



# Changsha Investment Environment Study 2008

ADVISORY



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## Preface

As the capital of Hunan Province, and a key transport hub in south-central China, Changsha combines robust economic performance with comparatively low operating costs. This publication presents an overview of matters to be considered by those contemplating investing Changsha.

This May 2008 publication is the fifth edition. The original version of this booklet was released in May 2003 and it has been updated each year.

Changsha has seen great development over the last five years. During the 2003-2007 period, the city's economy has grown at an annual rate of 15 percent and GDP per capita has reached USD 4,748. At the end of 2007, over 1,500 FIEs had established a presence in Changsha, including 26 Fortune 500 companies such as Mitsubishi, Coca-Cola, LG, Bosch and Hitachi.

Changsha provides sound infrastructure and facilities to companies at comparatively low rates. As an inland city, Changsha has a sizeable workforce and maintains cost advantages over coastal cities, although the Chinese government is strengthening macro-economic control. Other notable developments include:


- In 2007, Changsha utilised USD 1.5 billion of foreign investment
- In December 2007, Changsha was approved as a "Chinese Outsourcing Services Base" by the Ministry of Commerce, the Ministry of Information Industry and the Ministry of Science and Technology
- In December 2007, the Changsha-Zhuzhou-Xiangtan area was designated the country's latest experimental zone for conservation measures and environmentally friendly initiatives
- Changsha was ranked as the 14th most competitive city in China according to the National Bureau of Statistics of China in 2007

The business environment is evolving rapidly in China. Moreover, cost and operational issues vary from company to company and from industry to industry. Companies doing business in China, or those that are planning to do so, are advised to obtain current information and company-specific advice from experienced professional advisors and to conduct proper due diligence. This publication is dedicated to providing prospective investors with accessible, independent research on the business environment in Changsha, but this report should not be construed as a substitute for detailed due diligence prior to investment.

The sources of information in this booklet have been attributed throughout; the assistance of the Changsha Municipal Bureau of Commerce is gratefully noted. This booklet contains information available as at March 2008.

# 1 Changsha in context

- City introduction
- Economy
- City planning



A key transport hub in south-central China, Changsha has a sizeable population and a diverse economic and industrial base.

*“Thanks to the large consumer market and continuous expansion in the size of population and city, we are trying to make further investment in Changsha.”*

- Wal-mart Inc. Wal-mart opened its first supercentre in Changsha in 2003 and another two in 2005 and 2007

*“Changsha, a construction machinery hub, has three listed companies in this industry. We are very glad to see the solid progress of government’s initiatives for innovative industrialisation, hi-tech enterprise development and improvement in the investment environment of Changsha.”*

- Changsha Zoomlion Heavy Industry Science & Technology Development Co., Ltd., engaged in the R&D and manufacturing machinery for the construction, energy and transportation sectors. In 2006, it ranked as the 24th largest construction machinery manufacturer in the world and the largest in China



## City introduction

### Changsha is located in south-central China

- Hunan Province lies in the middle reach of the Yangtze River. It is a fertile and densely populated inland province with a population of approximately 68 million in 2007
- Changsha is the capital of Hunan Province and is within two hours' flight from Guangzhou, Hong Kong and Shanghai

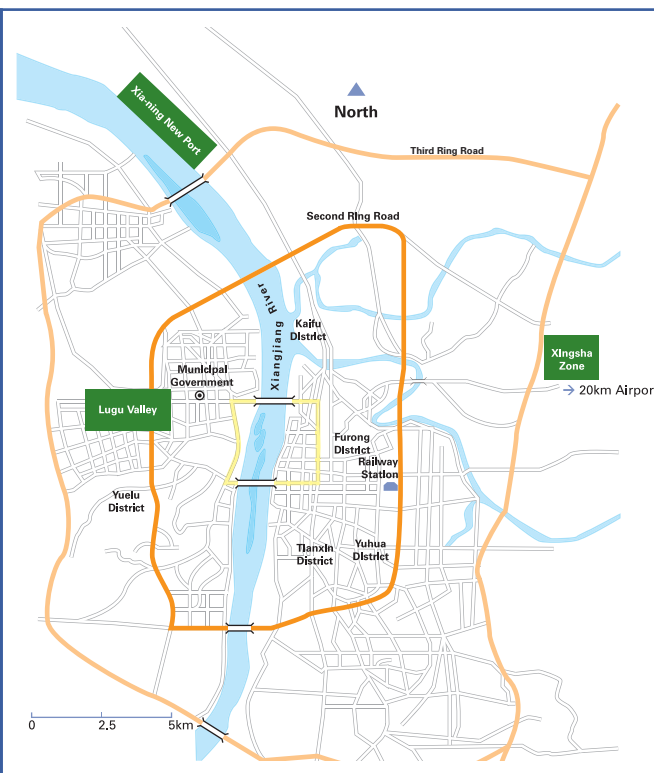
### The city is situated in the northeast of Hunan Province on the Xiangjiang River

- Changsha's written history dates back as early as 1600 BC and by the 17th century AD, the Qing Dynasty had established Changsha as the capital of Hunan province
- Administratively, Changsha covers an area of 11,800 km<sup>2</sup> made up of five urban districts and four counties
- Changsha had a total population of 6.53 million in 2007
- Changsha has established "sister city" relationships with several overseas cities such as St. Paul (MN) and Jersey City (NJ) in the U.S., Auburn (NSW) in Australia, and Gumi in South Korea
- Changsha has long and humid summers and mild winters with an annual average rainfall of 936.4 mm and temperature of 18 °C

