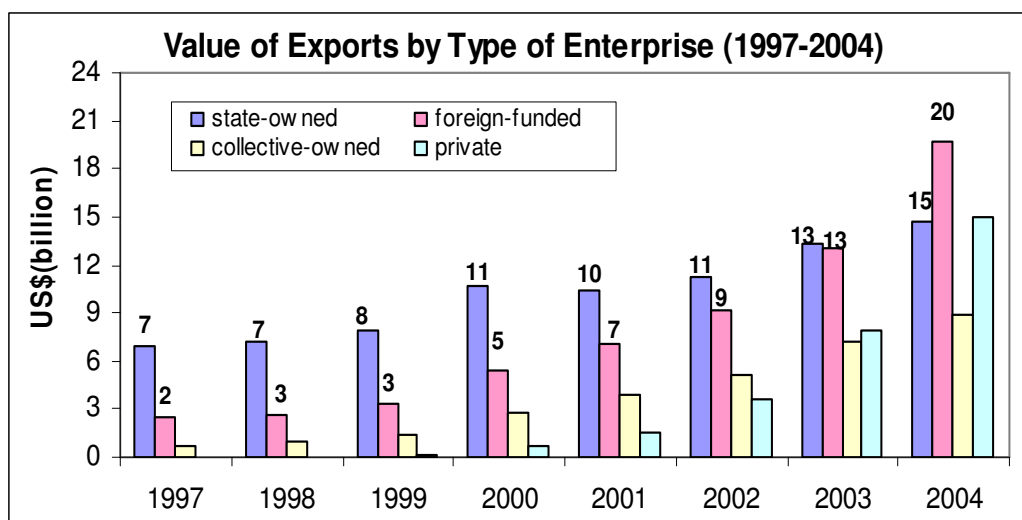


Source: Zhejiang Statistical Yearbook 2005



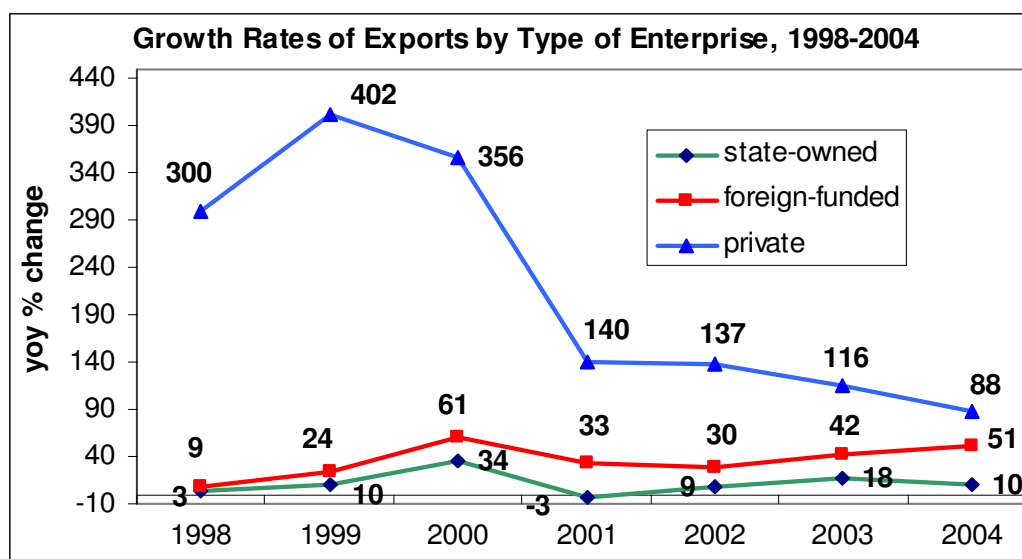
Source: Zhejiang Statistical Yearbook 2005

- In 2004, total trade of foreign-funded enterprises reached US\$33 billion, accounting for 38% of the province's total. Foreign investment is one of the major driving forces behind Zhejiang's foreign trade growth (especially in the processing industries) in recent years.



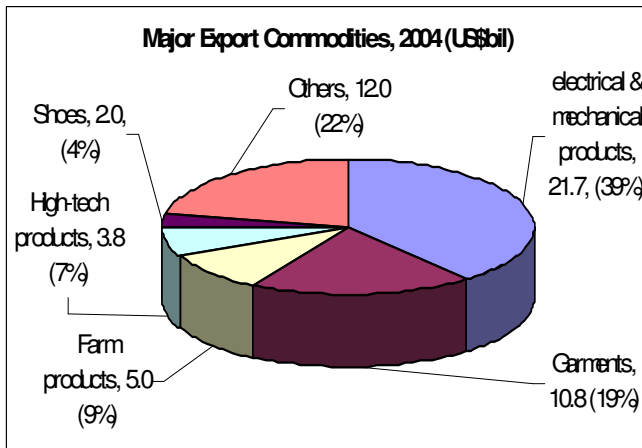
Source: Zhejiang Statistical Yearbook 2005

- Exports of foreign-funded enterprises have generally exhibited higher growth rates than state-owned enterprises. In fact, exports by foreign enterprises overtook that of state-owned firms since 2004.

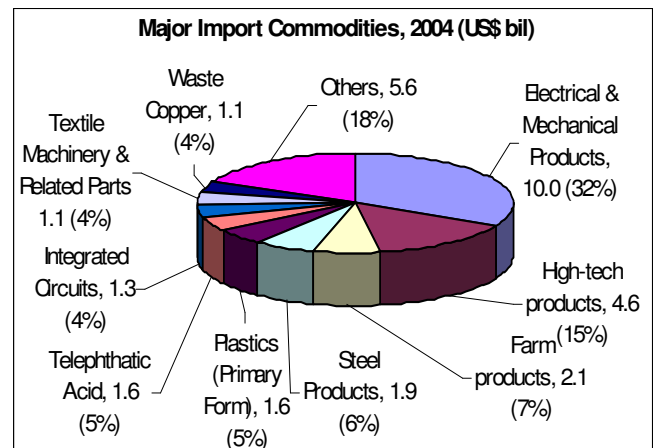


Source: Zhejiang Statistical Yearbook 2005

- Top 5 exporting and importing cities in Zhejiang (2004): Hangzhou, Ningbo, Shaoxing, Jiaxing Wenzhou, Taizhou
- Major export items: electrical and mechanical products, textiles & garments, farm products, high tech products, shoes
- Major import items: electrical and mechanical products, high tech products, farm products, plastics in primary form, integrated circuits and textile machinery.



Source: Zhejiang Statistical Yearbook 2005



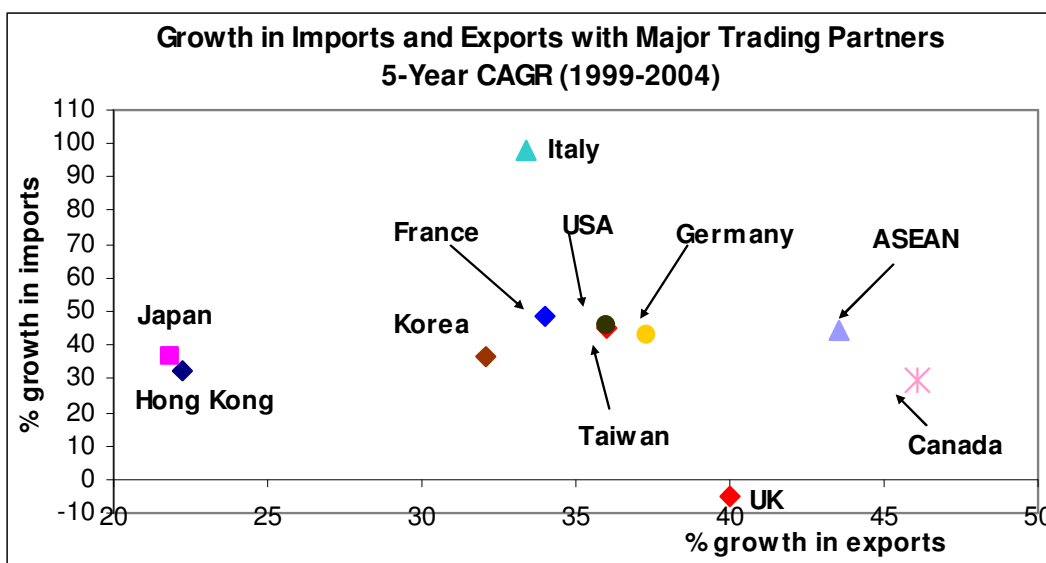
Source: Zhejiang Statistical Yearbook 2005

