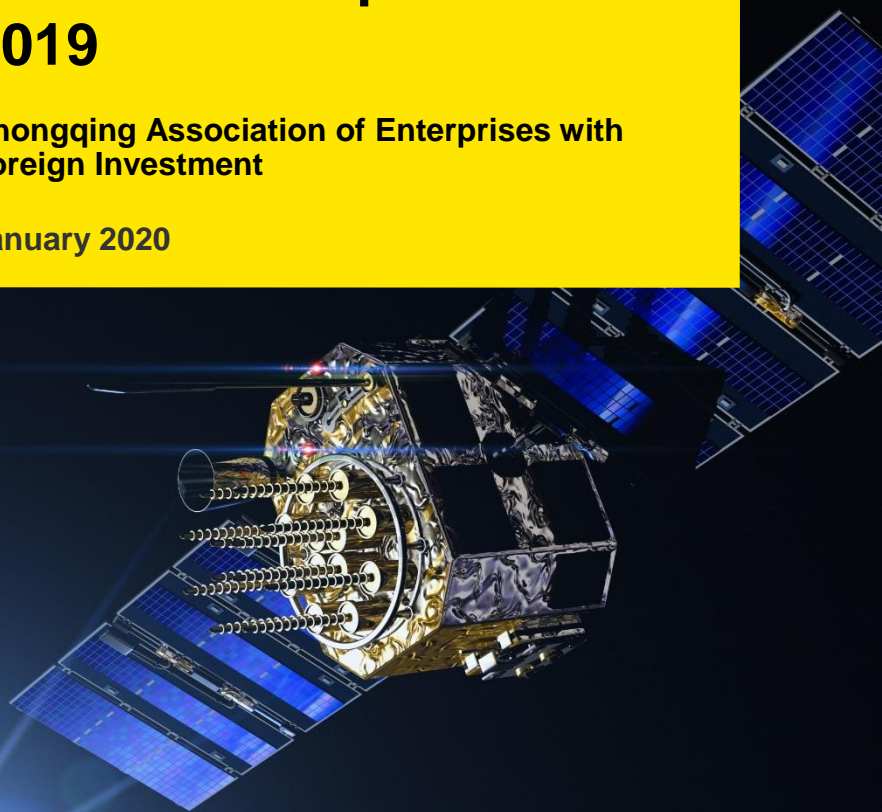


# Chongqing Foreign Investment Environment Evaluation Report 2019

Chongqing Association of Enterprises with  
Foreign Investment

January 2020



CQAEFI

重庆市外商投资企业协会  
Chongqing Association of Enterprises  
with Foreign Investment



Building a better  
working world





## Preface

Chongqing is the sole directly-administered municipality in central and western China, located in the southwest of China and the upper reaches of the Yangtze River. It owns a long history and rich culture. As being one of China's important city, Chongqing has the area of 82,400 square kilometers which covering 38 districts (autonomous counties) and has a inhabitant population of 31.02 million.

In recent years, Chongqing has maintained its economy grow rapidly and consistently. In 2018, Chongqing's regional gross domestic product ("GDP") was RMB 2,036.32 billion, up 6.0% than last year; the actual utilization of foreign capital was USD 10.27 billion, with a year-on-year growth of 0.89%. In the first three quarters of 2019, Chongqing's regional gross domestic product ("GDP") was RMB 1,607.36 billion, up 6.3% than last year; the actual utilization of foreign capital was USD 6.55 billion, with a year-on-year growth of 3.1%. Chongqing has achieved the following achievements: the inland opening-up heights has being risen; the open channel supported by the Yangtze River and the China-Europe Railway Express (Chongqing) has been fully formed; the third intergovernmental cooperation project between China and Singapore has being operated by Chongqing; China (Chongqing) Pilot Free Trade Zone is in continuous construction; the inland international logistics hubs and ports have being developed smoothly.

Xi Jinping, General Secretary of the Communist Party of China Central Committee, has made important instructions on "Two Orientations", "Double-Place Goals" and "Double-High Goals", "Three Roles" and to build a good political ecosystem, during his inspection tour in Chongqing in 2019. "Two Orientations" means that Chongqing is required to become an important gateway for opening up in inland China, as well as the important strategic pivot in Chinese western development and the connection of "The Belt and Road" and "Yangtze River Economic Belt". The "Double-Place Goals" and "Double-High-Quality Goals" are to facilitate the construction of opening-up place in inland China and place of garden city, and to promote the high-quality development to the society and create a high-quality life to people. "Three Roles" refer to the pillar role in promoting the development of the western region in the new era, the leading role in promoting the "The Belt and Road", and the exemplary role in promoting the green development of the Yangtze River economic belt.

To carry out the goal of the 19<sup>th</sup> National Congress of the Communist Party of China regarding "Promote the formation of a new pattern of all-round opening up", Chongqing, as the pioneer to attract foreign capital to the central and western China, shall keep consistently moving forward. To support the foreign-invested enterprises have a fruitful business in Chongqing and to support the foreign investors easily invest in Chongqing, are the key tasks of Chongqing government.

Chongqing Foreign Investment Environment Evaluation Report (hereinafter referred to as the "Evaluation Report") is a series of reports issued by the Chongqing Association of Enterprises with Foreign Investment to continuously evaluate the foreign investment environment in Chongqing. Since the first release of the "Evaluation Report" in 2016, it has been released for four consecutive years.

2019 Evaluation Report keeps to assess the major investment environments as what done in last three years, and specifically adds the interview record of some typical enterprises in key industries.

The issuance of 2019 Evaluation Report was strongly supported by EY, one of the world's leading audit, tax, financial transactions and advisory services organization. EY participated in the design of survey questionnaire template, numerical analysis on survey feedback, and compilation of 2019 Evaluation Report.

\*Source: Website of Chongqing Statistics Bureau, <http://tjj.cq.gov.cn>

\*\*Source: Website of Chongqing Municipal People's Government, <http://www.cq.gov.cn>



# Chongqing Association of Enterprises with Foreign Investment



## Introduction

Founded in 1988, Chongqing Association of Enterprises with Foreign Investment ("CQAEFI") is a non-profit social organization affiliated to the Chongqing Municipal Commission of Commerce with voluntary access to foreign investors (including investors of Hong Kong, Macao and Taiwan). With the care and support from the Communist Party of China ("CPC") Chongqing Committee and Chongqing Municipal People's Government, under the guidance of the Chongqing Municipal Commission of Commerce and relevant municipal departments, CQAEFI has upheld the service philosophy of "gathering members, serving enterprises, contacting government, and giving back to society". For more than three decades, by fulfilling its role as the bridge between the government and foreign enterprises, CQAEFI has promoted the healthy development of foreign-invested enterprises in Chongqing and contributions to the city's social and economic progress. Our efforts have been well recognized by foreign-invested enterprises in Chongqing as well as the society. With an extensive influence both home and abroad, CQAEFI is rated as a 4A-level social organization.

In recent years, given Chongqing's full engagement in "Belt and Road Initiative" and the efforts to be pioneer of inland opening-up, CQAEFI has committed to promoting a law-based, internationalized and convenient business environment, fostering an equal, inclusive and diversified corporate culture vibe and providing a two-way service platform for both government and enterprises. Great efforts have been made to hold dialogue between government officials and foreign enterprises with the aim to facilitate communication channels; carry out creative business environment assessment surveys so as to contribute to business environment improvement; collect key information and statistics of foreign-invested enterprises serving as data base to authorities in administration streamlining, power delegation and service enhancement; help foreign-invested enterprises settle and flourish in Chongqing by handling their complaints and safeguarding their legitimate rights and interests; engage actively in Chongqing's opening up, including serving for the Smart China Expo, the Western China International Fair on Investment and Trade and assisting development zones in attracting investment; contact Foreign embassies, consulates, and chambers of commerce in Chongqing and Chengdu and promote publicity of Chongqing through We-Media including official account in We-chat; advocate foreign-invested enterprises to assume corporate responsibility in Chongqing by organizing donations for education, environmental protection, and poverty alleviation, thus the reputation of foreign-invested enterprises seeing a constant rising. CQAEFI has become a "home" for foreign-invested enterprises in Chongqing, a "bridge" connecting the government and enterprises, a "club" among enterprise members, a "platform" for enterprise development, and a "window" for providing value-added services to enterprises. So far, CQAEFI has more than 730 members and has connection with more than 2,000 foreign-invested enterprises. Various multinational giants, industry leaders, and professional elites have been gathering in CQAEFI to contribute wisdom and strength.

*\*Source: Chongqing Association of Enterprises with Foreign Investment*

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# 1

## Overview of Chongqing



# Milestones

**Mar. 1997**

On March 14, 1997, the Fifth Session of the Eighth National People's Congress approved the establishment of Chongqing municipality directly under the central government. Chongqing municipality was officially established on June 18, 1997.

**Jun. 2010**

Liangjiang New Area, the China's third national-level new district and the first one of its kind in inland China, was approved by the State Council and then successfully established.

**Nov. 2015**

The third inter-governmental cooperation project between China and Singapore was formally signed to establish Chongqing as the project operation center.

**Jan. 2016**

Xi Jinping, General Secretary of the Communist Party of China Central Committee, pointed out during his inspection tour in Chongqing in 2016: Chongqing is the important strategic pivot in Chinese western region development and the connection of "The Belt and Road" and Yangtze River Economic Belt. Chongqing shall become an important gateway for opening up in inland China and national garden city.

**Apr. 2017**

On August 31, 2016, Chongqing was approved to establish a free trade pilot zone ("FTZ"). Chongqing FTZ was officially established on April 1, 2017.

**Mar 2018**

During the 2018 National two sessions (National People's Congress, "NPC" and Chinese People's Political Consultative Conference, "CPPCC"), General Secretary Xi Jinping encouraged Chongqing to promote the high-quality social development and create a high-quality life to people.

**Aug. 2018**

Chongqing held the first China International Smart Industry Exposition from August 23<sup>rd</sup> to 25<sup>th</sup>.

**Apr. 2019**

Xi Jinping made important instruction on "Three Roles", which refer to the pillar role in promoting the development of the western region in the new era, the leading role in promoting the development of "The Belt and Road", and the exemplary role in promoting the green development of the Yangtze River economic belt.

**Oct. 2019**

On October 22, 2019, the Conference named Full Integration into "the Belt and Road" and Promotion of Inland Opening-Up in Chongqing was held. During the conference, Chen Min'Er, secretary of Chongqing municipal party committee, emphasized the need to carry out the key instructions made by President Xi Jinping, to firmly implement the new concept of development, to pay more attention to the relation between the common development and the individual development, to fully integrate into the development of "the Belt and Road" and the Yangtze River Economic Belt, to cultivate new advantages of inland opening, to take the lead in western China opening up, and to contribute to the development of the land-sea connections and east-west interactions.

*\*Source: Website of Chongqing Municipal People's Government, <http://www.cq.gov.cn>*

# 1.1 Briefing



## 1.1.1 Briefing of Chongqing

### ► Introduction

Chongqing is the sole directly-administered municipality in central and western China. It owns a long history and rich culture. As being one of China's important city, Chongqing has the area of 82,400 square kilometers which covering 38 districts (autonomous counties) and has a inhabitant population of 31.02 million.

At present, Chongqing is one of the regional centers of China. It connects the Silk Road Economic Belt and the 21st century Maritime Silk Road. It is the junction of New Channel of International Land-Sea Trade, the Yangtze River golden waterway, the China-Europe Railway Express and the Chongqing-Manzhouli-Russia Railway. Chongqing is currently speeding up the development of inland international financial center, international consumption center, international exhibition city, international communication center in the central and western China region, and world-famous tourist destination.

### ► Chongqing Image By Media

#### New York Times, US

"Chongqing is a model for China's future development."

#### 2017 National Central City Development Report

"Chongqing is ranked as fourth in the comprehensive assessment of TOP 8 national central cities."

#### The Economist, British

"Chongqing, China's Chicago."

#### World Travel and Tourism Council

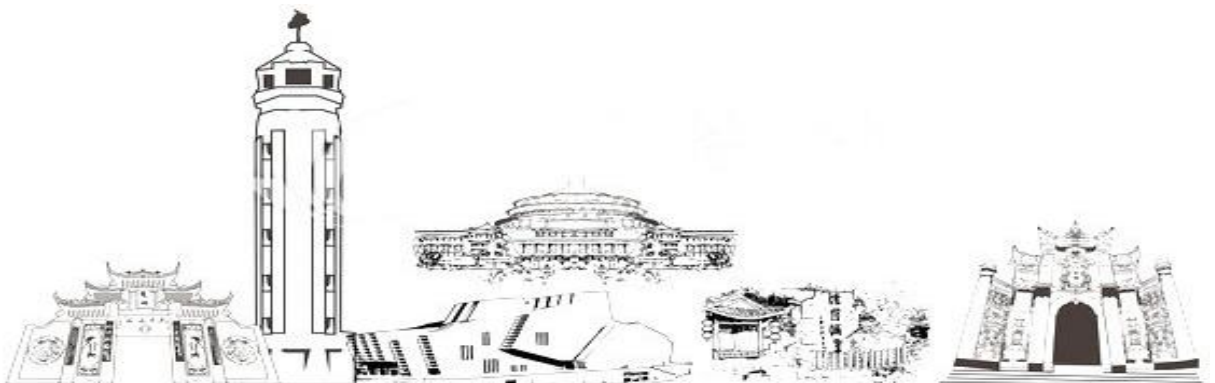
"One of the 10 fastest tourism growing cities in the world."

#### Forbes, US

"Chongqing, the experimental field of China's Urbanization."

#### Foreign Direct Investment, British

"Chongqing has a leading investment environment in central and western China."



<sup>1</sup>Source: Website of Chongqing Municipal People's Government, <http://www.cq.gov.cn>

<sup>2</sup>Source: Chongqing Investment Guide (2019), compiled by Chongqing Municipal Commission of Commerce





### ► Economical Development

In recent years, Chongqing has maintained its economy grow rapidly and consistently. In 2018, Chongqing's regional gross domestic product ("GDP") was more than RMB 2,036.32 billion, up 6.0% than last year. The main economic indicators continued to be good. In 2018, the added value of industries above designated size increased by 0.5%, fixed asset investment increased by 7.0%, the total volume of import and export reached RMB 522.26 billion with an increase of 15.9%; the actual utilization of foreign investment reached USD 10.27 billion and the foreign direct investment ("FDI") increased by 43.8%, ranking No. 1 in central and western China. In the first three quarters of 2019, Chongqing's GDP was over RMB 1,607.36 billion with growth rate of 6.9%. There are 143 newly settled foreign-invested enterprises, the actual utilization of foreign investment reached USD 6.55 billion, with a year-on-year growth of 3.11%.

### ► Two Orientations, Double-Place Goals, and Double-High-quality Goals

Xi Jinping, General Secretary of the Communist Party of China Central Committee, has made important instructions on "Two Orientations", "Double-Place Goals" and "Double-High Goals", during his inspection tour in Chongqing in 2016. "Two Orientations" means that Chongqing is required to become an important gateway for opening up in inland China, as well as the important strategic pivot in Chinese western development and the connection of "The Belt and Road" and "Yangtze River Economic Belt". The "Double-Place Goals" means to facilitate Chongqing's development to be opening-up place in inland China and place of garden city. During the 2018 NPC and CPPCC, Xi Jinping encouraged Chongqing to promote the high-quality social development and create a high-quality life to people, which are abbreviated "Double-High-quality Goals".

### ► Three Roles

Xi Jinping, made the important instructions on "Three Roles", following the "Two Orientations", "Double-Place Goals" and "Two-High-Quality Goals". Xi Jinping's new strategic orientation to Chongqing means that Chongqing will take more responsibilities. Chongqing shall make efforts to establish a new pattern for the development of the western region in the new era and to make clear the historical orientation of Chongqing's development. In addition, Chongqing should make clear its value orientation of inland opening during the promotion of "The Belt and Road" and the establishment of a new pattern of opening up.

### ► China-Europe Railway Express (Chongqing)

China-Europe Railway Express, which is organized by the China Railway Corporation, operated in the international railway container intermodal transportation mode in China-Europe along "the Belt and Road" with characters of fixed trips, routes, schedule and transport time. China-Europe Railway Express corridor is divided into the west, central and south corridors: the west corridor leaves border at Alataw (Khorgos), the central corridor leaves border at Erenhot port and the south corridor leaves border at Manchuria (Suifenhe). In 2018, the train had ran 6,300 times, with a year-on-year growth of 72%, including 2,690 times return, with a year-on-year growth of 111%. In 2019, the train had ran 8,225 times, with a year-on-year growth of 29%.

### ► Chongqing-Manzhouli-Russia Railway

Chongqing-Manzhouli-Russia Railway, as being the north branch line of China-Europe Railway Express (Chongqing), is an important channel for Chongqing to reach Far East market. Chongqing-Manzhouli-Russia Railway starts from Chongqing International Logistics Hub, passes through Manzhouli Port, crosses Siberia and arrives in Moscow. Since the first class launched in 2014, the railway becomes more busy. In 2018, Chongqing-Manzhouli-Russia Railway launched 223 classes, and now becomes a common approach for China-Russia trading.

### ► New Channel of International Land-Sea Trade

The New Channel of International Land and Sea Trade starts from Beibu Gulf and Nanning, goes north through Guiyang, Chongqing, Chengdu, and connecting Lanzhou and Xi'an, forming the first north-south orientated channel in western China and adding another large passage to the south coast of China. The New Channel of International Land-Sea connected China with nine ASEAN countries and seven countries in the Indo-China Peninsula. The establishment of these transportation network will help the development of the economic corridors.

\*Source: <https://www.yidaiyilu.gov.cn/xwzx/gnxw/114531.htm>

\*\* Source: Website of Chongqing Statistics Bureau, <http://tj.cq.gov.cn>

\*\*\* Source: Website of Chongqing Municipal People's Government, <http://www.cq.gov.cn>

## 1.1.2 Chongqing Investment Strength

### ► Support of the CPC Central Committee

The Communist Party of China (“CPC”) Central Committee has given unprecedented support to Chongqing’s opening up process. A series of opening-up platforms construction set up in Chongqing. Many special policies, such as pilot free trade zone, national new area, high-tech zone, comprehensive bonded zone and national logistics hub, are superimposed in Chongqing, which is unique in western China and even in the whole country.

### ► Unique Geographic Advantage

Chongqing has unique geographical advantages, linking the east to the west, connecting the south to the north. For example, the Belt and Road construction and Yangtze River Economic Belt provide Chongqing with a broader platform for “going global”. The Yangtze River Economic Belt provides Chongqing with an important carrier to integrate into the central and eastern China regions.

### ► Solid industrial foundation

Chongqing has a complete range of industries, owning 39 of the 41 industrial categories in China. Chongqing is the world’s largest production base of laptop and an important production base of automobiles, motorcycles and mobile phones. Strategic emerging industries, such as integrated circuit, new display, energy conservation and environmental protection, and biomedicine, have developed rapidly. The development of intelligent industry has been in the first rank in China. Industrial agglomeration has been accelerated, good industrial ecology has been formed, and innovation vitality has been constantly bursting out, which create favorable conditions for further expanding creation and opening up.

### ► Favorable Factor Markets

Chongqing owns diverse open platforms, various factor markets and more than 6,000 foreign-invested entities. The number of consulates in Chongqing ranks among the top in China. Various exhibitions held in Chongqing with expanding influence, such as Smart China Expo and the Western China International Fair on Investment.

### ► Beautiful Natural Landscape

Chongqing is surrounded by mountains, rivers and gorges, which are perfectly connected and well-scattered. This city is famous for mountains and rivers, known as the “Standing City of 4D Magic”. It has become a beautiful business card for Chongqing’s further opening up.

### ► Long history and profound civilization

Chongqing has a long history of opening up. Back to 1891, Chongqing became the earliest western China inland port, which enjoyed modern factories, commercial banks, shipping companies, new-style schools, electric lighting and so on. Many great men in China (such as Deng Xiaoping, Chen Yi, Nie Rongzhen, Guo Moruo, Wu Yuzhang) started their great path from Chongqing port to build the new China. By the 1930s, Chongqing was prosperous as a result of inward migrant. Industry and commerce, finance, transportation, culture and education have been developed rapidly. Chongqing became a large city with international influence and many famous people have left their footprints here. Chaotianmen, International Village, Huguang Guild Hall, and the former embassy site have witnessed the city’s history and development. With profound history, open culture and humanistic spirit, Chongqing would become a more opening city with various opportunities.

### ► Strong Financial Sector

In 2018, the added value of the financial sector reached RMB 194.23 billion, with an increase of 6.9%, ranking top in China. In addition, as of the first quarter of 2019, Chongqing have set up funds with a total of RMB 130.65 billion which upgrading the industry structure and encouraging the innovation of enterprise.

<sup>1</sup>Source: Website of Chongqing Municipal People’s Government, <http://www.cq.gov.cn>

► **Rich Scientific and Educational Resources**

Chongqing is an important talent supply base in the western China. In 2018, Chongqing has 65 colleges and universities with about 827,900 students and about 216,200 graduates. There are 183 secondary vocational schools with about 396,900 students and a graduate population of about 125,000. The 2018 annual research and development expenditures were about RMB 41 billion, which accounted for 1.95% of Chongqing's GDP. There are 180 key laboratories at the municipal level and above, and 538 engineering technology research centers.

► **Complete Services for Intellectual Property Protection**

Chongqing strives to build itself as a city with strong intellectual property capability (owns intellectual property rights bureau and other relevant government departments). It owns intellectual property rights service platforms such as patent cloud, copyright cloud, information center, complaint service center, rights assistance center, forensic center, and intellectual property arbitration court and is able to provide a full range of intellectual property services. In 2018, 72,100 patent applications were accepted and 45,700 patents were granted.

► **Secure the Energy Supply**

Chongqing is an inland highland with sufficient energy, and is actively accelerating its energy structural adjustment. To have a reasonable control over the industrial energy consumption, it is strengthening energy conservation, developing and utilizing nuclear power, wind, solar, biomass and other new energy, and also accelerating the exploration and development of shale gas, which enables itself to provide strong energy security for its economic development.

In 2018, the Chongqing Economic and Information Commission enhanced the safe operation and the reliable supply of electricity, by strengthening the management of electricity balance plan and refining the measures of electricity production and supply, which ensure the demand for electricity in Chongqing. The 2018 total energy consumption increased by 3.4% but the unit energy consumption declined.

## 1.1.3 Comparison of comprehensive factor cost



### Land Transferring Fees

Based on the current standards, land transferring fees in Chongqing are far lower than those in coastal developed areas. Compared with Chengdu, the fees are still slightly lower. Therefore the cost advantage of Chongqing is obvious.



### Water, Electricity and Gas Prices

Chongqing boasts abundant water, electricity and gas resources. Compared with Beijing, Shanghai, Guangzhou and other eastern coastal cities, Chongqing has lower prices and more stable supply.



### Labor Price

Chongqing is a labor-exporting region, where local labor costs are generally lower than those of cities such as Beijing, Tianjin, Shanghai, Chengdu, Xi'an, and Wuhan.



In addition, Chongqing has price advantages in tax, logistics, finance and other cost areas. National treatment and management under negative list mode were introduced and granted to foreign investment.

\*Source: Website of Chongqing Statistics Bureau, <http://tjj.cq.gov.cn>

# 1.2 Highlighted Projects



## 1.2.1 Liangjiang New Area

### ► Overview

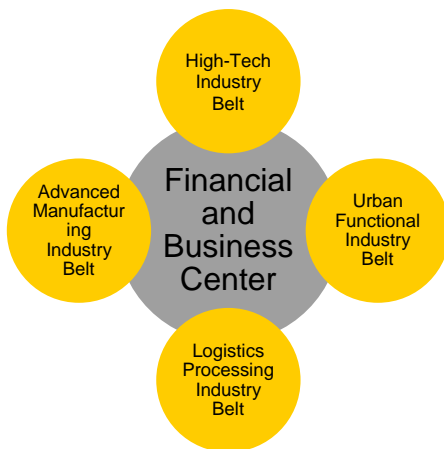
Liangjiang New Area was formally established on June 18, 2010. It was the first national development and opening-up zone in southwest of China approved by the State Council, the core area of China (Chongqing) Pilot Free Trade Zone and the transportation hub of the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity. It is located in the main urban area of Chongqing, to the north of the Yangtze River and east of Jialing River. Liangjiang New Area includes three administrative districts (Jiangbei District, Beibei District and Yubei District), covering an area of 1,200 km<sup>2</sup>. The exploitable area is 550 km<sup>2</sup>, and the inhabitant population is 2.4 million as of 2019.

### ► "One Center and Four Belts"

The overall strategic layout of Liangjiang New Area is called as "One Center and Four Belts".

"One Center" refers to one financial and commercial center, and "Four Belts" are high-tech industry belt, urban functional industry belt, logistics processing industry belt, high-tech industry belt and advanced manufacturing industry belt.

The strategic layout is to focus on the development of modern service industries in the southern region, urban supporting facilities in the central and western regions, and advanced manufacturing in the northeast region.



### ► "Eight Towns and Eight Parks"

#### "Eight Towns"

In order to optimize the allocation of resources and elements in a wider range, the strategic layout of "One Center and Four Belts" has been further developed into the development layout of "Eight Towns and Eight Parks" in Liangjiang New Area. Liangjiang New Area accelerates the development and construction of "Eight Towns" (i.e., eight urban functional areas), including Longsheng Industrial New Town, Shuitu High-Tech New Town, Zhaomushan Science and Technology Innovation Ecological Town, Lijia Business Tourism Town, Yuelai Ecological New Town, Jiangbeizui Financial Town, Tariff-Free Zone New International Town and Guoyuan Port New International Logistics Town, with a built-up area of more than 330 km<sup>2</sup>.

#### "Eight Parks"

Liangjiang New Area also accelerates the development and construction of "Eight Parks". The "Eight Parks" include Bonded Processing Industrial Park, Intelligent Manufacturing Industrial Park, Automobile Industrial Park, Electronic Information Industrial Park, General Aviation Industrial Park, Biological Pharmaceutical Industrial Park, Internet Industrial Park and Service Trade Industrial Park.

### ► Economic Development

In 2018, Liangjiang New Area achieved a GDP of RMB 293.3 billion, a total industrial output above designated size (namely industrial enterprises whose revenue is more than 20 million) of RMB 416 billion, fixed asset investment of RMB 199.2 billion (with an increase of 12.4%), total retail sales of consuming goods of RMB 122 billion (with an increase of 6.6%), general public budget revenue of RMB 33.8 billion (with an increase of 9.2%), tax revenue increased by 12.5%.

In 2018, the main economic indicators of Liangjiang New District are as follows: the industrial output value accounts for 20% of Chongqing; the actual use of foreign investment exceeds 30% of Chongqing; total import and export accounts for 40% of Chongqing; the number of World Top 500 accounts for more than 50% of Chongqing; total industrial profits and taxes accounts for 60% of Chongqing; and the output value of the automotive industry accounts for 70% of Chongqing. The economic scale of Liangjiang New Area's ranks 4th among the 19 national-level new areas.

\*Source: Website of Chongqing Liangjiang New Area, <http://www.liangjiang.gov.cn>



► **Investment Advantages**

**Strategic Location**

Chongqing is an important strategic fulcrum for Western Development Strategy and also a connection between 'The Belt and Road' and Yangtze River Economic Zone. As the core and expansion area of Chongqing, Liangjiang New Area owns the sole bonded port in the inland China, and it is the shipping hub in the upstream of the Yangtze River.

**Industry Cluster**

Under the '3331' Industrial System, Liangjiang New Area is optimizing three dominant pillar industries (automobile, electronics information and equipment manufacturing), developing three new pillar industries (big data, comprehensive health and environmental protection), promoting three advanced service industries (finance, trade and international logistics), and encouraging ten strategic emerging industries (such as culture and creative tourism).

**Human Resource**

Chongqing has sufficient human resource reserve and competitive talent attraction policies. Chongqing has more than 8 million migrant workers. 288 secondary and higher education institutions could provide more than 350,000 graduates annually. Chongqing attracts talents by granting various incentives, like special award, stock option mechanism, support in spouse's employment and children education.

**Financing Resource**

In the first half of 2019, financial industry has become the pillar industry of Liangjiang New Area and achieved RMB 13.6 billion added value (with an increase of 18.6%), accounting for 19.2% of GDP. Nearly 50 enterprises are using the Credit Loan Platform, which is jointly established by Liangjiang New Area and domestic banks. Through this platform, the timeline to obtain loans could be shortened by 50% at least.

**Incentive Policies**

Enterprises in Liangjiang New Area could enjoy various preferential policies. For example, enterprise could be entitled to a reduced corporate income tax of 15% (the standard rate is 25%) if certain conditions met. Additionally, the government could grant one-off award to some key enterprises which are newly established in Chongqing: headquarters, finance enterprises, advanced manufacturing enterprises, and technology enterprises could be granted an award up to RMB 50 million, RMB 30 million, RMB 10 million and RMB 5 million respectively, if certain conditions met.

\*Source: Website of Chongqing Liangjiang New Area, <http://www.liangjiang.gov.cn>

## 1.2.2 China (Chongqing) Pilot Free Trade Zone



中国（重庆）自由贸易试验区  
China (Chongqing) Pilot Free Trade Zone

China (Chongqing) Pilot Free Trade Zone (hereinafter referred to as "Chongqing FTZ") was officially approved by the State Council on March 15, 2017. It is a regional free trade zone set up by the Chinese government in Chongqing. On March 31, the State Council officially announced the Master Plan for China (Chongqing) Pilot Free Trade Zone. Chongqing FTZ was officially established on April 1, 2017.

Chongqing FTZ owns an area of 119.98 km<sup>2</sup>, covering three sub-zones: Liangjiang Area (66.29 km<sup>2</sup>), Xiyong Area (22.81 km<sup>2</sup>) and Guoyuangang Area (30.88 km<sup>2</sup>).

### ► Strategic Orientation of Chongqing FTZ

Chongqing FTZ aims to encourage system innovation, and its basic requirements are to make the relevant innovated policies replicable and promotional. It supports Chongqing to be the strategic fulcrum and connection in western China under the plan created by the Central Committee of the Communist Party of China and the State Council. Chongqing is making significant efforts to build Chongqing FTZ as the geographical hub of "The Belt and Road" and Yangtze River Economic Belt, as well as the essential pivot of China Western Development Strategy.

### ► Development Target

After three to five years of reform and exploration, Chongqing strives to build a high-level and high-standard free trade zone with convenient investment and trade, high-end industrial gathering, efficient and timely supervision, complete financial services, standard law environment, outstanding effect of radiation, building an international logistics hubs and port highlands to serve the Belt and Road and the Yangtze River Economic Belt, promoting the construction of a new pattern of all-round opening in the western region, and driving the implementation of Western Development strategy.

### ► Achievements

In 2018, Chongqing FTZ had 12,768 new enterprises with a total registered capital of RMB 128.03 billion. In 2019, Chongqing FTZ fully implemented the negative-list management for foreign investment, which simplifying the registration of foreign investment projects. As of July 2019, 29,287 enterprises (including branches) were newly registered in Chongqing FTZ, with a total registered capital of RMB 292.83 billion. 2,225 projects were introduced in Chongqing FTZ, with the contract amount of RMB 627.12 billion. As of October 2019, Chongqing FTZ recognized 197 systematic innovations. Chongqing FTZ has introduced its 12 credentials to other areas of China and been well applied, including railway Letter of Credit financing settlement, customs special supervision area "four kinds of independence and one kind of simplification", new mode of knowledge value credit financing and market comprehensive supervision big data platform.