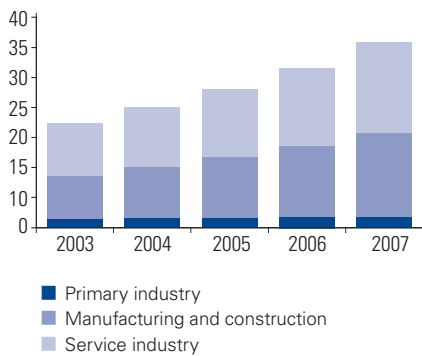
Changsha in China



Changsha urban area



**Figure 1**  
**Changsha's GDP by industry**  
**2003-2007**



Note: 1 USD = RMB 7.1 (2)

Sources: (1) Statistical Communique of Changsha, 2007 National Economic and Social Development

(2) People's Bank of China, March 13th, 2008

## Economy

### Changsha's economy is growing rapidly

- The gross domestic product (GDP) of Changsha has grown at an average of 15.4 percent per year from 2003-2007, compared with the national average of 11 percent; GDP per capita in Changsha amounted to over USD 4,748 in 2007
- The economy comprises agriculture (6.3 percent), construction and manufacturing (45.0 percent) and services (48.7 percent)
- According to Changsha's Social and Economic Development Plan (2006-2010), GDP is expected to grow at an annual rate of 13 percent through 2010

### Changsha has a large consumer market and further expansion is expected

- Changsha residents have seen increasing income levels; urban residents had an average per capita disposable income of over USD 2,275 in 2007, 17 percent higher than the national average
- According to Changsha's Social and Economic Development Plan (2006-2010), the average per capita disposable income will increase at an annual rate of 9 percent through 2010
- Retail sales reached USD 14.6 billion in 2007, representing a CAGR of 23 percent over the 2003-2007 period

### Changsha is one of China's more competitive cities

- According to the "Annual Report on Urban Competitiveness (No. 5)" (1), in all related indicators, Changsha ranked above average and 20<sup>th</sup> in China for efficiency
- Changsha was ranked 14<sup>th</sup> most competitive city in China by the National Bureau of Statistics of China in 2007

### A number of other cities within an hour's drive from Changsha form an "Economic Circle"

- Seven cities are within a one-hour drive from Changsha: Zhuzhou, Xiangtan, Yueyang, Yiyang, Changde, Loudi and Hengyang
- These cities have growing economies in their own right. With strong economic and transport links to Changsha, they form an "economic circle" around Changsha. Together with Changsha, these cities have a total population of 40.8 million and represent GDP of USD 97.6 billion, comprising 76 percent of Hunan province's total GDP, and total retail sales of USD 34.6 billion equivalent to 73% of Hunan province's 2007 total.
- Within a two-hour drive of Changsha, the "economic circle" includes two additional cities: Shaoyang and Pingxiang. The nine cities have a combined population of 50.13 million, GDP of USD 108.9 billion and retail sales of USD 38.1 billion

Source: (1) Chinese Academy of Social Science, March 2007



## City planning

### Changsha is continuing its infrastructure development

- The government continues to strengthen the infrastructure links to improve access in and out of Changsha
- In 2007, roughly USD 3.2 billion was invested in urban infrastructure construction. From 2008 to 2010, infrastructure construction will focus on transportation, energy security, IT infrastructure and water facilities

### Changsha's government has set a clear economic development plan for the next few years

- Changsha's government has released a Development Plan for Six Key Industries (2007-2015)
  - in order to increase industry competitiveness, Changsha intends to follow the strategies of "industry concentration" and "innovation and upgrading"
  - Changsha is dedicated to fostering leading companies within key industries, and encouraging the development of enterprises that provide auxiliary equipment or services
  - Changsha promotes institutional and technological innovation in order to upgrade industries and achieve sustainable development

#### Planning turnover of six key industries in 2007 and 2015 (USD billion)

Industry	2007	2015
Machinery	3.9	14.1
Automotive	1.7	34.7
IT / communication	0.95	29.6
Advanced materials	2.45	30.4
Home appliances	0.6	9.4
Traditional Chinese Medicine and bio-medicine	0.94	5.1
Total	10.6	120

Source: "Development Plan for Six Key Industries in Changsha", Changsha Municipal Bureau of Commerce

- Changsha plans to attract foreign investment through various approaches, placing emphasis on investment in key industries, modern logistics centres, central business districts and service outsourcing. Changsha is also to strengthen its efforts to attract foreign financial institutions. By 2012, foreign investment of USD 3 billion is targeted



### Changsha's living environment is also being enhanced

- The real estate sector attracted USD 5.8 billion of investment during 2007 - a rise of 36 percent on 2006; a further USD 9.5 billion of investment is planned by 2010
- The per capita living area of urban residents reached 28.3 m<sup>2</sup> in 2007. The Changsha government hopes to increase this figure to 32 m<sup>2</sup> by 2010
- A series of regulations on environmental protection have been issued recently regarding the disposal and treatment of waste water, air pollution and solid waste
- By 2007, the green coverage rate in developed areas reached 34 percent with green area per capita at 7.4 m<sup>2</sup>, and an additional 2 m<sup>2</sup> per capita is expected by 2012



## 2 Operating costs

- Land, factories and office buildings
- Telecommunications and utilities
- Human resources
- Transportation



Operating costs are key concerns for selecting plant or office locations. Compared with coastal cities in the east, Changsha has maintained its operating cost advantages.