**Major Trading Partners of Zhejiang (2004): By Countries**

	Exports to	US\$ bil	% of Total		Imports from	US\$ bil	% of Total
1	USA	11.2	19	1	Italy	5.5	20
2	Japan	6.1	11	2	Japan	5.4	20
3	Germany	2.9	5	3	Korea	3.1	11
4	Hong Kong	2.5	4	4	Taiwan	2.7	10
5	UK	1.9	3	5	USA	2.3	9
6	Korea	1.7	3	6	Germany	1.7	6
7	Italy	1.7	3	7	France	0.6	2
8	France	1.3	2	8	Canada	0.5	2

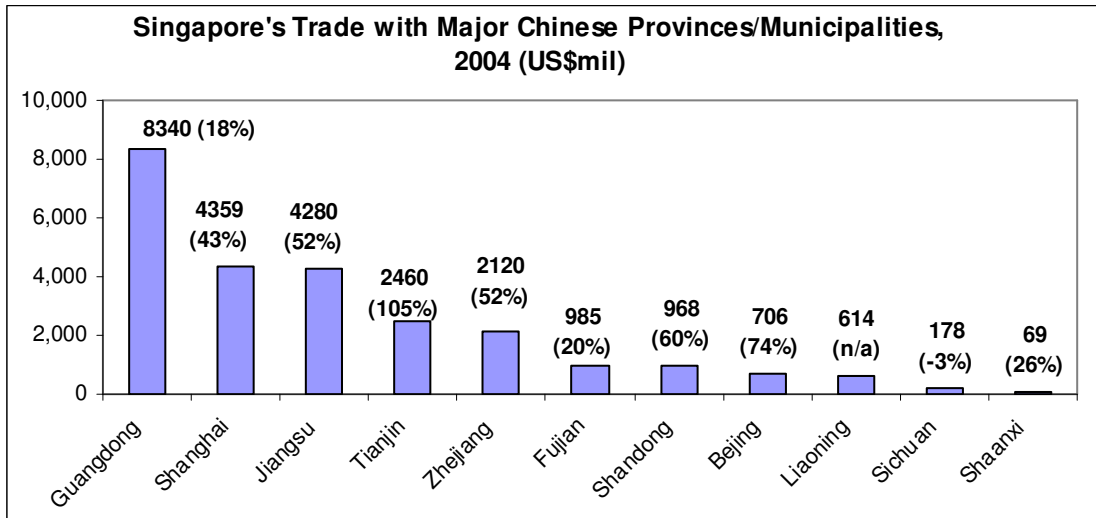
Source: Zhejiang Statistical Yearbook, 2005 (EU, ASEAN and other continents excluded)

- Imports from and exports to major EU countries (except imports from UK) are posting faster growth than trade with countries in Asia and ASEAN.



Source: Zhejiang Statistical Yearbook, various years

- 4% of China's trade with Singapore is contributed by Zhejiang. Zhejiang-Singapore bilateral trade is skewed towards imports from Zhejiang



Source: IE Singapore Website

Note: Figures in parenthesis represent YOY % growth

### E. Foreign Direct Investments (FDI)

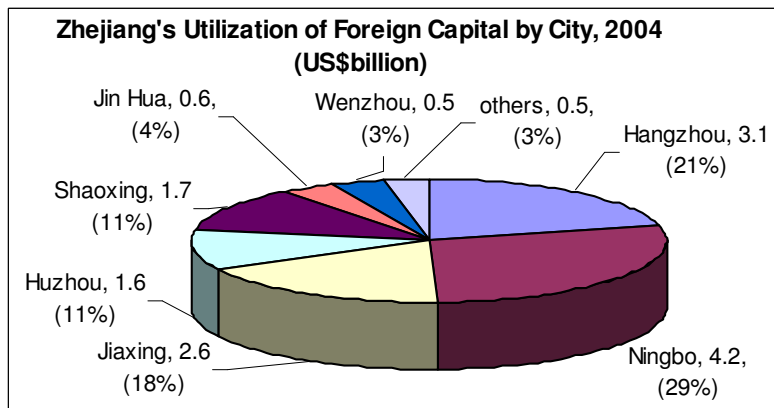
- The role of FDI is not as dominant as other provinces such as Guangdong. 9% of Zhejiang's fixed assets investment is derived from FDI. Foreign invested enterprises now account for about 26% of Zhejiang's gross industrial output and 34% of its exports

#### FDI: Contracted versus Utilized Amount

	1979-2005	2004	2005
<b>No. of contracts</b>	35,675	3,824	3,396
<b>Contracted amount (US\$bil)</b>	79.0	14.6	16.1
<b>Utilised amount (US\$bil)</b>	36.7	6.7	7.7

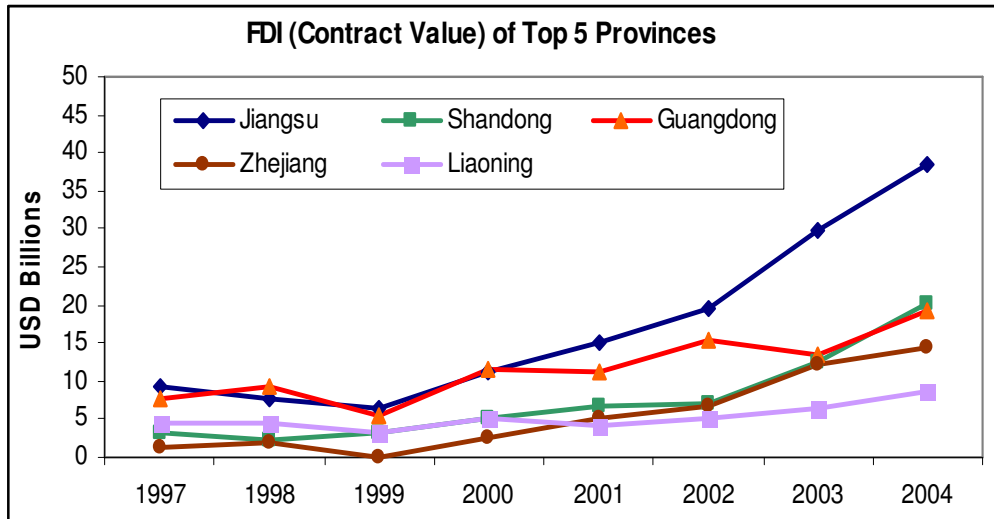
Source: Zhejiang Statistical Yearbook 2005 and Hong Kong Trade Development Council

- Majority of FDI goes to the larger cities of Hangzhou and Ningbo



Source: Zhejiang Statistical Yearbook 2005

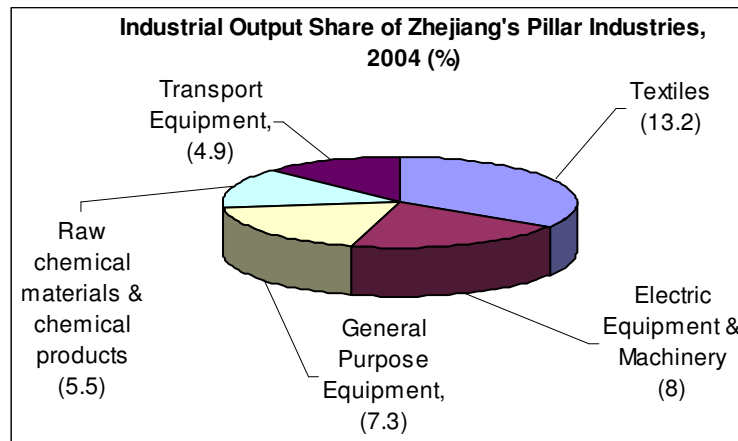
- Hong Kong is the largest source of FDI in Zhejiang. HK investments are mainly found in property and infrastructure development, logistics and industries like textiles and petrochemicals. Other major investors are Japan, US, Taiwan. MNCs in Zhejiang include Motorola, Toshiba, Siemens etc.
- Zhejiang is the 4<sup>th</sup> largest provincial recipient of FDI.