\*Source: Website of China (Chongqing) Pilot Free Trade Zone, <http://ftz.cq.gov.cn>



## ► Achievements (Cont'd)

### New Steps in Policy Innovation

Up to June 2019, 144 reform and pilot tasks have been implemented among the total 151 tasks assigned to Chongqing FTZ. Moreover, 133 supporting innovation initiatives have been implemented among the total 141. In total, 50 innovation achievements have been reported to the central government, including 23 national initiatives. China has adopted and promoted Chongqing FTZ's experiences and credentials, including "four self-regulation and one-simplification" in special customs supervision area, railway transportation of credit settlement, new mode of credit financing, and big data platform of market comprehensive supervision. 21 cases and achievements such as the new mode of foreign exchange payment for key enterprises have been promoted from Chongqing FTZ to the whole Chongqing city. Among the 53 measures supported by the State Council to deepen reform and innovation in the pilot Free Trade Zone, 41 pilot projects were carried out in Chongqing FTZ, among which the ports for railway transportation and mail, the first import of drugs and biological products are unique credentials of Chongqing.

### New Improvement in Business Environment

In 2019, Chongqing FTZ fully implemented the negative-list management for foreign investment, which simplifying the registration of foreign investment projects. 33 matters with previous municipal-level authorization are now delegated to district-level. Chongqing FTZ is exploring and promoting the pilot reform to simplify the governmental processes, such as "multiple certificates in one" and "separation of certificates and permits". For example, the timeline of establishing a new enterprise could be shortened from 20 working days to even 3 hours, and the overall time-consumption for customs clearance could be reduced by at least 50%.

As being one of the third batch of pilot Free Trade Zone in China, Chongqing FTZ took the lead in establishing a regional identification system, officially running a big data regulatory information platform, establishing the first nationwide specialized FTZ court, the commercial arbitration center and intellectual property court, setting up mediation, notarization, foreign legal service institutions, and establishing the sole Trademark Review and Cooperation Center in western China.

### New Progress of Project Implementation

Up to June 2019, Chongqing FTZ has accounted to more than half of Chongqing's total import and export trade value since its establishment, and attracted one quarter of Chongqing's total foreign investment. Driven by Chongqing FTZ, Chongqing made following achievement in 2018: total import and export reached RMB 520 billion (with an increase of 15.9%), service trade increased by 20.7%, foreign investment actually utilized exceeded USD 10 billion and FDI reached USD 3.25 billion (with an increase of 43.8%).

As of June 2019, 27,999 enterprises (including branches) were newly established in Chongqing FTZ, accounting for 9.7% of the city's total. Their registered capital was RMB 279.48 billion, accounting for 18.1% of the city's total. Among them, there are 500 newly registered foreign-invested enterprises (including branches), accounting for 24.2% of the city's total. Moreover, the registered capital was USD 2.75 billion accounted for 14.3% of the city's total. Chongqing FTZ has introduced 2,126 projects with a total amount of contracts signed worth RMB 603.31 billion.

### New Achievements in Differentiation and Diversity

Chongqing FTZ conscientiously implements the requirements of "initiative" and "differentiation", makes clear on the orientations, serves the overall value of the country, enhances its own advantages, focuses on key areas, and explores some differentiated areas like overland trading, logistics financing, mechanism of New Channel of International Land-Sea Trade. Chongqing FTZ created the world's first international railway transportation letter of credit settlement and expanded the its application in business; established the risk control mode of "offline process supervision + online big data monitoring"; improved the collaboration mechanism between financial institutions and key enterprises; cooperated deeply with the "Associations of Carrier and Freight Forwarder of Middle Asia Region" to implement the "regional cooperation project for documentation standardization for railway and road transportation"; and promoted "capitalization of railway waybill" to be one topic of the annual session of the United Nations Trade Law Conference.

\*Source: Website of China (Chongqing) Pilot Free Trade Zone, <http://ftz.cq.gov.cn>

## 1.2.3 China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity

### ► Project Overview

In November, 2015, China and Singapore signed an inter-governmental cooperation agreement in Singapore, and the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity (hereinafter referred to as "China-Singapore Strategic Connectivity Program") was officially launched. This is the third inter-governmental cooperation project between China and Singapore since Suzhou Industrial Park and Tianjin Eco-City.

Over the past four years, China-Singapore Strategic Connectivity Program has made remarkable achievements in promoting Chongqing's integration of global resources and factors, and promoting the economic and trade exchanges between the western region of China and the markets along "the Belt and Road".

### ► Project Progress

China-Singapore Strategic Connectivity Program takes "modern connectivity and modern service economy" as the theme, and financial services industry, aviation industry, transportation and logistics industry, information and communication industry as the four major areas of cooperation.

Project implementation is an important indicator of the effectiveness of the program. As of September 2019, China and Singapore have signed 199 cooperation projects with a total amount of about USD 27 billion. Among them, there are 134 signed projects in financial services industry, accounting for 68%; 24 signed projects in information and communication industry, accounting for 12%; 14 signed projects in transportation and logistics industry, accounting for 7%; 6 signed projects in aviation industry, accounting for 3%.

### ► Financial Services Industry

#### Effective methods on decreasing financing cost

Up to October 2019, there are 107 cross-border financing projects signed under the China-Singapore Strategic Connectivity Program with a total financing amount of USD 10.9 billion (USD 6.9 billion in Chongqing and USD 4 billion in other western provinces). The financing cost is about 1.4% lower than national average level.

#### Acceleration on institution establishment

China and Singapore collaborate to establish various types of China-Singapore joint ventures or wholly-owned financial institutions in Chongqing. Two governments are also accelerating the establishment of China-Singapore interconnection operation center of domestic banks in Chongqing and promoting private enterprise groups to acquire the approval of remittance license in Singapore.

#### Continuous innovation and business cooperation

Platform establishment: the governments would hold China Singapore Financial Summit, promotion meeting of financial support on "land-sea new channel", and China-Singapore Real Estate Investment Trusts ("REITs") meeting.

Bilateral credit: Chongqing local legal representative banking institutions, and Singapore Banking institutions would come into a bilateral credit with total RMB 40 billion.

Product innovation: under the framework of this program, Chongqing achieved remarkable credentials, like the first REIT in the central and western regions to be listed in Singapore, the first financing of "Letter of Credit Settlement + Sea-Rail Multimodal Transport" trade in the central and western regions, and the first cross-border asset transfer business in China.



\*Source: Summary of China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity issued by the website of Chongqing Municipal People's Government on October 16, 2019



## ► Aviation Industry

### Frequent routes and increased capacity

Chongqing and Singapore aim to build a "double hubs" of Chongqing-Singapore Airlines and build an efficient and convenient "Chongqing-Singapore Express Route". The number of Chongqing-Singapore direct flights increased from 5 per week in 2015 to 14 per week in 2018, and the passenger throughput increased from 45,000 to 193,000.

By taking advantage of the policies of China-Singapore connectivity project and Pilot Free Trade Zone, a domestic air leasing company has introduced several Airbuses in the bonded financial leasing mode, which enhanced the transport capacity of Chongqing main base airlines.

### Airport cooperation and service improvement

Chongqing Airport and Singapore Changi Airport funded the establishment of a airport business management company, to operate the catering, retail and other non-aviation businesses of Chongqing Jiangbei Airport by introducing the management experience of Changi Airport.

At the same time, Chongqing Airport and Singapore Changi Airport launched a talent training program, which plans to send 100 employees to Changi Airport within 4 years to improve their service quality.

### Build base and attract related industries

China-Singapore aviation industrial park of 12.5 km<sup>2</sup> was launched. It includes the comprehensive service area of 2.8 km<sup>2</sup>, the maintenance and manufacture area of 4.2 km<sup>2</sup> and the logistics gathering area of 5.5 km<sup>2</sup>.

## ► Transportation Logistics Field

### Construction of Channel to Link Land and Sea

Relying on the three-level cooperation mechanism of China-Singapore Strategic Connectivity Program, Chongqing has linked with western China provinces, Singapore and other ASEAN countries to explore a new international land and sea trade channel for China-Singapore connectivity project through regional linkage, international cooperation and innovation. As of 2019, the channel has reached 6 continents, 84 countries and 200 ports in the world. From April 28, 2017 to September 30, 2019, 1,349 intermodal trains have been launched and 68,330 twenty-foot equivalent units of containers have been transported in total.

### Intelligent logistics to enable efficiency

Through information exchange, resource sharing, data analysis, and standard control, China and Singapore enterprises have promoted cooperation in projects such as the "single window" of international trade, the alliance platform for intelligent distribution of science and technology, and the China-Singapore International cold-chain product trade platform.

## ► Information and Communication Field

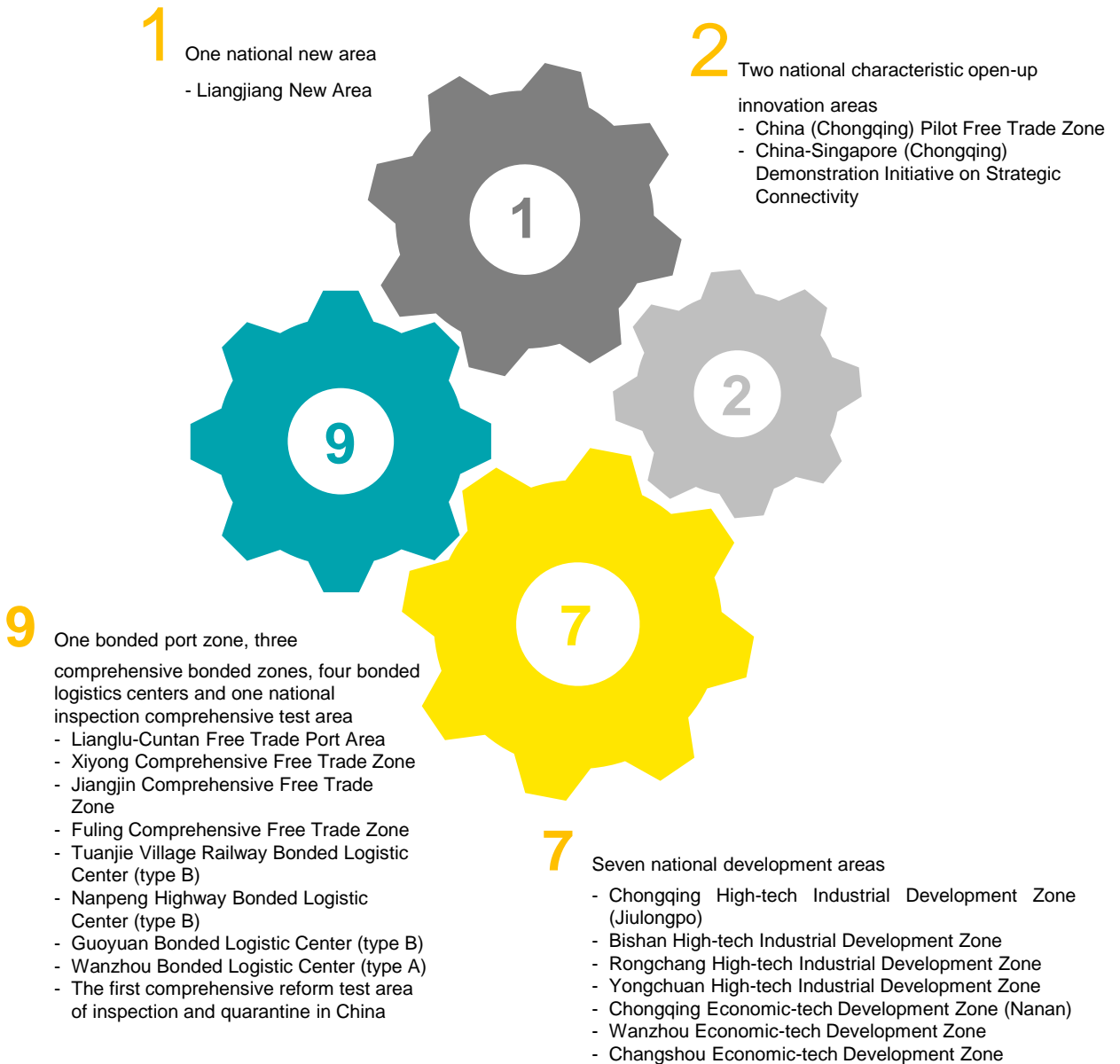
### Strengthened cooperation to promote innovation

Chongqing Big-Data Application and Development Administration, Singapore Information and Communication Media Development Bureau and Singapore Enterprise Development Bureau collaborated to improve the information and communication technology innovation cooperation mechanism, set up China-Singapore information and communication media joint innovation development fund, and established China - Singapore (Chongqing) information and communication innovation cooperation alliance.

China-Singapore (Chongqing) International Internet Data Dedicated Channel is jointly built by both sides as an important part of building an information highway between China and other parties. The total approved bandwidth of this data channel is 260Gbps, with a delay of about 70-80ms (75% lower than the common Internet) and a packet loss rate of 0.5% (80% lower than the common Internet).

\*Source: Summary of China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity issued by the website of Chongqing Municipal People's Government on October 16, 2019

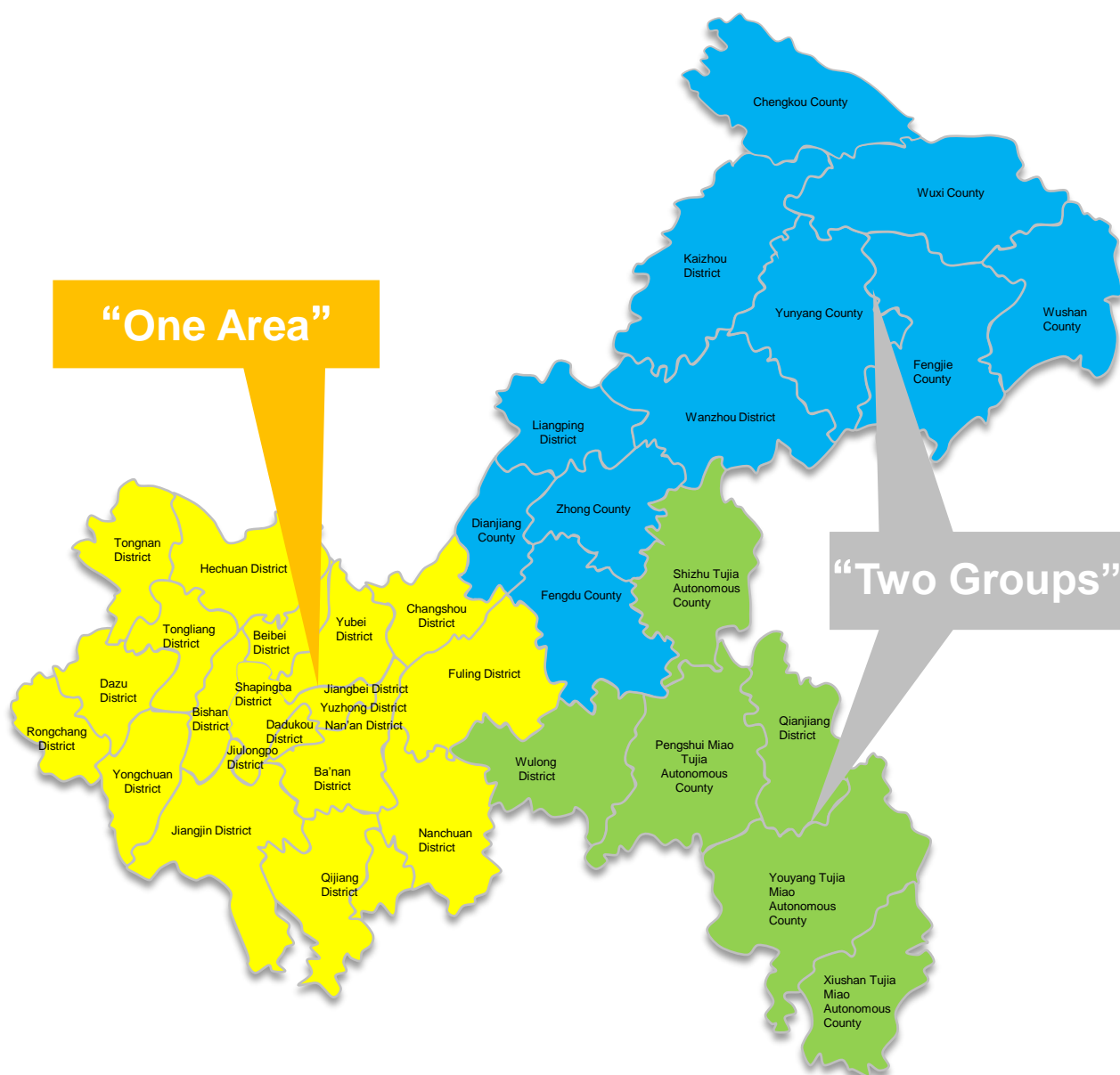
## 1.2.4 Chongqing "1+2+7+9" Open-up Platform System



\*Source: Chongqing Association of Enterprises with Foreign Investment

## 1.2.5 “One Area, Two Groups”

“One Area, Two Groups” is developed in coordinated ways, which could build a collaborative linkage between internal and external regions. One Area represents main urban regions of Chongqing, and Two Groups represent the “Three Gorges Reservoir” region in northeast of Chongqing and the Wuling mountain region in southeast of Chongqing. The new round of opening-up is for the whole region. One Area is the “main battlefield”, which will be a leading area for opening-up of Chongqing, a core area in the economic development and a centralized area for international communication. Two groups are “new forces”, which will be a green-development demonstration zone for displaying the practical results about “Two Mountains” and “Two Avenues”, and a famous tourism destination around the world.



\*Source: Chongqing Association of Enterprises with Foreign Investment

# 1.3 Important Conferences



## 1.3.1 Smart China Expo

China International Intelligent Industry Expo (referred to as “Smart China Expo”) was jointly sponsored by Chongqing Municipal People’s Government, Ministry of Science and Technology, Ministry of Industry and Information Technology, Chinese Academy of Sciences, Chinese Academy of Engineering and China Association of Science and Technology. The first Smart China Expo was held in Chongqing International Expo Center from August 23 to 25, 2018. According to Xi Jinping’s instructions that “We have to run a high standard smart Expo and deeply participate in international cooperation in terms of digital economy”, the 2019 Smart China Expo was held at Chongqing International Expo Center from August 26 to 29, 2019. Additionally, Chongqing was designated as the permanent site of the Smart China Expo.

The 2019 Smart China Expo adheres to the theme of “intelligence: empowering the economy and enriching the life”. With the four characters of “conference”, “exhibition”, “competition” and “forum”, it focuses on displaying new products, new technologies, new formats and new models of the global smart industry. Compared with the first Smart China Expo, 2019 Smart China Expo achieved higher level internationalization and stronger influence, by adopting international standards, innovating exhibition concept, improving services, exaggerating the scale, scope and level of foreign guests in the Expo. In addition, 2019 Smart China Expo is more focusing on the latest achievements of global intelligent technology such as artificial intelligence, big data, cloud computing, 5<sup>th</sup> generation of telecom network, blockchain, etc. More than 100 high-end professional forums and events were held. Moreover, this Smart China Expo emphasized the efficiency of investment: a series of precise investment promotion activities were held, and a number of major projects in the field of intelligence were promoted.



\*Source: Website of 2019 Smart China Expo, <https://www.smartchina-expo.cn>



## 2019 Smart China Expo

"Conference": Various guests (including governmental leaders, heads of international organizations and etc.) were invited to make speeches in the Opening Ceremony & Big Data Intelligence Summit, and other conferences. Many academics and experts as well as leaders of leading enterprises gave speeches focusing on intelligent industry, intelligent manufacturing, intelligent application.

"Exhibition": There were six exhibition areas, including comprehensive exhibition area, intelligent technology and product exhibition area, intelligent manufacturing exhibition area, application exhibition area, interactive experience area, and regional innovation exhibition area. It further explored the commercial, political and civil value of big data and fully displayed the cutting edge with AI. It highlighted intelligent application demonstration and interactive experience with smart city and promoted deep integration of digital economy and real economy.

"Competition": 2019 Smart China Expo held i-VISTA Auto Driving Car Challenge Competition, Intel FPGA Intelligent Innovation Global Competition, "Wisdom Cup" Industrial Design Competition, China-Singapore APP Innovation and Application Contest, China Mobile OneNET Star 2.0 Event Networking Competition, and so on.

"Forum": 2019 Smart China Expo focused on the strategic trend, frontier and dynamic, exchange and cooperation, ecological development of characteristic industries and hot spots and outlets of the industry, held the second China Chongqing International Twin City Mayors Roundtable and International Twin City Industry and Commerce Summit, Digital Economy Hundred People's Meeting and so on. In addition, forums with themes related to industrial Internet, smart city and smart logistics were held, including Huawei's China Ecology Tour 2019, iFLYTEK AI + technology innovation development forum and so on.

## Major Accomplishments

According to official statistics of Smart China Expo, there were 46 forums, 8 international events and more than 100 activities held in 2019 Smart China Expo. 843 domestic and foreign enterprises have participated in the exhibition, exhibiting more than 1,000 advanced technologies and solutions, and more than 600 projects were concluded.

## Significance

Nowadays, modern information technology such as Internet, big data and AI is developing fast. It appears that a new wave of scientific and technological revolution and industrial transformation is vigorously carrying on. Chongqing held the Smart China Expo to facilitate and accelerate the digital industrialization and industrial digitalization, promote the deep integration of the digital economy and the real economy. With the promotion and innovation of digital economy and the digital upgrading of traditional industries, both China and the world could enjoy benefit from the high-quality development, and create high-quality life to people and share the intelligent achievements. At the same time, Smart China Expo held in Chongqing could also effectively encourage the gathering of AI innovation elements in Western China, helping Chongqing to clear the orientation and promote industrial upgrading. Chongqing would dedicate to the development of intelligent industries in western China region and support the development of the Yangtze River economic belt.

*\*Source: Website of 2019 Smart China Expo, <https://www.smartchina-expo.cn>*

## 1.3.2 Western China International Fair For Investment and Trade



Western China International Fair For Investment and Trade

Western China International Fair For Investment and Trade" (hereinafter referred to as the "WCIFIT") is jointly sponsored by Chongqing Municipal People's Government, the Ministry of Commerce, the Ministry of Water Resources and China Council for the Promotion of International Trade. WCIFIT has become an important platform for foreign economic and trade exchanges and investment attraction in central and western China through more than 20 years of cultivation and development.

In May 2018, the first WCIFIT was held and its theme of "new era of connectivity and new pattern of inland opening up" fully demonstrates the great changes in the development and opening up of western China and the significant progress in the construction of inland open highlands in Chongqing.

WCIFIT aims to build a opening-up platform to promote the marketization of the exhibition. It closely focuses on "Two Orientations", "Double-Place Goals" and "Double-High-Quality Goals", deepens the cooperation and opening up of 12 provinces (regions and cities) in western China, and highlights the overall development strategy demand of western China's opening up. WCIFIT aims to be upgraded to a international and comprehensive exhibition, an important window for the strategic development of western China and the "the Belt and Road" strategy and a win-win platform of international business fair.

### 2<sup>nd</sup> WCIFIT

The second WCIFIT was held in Chongqing International Expo Center from May 16 to 19, 2019, with the theme of "opening up a new era and developing new actions".

Focusing on the above theme, the exhibition areas were divided into several areas to demonstrate the charming western China cooperation, international cooperation, the New Channel of International Land-Sea Trade, pilot free trade zone, regional cooperation, multinational companies, state-owned enterprises, and well-known private enterprises. During the fair, the activities included the opening ceremony, major project signing ceremony, inland opening summit, investment and trade docking, economic and trade discussion, project inspection and other activities will be held.

It appears that a number of important guests attended the second WCIFIT. There were 271 projects concluded with a total contract amount of RMB 549.78 billion, in relation to intelligent manufacturing, biopharmaceutical, new materials, new energy vehicles, high-end equipment, modern logistics, ecological protection and other sectors. WCIFIT attracted 95 countries/regions, including 100 large state-owned enterprises, more than 2,000 multinational companies and 300 world top 500 enterprises. WCIFIT has been upgraded to an international and comprehensive exhibition. It aims to be an important window of "the Belt and Road" and the cooperation carrier between the western China and the world.



\*Source: Website of Chongqing and the World, <http://www.cqworld.cn>

## Highlights of 2nd WCIFIT

### ► Match the theme of “The Belt and Road“

All activities and exhibitions in 2019 WCIFIT were closely matched to the theme of the “The Belt and Road”.

Asia 300 Global Business Forum Chongqing Summit, as being an important event under the framework of the WCIFIT, took the theme of “Fully Open Asian Economy” and had communications on the development pattern of Asian economic and the cooperation among Asian countries under “The Belt and Road” initiative.

In addition, various institutions and companies from different countries/regions along the “The Belt and Road” shared their research results and development experience, in the conferences such as Overseas Chinese Businessmen Organization Conference, and China (Western) Investment and Trade Summit.

### ► Emphasize cooperation within western China

The 2<sup>nd</sup> WCIFIT is an important carrier to promote a further opening up in western China. Many events have reflected the theme of cooperation within the western China provinces.

In this WCIFIT, Chongqing together with three western provinces (Sichuan, Guizhou and Shaanxi), held an exhibition to specifically demonstrate the development achievements in the western China. To strengthen the cooperation between Chengdu and Chongqing, Sichuan provincial government organizes officials and enterprise representatives to participate various investment promotion activities for western China enterprises.



With strong support of the State Council, a batch of central government owned enterprises have cooperated with Chongqing local companies. 50 projects have been concluded in this WCIFIT with a total investment RMB 186.4 billion.

### ► Explore regional development pattern

While promoting the cooperation within the western China, the 2<sup>nd</sup> WCIFIT also provided a platform to assist companies in western China to integrate into the pattern of regional economic development. The eight thematic exhibition areas have been set up and matched to the regional cooperation theme. A great deal of companies from Beijing, Tianjin, Zhejiang, Jiangsu, Shandong, Heilongjiang, Liaoning and other provinces participated the regional cooperation exhibition.

Various conferences were held during the WCIFIT. It appears that the western China regions strengthen the connections and interactions with other developed regions in China (e.g., Yangtze River Delta area, Pearl River Delta area).

<sup>\*</sup>Source: Website of Chongqing Daily, <https://www.cqrb.cn>

### 1.3.3 Chongqing Mayor's International Economic Advisory Council

**CMIA**  
Chongqing Mayor's  
International Economic  
Advisory Council



Chongqing Mayor's International Economic Advisory Council (hereinafter referred to as "CMIEAC") is to promote economic cooperation and technological exchanges between Chongqing and the world's multinational corporations, and enhance the awareness of the international business community on the economic and social development of Chongqing. The advisory meeting was proposed by foreign representatives and approved by previous Chongqing Mayor Hongju Wang.

Up to 2019, CMIEAC has been successfully held by fourteen times.

The theme of the 14th CMIEAC is "Building an inland international logistics hub: International experience and Chongqing's realization path".

#### ► Purpose of CMIEAC

To share Chongqing Mayor with the view-sight and recommendations that could bring benefit to the sustainable progress of Chongqing's economy and society and harmonize the development between human and nature; to introduce successful experience to Chongqing to expand the information channels and broaden the decision-making mindset.

To promote the understanding of the international business community on Chongqing's development and investment environment, to enhance the international popularity of Chongqing and its attractiveness to investors, and to promote the exchanges and cooperation between Chongqing and the international business community.

CMIEAC is also an important window for Chongqing to learn from international experience, expand its opening-up to the outside world and promote international communications and cooperation. All members of the advisory group have actively made suggestions, promoted pragmatic cooperation, and jointly participated in and witnessed the development of Chongqing, with their international vision, professional knowledge, rich experience and foresight.

#### ► Annual Themes of CMIEAC

2006 - Global Strategy of Transnational Corporations and Chongqing's Industrial Development

2007 - Chongqing's Choice in New Logistics Era: Roles and Strategies

2008 - Energy Saving and Emission Reduction: City Building and Economic Development

2009 - Path and Strategy to Build an Inland Open Economy

2010 - Chongqing: Construction and Innovation of Regional Financial Center

2011 - Urban Informationization and Information Industry – Development of a Cloud Smart City in Globalization

2012 - Going out Strategy - Confusion and Countermeasures for Chongqing Businesses investing abroad

2013 - Opportunities and Challenges in Urbanization

2014 - Smart City and the Big Data Age

2015 – "The Belt and Road" Strategy, Construction of Yangtze River Economic Belt, and Opening-up and Development of Chongqing

2016 - Development of Service Trade under the Context of "Made in China 2025" and "Internet +"

2017 - Chongqing Pilot Free Trade Zone - Exploration, Openness and Innovation

2018 - Chongqing's intelligent road: strategy and measures

2019 - Building an inland international logistics hub: International experience and Chongqing's realization path.

\*Source: Website of Chongqing Municipal People's Government, <http://www.cq.gov.cn>



## ► 14th CMIEAC\*

The 14th CMIEAC was successfully held from September 27 to 28, 2019 in Chongqing. 32 members of the Mayor's Advisory Group from 14 countries/regions attended, including 24 counselors, 8 consultant representatives or observers had deep communication with the representatives of Chongqing's government and made wonderful speeches.

This year's conference focused on the three topics of "expanding large channel", "constituting large hub" and "building large port". The successful holding of this annual meeting will promote the exchange and cooperation between Chongqing and international business community, and help Chongqing to be built as inland international logistics hub.

### Expanding Large Channel

- To take the advantage of large channel and strengthen the cooperation between regions along the channel, Chongqing shall focus on building an international standardized multimodal transport system.
- Chongqing has the largest "railway, highway, waterway and airway" transportation system in the western China.
- The development of international logistics channel will promote Chongqing to develop export-oriented economy. Chongqing shall improve the cooperation between regions along the channel and the construction of international multimodal transport system, so as to effectively radiate the inland China and connect the global market.

### Constituting Large Hub

- Chongqing is committed to enhance the connection between logistics and industry, and improve the quality of international trade.
- Chongqing's unique three-dimensional transportation system and deep industrial foundation lay a good foundation for the construction of the international inland logistics hub, and initially formed an open pattern of "land-and-sea linkage, east-and-west connection".
- Chongqing needs to further enhance the ability of agglomeration and radiation, strengthen the interaction between logistics and industry, constantly improve the function of large hub, and promote the opening and development of Chongqing and even the western region.

### Building Large Port

- Chongqing shall consider the development of improving the port system, the innovation of port system and the efficiency of port customs clearance.
- With the operation of the logistics channel, the top-level port system innovation and the improvement of the intelligent port service system will effectively enhance the facilitation of customs clearance, reduce the cost of customs clearance, and effectively promote trade facilitation.