*"Costs in Changsha are relatively low, such as labour and land...."*

*"Changsha has the location advantage of connecting the west and east of China, which guarantees a balanced cost of transportation."*

- Sany Heavy Industry Co., Ltd., an international brand for pump trucks, manufactures construction machinery (e.g. for roads) and hoisting machinery



## Land, factories and office buildings

### Foreign companies may purchase Land Use Rights (LUR), but cannot own property outright

- Foreign companies cannot own land in China. Land is accessed by paying a single fee to the local government in exchange for a LUR certificate, typically allowing 50 years of usage for industrial land
- Industrial zones have their own price schedules for LUR (actual prices are subject to negotiation with the specific zone)
  - the reference price for LUR in Changsha National Economic and Technology Development Zone ("CETZ") is USD 39 / m<sup>2</sup>
  - the reference price for LUR in Changsha National High-Tech Industrial Development Zone ("CHTIDZ") is USD 68 / m<sup>2</sup> in the downtown area and USD 32 / m<sup>2</sup> outside downtown
- According to current regulations, LUR are obtained through public bidding, auctions and public posting of available land

### Steel-frame and concrete factories can be constructed in industrial zones<sup>(a)</sup>

- An indicative cost to construct a single storey steel-frame factory is in the range of USD 42 / m<sup>2</sup> to 85 / m<sup>2</sup> (based on a floor area of 1,000m<sup>2</sup> and height of 8-15m, column-free)
- The cost to construct a three to six-storey steel-reinforced concrete factory is roughly USD 99 / m<sup>2</sup> to 141 / m<sup>2</sup> depending on the number of floors (based on a floor area of 1,000 m<sup>2</sup> and height of 4-5m per floor)
- Pre-built factory space is also available for rent within industrial zones:
  - annual rent for standard factory space varies from USD 25 / m<sup>2</sup> to 30 / m<sup>2</sup> depending on the location of the factory
  - a "standard factory" refers to a six-floor steel-reinforced concrete factory with a floor area of 1,000m<sup>2</sup>, height of 4-5m, column-free

### High-end office building

- High-end office buildings are located in downtown Changsha, with convenient access to the airport and railway stations.
- Rent in these buildings is typically USD 0.23 / m<sup>2</sup> per day, or around USD 7 / m<sup>2</sup> per month, much lower than rental levels in Shanghai (USD 30/ m<sup>2</sup> per month)

### Compared with other cities, the construction cost and rent for office buildings are quite low

Monthly rent for existing major office buildings (USD / m <sup>2</sup> )	
Office building	Rent (USD / m <sup>2</sup> )
First Boulevard Office Tower	6.7
Xiangyu Central Building	6.6
Shun Tian International Fortune Centre	7.2
Overseas Chinese Building	5.1

Source: Changsha Municipal Bureau of Commerce

Comparison of construction cost and rent office buildings		
City	Construction cost (USD / m <sup>2</sup> )	Monthly rent for an office building (USD / m <sup>2</sup> )
Changsha	42 - 85	7
Hangzhou	50 - 80	21
Guangzhou	113 - 141	19
Shenzhen	N/A	18
Shanghai	113 - 127	37

Source: KPMG analysis

Note: (a) data on the construction cost and rent of factories is for CHTIDZ

## Telecommunications and utilities

Telephone charges (USD / minute)				
Local call		National call	International call	
Fixed line	0.03 USD for the first 3 minutes and 0.01 thereafter	0.09	HK, Macau, Taiwan	0.26
			Other countries	1.03
Mobile	0.05	0.13	HK, Macau, Taiwan	0.26
			Other countries	1.02
IP phone	N/A	0.04 per minute plus local call charge	HK, Macau, Taiwan	0.19
			US, Canada	0.31
			Japan, Southeast Asia	0.46
			Other countries	0.60

Notes: "Local call" refers to the calls within the city; "national call" refers to calls from Changsha to any places within China; international call refers to calls to Hong Kong, Macau, Taiwan and other countries and regions. Off-peak discounts of 40 percent are granted for calls to 15 countries, including Japan, U.S., Singapore, Australia, Britain, Canada and Germany. Costs are rounded to the nearest cent

Source: China Telecom, Hunan

### There are several telecommunication options in Changsha

- Telephone options include fixed line, mobile phone and Internet Protocol services
- Various forms of internet access are available in Changsha
  - the annual rent for a digital data network (DDN) with 2 mbps provided by China Telecom is USD 845 for local connection (Changsha city only) and USD 1,691 for national connection
  - broadband network access services such as local area network (LAN) and Asymmetrical Digital Subscriber Loop (ADSL) are also widely available