Source: CEIC

## 5. PILLAR INDUSTRIES

- Light industry has traditionally played a dominant role in Zhejiang's industrial sector. Textile production and exports is the leading industry, accounting for 13% of both Zhejiang and China's total industrial output in 2004.
- In recent years, there has been greater emphasis on heavy and high-tech industries. In 2004, heavy industry accounted for 54% of total value-added and gross industrial output value, while light industry accounted for the remaining 46%. Heavy industries such as electric equipment and machinery, general purpose machinery and petrochemicals dominate the province's industrial output.
- Thriving economic/industrial centres are located in the north-eastern region, and accounted for 70% of Zhejiang's GDP in 2004.



Source: Zhejiang Statistical Yearbook, 2005

### Top 10 Industries in Provinces within the Yangtze River Delta

Industries	% share of China's Total Industrial Output		
	Zhejiang	Shanghai	Jiangsu
<b>Textiles</b>	13	2	9
<b>Electric Equipment &amp; Machinery</b>	8	6	6
<b>General Purpose Equipment Manufacturing</b>	7	7	6
<b>Raw Chemical Materials &amp; Chemical Products</b>	6	6	9
<b>Telecom, Computers &amp; Other Electronic Equipment Manufacturing</b>	5	22	17
<b>Transport Equipment</b>	5	12	5
<b>Garments, Footwear &amp; Headgears</b>	4	2	3
<b>Petroleum Refining, Coking &amp; Nuclear Fuel Processing</b>	3	5	2
<b>Smelting &amp; Pressing of Ferrous Metals</b>	3	8	9
<b>Special Purpose Manufacturing</b>	2	2	3

Source: Shanghai, Zhejiang and Jiangsu Statistical Yearbooks, 2005

- Distinctive features of Zhejiang:

#### (i) Massive number of industrial clusters

Zhejiang's industrial clusters are renowned for entrepreneurship –most traditional clusters were formed by small and private enterprises

## Major Industries and Industrial Clusters in Zhejiang

Cities	Major Industries	Typical Industrial Clusters
<b>North-Eastern Region</b>		
Hangzhou	Textiles/Apparel, large scale machinery & equipment, electronic information, household electrical appliances, medicine, shoes	<ul style="list-style-type: none"> <li>• Hangzhou - Autoparts</li> <li>• Xiaoshan – Chemical Fibre</li> <li>• Xintang - Down</li> <li>• Nanyang – Umbrellas</li> </ul>
Ningbo	Textiles/Apparel, machinery, household electrical appliances, electronic & telecommunications equipment, autoparts, plastic products, petrochemicals, shoes	<ul style="list-style-type: none"> <li>• Yinzhou – Apparel</li> <li>• Yuyou - toys, moulds, plastics, autoparts and electrical appliances</li> </ul>
Shaoxing	Textiles/Apparel, dyes, general purpose machinery, medicines, chemicals, chemical fibres, petrochemicals, pharmaceutical products, kitchenware, furniture, toys	<ul style="list-style-type: none"> <li>• Shaoxing – China Textile Town</li> <li>• Zhuji - Socks &amp; metal products</li> <li>• Shengzhou - Neckties</li> <li>• Yuecheng - Furniture</li> </ul>
Jiaxing	Textiles/Apparel, wood products, leather, building materials, general purpose machinery & instruments, chemical fibre, equipment manufacturing, petrochemicals, autoparts, furniture, packaging, toys	<ul style="list-style-type: none"> <li>• Haining - Leather &amp; warp knitting</li> <li>• Pinghu - Apparels and Bags</li> <li>• Xuizhou - Silk Products</li> <li>• Haiyan - Toys</li> <li>• Tongxiang - woolen garments</li> </ul>
Huzhou	Textiles (silk, dyeing), apparel (children's wear), building materials	<ul style="list-style-type: none"> <li>• Zhili - Children's wear</li> <li>• Chengqu - Textiles</li> <li>• Nanxun - building materials</li> <li>• Anji – bamboo products</li> </ul>
Zhoushan	Processing of aquatic products, aquatic medicine, machinery, ship mending, metallic crafts, medicines, electronic appliances and electric motors, electrical appliances	<ul style="list-style-type: none"> <li>• Zhoushan – Aquatic wholesale market, aquatic medicine, ship repairing, manufacture of machinery, electronics and electrical appliances, screw rod, metals etc</li> </ul>
<b>South-Eastern Region</b>		
Wenzhou	Textiles/Apparel, shoes, plastics, autoparts, lighters, printing and packaging, leather shoes, valves, low-voltage electrical appliances, pens, general purpose machinery, chemical fibre	<ul style="list-style-type: none"> <li>• Pingyang- “China Plastics Town</li> <li>• Ruian - Autoparts</li> </ul>
Taizhou	Auto parts, crafts & artworks, rubber products, shoes, general purpose machinery, medicine & chemical products, metals, food, mechanical & electrical products	<ul style="list-style-type: none"> <li>• Jiaojiang- Plastic Products</li> </ul>
<b>Central and South-Western Region</b>		
Jinhua	Machinery, metals, processing of agricultural products, textiles, apparel	<ul style="list-style-type: none"> <li>• Dongyang - Magnetic materials</li> <li>• Yiwu- China commodity City</li> <li>• Pujiang- Knitting apparel industry</li> </ul>
Quzhou	Fertilizers, building materials (cement), mechanical electric appliances (mine equipment, transformer)	<ul style="list-style-type: none"> <li>• Wucun Town-badminton ball production</li> <li>• Xiakou – Foundry industry</li> </ul>
Lishui	Wood processing, crafts & artworks, processing of agricultural products, shoes, toys, umbrellas	<ul style="list-style-type: none"> <li>• Longquan - Umbrellas</li> <li>• Qingtian - Shoes</li> <li>• Yunhe - wooden toys</li> </ul>

Source: Li & Fung Research Centre, May 2006

## (ii) Prevalence of Specialized Markets

Specialized markets engage in the wholesaling business by serving as a bridge between thousands of manufacturers and retailers.

There are over 25,000 specialized markets in Zhejiang, located in all major towns and cities. Many are located in or around related industrial clusters and maintain a close relationship with the clusters. eg China Light and Textile Town in Shaoxing and the China Metalware Town in Yongkang have maintained close relationships with the light textile cluster in Shaoxing and the metal cluster in Yongkang respectively. The output of these markets usually account for huge shares of the total industrial output of the cities/towns where the markets are located.

- Zhejiang is a leading industrial province driven by 4 pillar industries:

Pillar Industries:	Potentially High-Growth Industries:
A. Textiles & Garments B. Machine Building C. Household Electrical Appliances D. Petrochemicals	E. Electronics and ICT F. Medical/Pharmaceutical G. Autoparts

- Zhejiang is a major export-processing base for foreign investors mainly from Hongkong, Taiwan, Japan and US
- Cities with the largest industrial production bases are: Hangzhou, Ningbo, Shaoxing, Wenzhou, Jiaxing, Taizhou and Jinhua
- **Zhejiang's Key Production Strength: (i) Light manufacturing industries** especially textiles and **(ii) Heavy industries** such as the manufacture of electric equipment and machinery and other kinds of machinery
- In recent years, the government emphasized the development of industrial parks to create more cluster effects in its industries, especially the high-tech industries. 3 industrial belts receiving special government emphasis are:
  - Hangzhou Bay Area (Hangzhou, Ningbo, Jiaxing, Shaoxing, Zhoushan, Huzhou)
  - Coastal cities (around Wenzhou and Taizhou)
  - Jinquli region (highway linking Jinhua, Quzhou and Lishui)
- Among these industrial belts, the Hangzhou Bay area is the focus of attention. It is the most important IT base in Zhejiang. 70% of the provinces' electronic companies and 80% of IT product manufacturers are located here. In the near future, the government will continue to develop the high tech industries and those in the heavy chemical and equipment manufacturing industries.
- The government's blueprint envisions that the province would establish 30 more industrial clusters; 10 would become manufacturing bases for the country and 20 will become important industrial centres. It would also nurture the development of 30 large corporations.