\*Source: Website of Chongqing Municipal People's Government, <http://www.cq.gov.cn>

\*Source: Website of China Daily, <https://cn.chinadaily.com.cn>

# 2

## Overview of Chongqing Foreign-invested Enterprises' Investment





# Overview

- ▶ This chapter shows the investment profile of foreign-invested enterprises in Chongqing on the following three aspects:
  - ▶ Joint report on annual investment and operation information of foreign-invested enterprises in 2018
  - ▶ Utilization of Foreign Capital in 2018 and the First Half of 2019
  - ▶ Comparison of Utilization of Foreign Capital in 2017 and 2018

# 2.1 Overview of Joint Annual Report on 2018 Investment and Operation Information of Foreign-Invested Enterprises

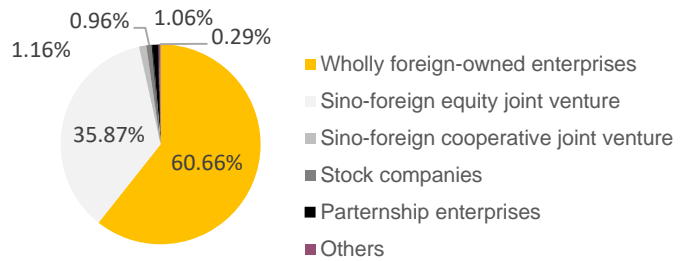


## Overview of Joint Annual Report on 2018 Investment and Operation Information of Foreign-Invested Enterprises

- ▶ From April 1 to June 30, 2019, Chongqing Commerce Commission led and organized the information reporting and examination of Chongqing legal foreign-invested enterprises established before December 31, 2018, in close cooperation with Chongqing finance authority, tax bureau, state administration of foreign exchange and statistics authority.
- ▶ 2,077 enterprises participated in the annual report, 23 more than the number reported in last year, which is 1.12% growth. The passing rate is 97.88%.
- ▶ Based on statistical information, below is the overview of the joint annual report on 2018 investment and operation of foreign-funded enterprises.\*

### Types of Reported Enterprises

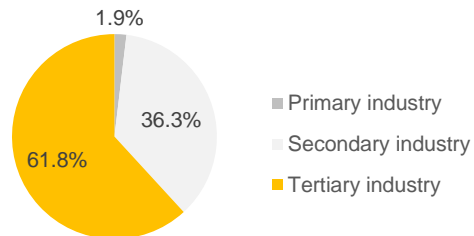
Among the reported enterprises, there are 1,260 wholly foreign-owned enterprises, accounting for 60.66% of the total reported enterprises; 745 Sino-foreign equity joint venture, accounting for 35.87%; 24 Sino-foreign cooperative joint venture, accounting for 1.16%; 20 stock companies, accounting for 0.96%; 22 partnership enterprises, accounting for 1.06%; 6 other types, accounting for 0.29%.



### Industrial types of Reported Enterprises

Among the reported enterprises, 39 enterprises are engaging in primary industry, accounting for 1.9% of the total reported enterprises; 754 enterprises are engaging in secondary industry, accounting for 36.3%; 1,284 enterprises are engaging in the tertiary industry (mainly service sector), accounting for 61.8%.

Share-structure Types of Reported Enterprises



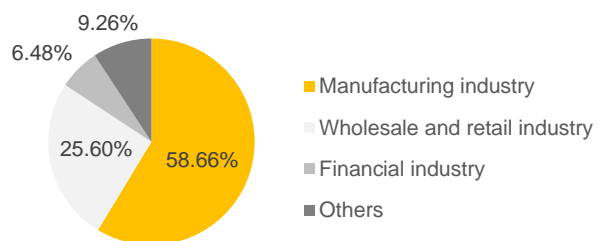
Foreign-invested enterprises are mainly engaging in manufacturing industry, wholesale and retail industry, leasing and commercial services industry, and real estate industry. Among them, 754 manufacturing enterprises account for 36.3% of the total reported enterprises; 264 wholesale and retail enterprises account for 12.71%; 275 leasing and commercial services enterprises account for 13.24%; 211 real estate enterprises account for 10.16%.

Industrial Structure of Reported Enterprises

### Operating Income

In 2019, the total operating income of the reported enterprises is RMB 858.41 billion, 1.38% lower than the previous year.

The industries rated in the top three in operating income are: manufacturing industry with income of a RMB 503.55 billion, up by 1.76% year-on-year and accounting for 58.66% of the total operating income of the reported enterprises; wholesale and retail industry with income of RMB 219.76 billion, down by 9.41% year-on-year and accounting for 25.60%; financial industry with income of RMB 55.60 billion, up by 53.88% year-on-year and accounting for 6.48%.



Proportion of Operation Income of Industries

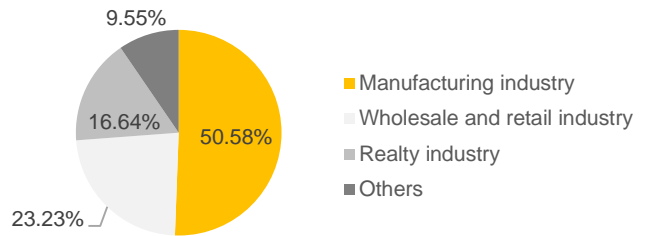
\*Source: Chongqing Commerce Commission, Summary of Joint Annual Report on the 2018 Chongqing Investment and Operation Information of Foreign-invested Enterprises, September 30, 2019



► **Tax Payment**

In 2018, the total amount of tax paid by reported enterprises is RMB 35.49 billion, up by 4.07% year-on-year.

The top three industries contributing the most tax amount are: manufacturing with tax payment of RMB 17.95 billion (down by 6.74% year-on-year, accounting for 50.58% of the total tax paid by reported enterprises); wholesale and retail industry with tax payment of RMB 8.25 billion (up by 73.56% year-on-year, accounting for 23.23% of the total tax); real estate industry with tax payment of RMB 5.90 billion (up by 14.75% year-on-year, accounting for 16.64% of the total tax).

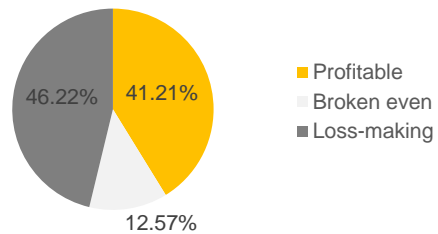


Proportion of Tax Paid by Industries

► **Profit and Loss**

Among the reported enterprises, 856 enterprises are profitable (accounting for 41.21% of the total reported enterprises), 261 enterprises broke even (accounting for 12.57%), and 960 enterprises are loss-making, up by 4.58% year-on-year (accounting for 46.22%).

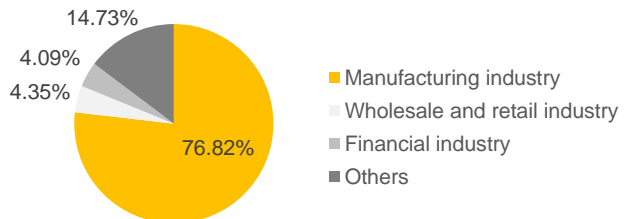
In 2018, the reported enterprises earned a profit of RMB 44.07 billion in total, down by 22.17% year-on-year. The growth rate is 19.7% lower than last year. Among them, construction industry enterprises have the greatest year-on-year growth (the total profit earned by 22 enterprises is RMB 1.60 billion, with a growth of 342.95%). Besides, 754 traditional manufacturing industry enterprises have profit of RMB 12.92 billion, with a decrease of 54.95%. Leasing and business services enterprises have 275 profitable companies of which earned profit of RMB 0.76 billion, with a decrease of 89.5%.



Profits and Losses of Reported Enterprises

► **Employment**

Reported enterprises have 346,800 employees, down by 7.31% year-on-year. The industries rated top three in employment producing are: manufacturing with employees of 266,400 (9,600 less than last year); wholesale and retail with employees of 15,100 (1,900 less than last year), financial sector with employees of 14,200 (1,300 more than last year). Their proportions are 76.82%, 4.35%, and 4.09% respectively. 2,139 foreign employees in total, and 880 less than last year.



Proportion of Employment Produced by Industries

\*Source: Chongqing Commerce Commission, Summary of Joint Annual Report on the 2018 Chongqing Investment and Operation Information of Foreign-invested Enterprises, September 30, 2019

## 2.2 Utilization of Foreign Capital in 2018 and the First Half of 2019



### 2018 Overview

In 2018, Chongqing newly approved 232 foreign-invested enterprises, down by 2.53% year-on-year. Chongqing had the contractual foreign capital of USD 9.08 billion, up by 136.81% year-on-year. Chongqing had the actual utilization of foreign capital of USD 10.27 billion, up by 0.89% year-on-year.

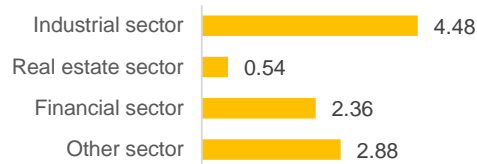
#### ► By Sectors

In 2018, the actual utilization of foreign capitals in industrial sector is USD 4.48 billion, down by 10.27% year-on-year.

The actual utilization of foreign capital in real estate sector is USD 0.54 billion, down by 30.66% year-on-year.

The actual utilization of foreign capital in financial sector is USD 2.36 billion, down by 19.52% year-on-year.

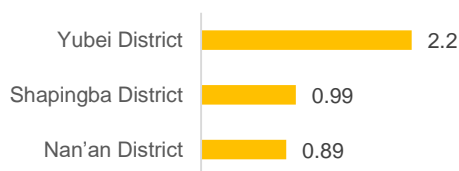
The actual utilization of foreign capital in other sectors is USD 2.88 billion, down by 97.40% year-on-year.



The actual utilization of foreign funds by sectors in 2018 (USD billion)

#### ► By Counties / Districts of Chongqing (nine main districts)

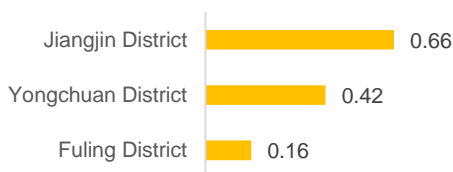
In 2018, the actual utilization of foreign capital in Chongqing's nine main districts reached USD 6.13 billion, down by 2.15% year-on-year. The top three districts / counties of Chongqing's nine main districts which actually used the foreign capital are: Yubei District (USD 2.20 billion, up by 10.06% year-on-year), Shapingba District (USD 0.99 billion, up by 9.75% year-on-year) and Nan'an District (USD 0.89 billion, up by 23.75% year-on-year).



Top three districts of Chongqing's nine main districts which actually used foreign capital in 2018 (USD billion)

#### ► By Counties / Districts of Chongqing (six regional centers)

The actual utilization of foreign capital in Chongqing's six regional centers reached USD 1.47 billion, up by 18.17% year-on-year. The top three districts / counties of Chongqing's six regional centers are: Jiangjin District (USD 0.66 billion, up by 9.23% year-on-year), Yongchuan District (USD 0.42 billion, up by 10.63% year-on-year) and Fuling District (USD 0.16 billion, up by 26.68% year-on-year).



Top three regional center city of Chongqing's nine main districts which actually used foreign capital in 2018 (USD billion)

\*Source: Chongqing Commerce Commission, Report of the Completion of Foreign Capital Objectives in 2018, Dec 16, 2018

## First Half of 2019 Overview

In the first half of 2019, Chongqing newly approved 89 foreign-invested enterprises, down by 21.24% year-on-year. Chongqing had the contractual foreign capital of USD 1.74 billion, down by 25.54% year-on-year. Chongqing had the actual utilization of foreign capital of USD 4.41 billion, up by 2.86% year-on-year.

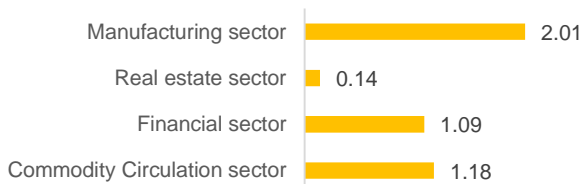
### ► By Sectors

In the first half of 2019, the actual utilization of foreign capitals in manufacturing sector is USD 2.01 billion.

The actual utilization of foreign capital in real estate sector is USD 0.14 billion, down by 54.36%.

The actual utilization of foreign capital in financial sector is USD 1.09 billion, down by 9.76%.

The actual utilization of foreign capital in commodity circulation sector is USD 1.18 billion.

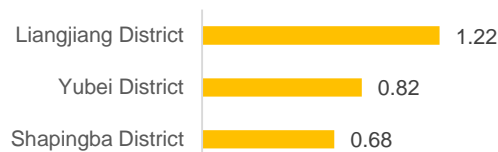


The actual utilization of foreign funds by sectors in the first half of 2019 (USD billion)

### ► By Counties / Districts of Chongqing

In the first half of 2019, the top three counties / districts of Chongqing which have the most contractual foreign capital are Liangjiang New Area (area under direct control), Yubei District and Nan'an District.

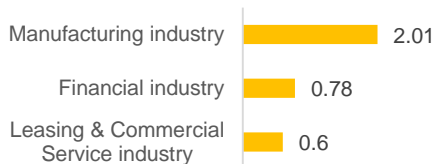
In the first half of 2019, the top three counties / districts of Chongqing which actually used the foreign capital are Liangjiang New Area (area under direct control), Yubei District and Shapingba District.



Top three districts of Chongqing's nine main districts which actually used foreign capital in the first half of 2019 (USD billion)

### ► By Industries

Contractual foreign capital is mainly derived from leasing and commercial services industry (USD 0.93 billion, accounting for 53.1% of total contractual foreign capital), manufacturing industry (USD 0.39 billion, accounting for 22.09%), wholesale and retail enterprises (USD 0.25 billion, accounting for 14.59%) Actual utilization of foreign capital is mainly derived from manufacturing industry (USD 2.01 billion, accounting for 45.49% of total utilization of foreign capital), financial industry (USD 0.78 billion, accounting for 17.59%), leasing & commercial service industry (USD 0.6 billion, accounting for 13.54%).



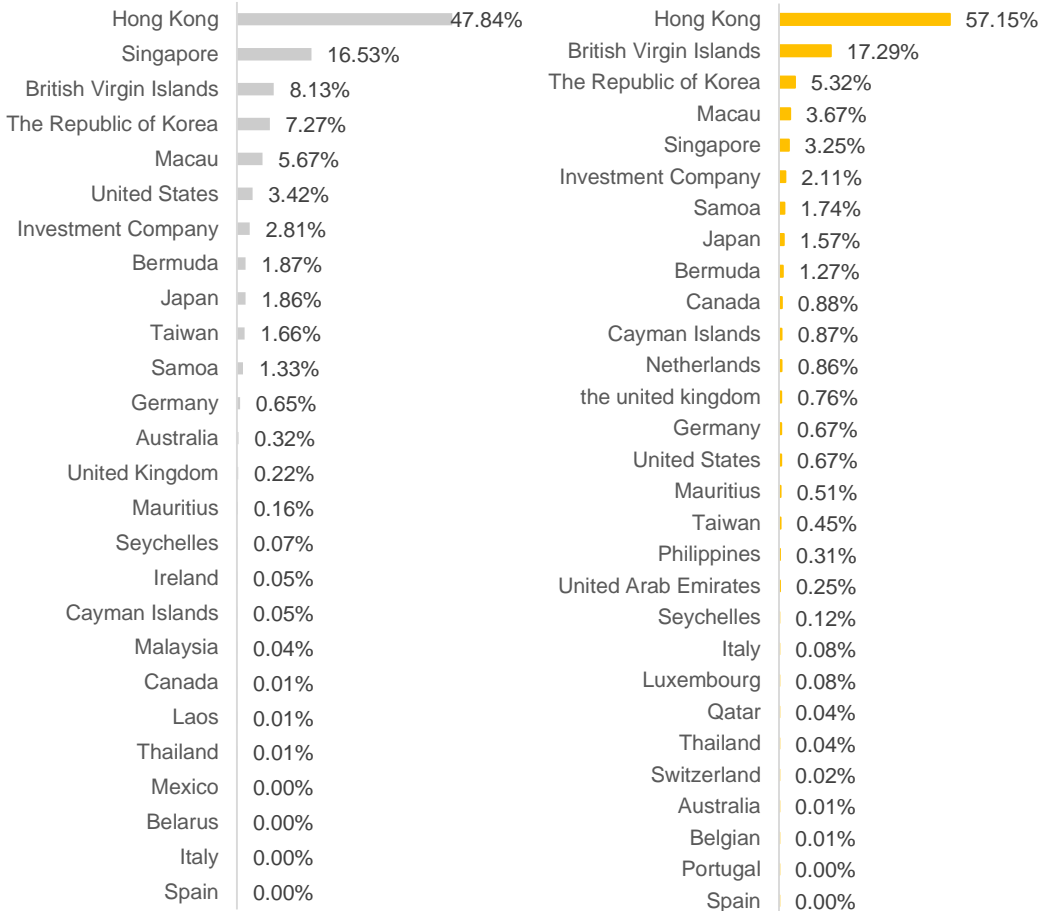
Top three industries which actually used foreign capital in the first half of 2019 (USD billion)

\*Source: Chongqing Commerce Commission, Report of Utilization of Foreign Capital in the first half of 2019, July 17, 2019

## 2.3 Comparison of Utilization of Foreign Capital in 2017 and 2018



2017*	2018**
<b>Top five foreign countries (regions) from which Chongqing actually used foreign capital (proportion) are as follows:</b>	
<ul style="list-style-type: none"> <li>▶ Hong Kong (47.84%)</li> <li>▶ Singapore (16.53%)</li> <li>▶ British Virgin Islands (8.13%)</li> <li>▶ The Republic of Korea (7.27%)</li> <li>▶ Macau (5.67%)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Hong Kong (57.15%)</li> <li>▶ British Virgin Islands (17.29%)</li> <li>▶ The Republic of Korea (5.23%)</li> <li>▶ Macau (3.67%)</li> <li>▶ Singapore (3.25%)</li> </ul>



Countries (regions) from which Chongqing actually used foreign capital (proportion) in 2017

Countries (regions) from which Chongqing actually used foreign capital (proportion) in 2018

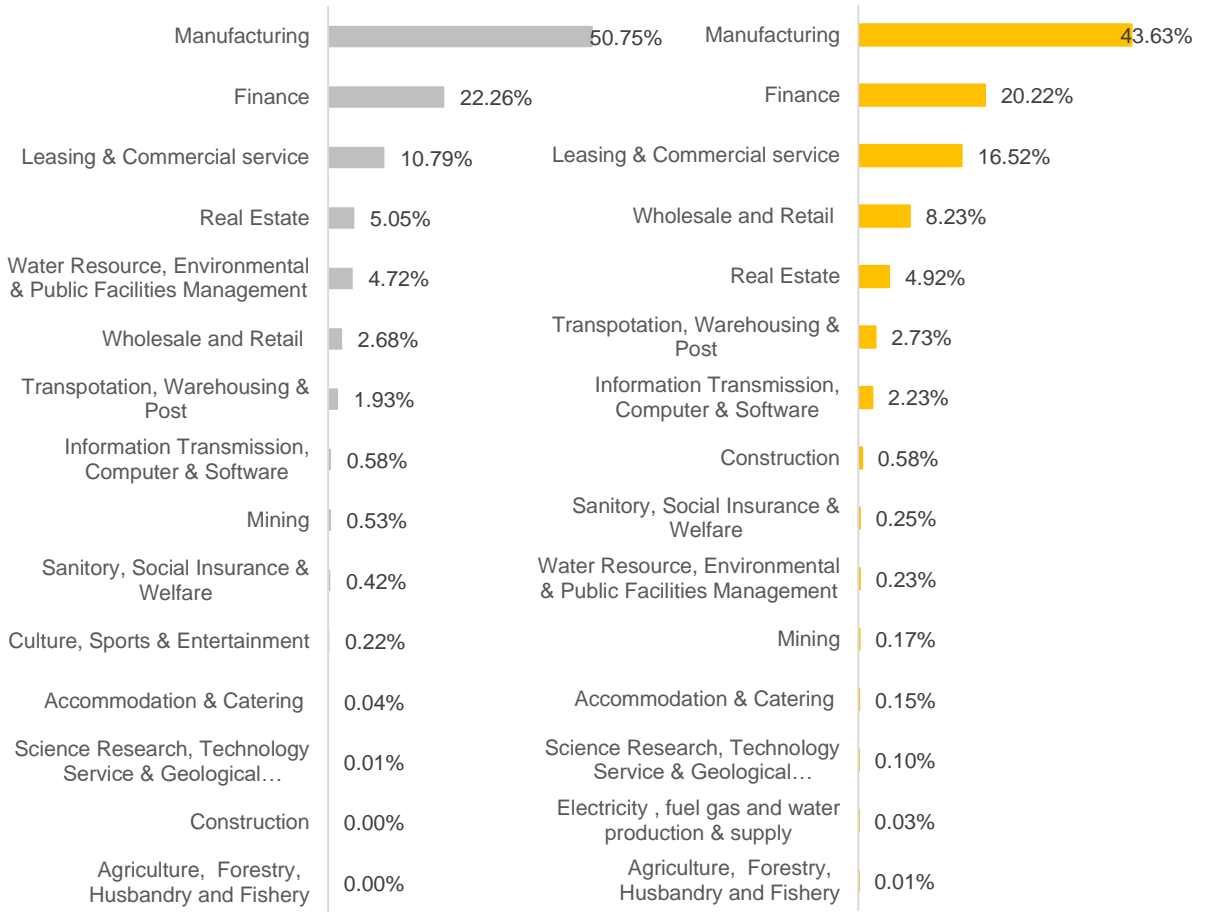
\*Source: "Analysis of the Utilization of Foreign Capital in Chongqing in 2017"

\*\*Source: Chongqing Commerce Commission, Report of Utilization of Foreign Capital as of December 2018, Dec 16, 2018





2017*	2018**
<b>Top five industries which actually used foreign capital (proportion) are as follows:</b>	
<ul style="list-style-type: none"> <li>▶ Manufacturing (50.75%)</li> <li>▶ Finance (22.26%)</li> <li>▶ Leasing &amp; Business Services (10.79%)</li> <li>▶ Real Estate (5.05%)</li> <li>▶ Water Resource, Environment &amp; Public Facility Management (4.72%)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Manufacturing (43.64%)</li> <li>▶ Finance (20.22%)</li> <li>▶ Leasing &amp; Business Services (16.52%)</li> <li>▶ Wholesale and Retail (8.23%)</li> <li>▶ Real Estate (4.92%)</li> </ul>



Overview of Investment

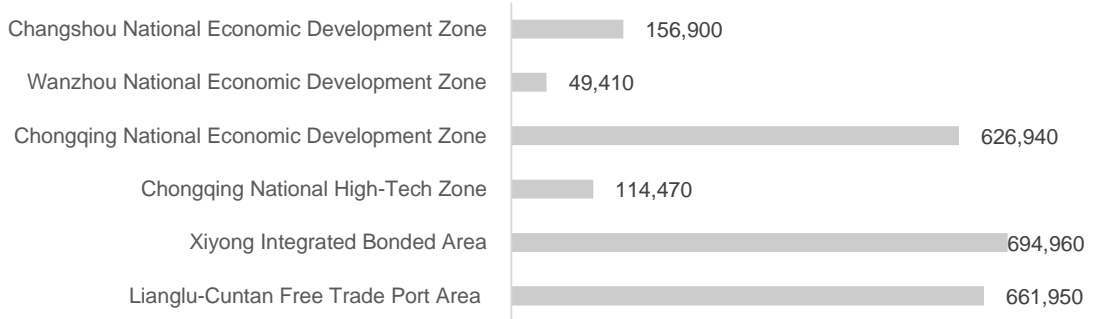
Proportion of industries actually using foreign capital in 2017

Proportion of industries actually using foreign capital in 2018

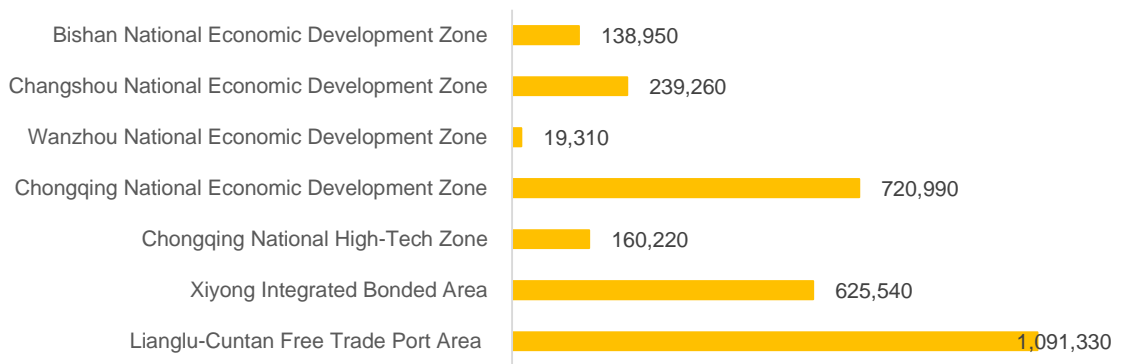
\*Source: "Analysis of the Utilization of Foreign Capital in Chongqing in 2017"

\*\*Source: Chongqing Commerce Commission, Report of Utilization of Foreign Capital as of December 2018, Dec 16, 2018

2017*	2018**
<b>Top three Chongqing National Development Districts which actually used foreign capital (proportion) are as follows (USD thousand):</b>	
<ul style="list-style-type: none"> <li>▶ Xiyong Integrated Tariff-Free Area (694,960)</li> <li>▶ Lianglu-Cuntan Free Trade Port Area (661,950)</li> <li>▶ Chong National Economic Development Zone (626,940)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Lianglu-Cuntan Free Trade Port Area (1,091,330)</li> <li>▶ Chong National Economic Development Zone (720,990)</li> <li>▶ Xiyong Integrated Tariff-Free Area (625,540)</li> </ul>



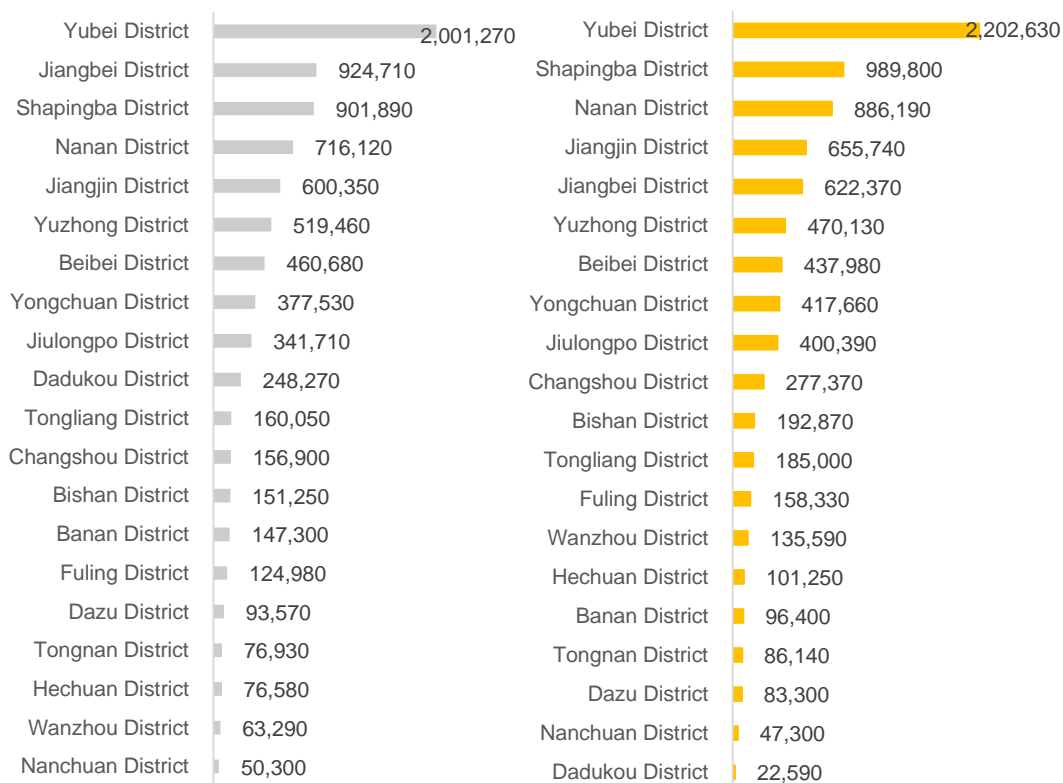
Actual Utilization of Foreign Capital by the Chongqing National Development Zone in 2017 (USD thousand)



Actual Utilization of Foreign Capital by the Chongqing National Development Zone in 2018 (USD thousand)

\*Source: Chongqing Commerce Commission, Briefing of 2017 Foreign Investment Objectives and Tasks, Jan 19, 2018  
 \*\*Source: Chongqing Commerce Commission, Briefing of 2018 Foreign Capital Utilization

2017*	2018**
<b>The top five districts / counties of Chongqing which actually used the foreign capital are as follows (USD thousand):</b>	
<ul style="list-style-type: none"> <li>▶ Yubei District (2,001,270)</li> <li>▶ Jiangbei District (924,710)</li> <li>▶ Shapingba District (901,890)</li> <li>▶ Nanan District (716,120)</li> <li>▶ Jiangjin District (600,350)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Yubei District (2,202,630)</li> <li>▶ Shapingba District (989,800)</li> <li>▶ Nanan District (886,190)</li> <li>▶ Jiangjin District (655,740)</li> <li>▶ Jiangbei District (622,370)</li> </ul>



Actual Utilization of Foreign Capital by Countries / District of Chongqing in 2017 (USD thousands)

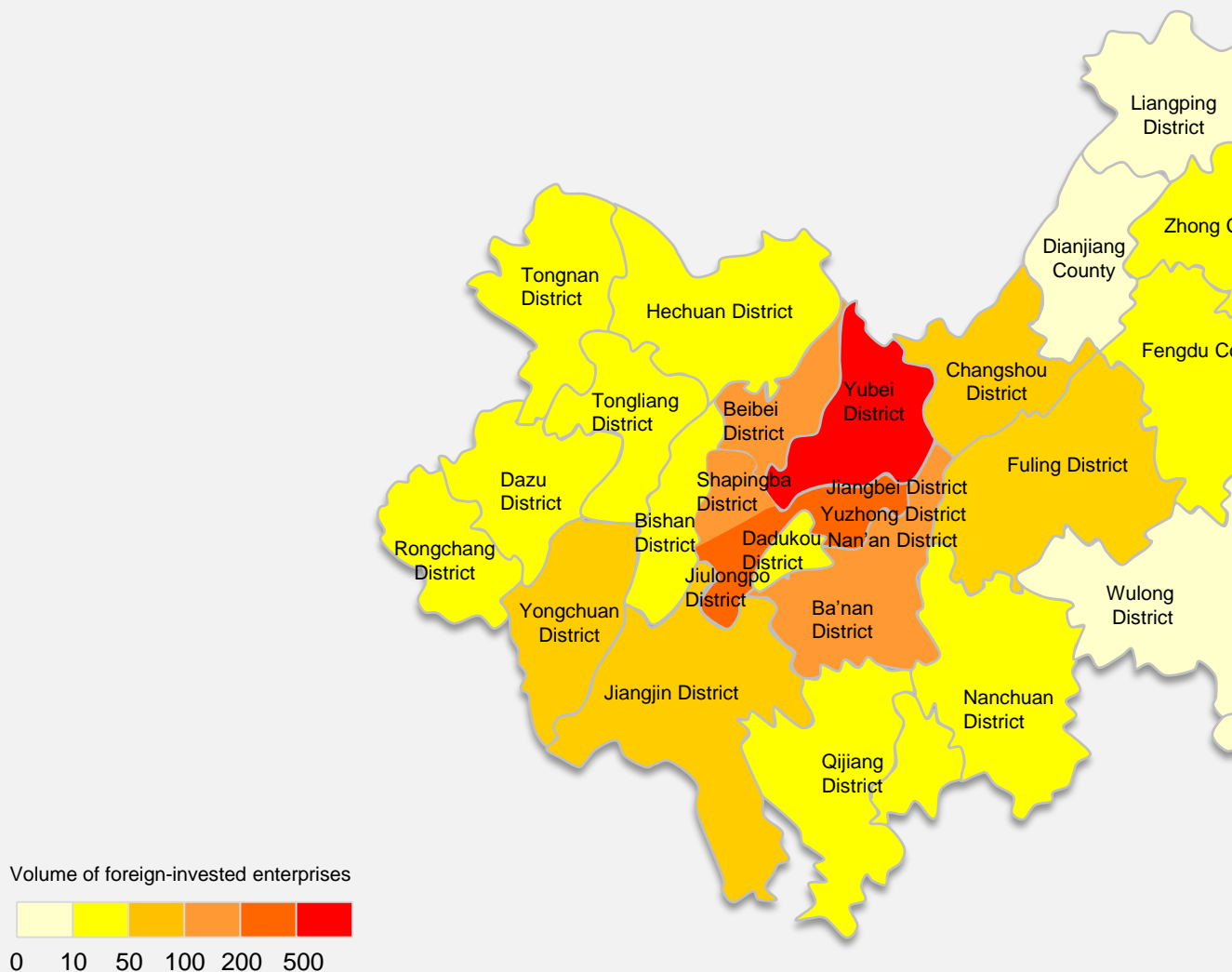
Actual Utilization of Foreign Capital by Countries / District of Chongqing in 2018 (USD thousands)