### Changsha has been investing heavily on energy infrastructure

- For ordinary industrial consumers, the cost of electricity is about USD 0.08 / kWh. For commercial consumers, the cost of electricity is about USD 0.14 / kWh
- For large-scale industrial consumers (i.e. operations using more than the 350 KVA transformer capacity, such as electro-plating factories), there are two charges for electricity:
  - a basic monthly charge, payable regardless of the volume of power consumed, at roughly USD 2.8 / KVA of the transformer capacity
  - an additional consumption charge of about USD 0.07 / kWh

### A national gas pipeline has been developed, connecting Changsha's industrial areas to China's gas resources in western China

- Natural gas is piped to Changsha from western China at a current price of USD 0.38 / m<sup>3</sup>

### Changsha is surrounded by several rivers and has considerable water resources

- Changsha has seven waterworks with a water supply capacity of 1.7 million tons a day
- The cost of industrial water is currently USD 0.31 / ton, inclusive of a waste water discharge fee of USD 0.11 / ton

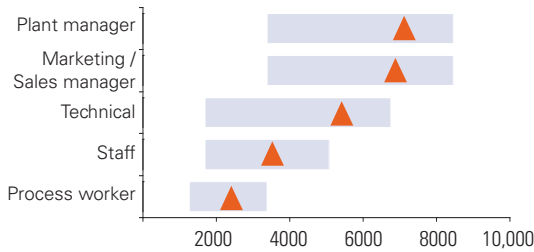
### Compared with other cities, the cost of electricity and industrial water in Changsha is quite low

Comparison of cost of electricity and industrial water among selected cities			
City	Cost of electricity		Cost of industrial water (USD / ton)
	Basic (USD / KVA)	Additional (USD / 100 kWh)	
Changsha	2.8	7.2	0.20
Hangzhou	2.8	7.8	0.28
Guangzhou	2.5	8.7	0.26
Shenzhen	3.4	8.7	0.32
Shanghai	4.6	8.5	0.18

Source: KPMG analysis

## Human resources

**Figure 2**  
Annual salary levels (USD)



Sources: (1) FIE survey in March 2008  
(2) KPMG analysis

### Changsha has a large workforce, with over 190,000 people entering the job market every year

- As the capital city in a populous province, Changsha has a sizeable workforce, supplemented by new graduates from middle schools, technical institutes and universities
- Changsha has 48 universities and colleges with approximately 108,000 fresh graduates from universities in 2007

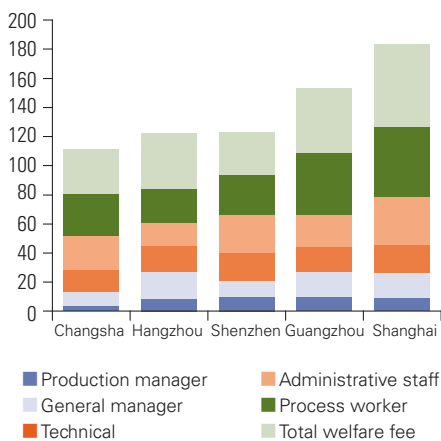
### Salaries for locally-hired staff are generally below USD 5,000 p.a.

- The total cost of employment consists of a basic salary and "social welfare" benefits, such as pension contribution
- The range and average of annual salaries (including bonuses) for employees in common job categories in FIEs in Changsha are shown in Figure 2
- Salaries for higher-level staff (such as plant managers or marketing managers) tend to be related to the size and the performance of the company and thus have a wider range

### "Social welfare" benefits must also be paid by the company and considered when estimating total staff costs

- All enterprises incorporated in Changsha must contribute to a range of benefits on behalf of employees, including pension, unemployment insurance, medical insurance, injury insurance, housing fund and maternity insurance
- The level of contribution is based on a percentage, set by the local authorities, of an employee's salary (see below table)

**Figure 3**  
Indicative annual labour cost comparison (USD) (a)



Note: (a) Based on a factory that comprises one general manager, one production manager, three technical staff, five administration staff and ten process workers

Source: 2007 "Guidance Wage Levels for the Labour Market" in Changsha, Hangzhou, Shenzhen, Guangzhou and Shanghai

Welfare obligations in Changsha	
Composition items	% of salary
Pension	20%
Basic medical insurance premium	8%
Unemployment insurance premium	3%
Staff and worker's injury insurance premium	1%
Housing fund	5%
Maternity insurance	0.7%
<b>Total</b>	<b>37.7%</b>

Sources: (1) Changsha Labour and Social Security Bureau  
(2) Changsha Housing Fund Administrative Centre  
(3) KPMG analysis

### In comparison with eastern cities in China, the labour cost in Changsha is relatively low

- We selected Hangzhou, Shenzhen, Guangzhou and Shanghai as key comparable locations (see Figure 3)

## Transportation

### Cost and time of sea transportation

Destination	Cost (USD)	Days
Hong Kong	600	10
Osaka	600	11
Los Angeles	1,800	20
Rotterdam	2,100	40
Hamburg	2,100	40
New York	3,000	40

Note: Cost of sea freight represents the tariff for shipping a 20 foot container of general cargo from Changsha to the selected destinations; cost might vary depending whether shipment is through Shenzhen or Shanghai

Source: Hunan COSCO

### Changsha's Xianing port is one of 23 main inland ports in China

- Xianing port has an annual handling capacity of 93,000 twenty-foot equivalent units
- River transport is the most cost-effective method of long-distance domestic transport. Normally goods are transported via Shanghai to other coastal cities such as Guangzhou, Qingdao and Tianjin
- The price to ship a 20-foot container of general cargo from Changsha port to Shanghai is USD 380, inclusive of all port charges. The transit time is around seven days
- For international shipping, Shanghai and Shenzhen are the major transit ports