## A. Textiles

- Zhejiang is the largest producer and exporter of textiles in China. Together with Guangdong, Jiangsu, Shanghai and Shandong, their combined export value account for 76% of China's textile exports
- Major markets: US, Europe, Japan and HongKong
- Major textile and apparel production bases: Shaoxing, Ningbo, Hangzhou, Jiaxing, Wenzhou (Apparel)
- Famous domestic brands: Zhejiang Zhongda Group, Youngor Group, Ningbo Veken Elite etc

### **Challenges:**

- Low value-added products-low product innovation, lack of domestically owned international brand names, low gross profit margins, oversupply, quotas imposed by US and EU and anti-dumping disputes.
- US and China signed a 3 year textile agreement in November 2005. Under the agreement, 21 types of clothing and textiles (including cotton trousers) are subject to import restrictions. This is an increase over the 11 categories previously. The agreement provides for annual increases in major textile and apparel products from China listed below:

#### **3 Year agreement between US and China on textile quotas**

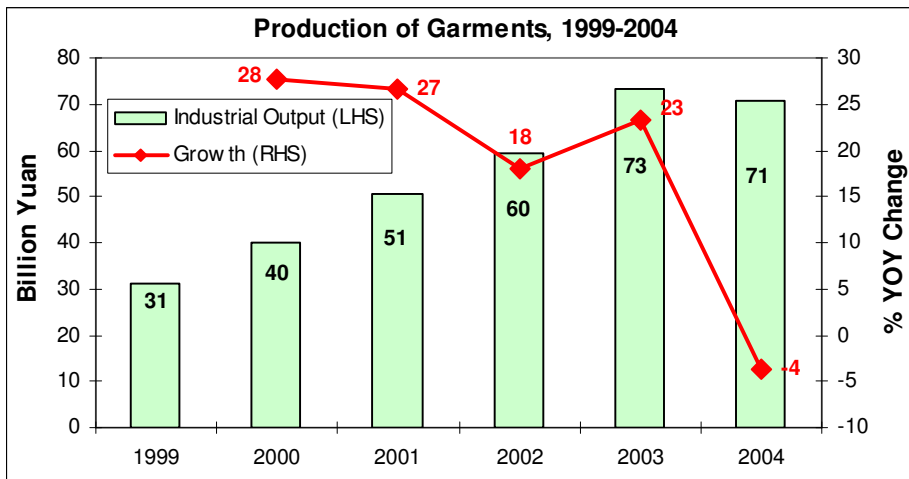
<b>Year</b>	<b>Annual growth in imports from China permitted by US</b>
2006	10-15%
2007	12.5 -16%
2008	15-17%

Source: [www.china.org.cn](http://www.china.org.cn)

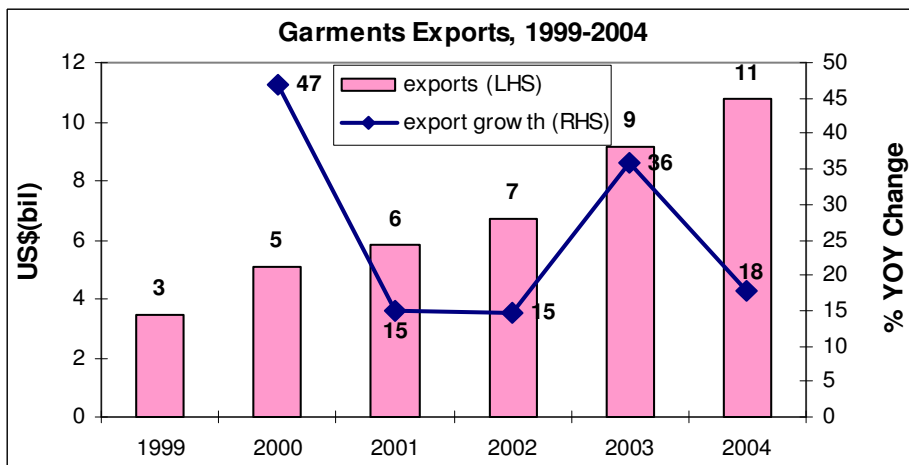
- 70% of quotas available are assigned directly to enterprises in accordance with their export volumes. However, the remaining 30% are allocated through a bidding system and bid prices are 10% higher than market price for quotas. This and other problems have led to under utilization of quotas.
- Textile enterprises in Zhejiang are turning to product innovation, increasing the products' value-added, changing product structures and expanding to emerging markets (such as Russia) to generate more profit.

### **Outlook for 2006**

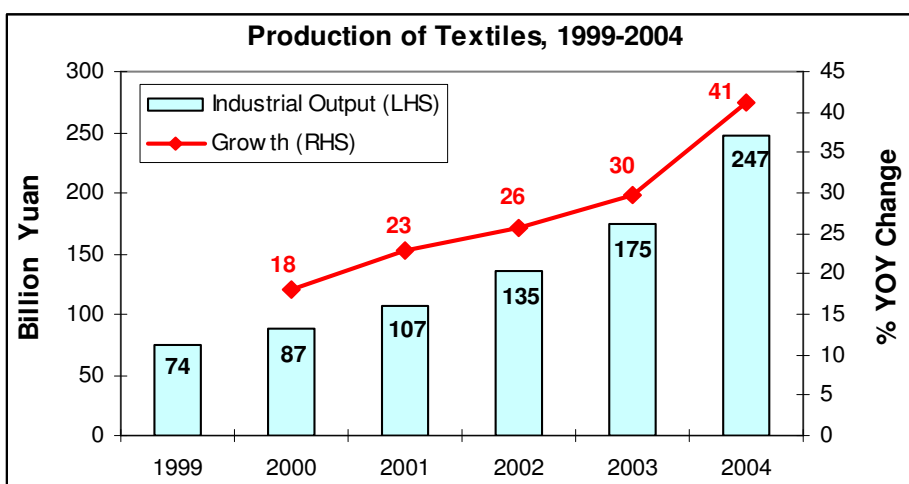
- Outlook for Zhejiang's textile industry is not expected to be rosy: reduced export quotas, revaluation of the Yuan and increase in raw material costs will affect textile exports negatively. Zhejiang has witnessed a slowdown in export growth since Feb 2006, mainly to US and EU markets.