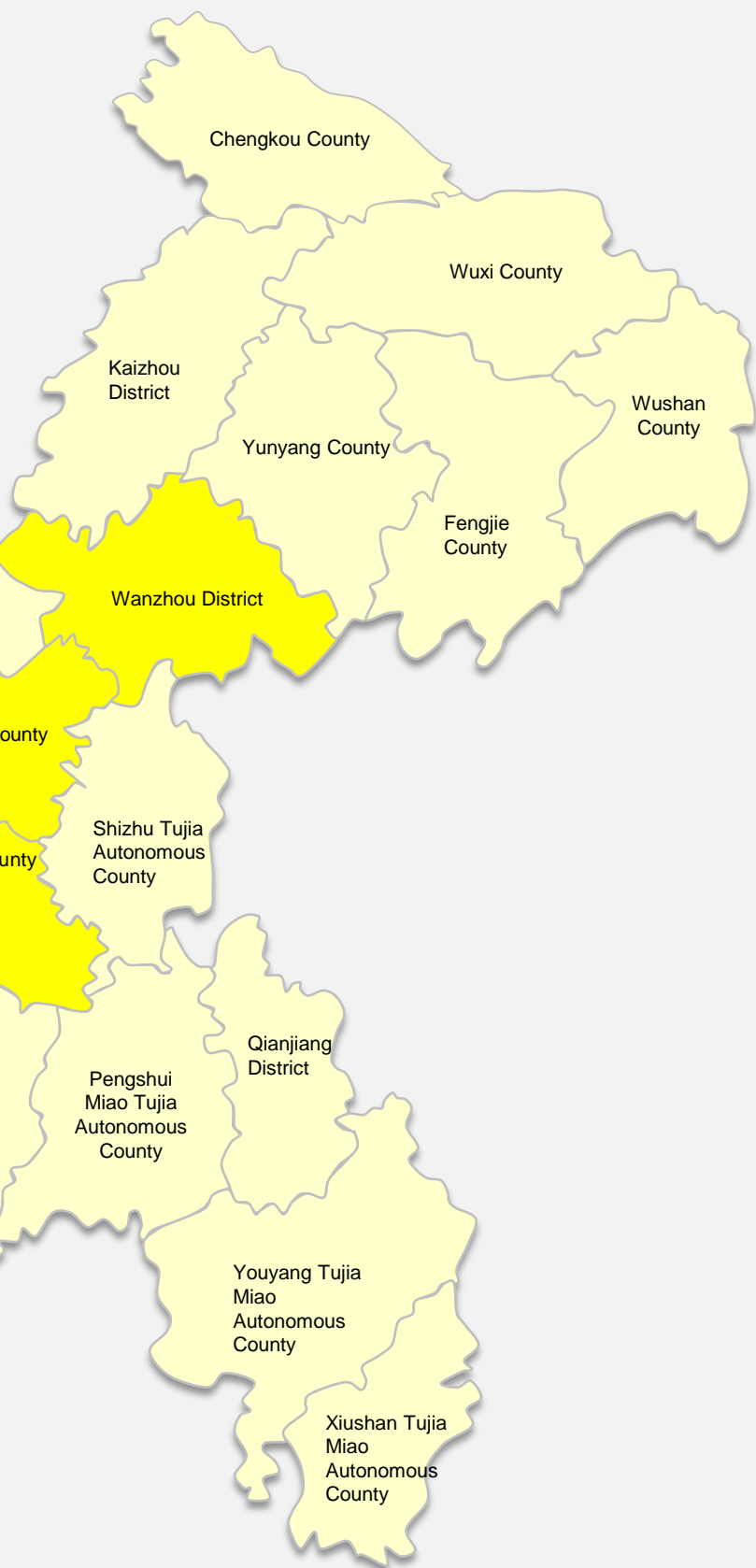
\*Source: Chongqing Commerce Commission, Briefing of 2017 Foreign Investment Objectives and Tasks, Jan 19, 2018  
 \*\*Source: Chongqing Commerce Commission, Briefing of 2018 Foreign Capital Utilization

## 2.4 Map Illustrating Volume of Foreign-invested Enterprises in Chongqing

Based on the survey statistics as of 31 December, 2018 provided by Chongqing Commerce Commission, EY prepared the map illustrating the volume of foreign-invested enterprises registered in each of the 38 districts/counties of Chongqing.

Based on the map, it appears that Chongqing's foreign-invested enterprises are mainly registered in Yubei District, Yuzhong District, Jiangbei District, Jiulongpo District and Nan'an District.





Number of Foreign-Invested Enterprises	Districts/County
≥500	Yubei District
200~500	Yuzhong District Jiangbei District Jiulongpo District Nan'an District
100~200	Shapingba District Beibei District Ba'nan District
50~100	Yongchuan District Changshou District Jiangjin District Fuling District
10~50	Bishan District Wanzhou District Dadukou District Hechuan District Tongliang District Qijiang District Rongchang District Fengdu County Dazu District Nanchuan District Tongnan District Zhong County
<10	Kaizhou District Yunyang County Pengshui Mian Tujia Autonomous County Qianjiang District Wulong District Dianjiang County Shizhu Tujia Autonomous County Youyang Tujia Miao Autonomous County Fengjie County Wushan County Xiushan Tujia Miao Autonomous County Liangping District Wuxi County Chengkou County

# 3

## Evaluation Analysis of Chongqing Foreign Investment Environment (Based on Fundamental Survey Results)



# Introduction

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- ▶ For the preparation of 2019 Evaluation Report, 873 survey questionnaires were completed and collected back (including fundamental and specific questionnaires) by Chongqing Association of Enterprises with Foreign Investment. The successful collecting rate increased by 6% comparing with last year (i.e., 825 completed questionnaires were collected back for 2018 Evaluation Report).
- ▶ It is shown from the completed 873 questionnaires that the 873 foreign-invested enterprises are engaging in various industries and sectors. Therefore, the result of the survey could be regarded as universal and typical.
- ▶ This fundamental questionnaire mainly covers the following five aspects:
  - ▶ Fundamental Environment
  - ▶ Market Environment
  - ▶ Policies and Government Services
  - ▶ Living Environment
  - ▶ Corporate Development

## Overview

In order to ensure the objectivity and authenticity of the survey results, the following activities were conducted during the survey:

- ▶ Conduct the questionnaire survey on the foreign-invested enterprises in Chongqing (including members of CQAEFI), and analyze and summarize the data statistics of the questionnaire results.
- ▶ The survey questionnaire covers fundamental parts and specific parts:
  - Fundamental questionnaire: to perform the continuous evaluation on the foreign investment environment in Chongqing from 5 areas (to be discussed in this chapter);
  - Specific questionnaire: to perform the evaluation on hot spots in Chongqing (to be discussed in next chapter).
- ▶ Interview the representative enterprises participating in the questionnaire survey by communicating with the management of the enterprises face to face.

This fundamental questionnaire mainly covers the following five aspects:

- ▶ Fundamental Environment
- ▶ Market Environment
- ▶ Policies and Government Services
- ▶ Living Environment
- ▶ Corporate Development

When designing the questionnaire, a 10-score assessment standard was introduced (i.e., 10 score refers to Excellent, while 1 score refers to Very Poor). For easy understanding, 10 to 7 score represents "Satisfied", 6 to 5 score represents "Medium", and 4 to 1 score represents "Unsatisfied".

For the preparation of 2019 Evaluation Report, 873 survey questionnaires were completed and collected back (including fundamental and specific questionnaires) by Chongqing Association of Enterprises with Foreign Investment. The successful collecting rate increased 6% comparing with last year (i.e., 825 completed questionnaires were collected back for 2018 Evaluation Report). It is shown from the completed 873 questionnaires that the 873 foreign-invested enterprises are engaging in various industries and sectors. Therefore, the result of the survey could be regarded as universal and typical.

Based on the survey, it's displayed that:

- ▶ the respondents' registered capital ranged from tens of thousands of dollars to hundreds of millions of dollars;
- ▶ the respondents' setup date starts from the early 1990s to 2019;
- ▶ the respondents' registered address covered 34 of 38 administrative divisions in Chongqing;
- ▶ the respondents' legal forms included the wholly foreign-owned enterprises, Sino-foreign joint ventures and etc.;
- ▶ the respondents' engaging scopes cover the whole industries (the dominant industries are manufacturing industry, wholesale and retail, leasing and business services);
- ▶ the respondents' home countries (regions) are almost globally covered (most investments are derived from Hong Kong and Singapore).

During this survey, some foreign-invested enterprises were interviewed in order to obtain further information to prepare this evaluation report.



1



## Fundamental Environment

- ▶ Energy Environment
- ▶ Land Environment

4



## Living Environment

- ▶ Living Environment
  - ▶ Residential conditions
  - ▶ Education
  - ▶ Health care
  - ▶ Public security
  - ▶ Commodity price level, etc.

2



## Market Environment

- ▶ Economic Environment
- ▶ Financial Environment
- ▶ Supporting Facility Environment
- ▶ Human Resources Environment
- ▶ Logistics Environment
- ▶ Environmental Protection
- ▶ Scientific and Technological Environment

5



## Enterprise Development

- ▶ Reasons for investing in Chongqing
- ▶ Major Challenges in Production and Operation
- ▶ The Degrees of Difficulty in Operation Comparing with Last Year
- ▶ Overcapacity in the Industry
- ▶ Expectations for Future Development in China
- ▶ Investment Intention in China
- ▶ Assistance Expected to be Provided by Government, etc.

3



## Policies and Government Services

- ▶ System Factors
- ▶ Comments on service of government affairs in the district and county where the enterprises are located
- ▶ Policy Factors

# 3.1 Fundamental Environment

## 3.1.1 Energy Environment

### ▶ Power supply

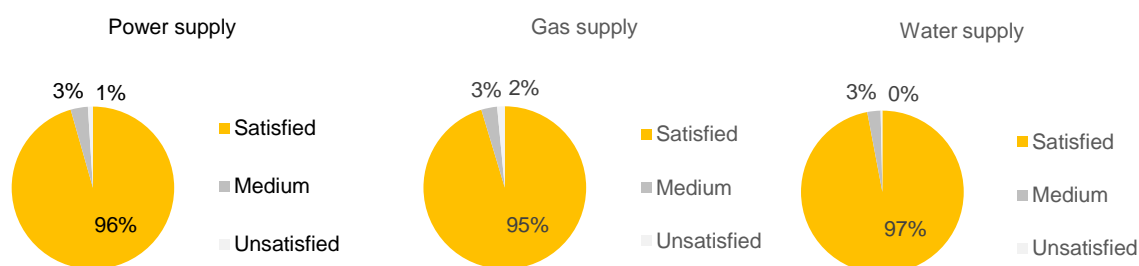
96% of respondents were satisfied with the power supply in Chongqing, and considered that Chongqing's power supply is adequate and keeping a moderate price-level. 46% of respondents chose "Excellent" (i.e., 10 score).

### ▶ Gas supply

95% of respondents were satisfied with the gas supply in Chongqing, and considered that Chongqing's gas supply is adequate and keeping a moderate price-level. 46% of respondents chose "Excellent" (i.e., 10 score).

### ▶ Water supply

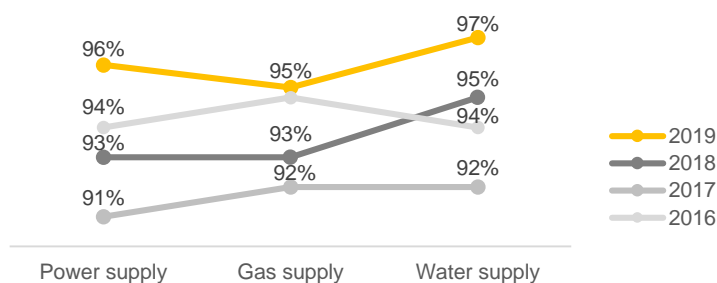
97% of respondents were satisfied with the water supply in Chongqing, and considered that Chongqing's water supply is adequate and keeping a moderate price-level. 48% of respondents chose "Excellent" (i.e., 10 score).



### ▶ Trend of satisfaction indicator from 2016 to 2019

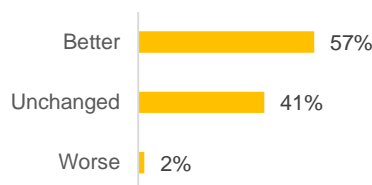
Based on the survey, respondents were generally satisfied with the energy environment and the rate of satisfaction has remained above 90% for the last four years. In 2019, the three satisfaction indicators were enhanced in comparison with those in prior years.

Compared with 2018, the satisfaction indicator of power supply increased by 3% in 2019. That of gas supply remained almost the same. The satisfaction indicator of water supply was the highest one among the three energy environments and it was increased by 2% in 2019.



► **Comparing the energy environment in 2019 with that in 2018**

57% of the respondents considered that the energy environment of Chongqing in 2019 became better than that in 2018. 41% of respondents indicated that there was no change. Only 2% of respondents considered that the energy environment became even worse. In conclusion, the majority of respondents agreed that the energy environment has been better.



► **In conclusion, the overall score of the energy environment is relatively high. However, some improvement is still needed.**

Based on the various comparison above, respondents highly recognize the contribution made by Chongqing authorities to the energy environment, specifically for the energy supply and energy environment improvement. This shows that the positive actions taken by Chongqing authorities have achieved remarkable results and impact for many foreign-invested enterprises.

However, based on the feedback of the questionnaires, some respondents indicated that the purchase prices of water, electricity and gas were too high (especially for the price of industrial electricity). They also mentioned that the price of water and gas were higher than last year.

**Recommendations by EY**

Improvement of the energy environment is very significant for the development of Chongqing's economy, as energy is an essential support to industrial development.

From the results of the survey and feedback, EY recommends that relevant Chongqing government authorities could implement effective ways to further improve the local energy environment. Such as, purchase more low-price power outside Chongqing, carry out pilot demonstrations of "smart distribution networks" and "smart use of energy", and further promote the reform of transmission and distribution power prices. EY also recommends to rule the use of power in the dedicated supply chain, promote the reform of incremental distribution business of power, and build data sharing platform to help to reduce power costs by marketization and professional services provided by government.

Meanwhile, EY recommends Chongqing government to assist enterprises in reducing investment cost of energy facilities, encourage enterprises to increase the utilization of high-performance and high-efficiency energy facilities, and accelerate the upgrading of high energy-consuming and high pollution equipment and facilities. Besides, more clean energy supply enterprises (such as hydropower) could be attracted to setup in Chongqing, so as to improve the environment and utilization of the energy.

In addition, it is also recommended to strengthen the coordination of power, gas, and water supply enterprises within Chongqing, monitor the operation (like use of pipelines), and enhance the daily maintenance of operation facilities and equipment. Besides, the overall optimization of the city's energy supply shall be considered to improve efficiency, stability and sustainability of energy supply.

Finally, EY suggests Chongqing government considering to accelerate the market-oriented reform of gas prices for enterprises, establish a system to control the different gas prices in peak and valley season, adjust gas pipeline transportation prices, strengthen price management and supervision to further improve gas supply satisfaction rate.

### 3.1.2 Land Environment

► **Land supply**

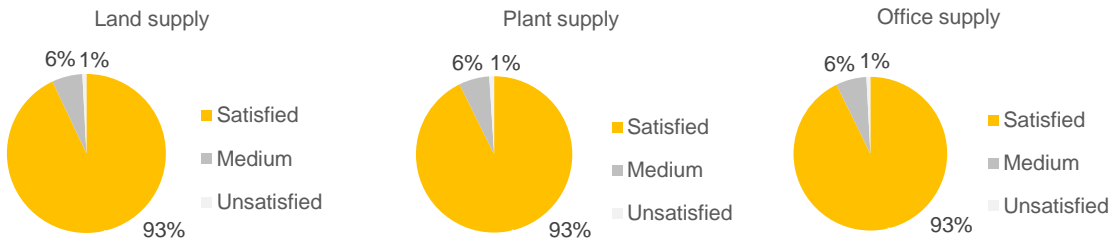
93% of respondents were satisfied with the land supply in Chongqing, and considered that Chongqing's land supply is adequate and keeping a moderate price-level. 40% of respondents chose "Excellent" (i.e., 10 score).

► **Plant supply**

93% of respondents were satisfied with the plant supply in Chongqing, and considered that Chongqing's plant supply is adequate and keeping a moderate price-level. 41% of respondents chose "Excellent" (i.e., 10 score).

► **Office supply**

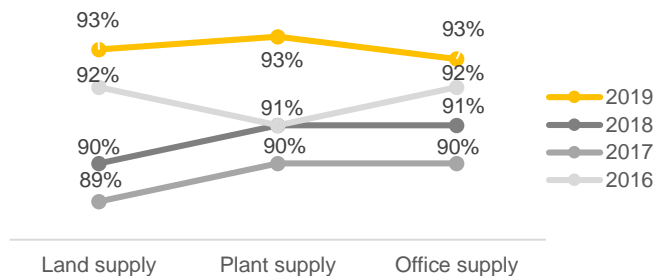
93% of respondents were satisfied with the office supply in Chongqing, and considered that Chongqing's office supply is adequate and keeping a moderate price-level. 41% of respondents chose "Excellent" (i.e., 10 score).



► **Trend of satisfaction indicator from 2016 to 2019**

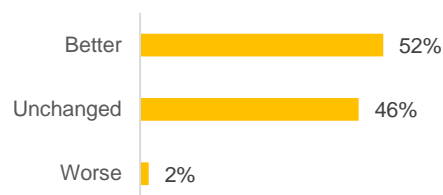
Based on the survey, respondents were generally satisfied with the land environment and rate of satisfaction has remained above 90% for the last four years. In 2019, the three satisfaction indicators were enhanced in comparison with those in prior years.

In 2019, respondents were generally satisfied with the land environment. The satisfaction indicator of land supply increased fast compared to 2018, rising by 3%. The satisfaction indicator of plant supply increased by 2% and satisfaction indicator of office supply increased by 2% compared to 2018.



► **Comparing the land environment in 2019 with that in 2018**

52% of the respondents considered that the land environment of Chongqing in 2019 became better than that in 2018. 46% of respondents indicated that there was no change. Only 2% of respondents considered that the financial environment became even worse. In conclusion, the majority of respondents agreed that the land environment has been enhanced.



► **In conclusion, the overall score of the land environment is relatively high. However, some improvement is still needed.**

Considering the supply of land, plant and office buildings, respondents were generally satisfied with the current situation and the survey results showed that 2019 was the year with the highest satisfaction since 2016. It also illustrated that the efforts made by Chongqing government to improve the land environment, especially in keeping sufficient supply, price stability and rationality, have been recognized by many enterprises.

However, based on the feedback, some respondents indicated that land use prices and office rental price were relatively high, even some landlords raised the prices at will. There were also some respondents suffering from severe rain leakage in their factories in summer which affect their normal operation, but the problem was difficult to solve in practice. Respondents hoped that relevant policies or measures could be considered to resolve above problems and improve the land use environment as soon as possible.

**Recommendations by EY**

Even though China is a large country, the land resources are very precious due to the low land per capita, unbalanced regional development and low land reserve. In many areas, high-quality land resources that can be used for production and living are usually limited, especially in Chongqing. The sufficient land resources supply is a very important factor which effects Chongqing's economic development and ecological balance.

Based on the results of the survey, EY recommends that the relevant Chongqing authorities could take effective ways to improve land supply environment, such as build a flexible land supply mechanism, reduce land use costs, ensure to provide sufficient land to enterprise, encourage all districts / counties to provide industrial land by different ways (e.g., shorten the standard land-use-life-term, lease with a long-term, combination of lease and transfer, firstly lease and then transfer, installment supply). We believe that the above ways could optimize the allocation of land resources and achieve a better ecological environment of land.

EY also recommended that Chongqing government could take below measures to relieve the contradictions between the demand and supply of industrial land: industrial land stock could be released; the idle plants and office buildings could be re-used to improve the use-efficiency; the unfinished buildings could be revitalized by taking various measures.

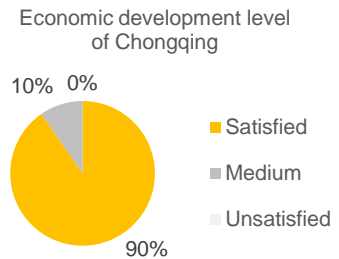
To encourage foreign investors to participate in the planning, consulting, investment and management operations of industrial plants, commercial office buildings and other properties, and to improve the quality of property construction management services. To assist the enterprises to reconstruct and repair the "old and dangerous buildings", to extend the use life of the buildings. Through these ways, Chongqing's land environment could be keep in a reasonable, efficient and high-quality status.

# 3.2 Market Environment

## 3.2.1 Economic environment

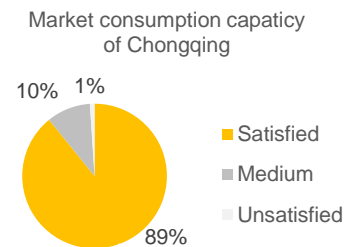
### ▶ Economic development level of Chongqing

90% of the respondents were satisfied with the economic development level of Chongqing. 20% of respondents chose "Excellent" (i.e., 10 score).



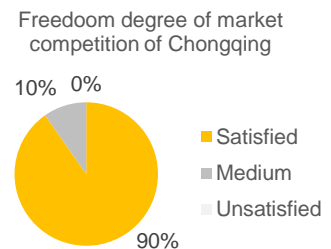
### ▶ Market consumption capacity of Chongqing

89% of the respondents were satisfied with the market consumption capacity of Chongqing. 19% of respondents chose "Excellent" (i.e., 10 score).



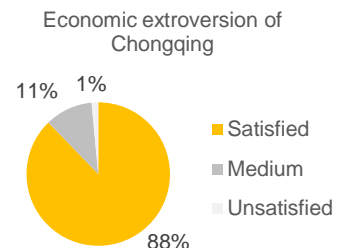
### ▶ Freedom degree of market competition of Chongqing

90% of the respondents were satisfied with the freedom degree of market competition of Chongqing. 22% of respondents chose "Excellent" (i.e., 10 score).



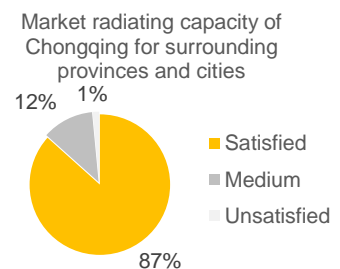
### ▶ Economic extroversion of Chongqing

88% of the respondents were satisfied with the economic extroversion of Chongqing. 21% of respondents chose "Excellent" (i.e., 10 score).



### ▶ Market radiating capacity of Chongqing for surrounding provinces and cities

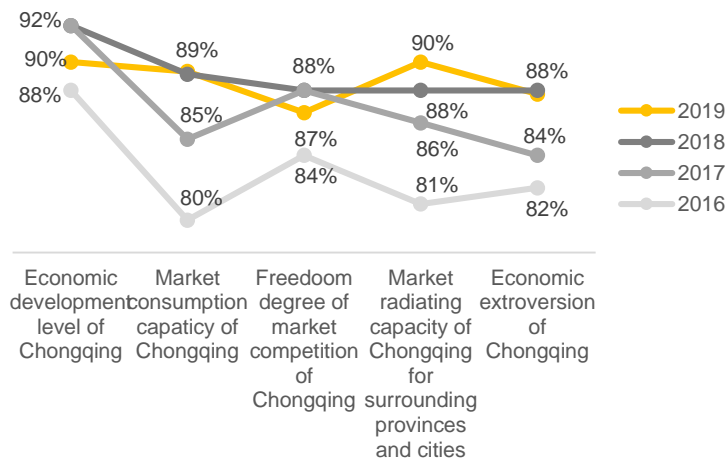
87% of the respondents were satisfied with the market radiating capacity of Chongqing for surrounding provinces and cities. 20% of respondents chose "Excellent" (i.e., 10 score).



► **Trend of satisfaction indicator from 2016 to 2019**

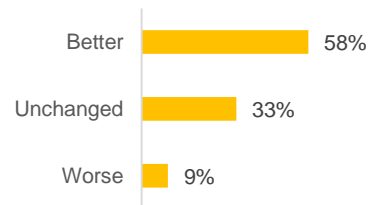
Based on the chart below, respondents were generally satisfied with the economic environment in 2019. The highest improvement is the satisfaction indicator of the market radiating capacity for surrounding provinces and cities, which has been continuously increasing since 2016 and reached 90% this year.

In addition, the satisfaction indicators for market consumption capacity and economic extroversion have been gradually increased since 2016, which are 9% and 6% higher than 2016, respectively. The satisfaction indicators for economic development level and freedom of market competition are slightly lower than those in 2018 and 2017.



► **Comparing the economic environment in 2019 with that in 2018**

58% of the respondents considered that the economic environment of Chongqing in 2019 became better than that in 2018. 33% of respondents indicated that there was no change. Only 9% of respondents considered that the economic environment became worse.



► **In conclusion, the overall score of the economic environment is relatively high. However, some improvement is still needed.**

Some respondents believed that Chongqing is less open compared with coastal cities in China. There are higher outbound transportation costs and lower industrial cluster effects in Chongqing.

In addition, some respondents felt that due to the pressure under current macro economic environment, the overall market consumption is going down and the competition is fierce. As such, it is more difficult to find job or raise business. Especially for the automobile manufacturing industry and its supporting industries, their production and operation business has been sharply declined.

**Recommendations by EY**

The economic environment can be easily affected by other external factors. Therefore, to increase the satisfaction rate of economic environment, Chongqing government shall consider multiple measures from various aspects.

It is recommended that government needs further and in-depth understand the enterprises' concerns/problems, then to improve the local economic environment from various perspectives, such as industrial structures, market openness, demand and supply of different resources, governmental services, ecological environment construction, level of tax burden, infrastructure construction, etc.

### 3.2.2 Financial Environment

► **Completeness degree of financial services**

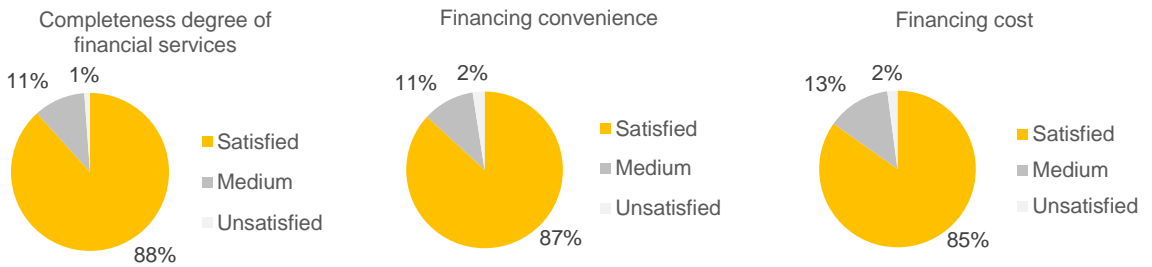
88% of respondents were satisfied with the completeness degree of financial services of Chongqing. 22% of respondents chose “Excellent” (i.e., 10 score).

► **Financing convenience**

87% of respondents were satisfied with the financing convenience of Chongqing. 21% of respondents chose “Excellent” (i.e., 10 score).

► **Financing cost**

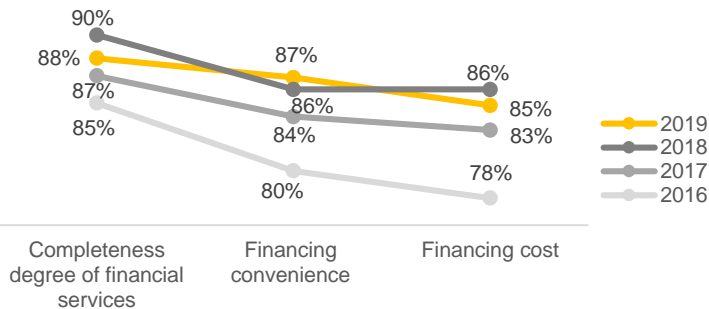
85% of respondents were satisfied with the financing cost of Chongqing. 19% of respondents chose “Excellent” (i.e., 10 score).



► **Trend of satisfaction indicator from 2016 to 2019**

Comparing the survey data in the past four years, satisfaction indicator of financing convenience has increased gradually since 2016, reaching a maximum of 87% in 2019, 7% higher than 2016, and 1% higher than 2018.

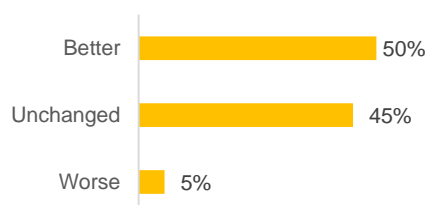
Satisfaction indicators for completeness degree of financial services and financing costs decreased slightly compared to 2018, but higher than 2016 and 2017. It appears that enterprises have a more urgent need to improve the completeness of financial services and appropriately reduce financing costs.





► **Comparing the financial environment in 2019 with that in 2018**

50% of the respondents considered that the financial environment of Chongqing in 2019 became better than that in 2018. 45% of respondents indicated that there was no change. Only 5% of respondents considered that the financial environment became worse. The majority of respondents are comfortable with current financial environment.



► **In conclusion, the overall score of the financial environment is relatively high. However, some improvement is still needed.**

In order to improve the financial environment and promote the economic and financial development, Chongqing government has introduced many new policies and rules, which led to various good results and have been widely recognized by enterprises.

From respondents' feedback, some respondents indicated that there is still room for Chongqing's overall financial service level to improve comparing to that in developed coastal areas in China, and the financial environment for small-and-medium-scale enterprises could be further promoted. Some respondents also mentioned that the financing is still difficult (especially for small-and-medium-sized enterprises). For example, banks have more restrictions on unsecured loans or long-term loans. Therefore, some respondents considered that there is potential risk that overall cost of financing may be still increasing.

**Recommendations by EY**

Regarding to the above survey results and feedbacks, EY recommends that relevant Chongqing authorities need further improve the effective mechanisms to encourage financial institutions to expand the effective credit, guide them to optimize the credit approval processes, and explore more new approaches for loan collateral/pledge. As well, EY recommends that the government-bank-enterprise relations shall be strengthened and the government-bank-enterprise cooperation platform shall be more flexible and focused. At the same time, financial institutions could further reduce the costs of financing by optimizing the intermediate approval process.

Meanwhile, it is recommended to improve the credit infrastructure construction by promoting the information sharing, improving the construction of the financial supervision system and strengthening the financial supervision team capacity. It is necessary to adjust the supervisory functions to provide high-quality financial services to enterprises.

In addition, various financial institutions shall be encouraged to continuously develop the innovate financial products, in order to meet the diverse needs from different enterprises. it is recommended to encourage the combination of traditional financing and high-tech finance to form a rational and effectively financial competition environment.

### 3.2.3 Supporting Facility Environment

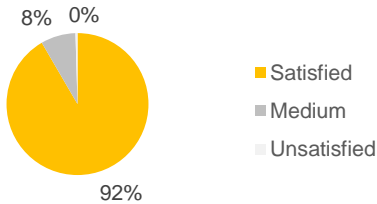
► **Concentration and completeness of the supporting facilities of Chongqing**

92% of the respondents were satisfied with concentration and completeness of the supporting facilities of Chongqing. 22% of respondents chose “Excellent” (i.e., 10 score).