### Changsha is well served by rail and highways, with easy access to main national railway lines and highways

- Changsha is a large hub of railway transportation in China. Three major railway lines pass through Changsha: the Beijing-Guangzhou, Zhuzhou-Guiyang and Hangzhou-Zhuzhou lines
- Changsha is connected to the national highway network, although long distance container transport is not common

### Cost and time of highway and railway transportation

Destination	Highway		Railway	
	Cost (USD)	Days	Cost (USD)	Days
Guangzhou	495	1-2	308	4
Shanghai	770	1-2	395	6

Note: Cost of railway freight represents the tariff for shipping a 20 foot container of general cargo from Changsha to the selected destinations

Sources: (1) Changsha Train Bureau  
(2) Changsha Container Transportation Co., Ltd.

### It takes three days for airfreight shipments from Changsha to reach the west coast of the US

- Many companies, such as COSCO Express or DHL, provide domestic and international airfreight express from Changsha to destinations all over the world
- It takes two days for cargo to reach other Asian cities from Changsha, three days to Australia and the west coast of the US, and four days to the east coast of the US and Europe

### Cost of air express transportation for general cargo (USD)

Destination	<=0.5 kg	Every additional 0.5kg
Hong Kong	6	2
Korea, Taiwan	12	5
Japan	13	5
Australia	19	6
US and Canada	19	8
Western Europe	20	8

Source: China Air Express (Hunan) Co., Ltd.





## 3 Business and living environment

- Business environment
- Living in Changsha

Changsha is a large urban city in the "heartland" of China. It has a long history and strong traditional culture. With increasing levels of foreign trade and investment, Changsha is attracting more foreign investors, visitors and residents.

*"We are looking forward to further development of the modern logistics centre in Changsha."*

- Hunan Friendship & Apollo Co., Ltd., is mainly engaged in retail trade. It has total assets of USD 260 million with over 20,000 employees

*"The potential market of auxiliary equipment for engineering machinery in Changsha indicates a huge commercial opportunity for related companies."*

- Hunan Sunward Intelligent Machinery Co., Ltd., a hi-tech listed company, is the largest manufacturer of pile driving machinery in China



## Business environment

### Many levels of hotels are available in the city, including a number of five-star hotels

- Changsha has eight five-star hotels (plus two additional premium hotels, which were not yet graded at the time of publication), 14 four-star hotels and 51 three-star hotels. The average daily rate for a room ranges from USD 21 to 63, with discounts available for longer stays
- Larger hotels offer a range of facilities including conference/ballrooms, western restaurants, gymnasiums and sports facilities

Hotels in Changsha		
	Number of rooms	Average charge per night (USD)
5 star	3,236	63
4 star	3,120	35
3 star	6,927	21

Sources: Changsha Tourism Bureau, KPMG analysis

### Changsha Jinxia Logistics Park focuses on tax refunds for exports and duty-free imports

- Jinxia Logistics Park is located in Changsha National Economic & Technology Development Zone, covering a total area of 1 km<sup>2</sup>. It commenced operations in July 2006

### Hunan International Convention & Exhibition Centre is one of the largest exhibition halls in central China

- The centre covers 120,000m<sup>2</sup> and the exhibition hall covers 50,000 m<sup>2</sup> with 2,000 international standard booths
- It has 25 meeting rooms equipped with a multi-media system and simultaneous interpretation devices
- The centre has successfully held many large national events such as the Central China Trade and Investment Expo and the Changsha International Automotive Expo

### Job centres can help investors recruit both skilled and unskilled staff

- Several job centres have been established in Changsha. Job seekers register with the centres, which maintains a database
- In addition to using a job centre to recruit staff, companies can also recruit through newspaper advertisements or other channels
- Staff employed by a FIE must have their details registered with one of the three job centres authorised by the local labour bureau (according to the Human Resources Administrative Rights, or HRAR). These centres are the:
  - Changsha Human Resources Market
  - Changsha Career Service Centre
  - Changsha Labour Centre



## Living in Changsha

### Housing, healthcare and education

- Long-term residents in Changsha have several housing options, ranging from renting apartments or serviced rooms in one of Changsha’s hotels to renting or purchasing a residence
  - the cost of renting a two bedroom, 100 m<sup>2</sup> (1,076 ft<sup>2</sup>) apartment in the downtown area is approximately USD 350 per month
- Approximately 133 hospitals serve residents and visitors to Changsha
- Changsha enjoys an exceptional learning atmosphere with a strong academic community that includes 48 colleges and universities

### Transportation

- Changsha is within easy reach of major Chinese cities - about one and a half hours by air from Hong Kong or Shanghai
- Changsha’s Huanghua international airport currently operates roughly 40 domestic routes non-stop to major domestic destinations such as Beijing, Shanghai, Guangzhou and Shenzhen, and destinations further afield, including cities in Korea, Hong Kong, Macau and Bangkok

Travel by air			
City	Single flight (USD)	Flying time (hours)	Weekly flights (departure)
Shanghai	192	1.5	45
Beijing	146	2	42
Guangzhou	113	1	42
Chongqing	120	1	40
Hong Kong	306	1.5	20