Source: Zhejiang Statistical Yearbook 2005



Source: Zhejiang Statistical Yearbook 2005



Source: Zhejiang Statistical Yearbook 2005



Source: Zhejiang Statistical Yearbook 2005

## B. Electronics and Information Industry

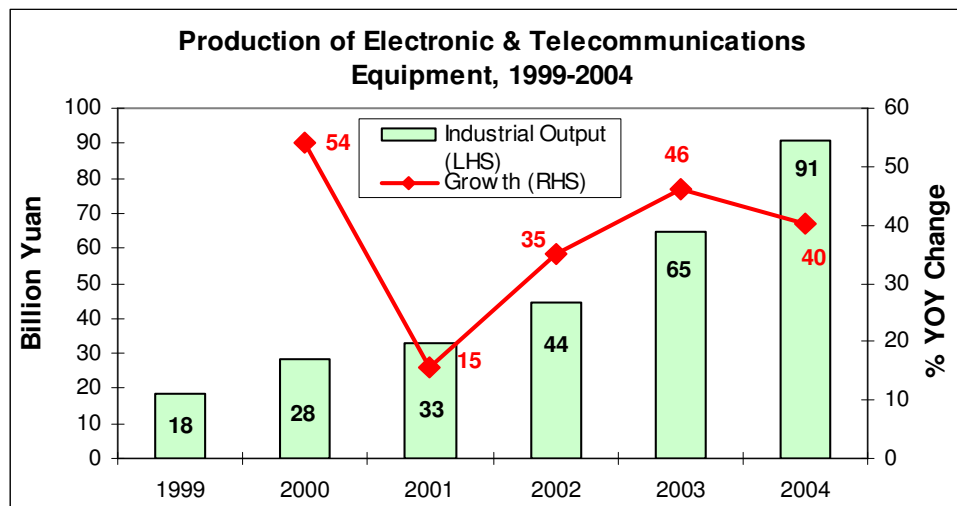
- While the electronics industry in Zhejiang is not as well developed as that in Guangdong, it receives priority status by the government.
- **Key products:**
  - **Mobile phones:** Zhejiang is the 4<sup>th</sup> largest producer of mobile phones in China (9% of national production) and the largest producer in the Yangtze River Delta.
  - **Integrated Circuits:** Zhejiang is the 5<sup>th</sup> largest producer of ICs in China. It contributed about 6.3% of china's production and 10% of output within the Yangtze River Delta in 2004.
  - **Micro Computers:** Zhejiang is a relatively small producer of micro computers. It accounted for 2.6% of China's production in 2004.
- Major handset manufacturers in Hangzhou/Ningbo: Nokia (R&D Centre), Motorola (manufacturing centre), Ericsson, UTStarcom (China HQ), Toshiba(manufacturing centre-largest in China), Foxconn Electronics, Ningbo Bird
- Leading foreign manufacturers: Nokia, Motorola, Ericsson
- Leading domestic manufacturers: Ningbo Bird, TCL Corporation, Konka
- Main production bases: Hangzhou (Hangzhou Modern Tele-Industrial Park-MTiP) and Ningbo

## Focus for Development

<b>Software</b>	applications, middle parts of application software, inset software, software exports
<b>Communications</b>	communication products, exchange equipment, network switch, terminal units
<b>Semiconductors/ICs</b>	design of ICs under 0.5 micron and production of microchips over 6 inch, design and production of ICs of thick film, production of silicon crystals, polishing chips and extension chips, plastic semiconductors, biology microchips, multi layer boards
<b>Electronic apparatuses of new kind</b>	Transistor microchips of high frequency and high back pressure, electro-mechanical components eg new electric connection apparatuses and components, new micro electro-mechanical components, new electro acoustic devices of top grade and relay
<b>Digital Video Frequency</b>	digital TVs, key microchips, production of transmission equipment, digital acoustics, digital cameras, DVD laser videos and microchips
<b>Computers &amp; Network:</b>	routers, network cards, personal portable information terminal, network switch in equipment
<b>Electron Function Materials</b>	Optical fibre pre-fabricated sticks, micro millimeter electron function materials, top grade magnetic materials, electron pottery materials, optical crystals of no linearity, energy stored materials and environmentally friendly batteries, special enameled wires, GAAS materials etc

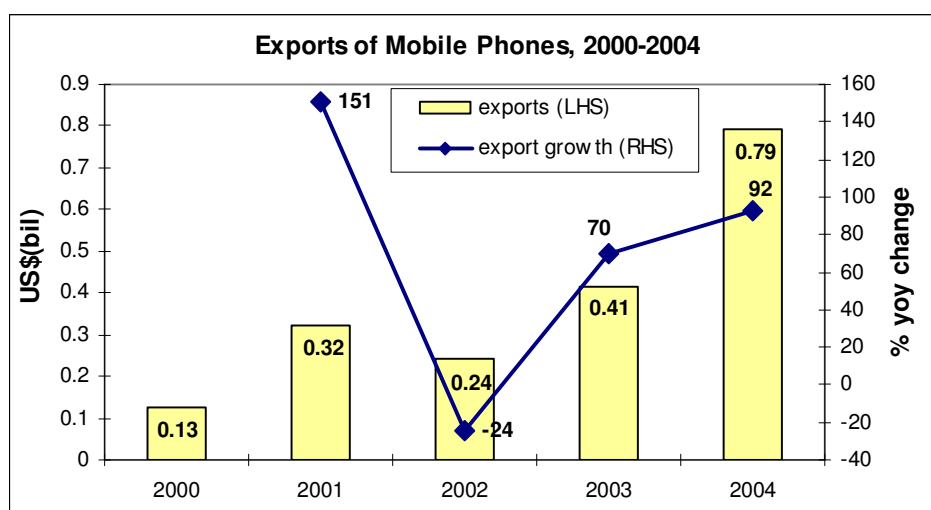
Source: www.zhejiang.gov.cn

- Production of electronic and telecommunications equipment has been rising since 1999. Growth in 2003 and 2004 exceeded the average 5 year (1999-2004) CAGR of 38%.



Source: Zhejiang Statistical Yearbook 2005

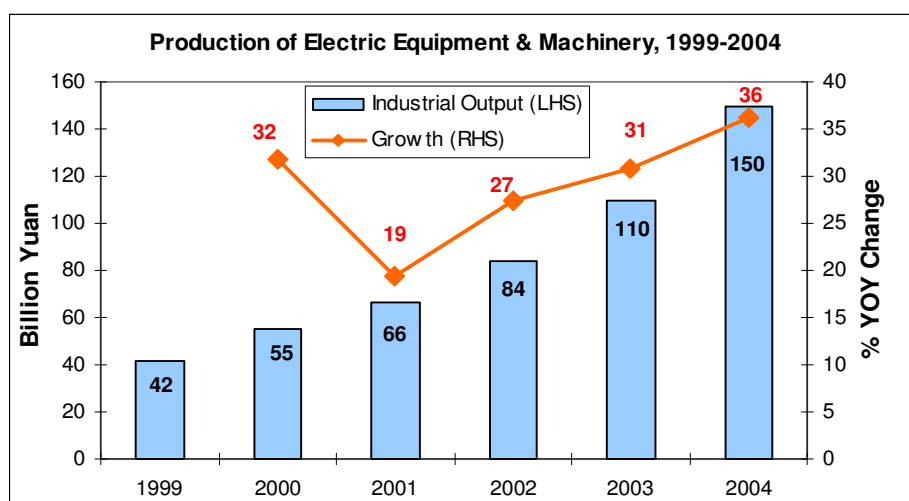
- The Yangtze River Delta is a handset manufacturing hub in China. Exports of mobile phones have generally been on the uptrend between 2000 and 2004, except for the blip in 2002. Growth rates in 2003 and 2004 exceeded the 4-year (2000-2004) CAGR of 63%.



Source: Zhejiang Statistical Yearbook, 2005

### C. Household Electrical Appliances

- Zhejiang is a key producer and exporter of certain large household appliances in China.
- **Key products:**
  - **Washing machines:** Zhejiang is the top producer of washing machines in China. It accounted for 30% of China's total production in 2004.
  - **Airconditioners:** Zhejiang is the 5<sup>th</sup> largest producer of airconditioners in China, accounting for 7% of total national production in 2004. It is the 2<sup>nd</sup> largest producer in the Yangtze River Delta, after Jiangsu.
  - **Refrigerators:** Zhejiang is the 6<sup>th</sup> largest producer of refrigerators in China, accounting for 5% of the national production in 2004. It is the 2<sup>nd</sup> largest producer in the Yangtze River Delta, after Jiangsu.
  - **Small household appliances:** It is the 3<sup>rd</sup> largest exporter of small household appliances in China.
- Main production bases: Ningbo and Hangzhou (large appliances), Yuyao, Cixi (small household appliances)
- Since 2001, production of electric equipment and machinery has been increasing at a faster pace compared to the previous year. Growth in 2003 and 2004 exceeded the 5-Year (1999-2004) CAGR of 29%.