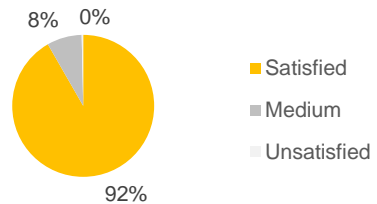
► **Enterprise management quality level of the supporting facilities of Chongqing**

92% of the respondents were satisfied with enterprise management quality level of the supporting facilities of Chongqing. 21% of respondents chose “Excellent” (i.e., 10 score).

Concentration and completeness of the supporting facilities of Chongqing



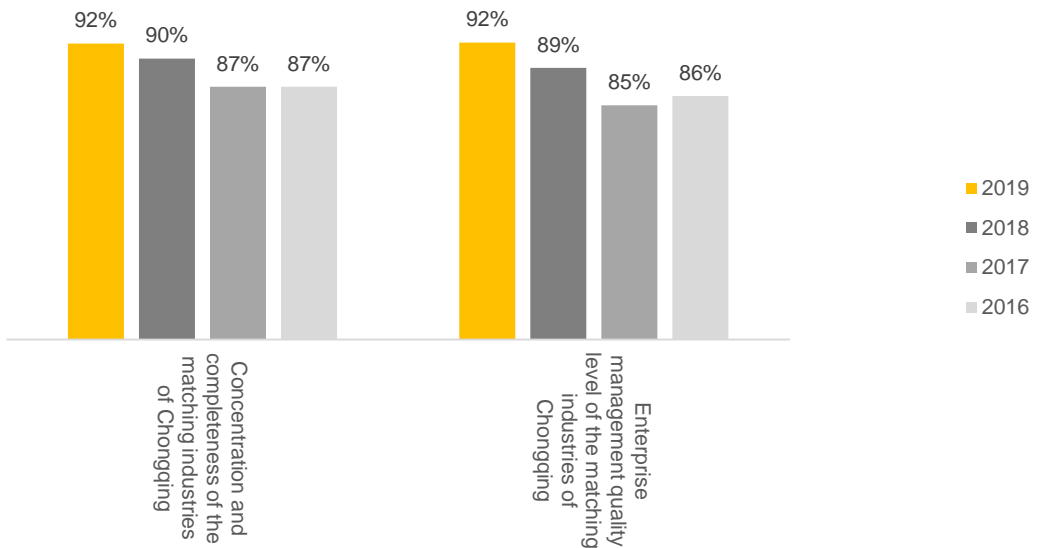
Enterprise management quality level of the supporting facilities of Chongqing



► **Trend of satisfaction indicator from 2016 to 2019**

Based on the survey, in 2019, the satisfaction of respondents to the supporting facilities environment was generally high. Both the two satisfaction indicators are gradually increased and higher than the previous year's. Therefore, it appears that the local supporting facility environment is widely recognized by the respondents.

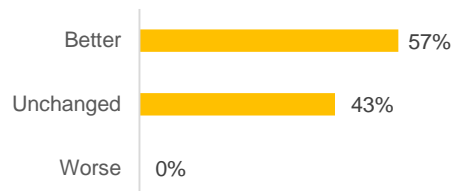
The satisfaction indicator of the concentration and completeness of supporting facilities has increased annually, 5% higher than that in 2016 and 2% higher than that in 2018. The satisfaction indicator of the enterprise management quality level also shows an overall upward trend, 6% higher than that in 2016 and 3% higher than that in 2018.



Evaluation Analysis on Fundamental Survey

► **Comparing the supporting facilities environment in 2019 with that in 2018**

57% of the respondents considered that the supporting facilities environment of Chongqing in 2019 became better than that in 2018. 43% of respondents indicated that there was no change, while only 5 enterprises thought it was worse, the number is less than 1%. Therefore, most of the enterprises were satisfied with the improvement of the local supporting facilities environment, which shows that the relevant Chongqing authorities have made good achievements in improving the supporting facilities environment.



► **In conclusion, the overall evaluation of the supporting facilities environment was relatively high. However, some respondents have pointed out some problems.**

Based on the survey, the respondents' overall satisfaction with the local supporting facilities environment was high, and the satisfaction indicators were rising annually, which due to the continuous efforts and improvement contributed by the local government. The ways of development of industrial chain, improvement of supporting facilities and the enhancement of industrial concentration have brought real benefits to enterprises and attract more enterprises to invest in Chongqing.

However, some respondents pointed out some problems related to the supporting facilities environment. For example, some respondents reflected that there are few high-precision mold and professional equipment manufacturers, and the manufacturers of supporting facilities are still in short compared with the coastal areas in China. Under such circumstances, much of the production and maintenance of some special or large-scale equipment and spare parts rely on foreign suppliers. In addition, the ability of small-and-medium-sized enterprises to provide supporting services is not good enough to match the production demand of large enterprises.

### Recommendations by EY

A good supporting facilities environment is very helpful for the rapid development of local industry. Successful investment of the supporting facilities depend not only on market investment and operation, but also on the overall planning and supervision of local government. We can say local government plays an increasingly important role in improving the supporting facilities environment.

In response to the results and feedback of the questionnaire, EY suggests that relevant Chongqing authorities shall take actions such as further optimize the effectiveness of the mechanisms, make arrangements for the construction of regional supporting facilities, identify enterprises' real needs, strengthen the supervision and governmental service quality, improve the degree of industrial concentration in order to further expand the local industrial cluster effect.

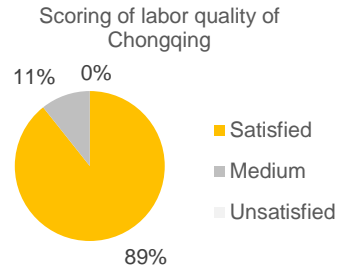
Chongqing government shall also put more efforts to pro-actively attract high-end supporting facility enterprises, so as to provide more sophisticated production equipment and raw materials. Small-and-medium-sized suppliers shall be encouraged to improve their competitiveness, so that the buyers/customers could have more choices in the Chongqing market. At the same time, it is necessary to improve the local infrastructure, environmental condition and public supporting service capacity. As a result, the foreign-invested enterprises could obtain benefit from the comprehensive, high-quality and advanced supporting facilities environment.

It is foreseen that Chongqing would attract more high-end enterprises in future by the continuous effort of government on the improvement of the supporting facilities environment, and this would subsequently improve the local economic of Chongqing.

### 3.2.4 Human Resources Environment

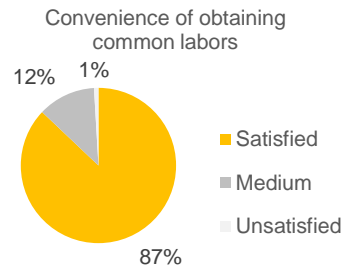
► **Labor quality of Chongqing**

89% of the respondents were satisfied with labor quality of Chongqing. 17% of respondents chose "Excellent" (i.e., 10 score).



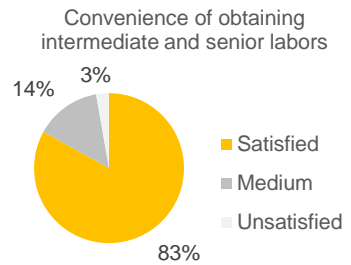
► **Convenience of obtaining common labors**

87% of the respondents were satisfied with convenience of obtaining common labors. 20% of respondents chose "Excellent" (i.e., 10 score).



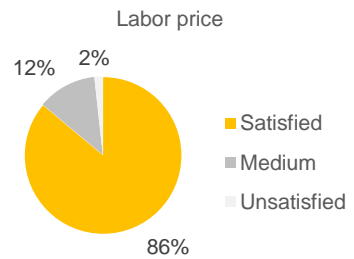
► **Convenience of obtaining intermediate and senior labor**

83% of the respondents were satisfied with convenience of obtaining intermediate and senior labor. 17% of respondents chose "Excellent" (i.e., 10 score).



► **Labor price**

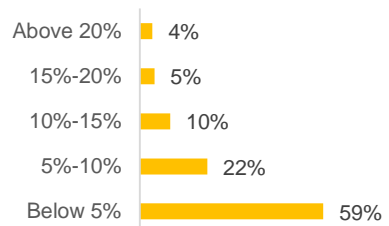
86% of the respondents were satisfied with labor price of Chongqing. 16% of respondents chose "Excellent" (i.e., 10 score).



► **Annual employee turnover ratio**

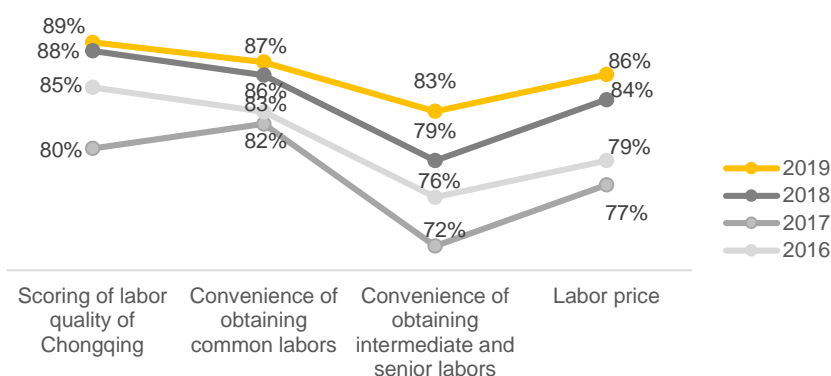
59% of respondents had the employee turnover ratio of 5% or below. 22% of respondents had the employee turnover ratio of 5%-10%. 19% of respondents had the employee turnover ratio of 10% or above.

Overall, the employee turnover ratio of foreign-invested enterprises of Chongqing was relatively low.



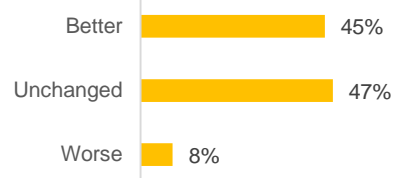
► **Trend of satisfaction indicator from 2016 to 2019**

In 2019, respondents' satisfaction with human resources was generally high. The satisfaction indicator of the convenience of obtaining middle and senior labor force has increased rapidly (the satisfaction indicator in 2019 is 83%, which is 11% higher than that in 2016). In the past, there was a large number of manufacturing industries in Chongqing. After the Smart China Expo, the demand for middle and high talent has increased. The talent plan and the corresponding implementation also lead the promotion of talent pool in different regions of Chongqing, providing strong support to the supply of local high talents. In the past three years, the satisfaction indicator of labor price has been rising, 9% higher than the lowest rating. The satisfaction indicators for labor quality and convenience of obtaining common labor was not changed obviously, only 1% higher than that in 2018. However, it appears that the overall satisfaction indicators are in an upward trend.



► **Comparing the human resources environment in 2019 with that in 2018**

45% of the respondents considered that the human resources environment of Chongqing in 2019 became better than that in 2018. 47% of respondents indicated that there was no change. Only 8% of respondents considered that the human resources environment became worse.



► **In conclusion, the overall score of human resources environment is relatively high. But it also highlights some problems.**

In terms of the convenience of obtaining middle-level and high-level labor force, respondents considered that it can be further improved. Some respondents reflected that Chongqing has limited access to middle and high talents compared with the coastal areas in China. Enterprises suffer from high expense in the process of seeking high-end talents.

Some respondents also indicated that it is difficult to hire professional management personnel, and the turnover rate of technical talents is high. In addition, some respondents mentioned that the recruitment of ordinary labor is becoming more difficult, and the willingness and stability of workers are reduced, due to the decline of macro economics.

**Recommendations by EY**

Human resource is the core competitiveness resource of economic development. Therefore, it is important for Chongqing government to innovate good mechanism to attract high-end and professional talents to Chongqing. In view of the above feedback from the survey, EY suggests that Chongqing government could further make comprehensive plans to attract more high talents by continuously announcing incentive policies, and assist enterprises in reducing the cost of human resources by improving the mechanism of talent information sharing. At the same time, Chongqing government shall closely observe the demand and supply of talent market, and provide necessary assistance (e.g., trainings) to enterprises and individuals to improve the quality of labor force.

### 3.2.5 Logistics Environment

► **Completeness of logistics supporting system**

94% of the respondents were satisfied with the completeness of logistics supporting system. 24% of respondents chose “Excellent” (i.e., 10 score).

► **Logistics cost**

87% of the respondents were satisfied with the logistics cost of Chongqing. 18% of respondents chose “Excellent” (i.e., 10 score).

► **Infrastructure and convenience of urban transport**

91% of the respondents were satisfied with the infrastructure and convenience of urban transport of Chongqing. 26% of respondents chose “Excellent” (i.e., 10 score).

► **Infrastructure and convenience of railway transport**

93% of the respondents were satisfied with the infrastructure and convenience of railway transport of Chongqing. 26% of respondents chose “Excellent” (i.e., 10 score).

► **Infrastructure and convenience of air transport**

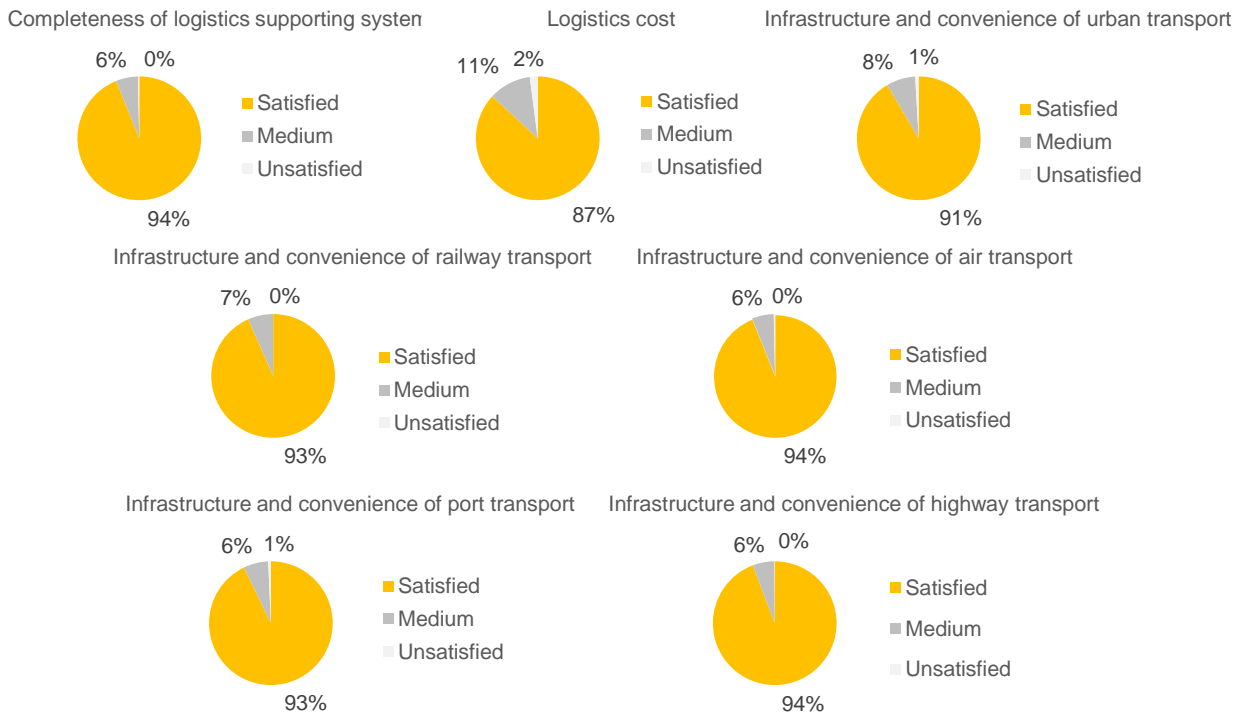
94% of the respondents were satisfied with the infrastructure and convenience of air transport of Chongqing. 27% of respondents chose “Excellent” (i.e., 10 score).

► **Infrastructure and convenience of port transport**

93% of the respondents were satisfied with the infrastructure and convenience of port transport of Chongqing. 24% of respondents chose “Excellent” (i.e., 10 score).

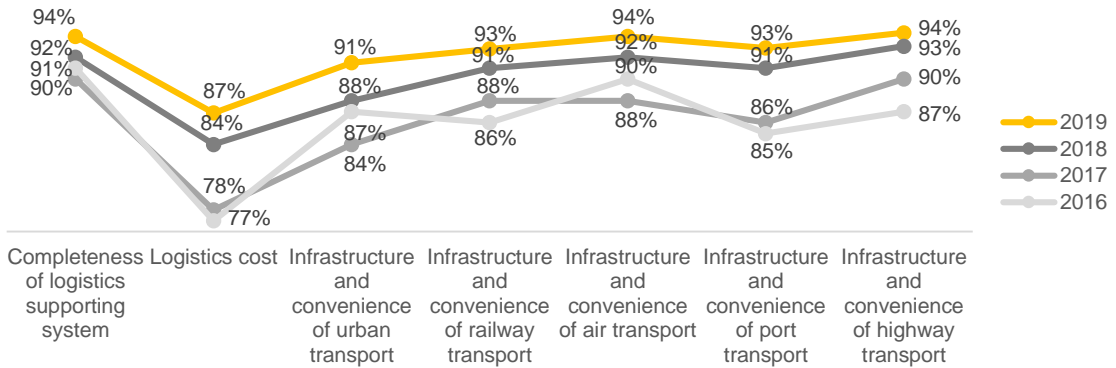
► **Infrastructure and convenience of highway transport**

94% of the respondents were satisfied with the infrastructure and convenience of highway transport of Chongqing. 28% of respondents chose “Excellent” (i.e., 10 score).



► **Trend of satisfaction indicator from 2016 to 2019**

In 2019, the satisfaction of respondents to the logistics environment was generally high, which obviously showed a steady upward trend compared with the previous three years. Due to the establishment of the "Port and Logistics Office" by Chongqing government, the local logistics facilitation is dramatically improved. However, the satisfaction indicator of "logistics cost" was lower compared with other indicators, so this needs to be further improved.



► **In conclusion, the overall score of the logistics environment is relatively high, and most of the respondents considered that the logistics environment in 2019 is better than that in 2018.**

However, some respondents considered that the logistics cost is still high, including high storage fee, trailer fee and so on. Some respondents said that the quality of some rural roads is not good enough (those roads were in frequent maintenance) which lead the difficulty to arrange the transportation schedule. At the same time, there are some other problems such as vehicles overloaded, parked disorderly and serious traffic congestion, which adversely affect the transportation efficiency. Some respondents mentioned that it seems to be a bit time-consuming to pass Three Gorges Dam when they adopt ship transportation.

**Chongqing in action**

The Port and Logistics Office of Chongqing Municipal People's Government was established in October 2018 to accelerate the development of inland international logistics hub and port.

► **Development of international logistics channels**

Chongqing has accelerated the development of inland international logistics channels, indicating that the international logistics channel systems of East, West, North and South direction and aviation has been formed in Chongqing. The expansion of international logistics channels is leading in the west of China.

► **Development of ports**

Chongqing has initially formed a comprehensive port system with airport and railway ports as the leading ports, customs special supervision areas as the support, various import commodities ports as the supplement, the "single window" of international trade as the platform, and close cooperation and joint development with major ports along the coast and border. The number and function of ports in Chongqing are in the forefront of inland provinces, and "1 + 4 + 4 + 4 + 7" open ports system have been formed. The operation of "single window" has significantly improved the facilitation of customs clearance.

► **Actively to be national pilot city**

Chongqing strives for being the national pilot city with the program of cost reduction and efficiency improvement. Chongqing promotes the reform of logistics industry management system, and coordinates the logistics operation and functions. In October 2019, the central government officially approved Chongqing to be the pilot city. According to the pilot plan, Chongqing is defined as the national logistics hub city.

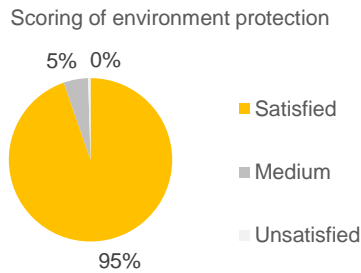
► **Development of aviation**

As of September 2019, Jiangbei Airport has opened 88 International (regional) routes, reaching 67 cities in 29 countries. Chongqing has established an international airline network connecting with Europe, Americas, Asia, Africa, Australia and other major areas of the world. The number of entry-exit passengers at the air ports was 2.7 million, up by 7.84% year-on-year, and the number of entry-exit cargo was 11.23 million tons, up 5.2% year-on-year.

### 3.2.6 Environmental Protection

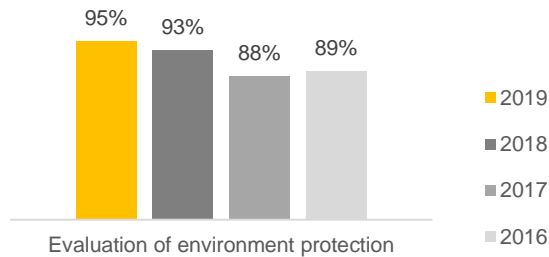
► **Evaluation of environmental protection**

95% of the respondents were satisfied with environmental protection of Chongqing. 23% of respondents chose “Excellent” (i.e., 10 score).



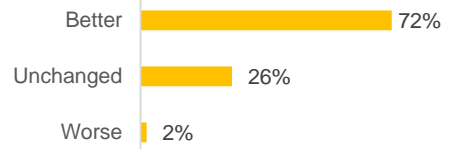
► **Trend of satisfaction indicator from 2016 to 2019**

In 2019, the respondents' satisfaction of environmental protection was higher, compared with the previous three years. It was 2% higher than that in 2018, 7% higher than that in 2017 and 6% higher than that in 2016.



► **Comparing the environment protection in 2019 with that in 2018**

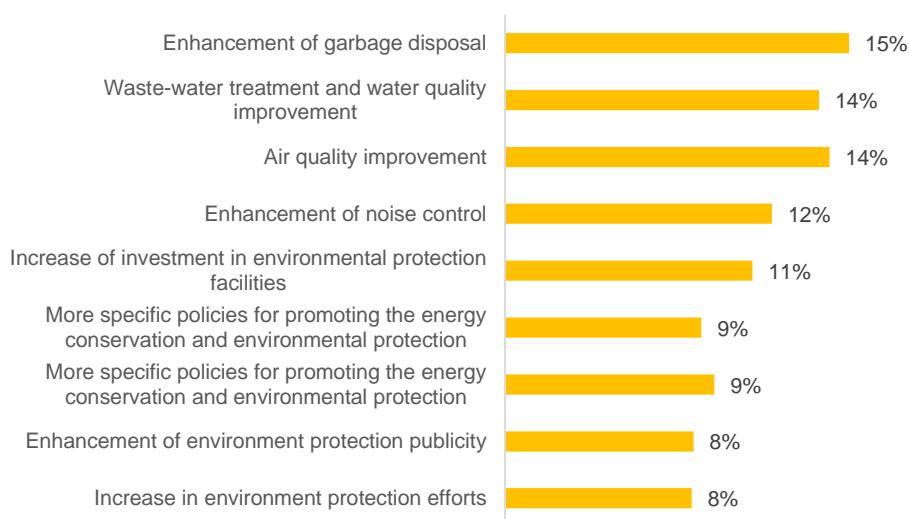
72% of the respondents considered that the environmental protection of Chongqing in 2019 became better than that in 2018. 26% of respondents considered that there was no change. Only 2% of respondents considered that the environmental protection became worse. It appears that the efforts made by the government in improving environmental protection have been widely recognized.





### ► Environmental issues to be resolved

Based on the survey, 15% of the respondents considered that the problem of garbage disposal shall be improved. 14% of the respondents considered that the problems of waste water treatment, poor water and air quality shall be improved. 12% considered that noise pollution shall be better controlled. 11% considered that investment in environmental protection facilities shall be increased. 9% considered that administrative procedures for environmental protection shall be simplified. 9% considered that more specific policies for promoting the energy saving and environmental protection shall be formulated. 8% believed that environmental protection publicity and law enforcement shall be improved.



### ► In conclusion, the overall score of the environmental protection was relatively high, and most of the respondents considered that the environmental protection in 2019 was better than that in 2018.

The survey results showed that respondents were satisfied with the environmental protection in 2019, but the garbage treatment, waste water treatment and air quality problems still remained as prominent environmental problems.

In addition, some respondents mentioned that the problem of poor management of trucks carrying brick rubbish is serious, which not only caused serious pollution to the air and roads, but also caused serious noise pollution. This caused many inconveniences and adverse effects to the business and life environment. Also the management of garbage classification and waste disposal need to be improved. The public awareness of environmental protection is weak. There are also some enterprises hope local government to strictly punish illegal behaviors such as hunting fishes by poison and electric shock.

### Recommendations by EY

Regarding the problems above, EY suggests that relevant Chongqing authorities shall continuously improve the environmental supervision by ways of managing the garbage disposal, sewage treatment, noise and dust control, and carrying out environmental supervision and administrative law.

At the same time, Chongqing government shall encourage overseas companies to involve in more investment, management and consultation business for the industries of renewable energy operation, urban underground pipe net construction, urban and industrial waste and hazardous waste treatment. By means of financial subsidies and tax incentives, enterprises could be encouraged to upgrade production equipment with high consumption and pollution, and clean energy production enterprises could be attracted to setup entities in Chongqing.

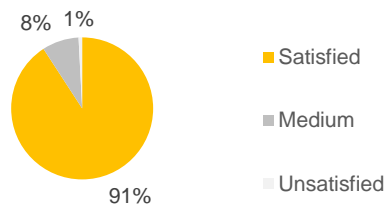
Chongqing government shall also strengthen the power of environmental protection publicity to promote people's awareness of environmental protection, such as promoting waste classification and reducing redundant packaging. EY suggests to encourage to carry out publicity of environmental protection regulations and knowledge by public organizations, social organizations and environmental protection volunteers, which could improve the situation of local environmental protection.

### 3.2.7 Scientific and Technological Environment

► **Capacity for technological innovation, research and development (“R&D”) and transformation of Chongqing**

91% of respondents were satisfied with the capacity for technological innovation, R&D and transformation of Chongqing. 20% of respondents chose “Excellent” (i.e., 10 score).

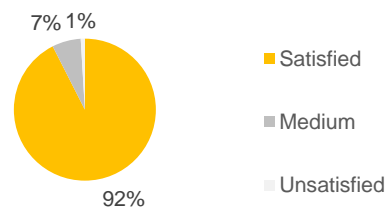
Capacity for technological innovation, R&D and transformation of Chongqing



► **Policy support for technological R&D of enterprises of Chongqing**

92% of respondents were satisfied with the policy support for technological R&D of Chongqing. 26% of respondents chose “Excellent” (i.e., 10 score).

Policy support for technological R&D of enterprises of Chongqing

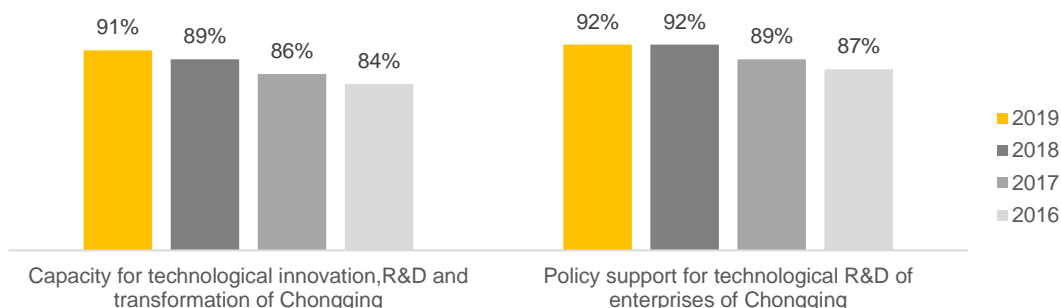


► **Trend of satisfaction indicator from 2016 to 2019**

In 2019, the satisfaction to the scientific and technological environment is generally high.

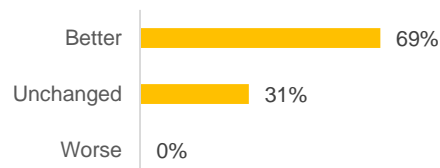
The satisfaction indicator for Chongqing’s scientific and technological innovation, R&D and transformation capacity keeps rising annually. It appears that the indicator in 2019 is 7% higher than that in 2016, and 2% higher than that in 2018. The main reason is that Chongqing authorities vigorously support the enterprises to increase their investment in R&D in recent years. Also Chongqing government continuously implements the revitalization plan of science education, which improves the enterprises’ innovation ability in scientific and technological areas.

Compared with 2016, Chongqing’s satisfaction with the support of R&D policies for enterprises has increased by 5%, which is equal to 2018.



► **Comparing scientific and technological environment in 2019 with that in 2018**

69% of the respondents considered that Chongqing's scientific and technological environment in 2019 became better than that in 2018. 31% of respondents indicated that there was no change to Chongqing's scientific and technological environment. Only one respondent considered that the environment became worse.



► **In conclusion, the overall evaluation of the scientific and technological environment is relatively high, and most respondents considered that 2019 is better than 2018. But there are also some problems.**

It is important to improve the economic and social development for Chongqing, and the key is the innovation of the scientific and technological. Joint efforts from the government and enterprises can accelerate the innovation. From the feedback of respondents, overall satisfaction with the local science and technology environment is relatively high, but some respondents have stated that the stability of related policies needs to be improved. Although Chongqing authorities' efforts to support the improvement of science and technology environment are enhancing year by year, the benefits in science and technology innovation enjoyed by local enterprises have not been obviously reflected. So Chongqing government needs to encourage the implementation of science and technology innovation.

At the same time, some respondents indicated the protection and supervision of intellectual property needs to be improved. Some enterprises reflected that their new products could be imitated by others in practice, which they cannot enjoy their return from the innovation and extremely damage their enthusiasm to do innovation.

**Recommendations by EY**

- Chongqing government is recommended to enhance the support for scientific and technological innovation, especially for key industries and enterprises.
- To encourage the technological transformation and R&D innovation, Chongqing government could provide more support, such as providing discounted-interest loan, R&D subsidy and risk compensation subsidy to technology incubators.
- To encourage enterprises to enjoy the tax preferential policies such as super deduction of R&D expenses, and also to simplify application procedures. At the same time, to support enterprises to launch more trainings for technological employees.
- Chongqing government shall protect intellectual property rights strictly by enforcing the related laws and regulations, and punish the violations of intellectual property rights.
- Build a market-oriented technology innovation system: the system could be driven by enterprises and supported by universities and scientific research institutions. At the same time, Chongqing government could continuously grant subsidies to enterprises who increased investment in scientific and technological innovation.
- To encourage the venture capital funds and guarantee funds to provide capital and services with priority to qualified R&D institutions.

# 3.3 Policies and Government Services

## 3.3.1 Institutional Factors

### ► Maturity of laws and regulations

94% of respondents were satisfied with the maturity of laws and regulations in Chongqing. 27% of respondents chose “Excellent” (i.e., 10 score).