Note: Economy Class; prices are for reference only  
 Source: Huanghua Airport



### Dining, shopping, leisure and entertainment

- Changsha’s local cuisine, “Xiang Cai” is one of the eight main cooking styles in China and is known for its spiciness
- Changsha now has a number of multinational hypermarket chains, including Wal-mart and Metro, and chain restaurants such as Pizza Hut, McDonalds and KFC
- Gyms, golf, history museums, parks and other recreational facilities in and around Changsha provide plenty of weekend entertainment options to residents and visitors

### Landmarks and heritage

- The Hunan Provincial Museum houses over 3,000 cultural relics discovered in the Western Han Tombs that were unearthed in the 1970s
- Known as the “one-thousand-year-old academy”, Yuelu Academy was founded in 960 AD at the foot of Yuelu Mountain with a spectacular view. It led the four major academies of the powerful Song Dynasty. It was long the cultural and learning centre of Confucian education, fostering generations of talent
- Hunan embroidery originates from the folk embroidery of Hunan. It has a long history of around two thousand years and is one of the four famous Chinese embroidery styles
- Other local cultural heritage includes Changsha Yao (the first multi-coloured porcelain in China) and Hunan Opera, a traditional opera with a history of over 500 years





## 4 Investment in Changsha

- Investment trends
- Investment guidance

In recent years, foreign inbound investment has increasingly focused on inland areas in addition to the coastal cities. In 2007, Changsha attracted over USD 1.5 billion of FDI. Investments have been made in a variety of sectors, including hi-tech manufacturing, food production and services.

*“The industrial zone management has a strong sense of providing services, and is eager to satisfy a company’s demands in a highly efficient manner... The government is able to honour its commitments to foreign investors.”*

- Bosch Automotive Products (Changsha) Co., Ltd., a wholly foreign-owned enterprise, was set up in 2004 and now has over 1,500 employees in Changsha

*“The industrial zone management offers strong support for enterprises by providing on-site one-stop services which are quite effective.”*

- Changsha Zoomlion Heavy Industry Science & Technology Development Co., Ltd.



## Investment trends

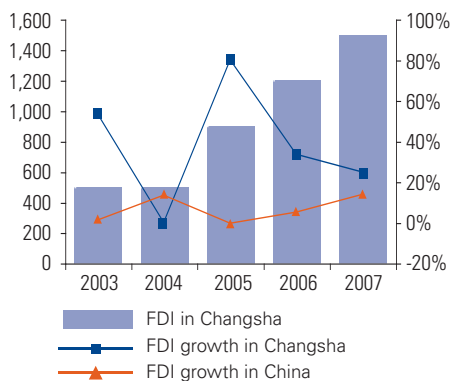
### Changsha is a “magnet” for foreign investment within Hunan province

- Changsha’s 227 new projects in 2007 represented almost half of Hunan Province’s total utilised FDI in 2007; to date, Asian countries account for most of the FDI into Changsha
- In 2007 Changsha utilised USD 1.5 billion in foreign direct investment (FDI). The utilised FDI from 2003 to 2007 has grown on average by roughly 31 percent each year, more than four times the national rate

### Changsha’s two industrial zones accommodate various types of FIEs

- CHTIDZ has been able to provide a solid platform to encourage science and technology innovation with the help of colleges and universities in Changsha
- CETZ is not only a national economic development zone but also a national high-new technology industrial development zone. It aims to provide a sound investment environment with the best possible infrastructure and services

**Figure 4**  
Changsha and National FDI 2003-2007



Sources: (1) Statistical Communique of Changsha, 2007 National Economic and Social Development, issued by Statistical Bureau of Hunan Province  
(2) Statistical Communique of the People’s Republic of China, 2007 National Economic and Social Development issued by Statistical Bureau of Changsha

### Changsha’s major development zones (at the end of 2007)

	CHTIDZ	CETZ
Established	1988	1992
Total area (km <sup>2</sup> )	80	60
Developed area (km <sup>2</sup> )	15	13.6
Distance from downtown area (km)	8	10
Distance from airport (km)	28	8
Number of FIEs	200	96
Total investment (USD billion)	4.23	4.93

Sources: (1) Changsha Municipal Bureau of Commerce  
(2) Administrative Committee of CHTIDZ  
(3) Administrative Committee of CETZ

“Support from the creative government, greener environment and innovation are Changsha’s key advantages.”

- Mr. Ding Yuangang, Vice President of Broad Air Conditioning

### Case study 1: Broad Air Conditioning Co., Ltd.

**Broad is a Changsha-based 100% private company; it is the leading global non-electric absorption chillers manufacturer and also an energy saving solution provider**

- Broad Air Conditioning, established in 1988 with its headquarters in Changsha, is a 100% Chinese private enterprise with approximately 2,000 employees
- Broad’s main products include central air conditioning non-electric absorption chillers, central air conditioning terminals and other energy saving products. Its products have been exported from Changsha to more than 60 countries
- In 2007, Broad’s revenue amounted to USD 900 million, an increase of 40 percent over 2006. According to management, Broad holds more than 60 percent share in the domestic non-electric chillers market, and around 50 percent in the USA, European and Middle-east markets

### Broad has a commitment to enhance living quality, and benefits from the local investment environment

- Broad has pursued a “green” policy through its air conditioning technology. In 2002, Broad was commended by the United Nations Global Compact Learning Forum for being the only example of a company prioritising environmental protection in China’s air conditioning sector
- Broad is pleased with the favourable investment environment in Changsha. In our interview, management referenced the following examples:
  - “The Changsha government is innovative in local investment policies to enterprises and continuously supports us. In the city’s marketing activities, the government actively introduces national and global leading companies and overseas diplomats to visit Broad, which helps to expand our reach in the world.”
  - “Enterprise innovation has always been encouraged in the local culture, which also leads to the development of Broad’s core competency.”