Source: Zhejiang Statistical Yearbook, 2005

### **Small Household Appliances Industry**

- Comprises of small private companies with about 70 workers each and mid-sized suppliers with direct export licenses.
- The industry is driven by the Original Equipment Manufacturer (OEM) business, which accounts for 90% of production. Suppliers in the province do not export products with in-house brands.
- Established in the 1980s, the industry has experienced growth of 7% p.a. In 2004, vacuum cleaners accounted for 53% of the \$378 million exports, followed by electric irons (40%) and electric fans.
- US and EU are the largest export markets

### **Advantages of Small Household Appliances Industry:**

- Easy access to raw materials backed by a strong plastics and mold industry
- Economies of scale in procuring supplies
- Competitive pricing – prices are about 5% lower than those in Guangdong
- Strong government support – tax rebates, assistance in land acquisition and building of new factories

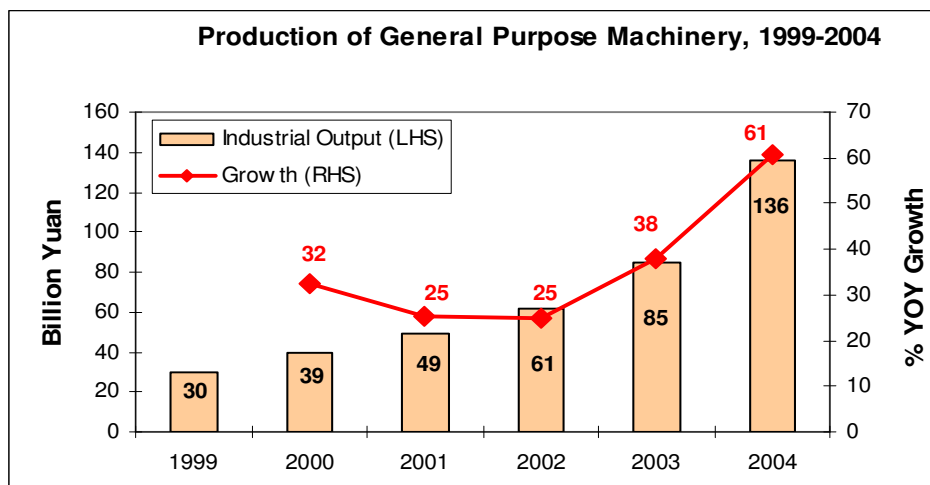
### **Disadvantages**

- Lower quality products, compared to Guangdong. Zhejiang does not have advanced machinery and facilities and a strong design capability to produce high quality appliances
- Power shortage problems

To improve production processes, manufacturers invest in automatic punching machines (for heaters) and have set up their own mould making facilities. They have tried to hire skilled staff with quality management backgrounds and forged partnerships with local colleges to develop new technologies.

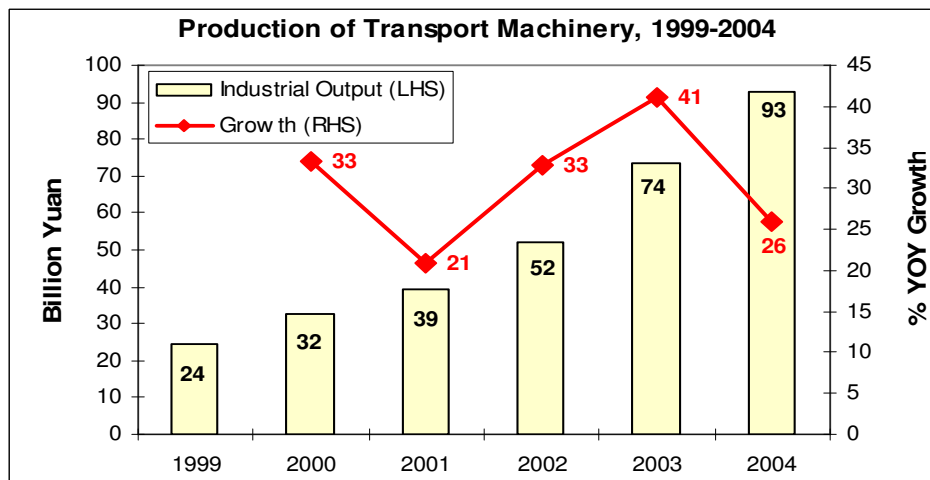
## D. Mechanical Industry

- Zhejiang leads China in new products such as air-separation equipment, industrial steam turbines, electrical dust catcher, air mechanical dust conveyor, waste heat boiler, vacuum acquisition and application equipment, boat gear boxes, basic machinery and autoparts.
- Main production bases: Hangzhou, Ningbo, Taizhou, Shaoxing, Jiaxing
- Production of general purpose machinery has been on an upward trend between 1999 and 2004. Similar to other machinery sub-sectors, growth in later years has been increasing at a faster rate compared to the preceding years. Growth in 2003 and 2004 exceeded the 5 Year (1999-2004) CAGR of 35%.



Source: Zhejiang Statistical Yearbook 2005

- With the strong emphasis on infrastructure development, the production of transport machinery has similarly witnessed double digit growth between 1999 and 2004. Growth in the last few years has generally exceeded the 5 Year (1999-2004) CAGR of 31%.



Source: Zhejiang Statistical Yearbook 2005

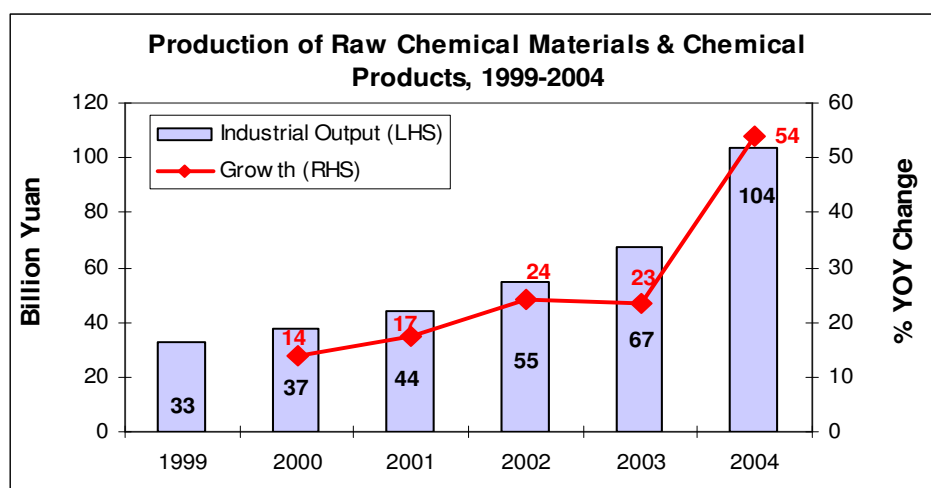
### Focus for development:

<b>Auto, Motorcycle and Component Parts</b>	Heavy duty car and coach chassis, new type medium & top grade cars and other vehicles for special use, household cars, motorcycles of low-emission engine and new models, key auto parts and components, auxiliary products for vehicles and sedans, building and repair of ships
<b>Complete Mechanical Plant</b>	Complete plants for prevention & treatment of atmospheric and water pollution, complete mechanical plants for air separation, combined thermal power generation, transmission and transformation, waste heat utilization, vacuum acquisition and application and deep processing of agricultural & sideline products, complete equipment using electromechanical integration, efficient energy saving technologies
<b>Basic Mechanical Parts</b>	Bearings, industrial chains, closed storage batteries, low voltage electrical appliances, instruments and meters, sensors using electro-mechanical integration technology, numerical machine tools, electrical and electronic devices

Source: www.zhejiang.gov.cn

### E. Petrochemical Industry

- Zhejiang is known for its fine chemical industry, leading China in the development and production of pesticides, dyes, fluorine chemicals, papermaking chemicals and biochemical preparations
- Key producers: Zhenhai Lianhua Co Ltd, Juhua Group etc
- Main production bases: Hangzhou, Ningbo, Taizhou and Huzhou
- Yearly growth rates in industrial production have been increasing between 1999 and 2004. The industry has been registering double digit y-o-y growth since the late 1990s.