### ► Policy transparency

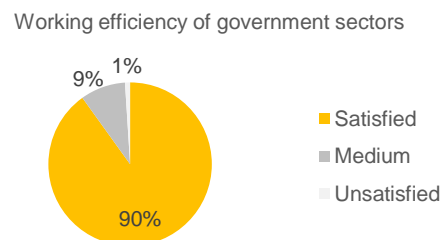
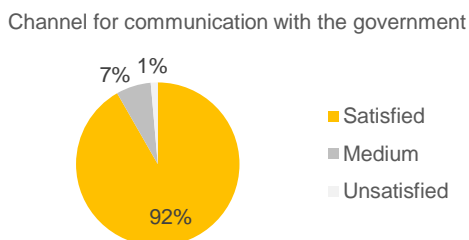
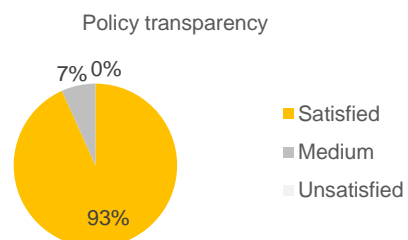
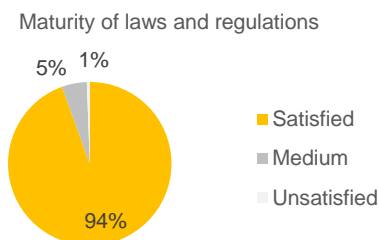
93% of respondents were satisfied with the policy transparency in Chongqing. 27% of respondents chose “Excellent” (i.e., 10 score).

### ► Channel for communication with the government

92% of respondents were satisfied with the channel of communication with the government. 26% of respondents chose “Excellent” (i.e., 10 score).

### ► Working efficiency of government sectors

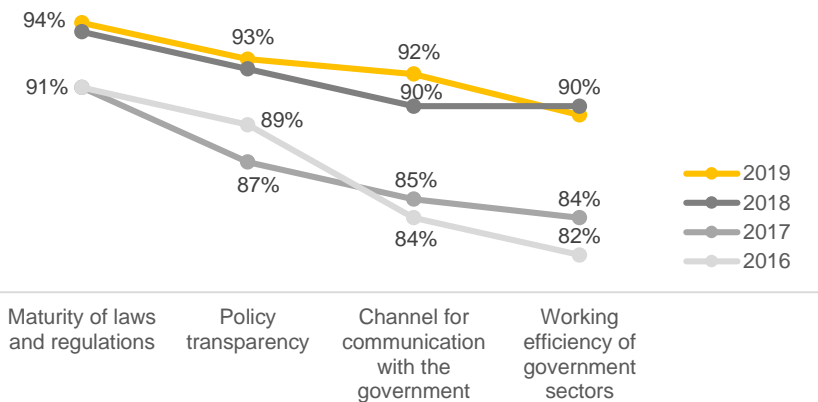
90% of respondents were satisfied with the working efficiency of government sectors. 25% of respondents chose “Excellent” (i.e., 10 score).



► **Trend of satisfaction indicator from 2016 to 2019**

The satisfaction of institutional factors is generally high in 2019, and four satisfaction indicators are basically the same as that of the previous year. Among the 4 indicators, “Channel for communication with the government” is improved obviously, 2% higher than that in 2018 and 8% higher than that in 2016.

Compared with 2018, “Maturity of laws and regulations”, “Policy transparency” and “Work efficiency of government sectors” keep the same satisfaction rate, but they are all improved compared with 2016 and 2017.



► **Enforced power of discretion**

90% of respondents considered that Chongqing had a moderate enforced power of discretion. 10% considered it as slightly powerful discretion. 5 respondents considered it as excessively powerful discretion.

Excessively powerful	0%
Slightly powerful	10%
Moderate	90%

**In conclusion, the overall evaluation of institutional factors are relatively high. However, there are some problems.**

- Some respondents expect to have more efficient communication with government and get more timely feedback.
- Some respondents expect that the government could improve the transparency of policies, so that enterprises can understand the latest policies timely and completely.
- Some respondents stated the some administrative departments are often reorganized without clear notice so that enterprises need to spend much time to consult that which department is in charged and whether the issue handling procedure has been changed.
- Some respondents indicated there is no electronic version online for some required forms so they have to send personnel to fetch the hardcopy from government.

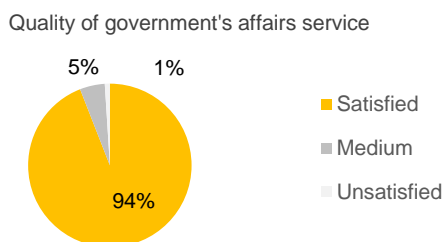
**Recommendations by EY**

- Chongqing government shall continuously improve their work efficiency, optimize the departmental functions, and enhance the government credibility.
- Governmental authorities are recommended to upload the standard forms on their website and establish a mechanism to timely communicate with enterprises to understand their issues and concerns.
- Chongqing government is suggested to enhance the government complaint centers which can supervise the service efficiency of government.

### 3.3.2 Comments on quality of government affairs service at district and county level

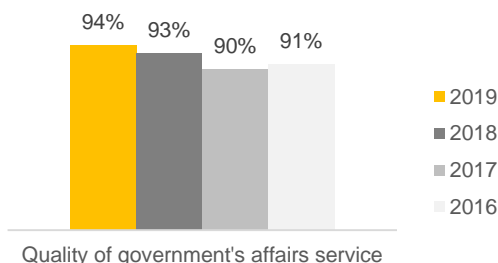
#### ► Quality of government affairs service

94% of respondents are satisfied with the service provided by the district / county government where the respondents are located. 31% of respondents chose “Excellent” (i.e., 10 score).



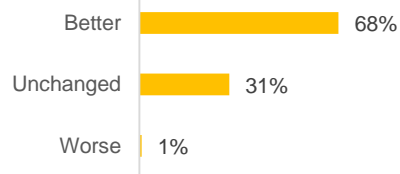
#### ► Trend of satisfaction indicator from 2016 to 2019

In 2019, the respondents' satisfaction on quality of government affairs service shows a rising trend, which is 1% higher than that in 2018, 4% higher than that in 2017.



#### ► Comparing the quality of government affairs service at district and county level in 2019 with that in 2018

68% of the respondents considered that Chongqing's government affairs service quality in 2019 became better compared with that in 2018. 31% of respondents indicated there was no change. Only 1% of respondents considered that the quality became worse.



#### ► In conclusion, the overall score of government affairs service at district or county level is relatively high, and most enterprises considered that the service in 2019 is better than that in 2018.

However, there are still some problems. For example, some respondents considered that the support from Chongqing government for certain service industries is not enough (such as pension service industry). So they suggested Chongqing government could strengthen the support for resident livelihood service industries, for example, provide sufficient and cheap land to healthcare and pension institutions.

Some respondents considered that the frequent governmental inspections became a burden to them. In addition, they indicated that some junior governmental officials' attitude and professional technical level need to be improved.

## Recommendations by EY

- ▶ Chongqing government shall continuously improve the quality and efficiency of government services. For example, Chongqing government could optimize the approval services by "Internet + government services" system, interconnection between different authorities, data sharing and business collaboration. At the same time, it is necessary to improve the platform data security management and strengthen the protection of important information related to national interests, public safety, business secrets, personal privacy, and so on.
- ▶ Chongqing government could further improve the system of special service commissioners to effectively solve the problems of enterprises, and establish a daily communication mechanism to conduct exchanges in various forms such as training and seminars to improve the service level of government.
- ▶ Chongqing government could compile a handbook of public services including education, medical care, housing, social security, poverty alleviation and public legal services, and gradually promote the standardization of public services.

## Chongqing in action

At the beginning of 2019, in order to further promote the reform of administration service and optimize the business environment as well as improve the convenience of starting a business, Chongqing government has improved its government service levels and efficiency in various aspects, including the follows:

- ▶ **Simplify the procedures of enterprise setup**
  - Introduction of "Parallel Process": Chongqing government combined the pre-approval of names, registration with Administrative of Industry and Commerce, issuance of business licenses and preparation of official seal engraving into one process, and combined the tax enrollment, tax assessment, and invoice application into one process.
  - Setup of comprehensive acceptance window: Chongqing government established comprehensive acceptance windows in the administrative service halls for the newly established enterprises, to collect the required materials at one time, and handle them in parallel to simplify the process.
  - Establishment of online service platform: Chongqing government built an online service platform for enterprises in service halls. The enterprise applicants can log on to the platform to apply for a business license, invoices, and bank accounts at the same time, while the governmental departments can directly access the online platform for further handling.
- ▶ **Reduce the time of enterprise setup**
  - Chongqing government reduced the timeline of application for business licenses and invoices from the 5 working days to less than 3 working days, of which the application for business licenses does not exceed 2 working days and the application for invoice does not exceed 1 working day. For the bank account opening, enterprise applicants can submit application via the banks' website or mobile APPs.
- ▶ **Simplify the application materials of enterprise setup**
  - Chongqing government can verify the business licenses and other materials through the municipal government's online application platform. This platform can strengthen data sharing, business collaboration and material interoperability among various departments. It also can streamline the application materials which can avoid applicants to submit documents repeatedly.
- ▶ **Enhance the implementation and propagation**
  - Chongqing government requested all departments to enhance the professional coaches for relevant officials. It also promote the propagation of the new policy via various approaches, like guidebook of business start-up, flowcharts of enterprises set-up, governmental service windows, governmental websites, news media, and WeChat. These could guide enterprises to accurately understand the set-up procedures, required timeline, application materials and so on.

### 3.3.3 Policy Factors

► **Limitations on market and industry access**

90% of the respondents considered that Chongqing had moderate limitations on market and industry access.

► **National treatment for foreign investment**

88% of the respondents were satisfied with the national treatment for foreign investment in Chongqing.

► **Tax-levy burden**

85% of the respondents considered that Chongqing had the reasonable tax-levy.

► **Freedom degree of financing**

85% of the respondents were satisfied with the freedom degree of financing in Chongqing.

► **Convenience of cross-border fund transfer**

85% of the respondents were satisfied with the convenience of the cross-border fund transfer in Chongqing.

► **Protection of intellectual property**

88% of the respondents were satisfied with the protection of intellectual property in Chongqing.

► **Management mode of processing trade**

89% of the respondents were satisfied with the management mode of processing trade in Chongqing.

► **Labor force policy**

88% of the respondents were satisfied with the labor force policy of Chongqing.

► **Fair competition**

89% of the respondents considered that Chongqing maintained a comparatively good performance in promoting fair competition.

► **Environmental protection**

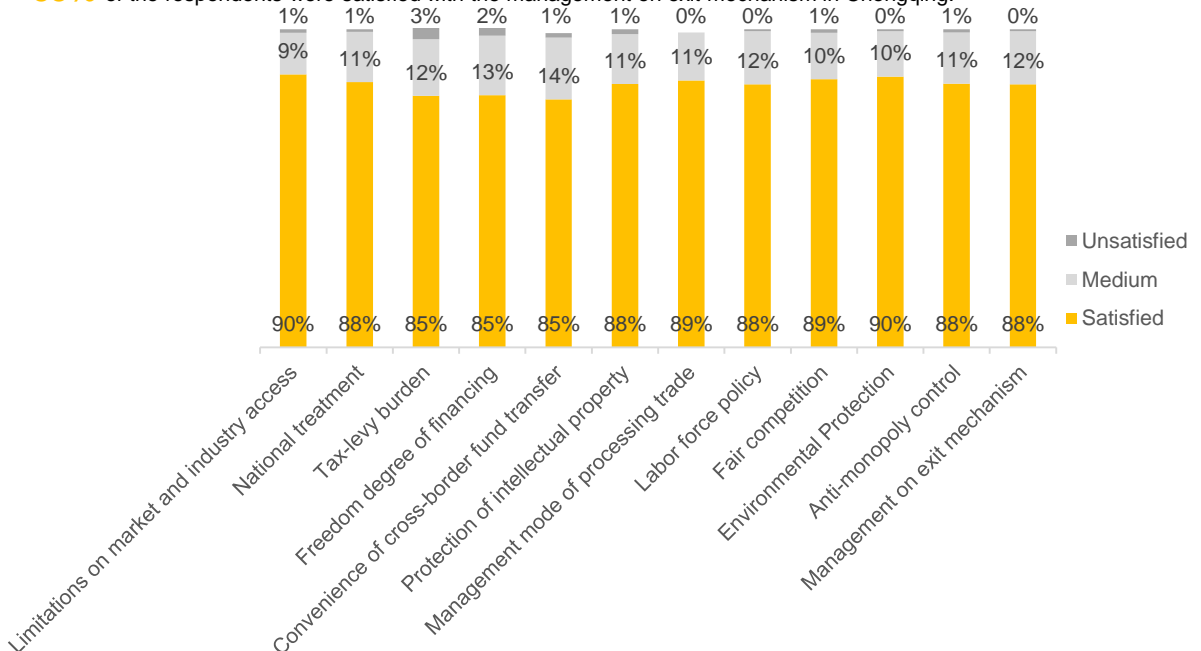
90% of the respondents were satisfied with the environmental protection in Chongqing.

► **Anti-monopoly control**

88% of the respondents were satisfied with the anti-monopoly control in Chongqing.

► **Management on exit mechanism**

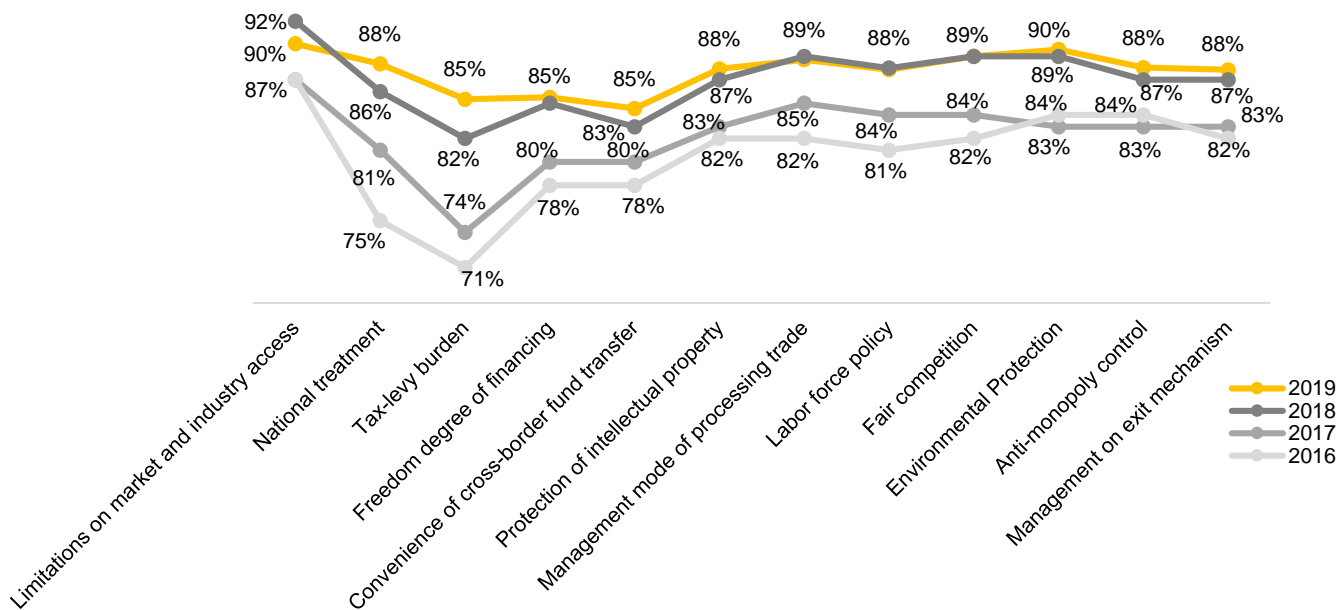
88% of the respondents were satisfied with the management on exit mechanism in Chongqing.





► **Trend of satisfaction indicator from 2016 to 2019**

Respondents' satisfaction in 2019 generally showed an upward trend, but most of the satisfaction indicators have not changed much compared to 2018. Satisfaction indicator of "tax-levy burden" has increased significantly by 3% compared to 2018 and 14% compared to 2016. This is due to the continuous introduction of tax and fee reduction measures in recent years.



► **In summary, the overall evaluation of the policy environment is generally high. However, there are still some problems pointed out by respondents.**

- **Taxation:**  
Due to the continuous introduction of tax and fee reduction measures, satisfaction indicator of "Tax-levy burden" is 85%, which is the fastest increasing indicator of all policy indicators. But its satisfaction level is still low. It appears that the coin has two sides: one is that the tax and fee reduction measures improved enterprises' satisfaction, but another is that enterprises also have concerns on if the tax-levy burden can be further reduced, if the tax collection can be monitored smoothly, and if the cost of tax compliance can be reduced.
- **Freedom degree of financing:**  
Satisfaction indicator of "Freedom degree of financing" is 85%, which is the same as the last year. How to enrich the financial markets and reduce financing costs are currently important issues need to be considered.
- **Convenience of cross-border fund transfer:**  
Satisfaction of "Convenience of cross-border fund transfer" is 85%, increased by only 2% compared to 2018. In recent years, with the promotion of "the Belt and Road" initiative, the enterprises' demand for cross-border fund transfer has become more and more urgent. However, the strict foreign exchange controls caused certain block during the cross-border investment and trading.

**Recommendations by EY**

- In terms of taxation, Chongqing government shall ensure the tax-levy reduction measures can be fully implemented in practice so that enterprises can truly enjoy the benefit. In addition, the tax collection shall be monitored smoothly, and the discretionary power from tax officials shall be limited.
- In terms of financing, it is recommended to improve the financial support system by attracting outstanding financial talents and enterprises, encouraging financial enterprises to carry out innovations, and continuously enhancing the financial industry's concentration and radiation.
- In terms of cross-border fund transfers, it is recommended to learn the advanced experience from other regions to build a smooth cross-border fund management system which can enhance the efficiency of compliant funds in and out.
- It is recommended to actively promote "Internet + government services" and build an efficient and convenient foreign investment supervision and service system.
- It is recommended to improve the exit mechanism of enterprises, by setting up joint service window to handle the liquidation or relocation matters.

# 3.4 Living Environment

## 3.4 Living Environment

► **Residential conditions (e.g., living facilities)**

94% of respondents were satisfied with the residential conditions in Chongqing.

► **Educational environment (e.g., international school)**

86% of respondents were satisfied with the educational environment in Chongqing.

► **Medical treatment and public healthcare (e.g., international hospital)**

85% of respondents were satisfied with the medical treatment and public healthcare in Chongqing.

► **Language environment**

86% of respondents were satisfied with the language environment in Chongqing.

► **Tourism**

92% of respondents were satisfied with the tourism in Chongqing.

► **Food**

93% of respondents were satisfied with the food in Chongqing.

► **Air environment**

88% of respondents were satisfied with the air environment in Chongqing.

► **Water environment**

88% of respondents were satisfied with the water environment in Chongqing.

► **Logistics**

93% of respondents were satisfied with the logistics in Chongqing.

► **Culture, art and sport**

91% of respondents were satisfied with the culture, art and sport in Chongqing.

► **Public transport**

92% of respondents were satisfied with the public transport in Chongqing.

► **City greening**

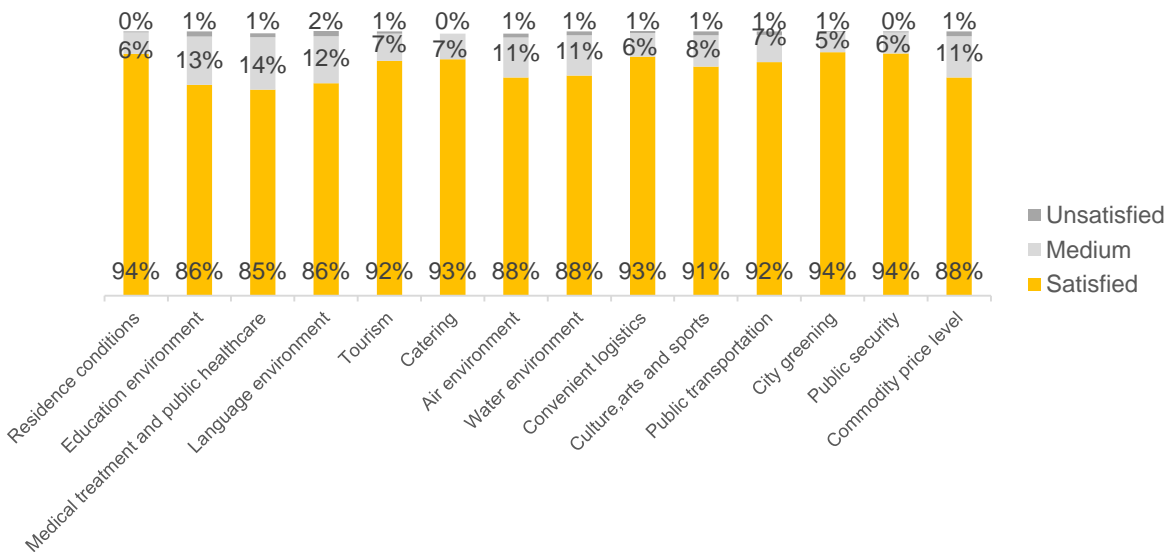
94% of respondents were satisfied with the city greening in Chongqing.

► **Public security**

94% of respondents were satisfied with the public security in Chongqing.

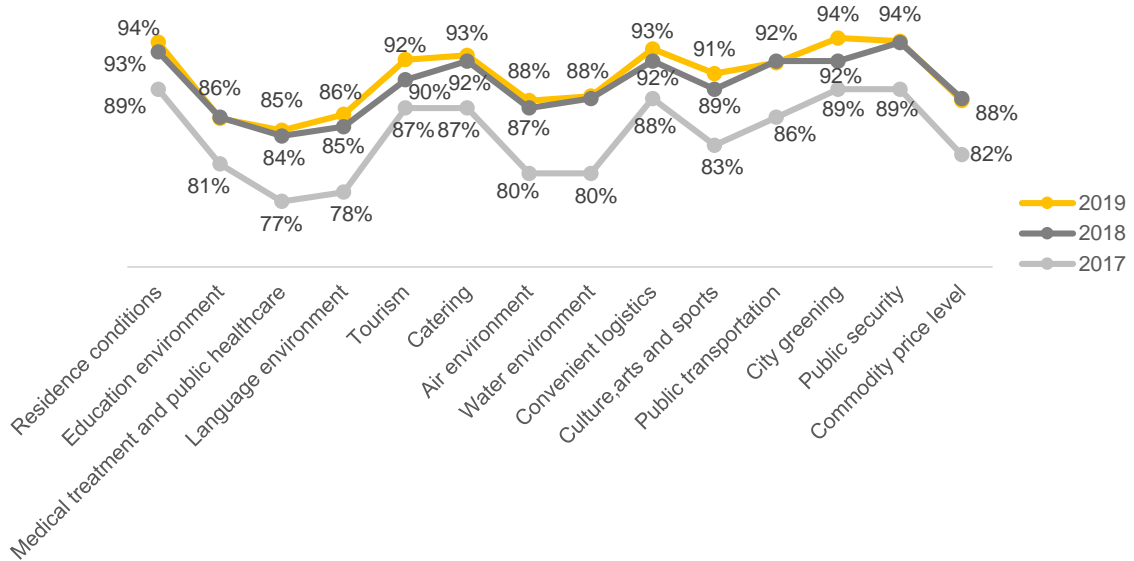
► **Commodity price level**

88% of respondents were satisfied with the commodity price level in Chongqing.



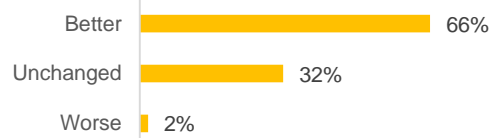
► **Trend of satisfaction indicator from 2017 to 2019**

The satisfaction for the living environment in 2019 is high. All the indicators are over 85%, and generally appears an upward trend. Most of the satisfaction indicators have not changed compared with 2018. It is highlighted that the satisfaction indicators for tourism, culture and sports, and city greening have increased by 2% comparing with 2018.



► **Comparing the living environment in 2019 with that in 2018**

66% of the respondents considered that Chongqing's living environment in 2019 became better as compared with that in 2018. 32% of respondents indicated that there was no change to the living environment. However, only 2% of respondents considered that the environment became worse.



► **In conclusion, the overall score of the living environment is relatively high, and most enterprises considered that the living environment in 2019 is better than that in 2018.**

- Some respondents stated that the satisfaction of health care, education and language environment need to be improved.
- The international schools in Chongqing are still insufficient, which makes foreign children's education inconvenient.
- Some Chongqing citizens do not speak Mandarin, which causes certain communication barriers for foreign-invested companies.

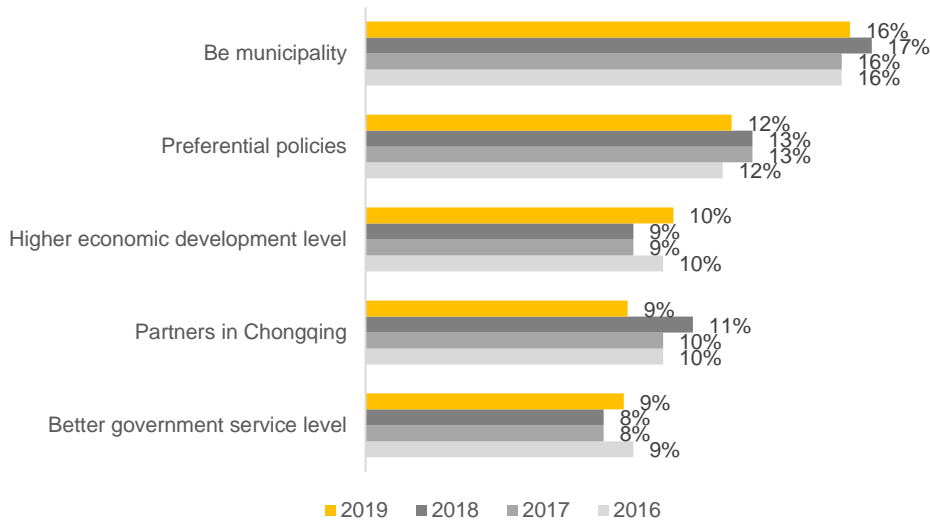
**Recommendations by EY**

- Chongqing could encourage foreign investors to setup international famous medical centers in some key areas. It is also recommended to encourage insurance companies to develop commercial medical insurance products to meet the needs of overseas talents, and build a unified information platform for the international commercial medical insurance.
- International education services could be further promoted. It is recommended to provide optional international courses for children of foreign employees.
- Chongqing government could emphasize the importance of the international language environment. It is recommended to expand the multilingual service areas, standardize the translations for the symbol regarding transportation, living and tourism. It is also recommended to encourage the production of multi-language TV and radio programs.

# 3.5 Enterprises Development

## 3.5.1 Reasons for Investing in Chongqing

Based on the survey, the top five reasons for the respondents investing in Chongqing are as follows:



The proportion of choosing to invest in Chongqing due to the municipalities in 2019 is 16%, which is basically the same as in previous years, and it is still the most important investment factor among various reasons. The proportion of choosing to invest in Chongqing due to preferential policies and economic development levels is basically the same as in previous years.

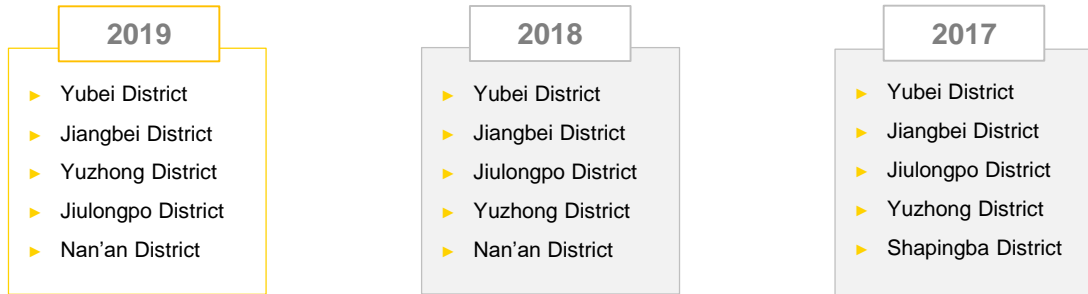
As being the only municipality in western China, Chongqing has a remarkable advantage in attracting foreign-invested enterprises. Chongqing has preferential policies like China Western Region Development Policy, pilot scheme for comprehensive reform of urban and rural areas, and Chongqing Pilot Free Trade Zone Policy. Enterprises in Liangjiang New Area of Chongqing also enjoy the similar incentive policies as Shanghai Pudong New Area and Tianjin Binhai New Area. That means that the foreign-invested enterprises in Chongqing could enjoy more preferential policies.

It appears that this year's evaluation results are consistent with last year. However only a small number of respondents choose to invest in Chongqing due to the adequate land supply, low cost, high labor quality, and strong scientific and technological R&D capabilities, indicating that Chongqing has a lot of room for improvement in these aspects.



### 3.5.2 Administrative Regions in Chongqing where Respondents Chose to Register

Based on the survey, foreign-invested enterprises from 33 of 38 administrative regions of Chongqing replied to the questionnaires. The top five administrative regions that the respondents chose to register in Chongqing are as follows:



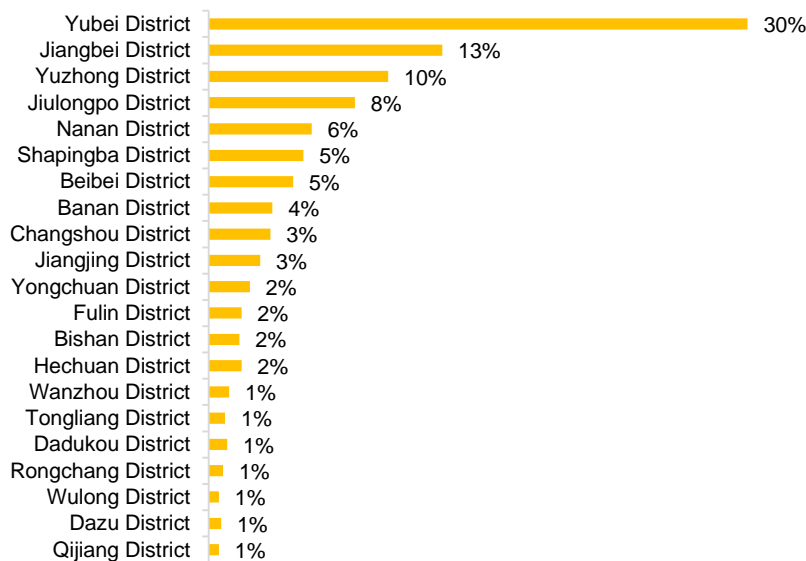
#### Comparison of evaluation results between 2019 and 2018

Regarding the top five administrative regions that the respondents chose to register in Chongqing, the evaluation results in 2019 and 2018 are almost the same. The only difference is that Yuzhong District took place of Jiulongpo District in 2019 evaluation.

It shows that a great number of foreign-invested enterprises chose Chongqing's urban core areas for registration, while most of them chose the area in or nearby Liangjiang New Area.