Sources: (1) Company publications  
(2) KPMG interviews



### Foreign investment to date has focused on six pillar industries

- The pillar industries of real estate, manufacturing, services, agriculture, construction and power have attracted the lion's share of foreign investment
  - in 2007, 32 foreign companies entered the real estate industry in Changsha, with a total investment of USD 600 million
  - in 2007, 128 foreign companies entered the manufacturing industry in Changsha, with a total investment of USD 541 million
- Changsha has successfully managed to attract major multinational companies to locate operations or representative offices in the city
  - 26 Fortune 500 companies have established joint ventures or wholly foreign owned enterprises in Changsha

#### Major multinationals in Changsha

Company	Investment(USD million)	Key products
LG Philips Shuguang Electronics Co., Ltd.	420	TV monitor tubes
Bosch Automotive Products (Changsha) Co., Ltd.	172	Automotive products
Hankuk Electric Glass Co., Ltd.	325	Household video equipment
Electrolux Home Appliances China Co., Ltd.	120	Household refrigerating appliances

Source: Changsha Municipal Bureau of Commerce

“We have enjoyed Changsha’s advantages of labour and logistics costs and government support.”

- Mr. Ha Joung Won, General Manager of  
LG Philips Shuguang

### Case study 2: LG Philips Shuguang Electronics Co., Ltd.

#### LG Philips Shuguang is regarded as one of the most successful overseas investments by LG Philips Displays

- LG Philips Shuguang Electronics Co., Ltd. is a large-scale electronic enterprise jointly invested in 1994 by LG Philips Displays, Hunan Electronic Information Industry Group and Hunan Shuguang Electronics Group
- It is an important production base for Cathode Ray Tube (CRT) television, CRT monitors and key components in China
- In 2007, the total revenue of LG Philips Shuguang amounted to USD 500 million, with its sales revenue increasing at an annual average rate of over 30 percent

#### Companies in Changsha benefit from the rapid development of coastal areas and the government’s Western China Development Programme

- The favourable location and low costs were key in LG Philips’s decision to invest in Changsha ten years ago:
  - *“The operating cost in Changsha is relatively low compared with other cities. The high quality labour is available at a low price, and being central China, the logistics cost is favourable.”*
- The local government is considered cooperative and reliable
  - *“The Changsha government has been cooperating actively with us and has done well in its commitments.”*

Sources: (1) Company publications  
(2) KPMG interviews

### Registration procedures for establishing FIEs



## Investment guidance

### The two state level industrial zones, CETZ and CHTIDZ, provide preferential taxation and financing policies for enterprises

- Both industrial zones fully implement all favourable policies of national economic and development zones and national hi-tech industrial development zones
  - the Corporate Income Tax rate for advanced and new technology enterprises recognized by the relevant government authority (i.e. Advanced and New Technology Enterprise Recognition Institution composed of the government authorities of science and technology, finance and tax) is reduced to 15 percent
- In CHTIDZ
  - the finance department of the Zone committee has set up a special fund (USD 28.2 million) for industry development to support the development of key industries, featured industries, and technological innovation projects
  - manufacturing enterprises in the electronics, equipment and advanced material industries with one-time fixed asset investment of USD 70.4 million or more, can assess a separate industry support fund. The amount of funding will be 10 percent or more of the fixed asset investment, considering the contribution of the projects to taxation in CHTIDZ
  - headquarters and regional headquarters that do not set up a manufacturing base, can receive a cash grant within three years of starting operations. The amount will be 10 percent to 45 percent of the tax collected by the CHTIDZ from the enterprises
  - "Fortune 500" or Chinese top 100 enterprises who conduct research or production in industries such as IT / communication, equipment manufacturing and advanced materials, or set up headquarters or regional headquarters in CHTIDZ, will be given a one-off industry support grant. The amount of the grant will be USD 70,500 to 141,000 considering brand reputation, investment scale and production volume
  - to small-medium sized enterprises of science and technology, according to the amount of new taxation on enterprises, the finance department of CHTIDZ will provide a loan interest payment support of no more than 40 percent of the loan interest from the bank. However, the total discount rate gained by one enterprise from all levels of government cannot exceed the loan rate
  - the Zone will waive administration fees for enterprises that do not pay any levies other than tax
  - Changsha Customs offers efficient customs clearance measures in accordance with relevant regulations and policies such as pre-arrival declaration and on-the-spot examination to those enterprises within the Zone
- In CETZ
  - the Zone management committee will allocate CNY 200 million every fiscal year to develop key leading industries and spur technological innovation in the Zone
  - automotive and construction machinery enterprises enjoy a deduction from the current year's taxable income equal to 150% of R&D expenses for new products, technology and manufacturing techniques
  - new projects (or those with upgraded technology), with a fixed asset investment of over CNY 2 million per mu<sup>(a)</sup> or an output of over CNY 3 million per mu, enjoy a 20% refund of the local tax paid for a five year period from the year that operations commence