Source: Zhejiang Statistical Yearbook 2005

### Focus for Development:

- Organic fluorine chemicals: fluorine plastics, fluorine rubbers, fluorine intermediate agents and fluorine fine chemicals
- Highly efficient low toxic safe insecticides, bactericides, weedicides
- Organic silicon product series: silicon oil, silicone rubber and silicone fine chemicals
- New types of engineering plastics, plastic alloy, functional high polymer materials, high polymer materials that are modified using nanometer materials and special rubber products
- New types of biochemical products, information products and special chemicals

## 6. INVESTMENT INCENTIVES

### A. General Tax Incentives for Foreign Investment Enterprises (FIEs)

- **Production-oriented foreign investment enterprises** scheduled to operate for a period of ten years or more, are exempted from paying income tax for the first two years commencing from the first profit-making year, and allowed a 50% reduction in the third to fifth year
- **Sino-foreign equity joint ventures** engaged in the construction of ports and wharves, scheduled to operate for a period of 15 years or more, upon approval, can be exempted from their income tax for the first five years commencing the first profit-making year, and allowed a 50% reduction in the sixth to tenth year.
- **Technologically advanced enterprises** with foreign investment may pay income tax at a rate reduced by 50% for more three years after the period of income tax exemption and reduction expires.
- **Export-oriented foreign investment enterprises** may, for any year in which its annual export value amounts to 70% or more of its total sales volume, may pay income tax at a rate reduced by 50% after the period of income tax exemption and reduction expires.
- **Foreign investment enterprises** in the coastal economic open zones and in accord with any of the following conditions may, upon approval, pay income tax at a rate of 15%
  - projects which are technology-intensive and knowledge-intensive
  - projects with foreign investment amounting to US dollars 30 million or more and the investment recovery period is long
  - projects involving energy development or construction of communication or port facilities
- Foreign investment enterprises confirmed as those with high and new technology, and located in the state-level high and new technological industry development zones, may pay income tax at a rate of 15%

## B. Local Income Tax

- **Production-oriented foreign investment enterprises** scheduled to operate for a period of 10 years or more and in accord with any of the following conditions shall, upon approval by the municipal or county tax authorities of an application filed by the enterprise, be exempted from local income tax for five to ten years commencing the first profit-making year
  - export-oriented enterprises and technologically advanced enterprises;
  - projects which are technology-intensive or knowledge-intensive
  - projects with foreign investment amounting to US dollars 30 million or more and the investment recovery period being long;
  - projects involving energy development or construction of communication or port facilities;
  - Chinese-foreign equity joint ventures engaged in the construction of ports and wharves;
  - foreign investment enterprises confirmed as those with new technology and located in the state-level high and new technological industry development zones;
  - foreign investment enterprises engaged in the development and operation of agriculture, forestry, animal husbandry and aquiculture, etc
  - production-oriented enterprises established in the counties situated in the impoverished mountainous regions in Zhejiang.
- **Export-oriented foreign investment enterprises** may, for any year in which its annual export value amounts to 70% or more of its total sales volume, pay local income tax at a rate reduced by 50% after the period of local income tax exemption and reduction expires.
- Technologically advanced enterprises with foreign investment may pay local income tax at a rate reduced by 50% for more three years after the period of income tax exemption and reduction expires.
- **A production-oriented foreign investment enterprise** scheduled to operate for a period of ten years or more, but not in accord with any of the above conditions, shall, upon approval by the local tax authorities of an application filed by the enterprise, be exempted from income tax for the first two years commencing the first profit-making year, and allowed a 50% reduction in the third to fifth year.

## C. Other taxes - Consumption Taxes

- China announced a major consumption tax reform in March 2006. The tax is meant to narrow the gap between the rich and poor by collecting consumption tax on luxury items; boost consumption by scrapping consumption tax on daily necessities, control and regulate energy use and protect the environment by regulating timber usage.
- From 1 April 2006, China will impose consumption tax on refined oil products, luxury goods, disposable wooden chopsticks and wooden floor panels.

The rate on small vehicles, motorcycles and tyres will be adjusted and tax on shampoo and skincare products will be scrapped.

### Consumption Tax Rate: Effective 1 April 2006

Item	Consumption Tax Rate
<b>Luxury Goods</b>	
Golf Balls & Equipment	10%
High end watches	20%
Yachts	10%
<b>Refined Oil Products</b>	
Aviation Fuel	0.1 RMB/litre
Naptha	0.2RMB/litre
Solvents	0.2RMB/litre
Lubricants	0.2RMB/litre
<b>Disposable wooden chopsticks</b>	
	5%
<b>Wooden Floor Panels</b>	
	5%
<b>Small Vehicles</b>	
Displacement < 1.5 litre	3%
1.5-2 litre	5%
2.0-2.5 litre	9%
2.5-3.0 litre	12%
3.0-4.0 litre	15%
> 4.0 litre	20%
<b>Motor cycles</b>	
Displacement < 250 cc	3%
> 250cc	10%
<b>Tyres</b>	
	3%

Source: Li and Fung Research Centre, 24 March 2006

## 7. PREFERRED INDUSTRIES FOR INVESTMENTS

The preferred industries in the manufacturing and related sector are:

<b>Construction of Infrastructure</b>	Transportation, energy, projects of water supply and sewage disposal etc
<b>Petrochemical Industry</b>	Compound materials and new types of building materials
<b>Mechanical, Electronics Textile, Chemical, Food and Building Materials,</b>	Import advanced technology to develop these industries
<b>High technology industry</b>	Software, photoelectron, biology, medicine, new materials, environment protection etc
<b>Agriculture</b>	Increase the production of advanced agricultural products eg natural and organic foods (vegetables, fruits, flowers, tea, animals and aquatic products). Also focused on importing advanced agricultural products and technology to develop agriculture and zoological agricultural industries.
<b>Others</b>	Manufacture of equipment that can prevent pollution