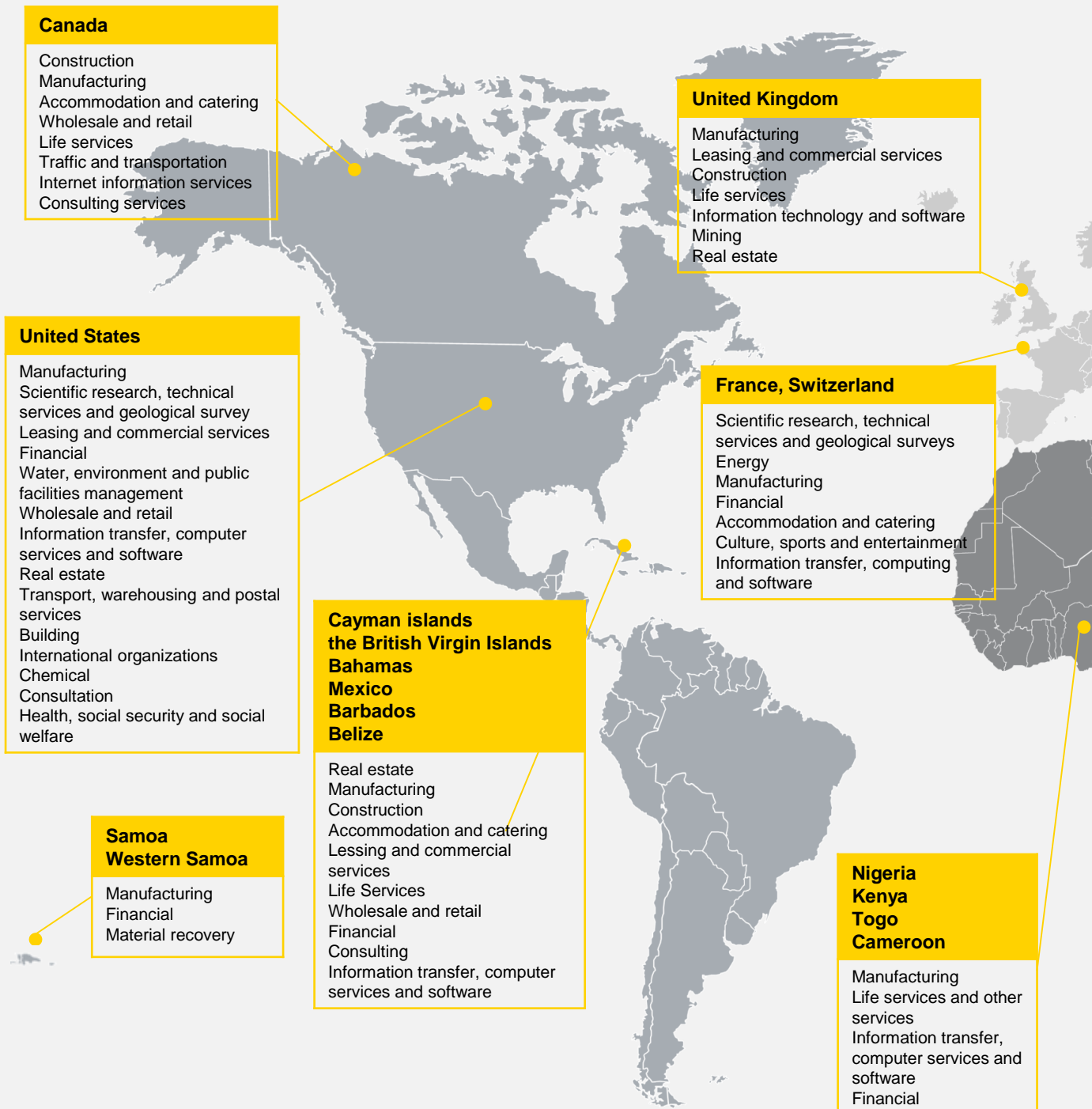
Yuzhong District took place of Jiulongpo District as the third administrative regions in Chongqing there respondents chose to register. This may be because Yuzhong district, as Chongqing's main urban area, is the economic and political center with a well-developed regional construction and a rapid development of industries such as finance, commerce and service, and it has more investment opportunities.

Below illustrated the top 20 districts (counties) of Chongqing that the respondents chose to register in:



### 3.5.3 Map for Home Countries (Regions) of Foreign-invested Enterprises

Based on the survey, EY compiled a map for home countries (regions) of foreign-invested enterprises. As shown on the map, a great number of investors are from the United States, Europe, Japan, Hong Kong, Singapore and other developed countries (regions), engaging in various industries, like manufacturing, real estate, medical treatment and science & technology, consumer goods, finance and insurance, etc. Moreover, a lot of investors set up an investment platform in the Cayman Islands, the British Virgin Islands and other low-tax areas. Some investors are from Southeast Asia, the Middle East, Australia, Africa and other regions. In 2019, the number of Home Countries (Regions) of Foreign-invested Enterprises in Chongqing is higher than that in 2018.



### Republic of Korea

Manufacturing  
Wholesale and retail  
Accommodation and catering  
Information transfer, computer services and software  
Lessing and commercial services  
Financial  
Transport, warehousing and postal services  
Culture, sports and entertainment  
Energy  
Health, social security and social welfare

### Japan

Manufacturing  
Accommodation and catering  
Lessing and commercial services  
Transport, warehousing and postal services  
Wholesale and retail  
Real estate  
Construction  
Finance  
Information transfer, computer services and software industry  
Chemical

### Hong Kong, Macau and Taiwan

Real estate  
Financial  
Manufacturing  
Lessing and commercial services  
Wholesale and retail  
Transport, warehousing and postal services  
Water, environment and public facilities management  
Information transfer, computer services and software  
Electronic materials, semiconductors  
Agriculture  
Life and other services  
Culture, sports and entertainment  
Scientific research, technical services and geological surveys  
Health, social security and social welfare  
Education

### Singapore, Philippines, Malaysia, Brunei

Financial  
Public administration and social organization  
Information transfer, computer services and software  
Real estate  
Education  
Accommodation and catering  
Tourism  
Lessing and commercial services  
Transport, warehousing and postal services  
Culture, sports and entertainment  
Scientific research, technical services and geological surveys  
Manufacturing

### Denmark, Sweden, Belgium, Netherlands

Manufacturing  
Wholesale and retail  
Lessing and commercial services  
Information transfer, computer services and software  
Accommodation and catering  
Scientific research, technical services and geological surveys

### Germany, Italy, Spain, Switzerland, Austria, Bulgaria, Malta, Luxembourg, Bosnia and Herzegovina

Manufacturing  
Real estate  
Agricultural  
Wholesale and retail  
Rental and business services  
Information transfer, computer services and software

### Thailand, Cambodia, Vietnam

Culture, sports and entertainment and other services  
Wholesale and retail

### Mauritius, Seychelles

Manufacturing  
Lessing and commercial services  
Wholesale and retail

### Iran, Pakistan, UAE, India, Turkey

Wholesale and retail  
Manufacturing  
Lessing and commercial services  
Transport, warehousing and postal services

### Australia and New Zealand

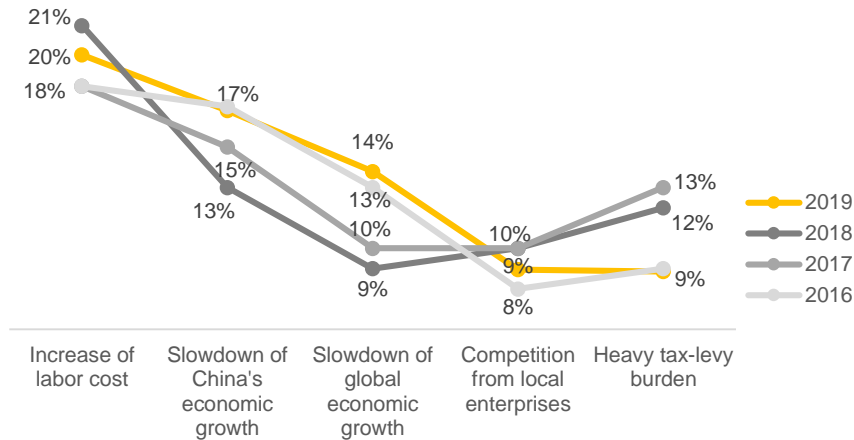
Real estate  
Accommodation and catering  
Manufacturing  
Wholesale and retail  
Life and other services  
Pension services

### South Africa

Water, environment and public facilities management

### 3.5.4 Main Challenges in Doing Business in Chongqing

Based on the survey, the top five challenges and their each proportion from 2016 to 2019 are listed as below:



From the above chart, rising labor cost is the main challenge for foreign-invested enterprises doing business in Chongqing, but the proportion decreased 1% from last year. In recent years, due to China's social security system continuously improved, the salary standards have been continuously raised, as such, the increased trend of labor cost is unavoidable. On the other hand, Chongqing government has successively introduced policies to reduce labor costs, such as reducing the proportion of corporate social security contributions. These policies make companies positive about the challenges posed by rising labor costs.

The slowdown in China's economic growth has brought a 4% increase in operating challenges for doing businesses in Chongqing compared with last year, and the slowdown in the global economic growth has increased 5% in Chongqing's business challenges compared with last year. The fact indicates that companies are cautious about the current state of economic growth, and that the slowdown of China and global economic growth has put some pressure on foreign-invested enterprises for doing business in Chongqing.

In addition, the impact of the tax burden has decreased by 3% compared to last year. The government has continuously introduced a system of tax and levies reduction, which has greatly brought preferential policies to foreign investors and reduced a major difficulty faced by foreign-invested enterprises in Chongqing.

Moreover, respondents are optimistic about government's efforts to strengthen market freedom and avoid corruption/fraud.





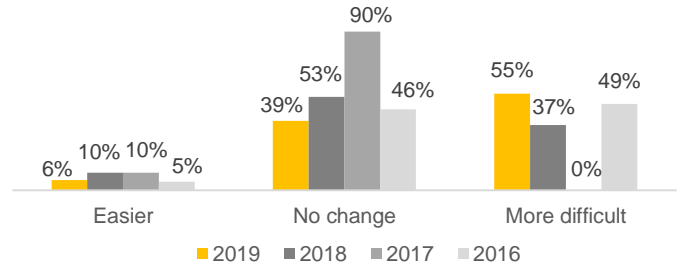
### 3.5.5 Degree of Difficulty in Operation Comparing with Last Year

#### Evaluation results in 2019

- ▶ 39% of respondents indicated that there was no changes on their business operation in 2019
- ▶ 6% of respondents expressed that their business operation became easier.
- ▶ 55% of respondents indicated that their business operation became more difficult.

#### Comparison of evaluation results between 2018 and 2019

It appears that the feedback of respondents in 2019 is more negative than that in 2018. More than 50% of the respondents believe that business operations were more difficult than that in the previous year.



In recent two years, the global economic growth has generally slowed down and China-US trade frictions continued (but it appears that there is a positive signal as of December 2019). So, the operation situation of foreign-invested enterprises in Chongqing has also encountered greater difficulties. How to stabilize economic development, maintain sustained growth, and cultivate new economic growth points will become important issues for Chongqing to attract foreign-invested enterprises.

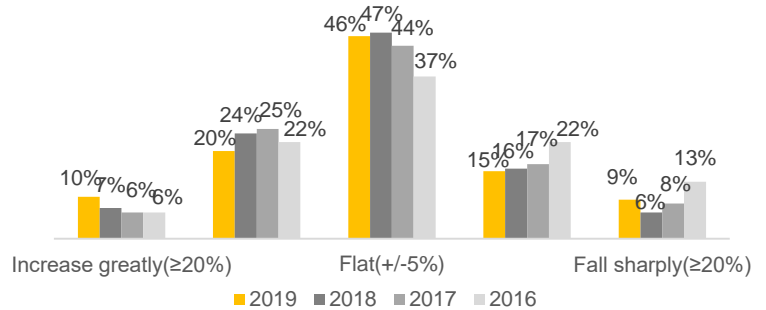
### 3.5.6 Turnover Changes of the Respondents Comparing with Last Year

#### Evaluation results in 2019

- ▶ 30% of respondents indicated that their turnover in 2019 increased or increased greatly.
- ▶ 46% indicated that it was almost the same.
- ▶ 24% indicated that their turnover fell or fell sharply.

#### Comparison of evaluation results between 2018 and 2019

The feedback of respondents shows the evaluation on the changes of turnover in 2019 was slightly worse than in 2018.



Based on the survey, 46% of respondents chose "almost flat" (the ratio is little lower than that of 2018). 30% of respondents chose "increased" (the ratio is little lower than that of previous two years). 24% of respondents pointed out that their turnover was declined (the ratio is higher than that of 2018). Overall, it is slightly worse than 2018.

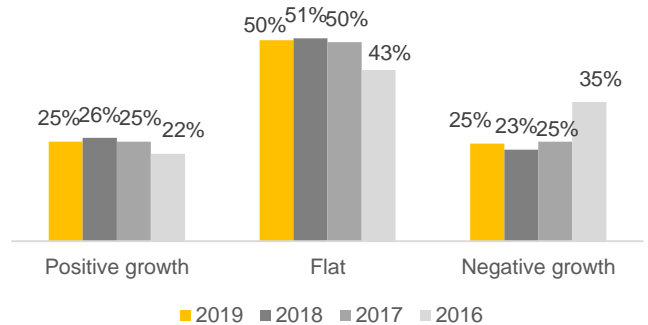
### 3.5.7 Changes of Earnings Before Interest and Tax (“EBIT”) Comparing with Last Year

#### Evaluation results in 2019

- ▶ 50% of respondents indicated that their EBIT in 2019 were almost same as that in 2018.
- ▶ 25% of respondents indicated that their EBIT in 2018 had a growth.
- ▶ 25% of respondents indicated that the EBIT in 2018 had a decline.

#### Comparison of evaluation results between 2018 and 2019

Regarding EBIT, the evaluations in 2019 were slightly inferior to 2018.



According to the cross-analysis of the survey results, different interviewed enterprises in the same industry will have negative growth, flat growth and positive growth at the same time. The number of enterprises choosing “negative growth” increased slightly, while the number of enterprises choosing “positive growth” declined slightly, to a certain extent, indicating that the business operation of some enterprises have been affected by the slowdown of both China’s and global economy. Overall, it was slightly worse than 2018.

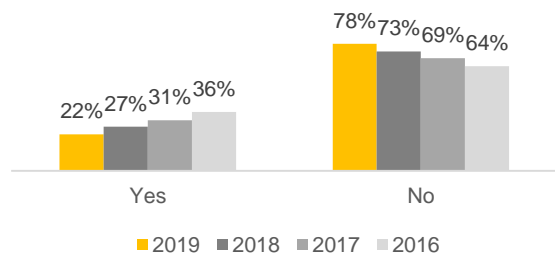
### 3.5.8 Whether Engaging Industries Exists Overcapacity Problem?

#### Evaluation results in 2019

- ▶ 22% of respondents indicated that their engaging industries has the overcapacity problem.
- ▶ 78% of respondents chose “No”.

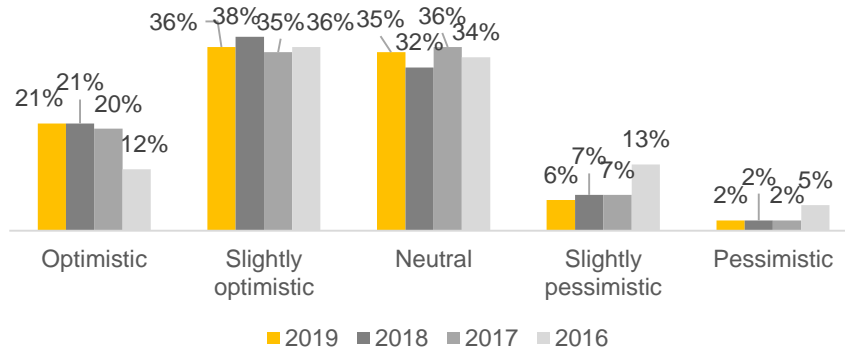
#### Comparison of evaluation results between 2018 and 2019

The feedback of respondents in 2019 is more positive than that in 2018 regarding this overcapacity question.



The feelings of the respondents regarding the problem of overcapacity have been improving year by year since 2016, which mainly benefited from the advancement of supply-side structural reforms in China and Chongqing. The reforms in Chongqing include increasing market-oriented effective supply, removing invalid supply actively and prudently, reducing the burden on the economy, increasing efforts for risk prevention and control, strengthening infrastructure of the people’s livelihood, and effectively digesting existing overcapacity.

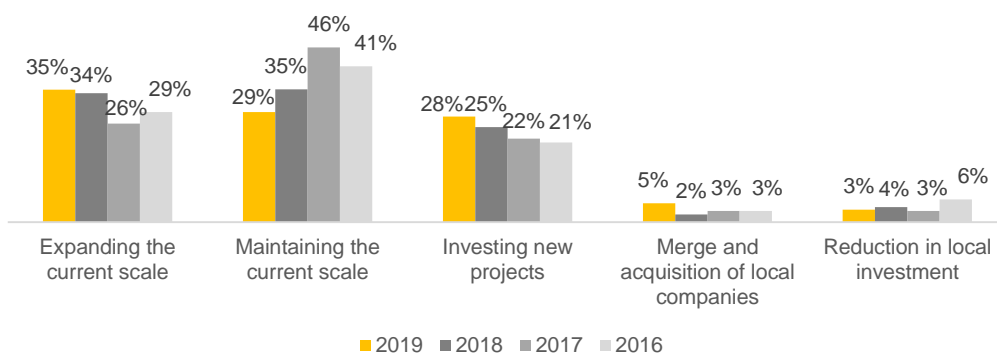
### 3.5.9 Respondents' Expectation on Their Development in China within Next Two Years



57% of respondents were optimistic or slightly optimistic regarding their development prospect in China within next two years. Chinese economic growth has slowed down, but it is still growing. Chinese government continually expands the degree of opening up and reduces the burdens to enterprises by introducing various policies to promote foreign investment growth, such as reducing foreign tariffs, lifting foreign investment access restrictions and reforming taxes and levies policies. So, respondents were optimistic regarding Chinese development prospects.

However, 8% of respondents were pessimistic or slightly pessimistic towards their development prospects in China within the next two years. It is recommended that the government shall investigate the reasons regarding the pessimism and take effective measures to build confidence for those enterprises.

### 3.5.10 Respondents' Intention of Future Investment in China



#### Evaluation results in 2019

- ▶ 68% of respondents indicated that they had the intention to expand the enterprises scale, invest in new projects, and conduct mergers and acquisitions in China in future.
- ▶ 29% of respondents indicated that they would maintain the current business scale.
- ▶ Only 3% of respondents indicated that they would reduce their local investment.

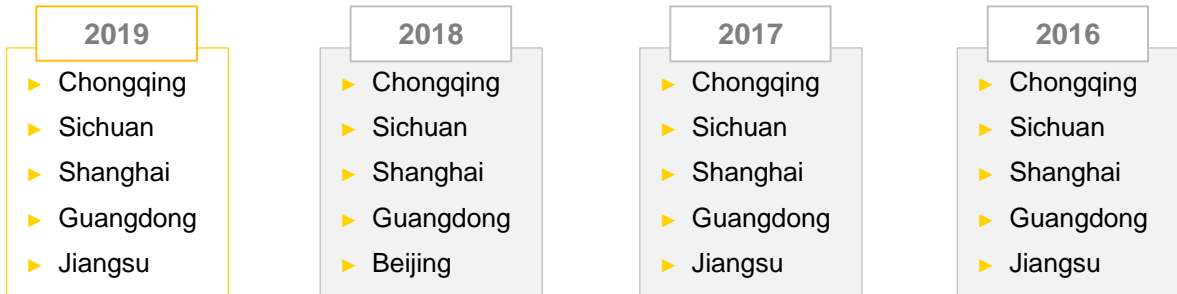
#### Comparison of evaluation results between 2019 and 2018

The feedback of respondents in 2019 shows that an increasing trend compared with 2018, the number of enterprises that would expand their existing scale and invest in new projects increased.

In view of the optimistic attitude on Chinese development prospects, 68% of respondents have the intention to expand the business scale and invest in new projects. Chongqing government shall seize this opportunity, consistently expand the degree of openness, promote investment, and take the optimizing service measures to attract foreign investment.

### 3.5.11 Respondents' Preferred Provinces / Municipalities for Follow-up Investment

Based on the survey, if the respondents are going to conduct further investment in China, the top five provinces / municipalities of China preferred by the respondents are as follows:



#### Comparison of evaluation results of 4 years

The top five provinces / municipalities for the follow-up investment evaluated in recent 4 years are similar; the only difference is that Jiangsu took place back from Beijing to become the 5th planned investment province / municipality in 2019. From the four-year evaluation results, the proportion of planned investment in Chongqing has always remained the first place.

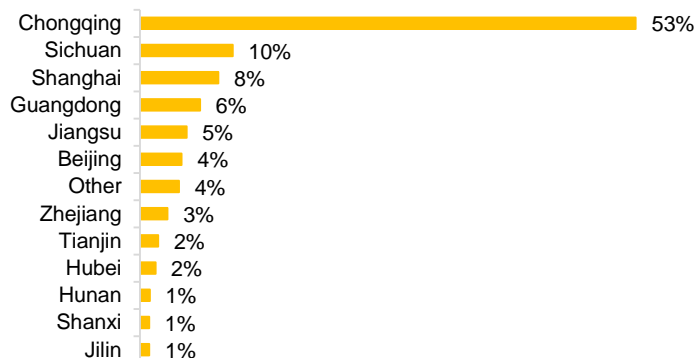
If the respondents intend to continue their investment in China, most of them would still choose Chongqing for further investment.

First of all, most respondents, who registered and has been operating in Chongqing, have completed the integration of upstream and downstream supply chains, and have owned certain customer resources in Chongqing. Therefore, most respondents chose Chongqing as the top priority for their follow-up investment is due to that it would benefit the respondents in utilizing their existing resources in Chongqing so as to enlarge the agglomeration effect and reduce enterprise costs.

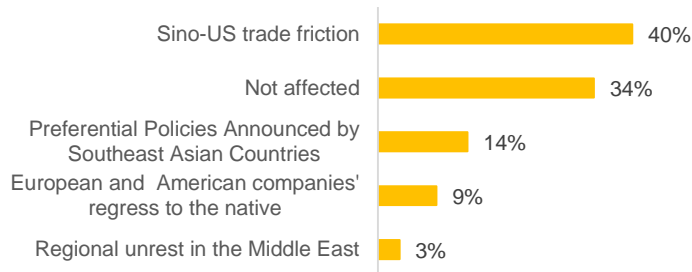
Secondly, as the only municipality and national central city in the central-western China, Chongqing keep integrating into the national development pattern and implementing the "The Belt and Road" strategy. In particular, based on the advantage of "Chongqing - Singapore - EU" logistics and the Yangtze River, Chongqing develops a multimode transportation to the west and east of China. A large number of investors have been attracted to setup in the free trade pilot zone or in Chongqing under the China-Singapore Strategic Connectivity Program. Chongqing has strong development potential, due to its autonomy position, preferential policies and financial support granted by the government, as well as the competitive price level and labor cost comparing with Beijing, Shanghai, Guangzhou and Shenzhen.

Besides Chongqing, Sichuan are the second choice of respondents. Sichuan is geographically close to Chongqing, and it also has equipped with the great potential market, lower production cost, and China Western Region Development Policies. With a close distance to Chongqing, Sichuan has become the second re-investment choice for those enterprises which have already invested in Chongqing.

Besides Chongqing and Sichuan, the respondents also selected Shanghai, Guangdong, and other eastern developed provinces / municipalities who have strong consumption capacity, vast market and high-level talents.



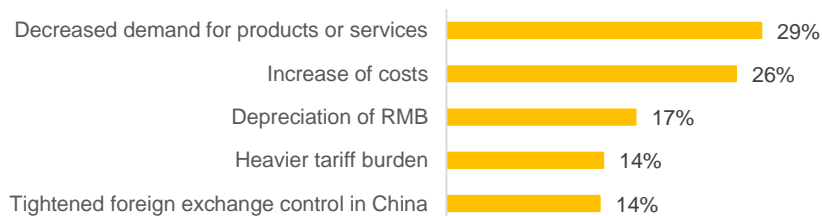
### 3.5.12 The Change of International environment and policy affected the respondents' investment decision in China



The survey showed that 40% of respondents believed that China - US Trade Dispute incurred negative impact on their investment decision in China. The dispute have aggravated the uncertainty of market and affected the foreign enterprises' expectations on the market in China, may result in that the market-sensitive foreign capitals turn out to neither enter nor re-invest in China. Further, 14% of respondents considered that the various preferential policies exercised in South-Eastern Asian countries would be a factor to affect the investment decision in China. Due to the competitive labor costs and population advantage, increasing foreign enterprises were attracted to invest in the areas. In addition, 9% and 3% respondents believed that the trend of backing to Europe and America and the turmoil in the Middle East had also affected the investment environment in China.

Nevertheless, 34% of respondents still indicated that the current changes of the international environment and policy would not affect their investment decision in China. Due to the continuous opening-up, technological innovation, tax cuts and fees reduction, and talent development polices, the foreign investment in China are increasing and upgrading.

### 3.5.13 The main impacts of international environmental and policy change

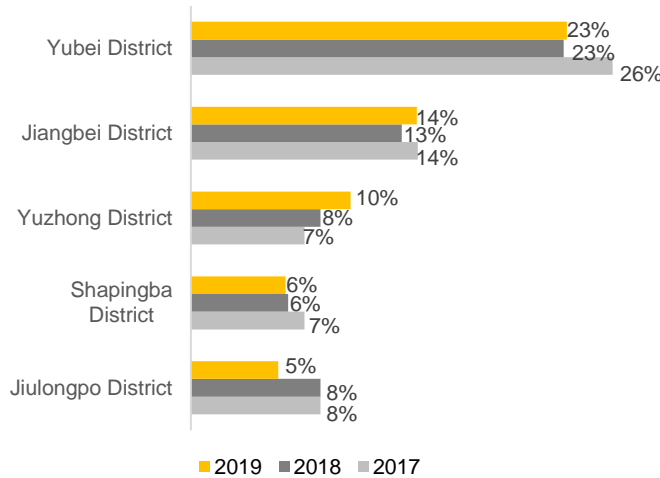


The survey showed that 29% of respondents believed that change in the international environment and policy would result in a decrease in products and services' demand. 26% of respondents considered that the change were the factors of rising raw material costs. The rest of respondents considered that the depreciation of RMB, the increasing customs burden, and the strict foreign exchange supervision in China had also affected the business of enterprises.

Therefore, the current change in the international environment and policy are challenging the enterprises from the perspectives of the demand of products and service, raw material cost, exchange rate, customs burden, and foreign exchange supervision in China. On the other hand, the change have also brought opportunities to enterprises. In this regard, the government would be suggested to consider the approach of improving domestic demand, promoting independent innovation, and encouraging the utilization of international resources and talents, take measures to assist enterprises in adapt the changes.

### 3.5.14 Respondents' Preferred Districts (or Counties) of Chongqing for Follow-up Investment

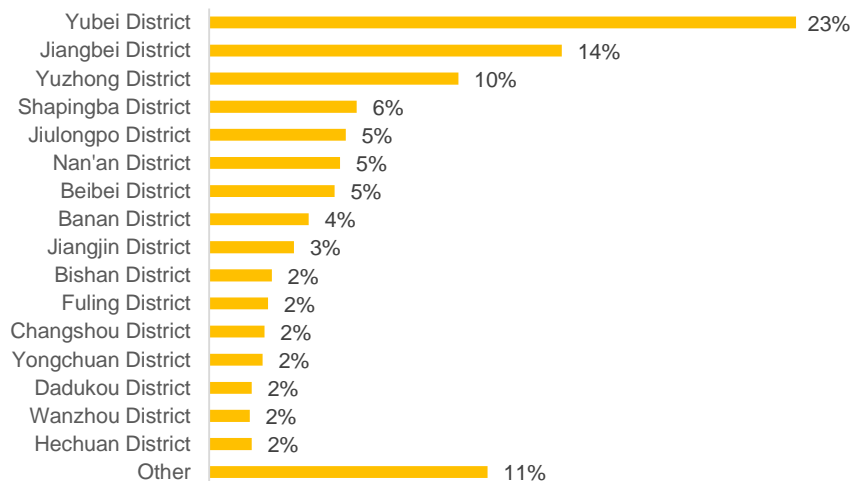
The survey showed the top five preferred districts for respondents which are going to increase their investment in Chongqing as follows:



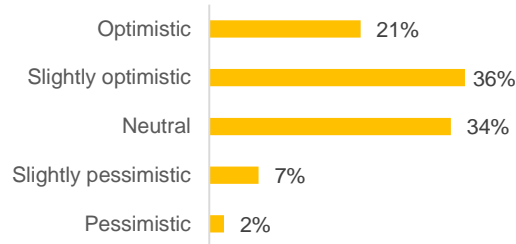
23% of respondents, who are going to increase their investment in Chongqing, selected Yubei District as their most preferred investment destination and the proportion is the same as last year. Yubei District is a main urban zone, one of the metropolitan areas in Chongqing. Yubei District is also the main part of Liangjiang New Area, the first national Airport Economic Demonstration Zone, the biggest automobile manufacturing base, the important intelligent terminal manufacturing, importing and exporting base. Yubei District has Jiangbei International Airport, bonded port area, Yuelai International Expo Center, and other municipal opening-up platforms. It is the important junction of Chongqing Pilot Free Trade Zone and China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity. It is the area which has the biggest economic size, the most development platform, and the most distinct regional advantages.

In 2019, 14% of the respondents chose to increase their investment in Jiangbei District. Some respondents also preferred to Yuzhong District, Shapingba District, and Jiulongpo District. The results indicated that the number of foreign-invested enterprises increased gradually in Yuzhong District, the Shapingba District's investment attractiveness remained unchanged but the Jiulongpo chooser appears a decrease by 3%.

Few of respondents selected non-core areas around the urban area of Chongqing, and most of them are engaging in manufacturing, since the non-core area would be able to supply sufficient land source and relatively cheap labor force which could satisfy the needs of manufacturing enterprises.



### 3.5.15 Respondents' Expectations of the Development Prospects in Chongqing in the Next Two Years



The survey showed that 21% of the respondents were optimistic regarding the development prospects of Chongqing in the next two years. 36% of them were slightly optimistic, 34% were neutral, 7% were slightly pessimistic, and 2% were pessimistic. Therefore, most of the respondents' expectations on next two years development were still optimistic.

It is recommended that the Chongqing government shall issue more attracting policies in relation to trade and investment liberalization and facilitation, break the barrier of market access, and provide legal basis for the next generation of opening-up. Based on the Foreign Investment Law and actual situation of Chongqing, the government shall issue specific rules and regulations to enhance enterprise's expectations of development prospects of Chongqing.

### 3.5.16 Assistance Expected to be Provided by Chongqing Government

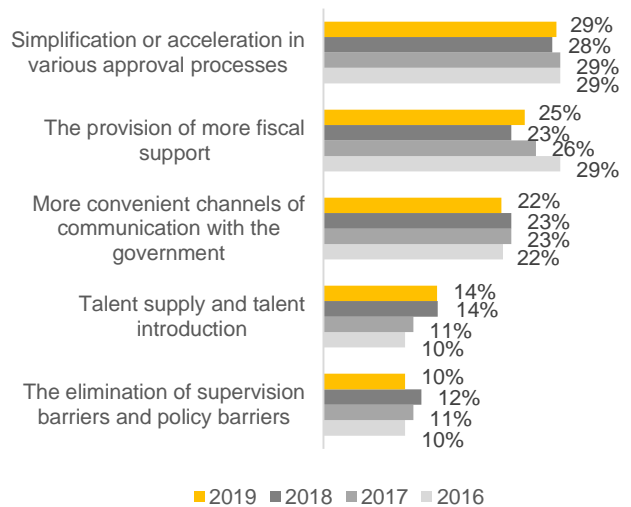
#### Evaluation results in 2019

Among the respondents which are going to increase their investment in Chongqing

- ▶ 29% of them would like the government to simplify or accelerate the approval processes.
- ▶ 25% of them would like the government to grant additional fiscal support.
- ▶ 22% of them would like to have a convenient channel for a communicating with the government.
- ▶ 14% of them would like to have additional talents resources.
- ▶ 10% of them would like the government to eliminate supervision and policy barriers.

#### Comparison of evaluation results between 2018 and 2019

Comparing with the results of 2018, the evaluation results in 2019 almost remained unchanged.