Sources: (1) Administrative Committee of CHTIDZ  
(2) Administrative Committee of CETZ

Note: (a) 1 mu=0.067 hectare

## 5 Useful Contacts in Changsha

- Changsha Municipal Bureau of Commerce
- Other government contacts
- Internet links

## List of useful contacts in Changsha

### Changsha Municipal Bureau of Commerce

#### 10th Floor, Municipal Government Mansion

No. 218, Yuelu Road, Changsha  
Postcode: 410013  
Website: [www.cstrade.gov.cn](http://www.cstrade.gov.cn)

#### Foreign Investment Liaison Department

Tel: +86 (731) 866 5557  
Email: [hninvest@yahoo.com.cn](mailto:hninvest@yahoo.com.cn)

#### Foreign Investment Administration Department

Tel: +86 (731) 866 6056  
Email: [csinvest2006@yahoo.com.cn](mailto:csinvest2006@yahoo.com.cn)

#### Foreign Trade Department

Tel: +86 (731) 866 5556  
Email: [ld\\_trade@126.com](mailto:ld_trade@126.com)

### Internet Links

Changsha Government "Window"  
[www.changsha.gov.cn](http://www.changsha.gov.cn)

Changsha Business "Window"  
[www.cstrade.gov.cn](http://www.cstrade.gov.cn)

Changsha Customs  
<http://changsha.customs.gov.cn>

Changsha Real Estate  
[www.haofz.com](http://www.haofz.com)

Changsha City Map Online  
<http://changsha.edushi.com>

### Other Government Contacts

#### Administrative Committee, Changsha National Hi-Tech Industrial Development Zone

No. 668, Lugu Avenue, West Riverside, Changsha  
Tel: +86 (731) 899 5555  
Website: [www.cshtz.gov.cn](http://www.cshtz.gov.cn)

#### Administrative Committee, Changsha National Economic and Technology Development Zone

No. 2, Xingsha Sanyi Road, Changsha  
Tel: +86 (731) 401 1108  
Website: [www.cetz.gov.cn](http://www.cetz.gov.cn)

#### Changsha Municipal Commission of Development and Reform

5th Floor, Municipal Government Mansion  
No. 218, Yuelu Road, Changsha  
Tel: +86 (731) 866 5530  
Website: [www.changsha.gov.cn/fgw/](http://www.changsha.gov.cn/fgw/)

#### Changsha Economic Committee

8th Floor, Municipal Government Mansion  
No. 218, Yuelu Road, Changsha  
Tel: +86 (731) 866 6008  
Website: [www.csgy.gov.cn](http://www.csgy.gov.cn)

#### Changsha Municipal Construction Commission

9th Floor, Municipal Government Mansion  
No. 218, Yuelu Road, Changsha  
Tel: +86 (731) 866 5911  
Website: [www.zgcsjs.com](http://www.zgcsjs.com)

#### Changsha Labour and Social Security Bureau

No. 57, 2nd sect, Middle Furong Road, Changsha  
Tel: +86 (731) 442 4907  
Website: [www.csldbz.gov.cn](http://www.csldbz.gov.cn)

#### Changsha Municipal Land Administration Bureau

No. 150, Evening News Avenue, Changsha  
Tel: +86 (731) 218 3182  
Website: [www.cs-land.com](http://www.cs-land.com)

#### Changsha Bureau of Communications

No. 269, Middle Wanjieli Road, Changsha  
Tel: +86 (731) 815 1200

#### Changsha Bureau of Urban Planning

9th Floor, Municipal Government Mansion  
Tel: +86 (731) 866 6200  
Website: [www.csup.gov.cn](http://www.csup.gov.cn)

#### Changsha Environmental Protection Bureau

No. 160, Chaoyang Road, Changsha  
Tel: +86 (731) 412 9654  
Website: [www.changsha.gov.cn/hbj/](http://www.changsha.gov.cn/hbj/)

#### Changsha Utility Administration Bureau

No. 231, Jiucaiyuan Road, Changsha  
Tel: +86 (731) 443 5267

#### Industrial and Commerce Administration Bureau of Changsha

No. 411, 1st sect, 2nd South Ring Road, Changsha  
Tel: +86 (731) 289 1606  
Website: [www.csaic.gov.cn](http://www.csaic.gov.cn)

#### Changsha State Tax Bureau

No.269, North Shaoshan Road, Changsha  
Tel: +86 (731) 418 5602

#### Changsha Local Taxation Bureau

No. 1, Baisha Road, Changsha  
Tel: +86 (731) 511 8960  
Website: [www.cstax.gov.cn](http://www.cstax.gov.cn)

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Shenyang 110013, China  
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1266 Nanjing West Road  
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### Nanjing

46th Floor, Zhujiang No.1 Plaza  
1 Zhujiang Road  
Nanjing 210008, China  
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Fax : +86 (25) 8691 2828

### Chengdu

18th Floor, Tower 1, Plaza Central  
8 Shuncheng Avenue  
Chengdu 610016, China  
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Hangzhou 310007, China  
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