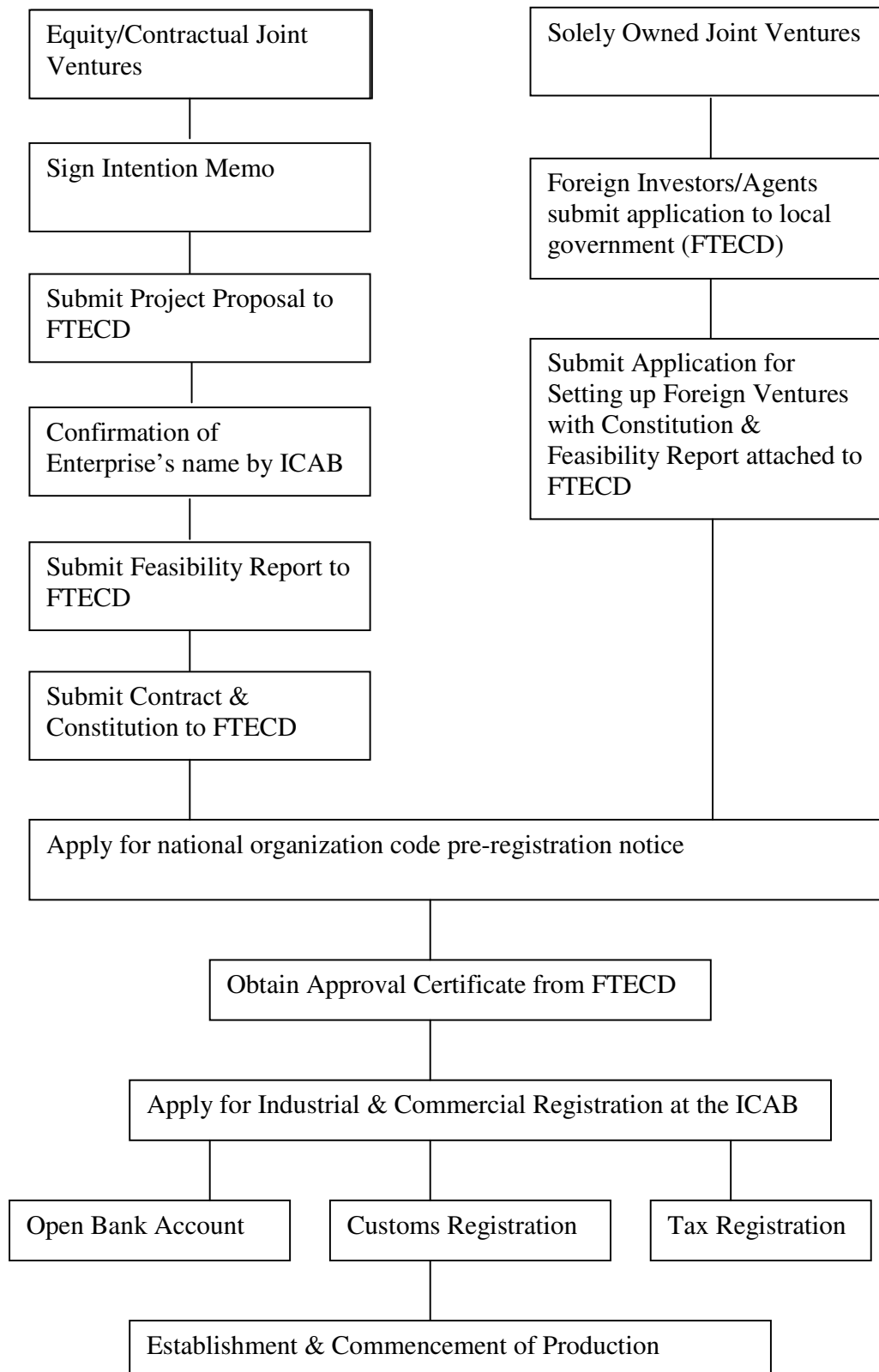
Source: www. zhejiang.gov.cn

## 8. STARTING A BUSINESS IN ZHEJIANG

### A. Setting Up a Business Agency in Zhejiang

- i) Entrust a foreign economic & trade enterprise or an economic organization in Zhejiang as applicant
- ii) Submit the following application documents to the Import/Export Administration Division of the Foreign Trade Economic Co-operation Department (FTECD):
  - Letter of application signed by the Chairman or General Manager (GM) of the agency's parent company
  - Valid business license issued by the country of the parent company
  - Capital and credit affidavits by financial institutions having business transactions with the parent company
  - The agent's warrant and date of expiration as signed by the Chairman or GM of the agency's parent company
  - Resume and identification papers of the agent being warranted
  - Papers verifying the settlement of the office site
  - Application form and personnel registration form
  - Application statement to FTECD by the entrusted applicant and the Review and Approval Form for Setting Up Foreign Business Agencies
- iii) After application is approved, an Approval Certificate will be handed in person by the FTECD officials to the agent
- iv) The agent, bearing the Approval certificate must go through the procedure of hiring Chinese employees through foreign enterprises service companies or other organizations as designated by FTECD
- v) **Within 30 days of approval**, the agent, bearing the Approval certificate, employment contracts and office renting contracts, must finish the agency's industrial and commercial registration with the Industrial and Commercial Administrative Bureau (ICAB)
- vi) The agency, deemed legal after the grant of industrial and commercial registration certificate, may open bank accounts, undergo the agent's temporary stay and tax registration procedure, engrave the seal and arrange the import of office equipment, motor vehicles, personal articles etc

## B. Setting Up a Foreign Venture in Zhejiang



**ECONOMIC INDICATORS 2004: MAJOR CITIES**
**APPENDIX A**

Cities	GDP (RMB)	Per Capita GDP(RMB)	Gross Industrial Output* (RMB bn)	Retail Sales (RMB bn)	Exports (US\$ bn)
Hangzhou	251.5	38,858	438.1	70.4	15.2
Ningbo	215.8	39,174	381.5	39.6	16.7
Wenzhou	140.3	18,846	188.6	44.8	4.6
Shaoxing	131.4	30,254	251.4	28.5	6.6
Taizhou	117.4	21,177	135.3	36.4	3.8
Jiaxing	105.1	31,506	174.5	20.2	5.1
Huzhou	59.1	22,966	83.3	15.0	1.4

Source: HongKong Trade Development Council, Zhejiang Statistical Yearbook 2005

**APPENDIX B**
**ZHEJIANG PROVINCE GOVERNMENT DEPARTMENTS & INSTITUTIONS OF FOREIGN TRADE**

Name	Telephone	Fax	Email/Website	Address
Foreign Trade Economic Co-operation Department of Zhejiang Province	0086-571- 87706075	0086-571- 87706077	<a href="http://www.zhejiangchina.com">http://www.zhejiangchina.com</a> <a href="http://www.zftcc.gov.cn">http://www.zftcc.gov.cn</a>	
International Chamber of Commerce of Zhejiang Province	0086-571- 85178453	0086-0571- 85063453 or 086-0571- 85150098		
Department of Foreign Affairs of Zhejiang Provincial people's Government	086-571- 87054927	086-571- 85156432		
Oversea Chinese Affairs Office of Zhejiang Provincial People's Government	0086-571- 87052983	0086-571- 85119055		
Development and Trade Commission of Zhejiang Province	0086-571- 87052750	0086-571- 87052750		
Economic and Trade Commission of Zhejiang Province	0086-571- 87052759	0086-571- 87058587		
International Economic Trade Research Institute of Zhejiang Province	0086-571- 85158339	0086-571- 85158339		
Association of Foreign Investment Enterprise of Zhejiang Province	0086-571- 85177702	0086-571- 85177702		

Industrial and Commercial Administrative Bureau of Zhejiang Province	0086-571-88383388	0086-571-88385209		
Hangzhou Customhouse of China	0086-571-88801681	0086-571-88831978		
Ningbo Customhouse of China	0086-574-87295636	0086-574-87320527		
Branch Bureau of Foreign Taxation of Local Taxes	0086-571-87082261	0086-571-87082261		
Export & Import Commodity Inspection Bureau of Zhejiang Province	0086-571-88381111	0086-571-88381500		
Export & Import Commodity Inspection Bureau of Ningbo	0086-574-87133708	0086-574-87112693		
Export & Import Commodity Inspection Bureau of Wenzhou	0086-577-88340684	0086-577-88335606		
Foreign Affairs Economic Lawyers' Office of Ningbo Municipality	0086-574-87277999	0086-574-87276770		
China Chamber of International Commerce, Zhejiang	86-571-87706115	86-571-87706198	ccpitzj@mail.hz.zj.cn	18 JiaoChang Road, Hangzhou 310006, Zhejiang Province, China
International Investment Promotion Center of Zhejiang Province	86-571-87706148	86-571-87706045	invest@zftcc.gov.cn	18 JiaoChang Road, Hangzhou 310006, Zhejiang Province, China
Zhejiang Broad International Convention & Exhibition Co., Ltd.	86-571-87706125	86-571-87706171	broad@zftcc.gov.cn	18 JiaoChang Road, Hangzhou 310006, Zhejiang Province, China
Zhejiang Foreign Trade Service Center	86-571-87706125	86-571-87706171	broad@zftcc.gov.cn	18 JiaoChang Road, Hangzhou 310006, Zhejiang Province, China
China Council for the Promotion of International Trade, Zhejiang Sub-council	86-571-87706115	86-571-87706198	ccpitzj@mail.hz.zj.cn	18 JiaoChang Road, Hangzhou 310006, Zhejiang Province, China

Source: [www.zhejiang.gov.cn](http://www.zhejiang.gov.cn)

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