The survey showed that nearly 30% of the respondents considered that the government shall simplify or accelerate the approval processes and improve its efficiency based on the survey results of recent four years. While more respondents are seeking for more fiscal support from the government, increasing by 2% comparing with 2018, due to the harsh economic environment in 2019. With the tax cuts and levies reduction reform, the demand of fiscal support experienced a decrease comparing with 2017+ and 2016. Additionally, some enterprises considered the channels with the government almost remained unchanged in the past four years. At the same time, the demand for talent supply and introduction of respondents have increased gradually, while the demand of elimination of supervision and policy barriers have decreased comparing with 2018 and 2017.

It is suggested that Chongqing government could further simplify and accelerate the approval processes by shortening the processes and improving the experience of enterprises. As for fiscal support, it is suggested that the Chongqing government could further issue the preferential policies for investment and re-investment. In terms of communication channels with the government, it is suggested to create a unitized communication platform, and include relevant policies and communication channels related to foreign investment into the platform to achieve a efficiency communication channel between government and enterprises.

# 4

## Evaluation Analysis of Chongqing Foreign Investment Environment (Based on Specific Survey Results)







# Overview

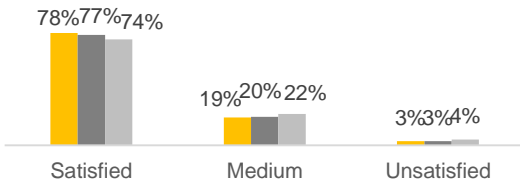
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- ▶ Besides the survey of five fundamental areas stated in Chapter 3, this series of evaluation reports select some specific topics or hot spots each year. In 2016 Evaluation Report, "Headquarters Economy", "Modern Service Industry" and "Manufacturing Industry" were selected as the specific topics; "Operation Costs" and "Finance Lease" were selected as hot spots in 2017 Evaluation Report; besides "Operation Costs", "Development of Digital Economy in Chongqing" was specially selected as hot spots in 2018 Evaluation Report; and at the year of 2019, "Interviews with typical enterprises in key industries" was selected in addition to "Operation Costs" as hot spots.
- ▶ Through the analysis of 873 questionnaires, the following two specific topics were assessed in 2019 Evaluation Report:
  - ▶ Operation costs of foreign-invested enterprises in Chongqing  
There are 6 main costs as follows:
    - ▶ Respondents' satisfaction with the cost burden;
    - ▶ Any change of costs comparing with last year;
    - ▶ Specific components of various costs;
    - ▶ Proportion of each type of cost in the total costs; and
    - ▶ Others.
  - ▶ Interviews with typical enterprises in key industries in Chongqing

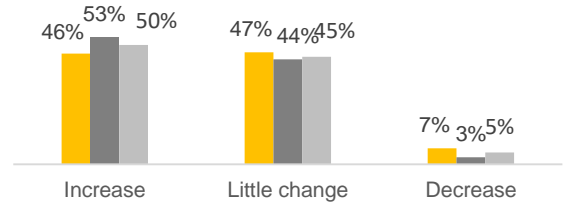
# 4.1 Operation Costs of Foreign-Invested Enterprises in Chongqing

## 4.1.1 Labor Cost

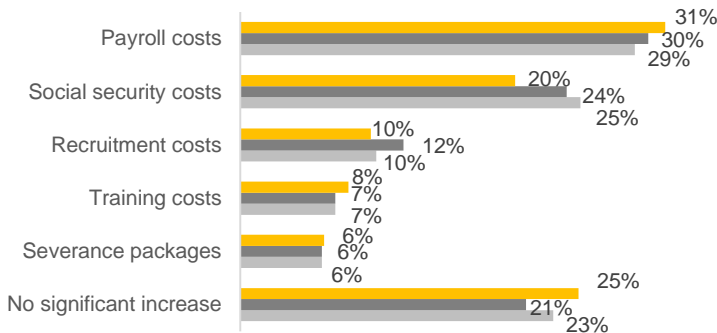
### ▶ Respondents' satisfaction on current labor costs



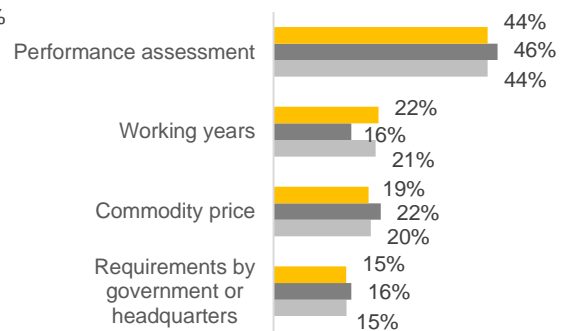
### ▶ Change of labor costs comparing with previous years



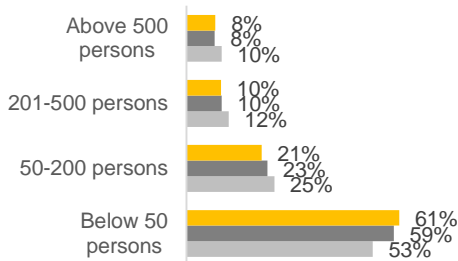
### ▶ Which part of labor costs increased significantly



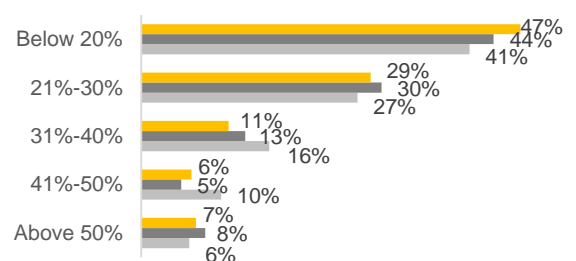
### ▶ Respondents' main reasons for adjusting payroll



### ▶ Respondents' staff size



### ▶ Proportion of labor cost in the total costs

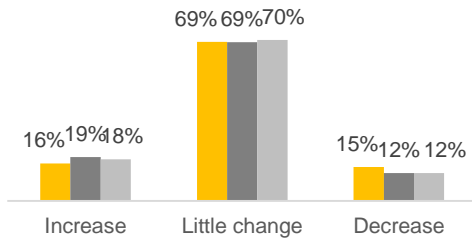


■ 2019 ■ 2018 ■ 2017

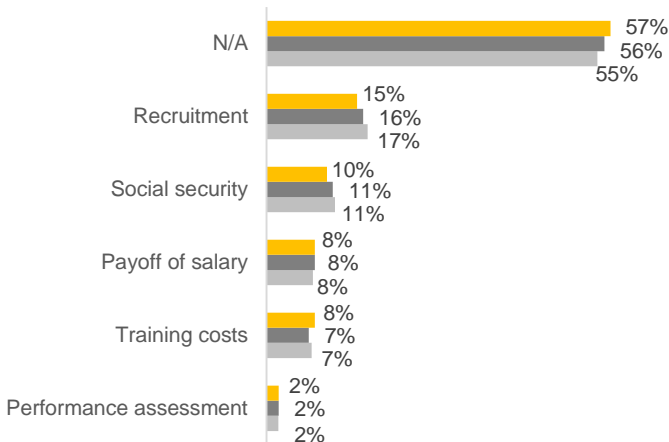


## Labor Cost

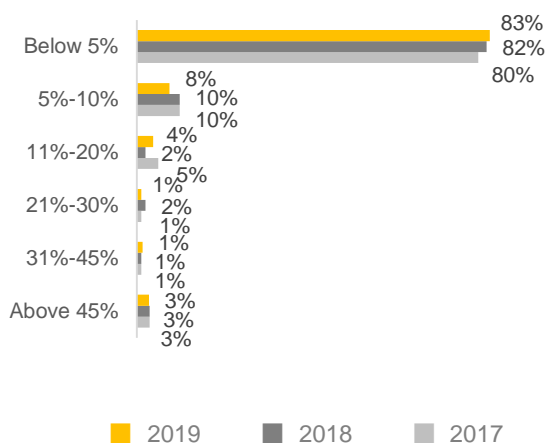
### ► Change of employee turnover



### ► Which affair of human resource is outsourced



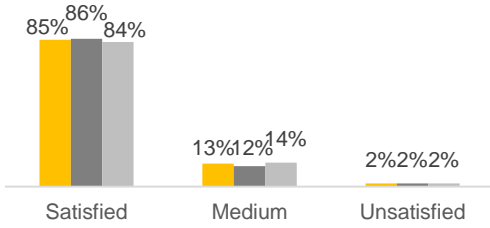
### ► Proportion of dispatched staff



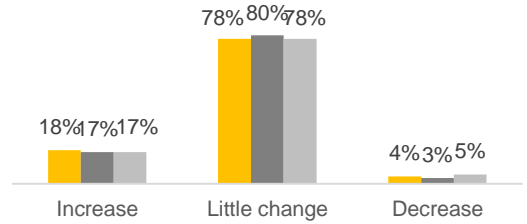
- Based on the survey, 78% of respondents were satisfied with the labor cost burden, increasing by 1% comparing with 2018; and only 3% of respondents were unsatisfied.
- 46% of respondents indicated that their labor cost in 2019 are higher than that in 2018 (which was 53% in 2018), while 47% of respondents considered there was no change. Regarding the sharply increasing labor cost in 2019, the respondents considered that rising payroll cost and social security cost were the key factors (accounting for 31% and 20% respectively).
- 44% of respondents indicated that the performance assessment was the main reason to adjust salary. Comparing with the proportion of 46% in 2018, the proportion experienced a tiny decrease.
- Most respondents indicated that their employees were self-owned, and the proportion of human resource outsourcing and dispatched staff are not high. 69% of respondents considered the employee turnover was stable in 2019. The proportion is the same as last year.
- Overall, foreign-invested enterprises in Chongqing have a clear concern on labor cost: most enterprises considered the labor cost was increasing in recent years, and the ratio of labor cost to total cost was also increasing gradually. The main reason is the continuous increase of payroll and social security cost. However, the social security cost mitigation reform conducted by the central government released the burden of the enterprises and thus result in a better feedback comparing with the ones in 2017 and 2018.
- As such, it is suggested that Chongqing government could issue appropriate local policies for releasing social security burden under national-wide social security cost mitigation reform through deferring the payment and granting the subsidies; establishing a flexible and effective minimum wage adjustment mechanism; and taking advantage of unemployment insurance fund. Also, it is suggested that government could encourage and support the enterprise transformation and upgrading, leverage and take advantage of the comprehensive talent under a advanced approach.

## 4.1.2 Energy Cost

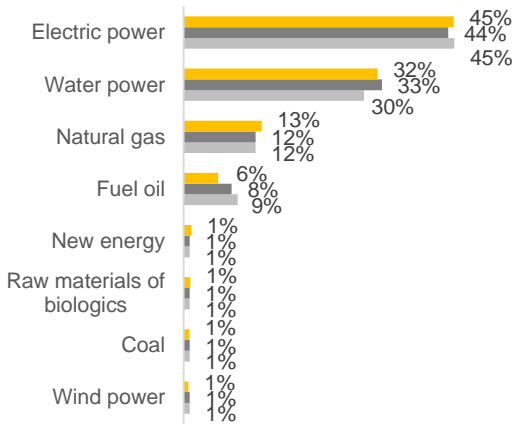
### ▶ Respondents' satisfaction on current energy costs



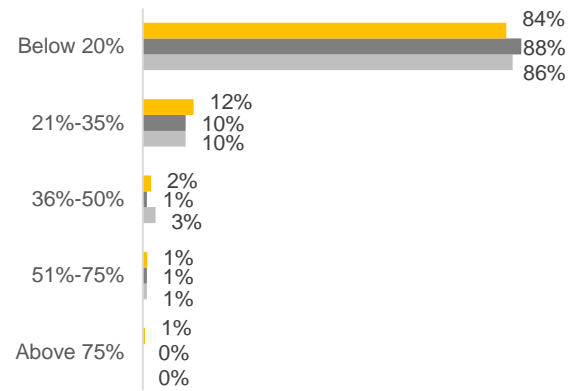
### ▶ Change of energy costs comparing with previous years



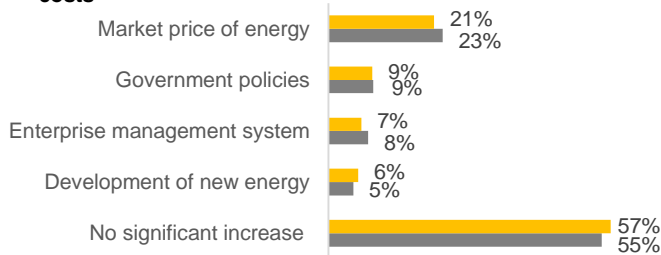
### ▶ Components of respondents' energy costs



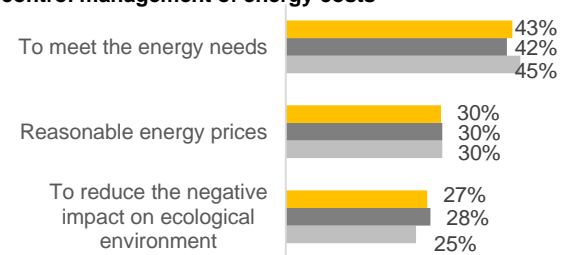
### ▶ Proportion of energy cost in the total costs



### ▶ Which is the factor of significant increase in energy costs



### ▶ Respondents' primary consideration on control management of energy costs

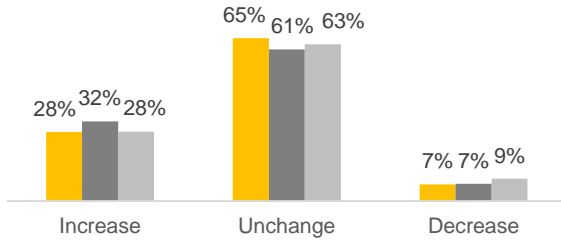


2019 2018 2017

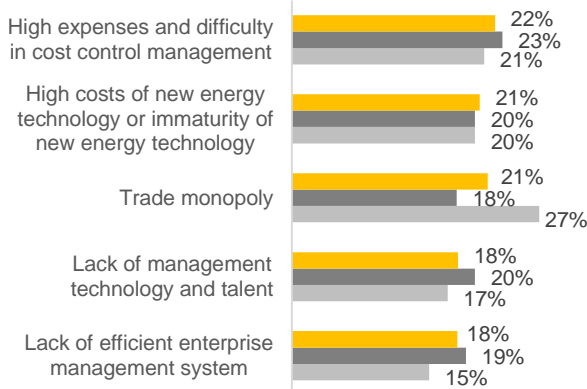


## Energy Cost

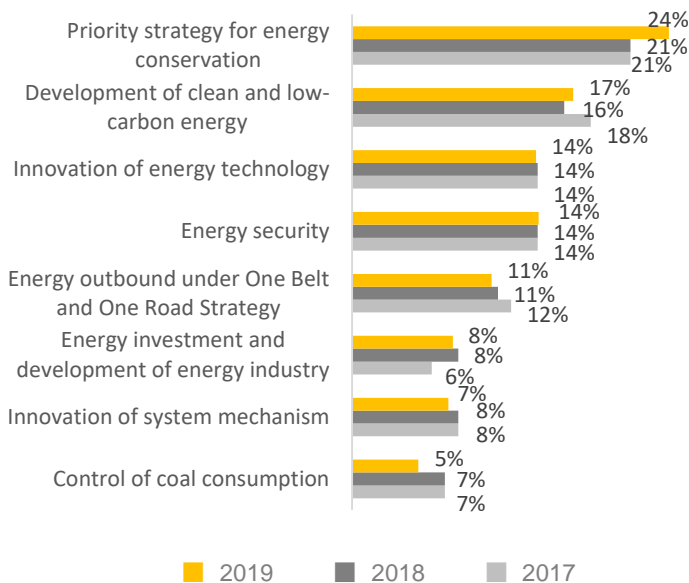
### ▶ Respondents' expectation on the variation trend of energy costs in future



### ▶ Respondents' problems and challenges regarding energy costs control



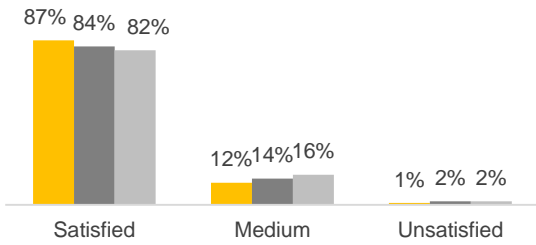
### ▶ Key topics of China's long-term energy strategy



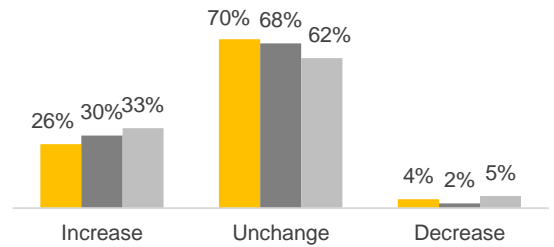
- ▶ Based on the survey, 85% of respondents were satisfied with the energy cost burden, which was almost the same as that in 2018; and only 2% of respondents were unsatisfied.
- ▶ 78% of respondents indicated that their energy costs in 2018 are almost the same as that in 2019, while 18% of respondents indicated that it experienced a tiny increase, which was similar with last year.
- ▶ Regarding the components of energy costs, the respondents indicated that the cost of electricity and water were the major ones (accounting for 45% and 32% respectively). 65% of respondents estimated the energy cost would maintain in the future, while 28% of respondents estimated that it would rise, decreasing by 4% comparing with 2018.
- ▶ Regarding the respondents' problems and challenges in energy cost control, the top three are (1) high expense and difficulty in cost control management, (2) high costs of new energy technology or immature of new energy technology, and (3) trade monopoly. Compared with last year, the "monopoly" became a new challenge in energy cost control, which was changed from "lack of management-related technology and talent".
- ▶ The respondents considered that the key topics of China's long-term energy strategy are (1) priority strategy for energy conservation, (2) development of clean and low-carbon energy, which were the same with last year.
- ▶ In conclusion, the respondents were satisfied with Chongqing government's performance in supplying sufficient energy and maintaining the price stable so that the energy cost has not experienced a significant increase. It is suggested that the government pay attention to accelerate market-oriented reform of pricing mechanism of electricity, water and gas; research and develop energy-saving strategy; develop a clean and low-carbon energy; encourage the enterprises to leverage energy comprehensively; and support new energy enterprises vigorously. In order to develop a diverse, efficient, and green advanced energy supply environment, the government would be suggested to grant financial subsidies or release tax incentives to enterprises who comprehensively leverage energy or develop new energy; break trade monopoly; and promote the transformation and upgrading of enterprises.

### 4.1.3 Logistics Cost

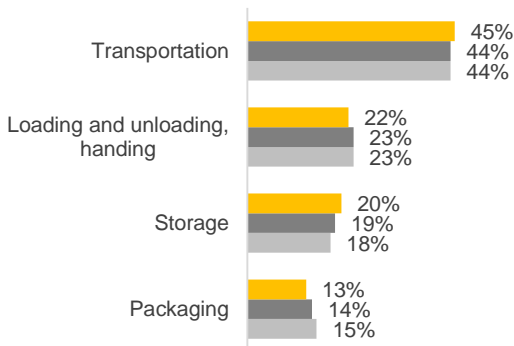
► Respondents' satisfaction on current logistics costs



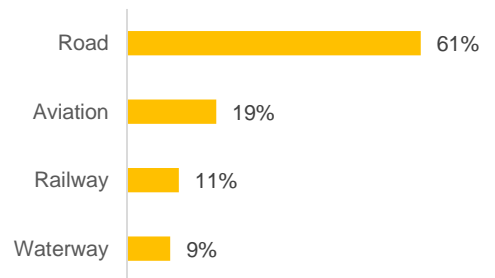
► Change of logistics costs comparing with previous years



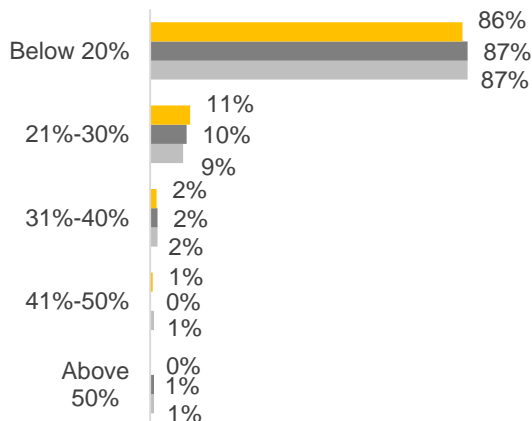
► Component of respondents' logistics costs



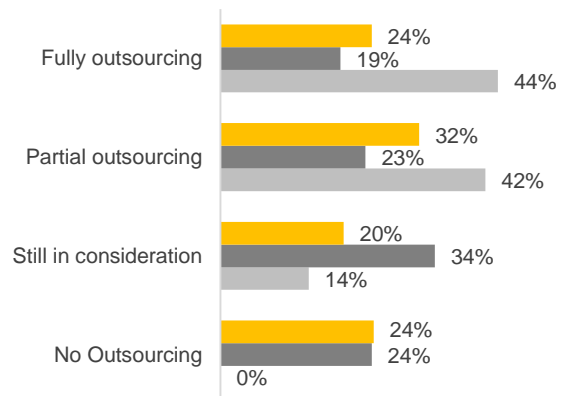
► Main transportation method adopted by respondents



► Proportion of logistics cost in the total costs



► Whether the respondents outsource their logistics activities?

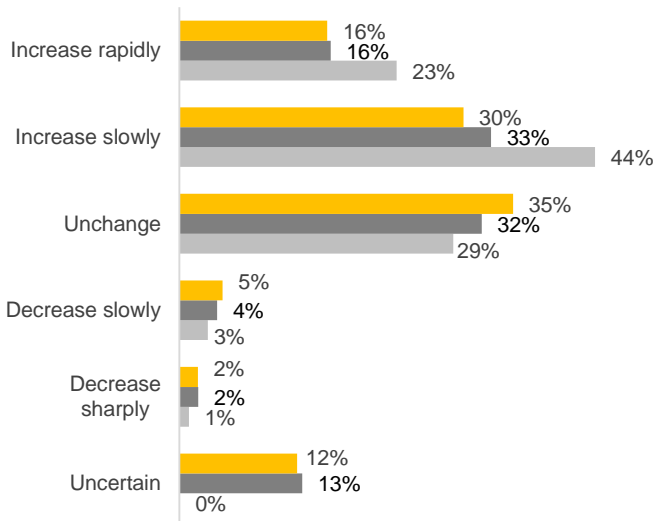


2019 2018 2017

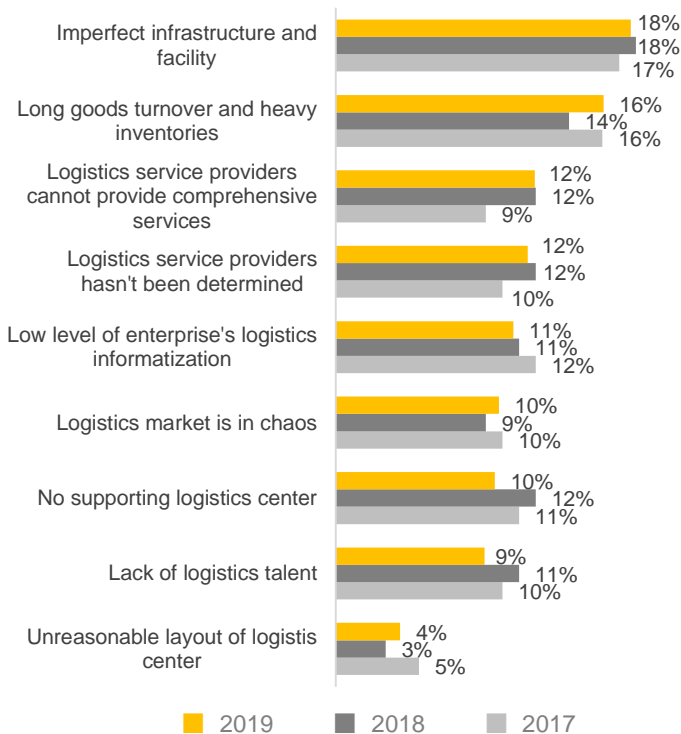


## Logistics Cost

### ► Whether the weight of outsourcing part in respondents' total logistics activities will increase or decrease in future?



### ► Respondents' problems and challenges regarding logistics costs control



► Based on the survey, 87% of respondents were satisfied with the logistics cost, increasing by 3% comparing with 2018; and only 1% of respondents were unsatisfied.

► 70% of respondents indicated that the logistics costs in 2019 are almost the same as that in 2018, while 26% of respondents indicated that it increased in 2019, decreasing by 4% comparing with 2018. Regarding the components of logistics costs, the respondents indicated that the cost of transportation, loading & unloading & handing are the major ones (accounting for 45% and 22% respectively, which are basically same as last year).

► 61% respondents indicated that the highway transportation is the main method of transportation. A large amount of respondents (86%) believed that logistics costs account for less than 20% of total expenditure costs.

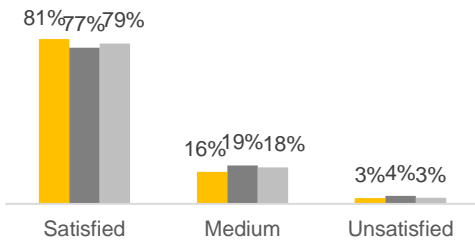
► Outsourcing logistics has a huge change in 2019, showing that the proportion of respondents who choose fully outsourcing increases to 24% from 19% in 2018. The proportion of respondents that choose partial outsourcing has increased from 23% in 2018 to 32% this year; and the rest of respondents who hold a view on considering outsourcing logistics fall from 34% in 2018 to 20% this year. Over a half of respondents believed that the proportion of outsourcing part in total logistics activities would rapidly or gradually increase in future. Therefore, it's obvious that outsourcing logistics is becoming a popular choice due to its professional and effective characteristics.

► The top three problems and challenges in logistics costs control are (1) imperfect infrastructure and facility, (2) long goods turnover and heavy inventories, (3) logistics service providers cannot provide comprehensive service.

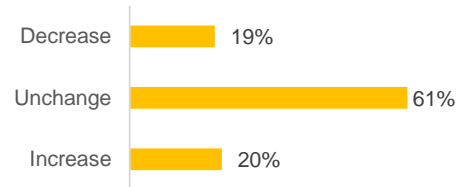
► Overall, it is suggested that the Chongqing government pays attention to attract comprehensive and professional logistics enterprises so as to build a diverse logistics environment in Chongqing, as well as issue more systematic and transparent policies to support the development and enhance the stability of logistics industry, and develop the international, multifunctional and high-tech logistics zones. To improve the efficiency and capacity of logistics service, it is also suggested that the government improve the infrastructure such as warehouse, road, bridge and river course, etc..

## 4.1.4 Tax Burden

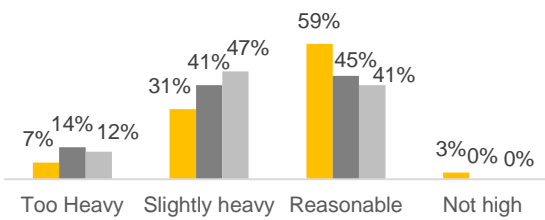
### ▶ Respondents' satisfaction on current tax burden



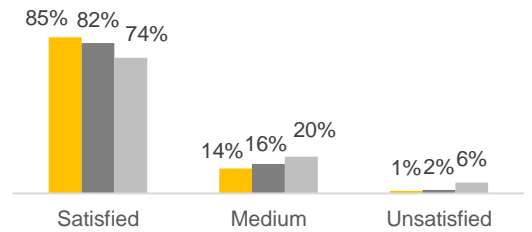
### ▶ Change of tax burden comparing to previous years



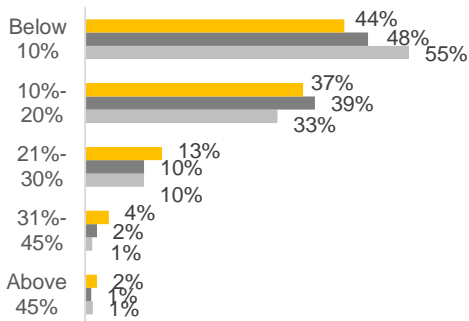
### ▶ Feelings about the current tax burden



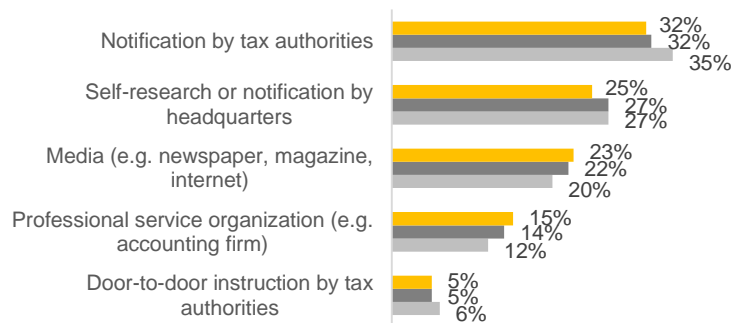
### ▶ Respondents' satisfaction on the applicability of current tax preferential policies



### ▶ Proportion of tax burden in the total costs



### ▶ Approaches for respondents to obtain the tax incentive policies information



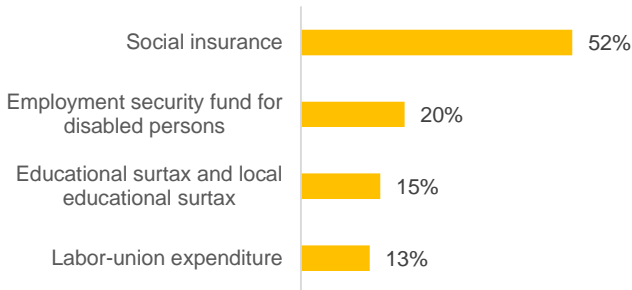
■ 2019 ■ 2018 ■ 2017



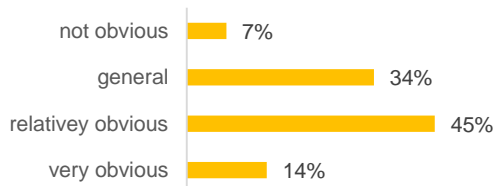


## Tax Burden

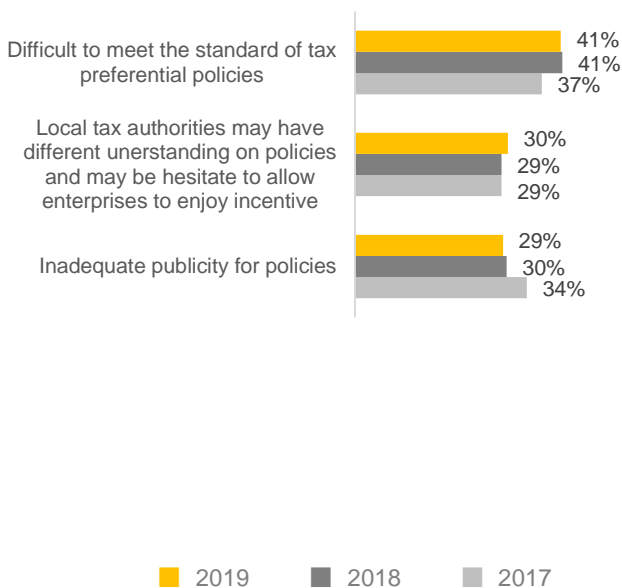
### ► The largest levy burden from government besides taxation in 2019



### ► The impact of tax cuts and fee reduction reform in 2019



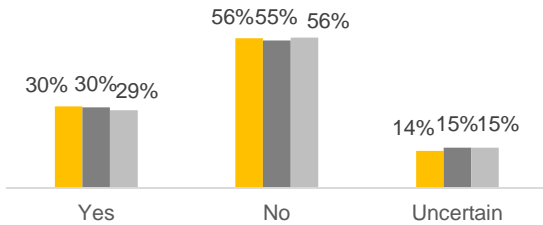
### ► Respondents' concerns on tax preferential policies



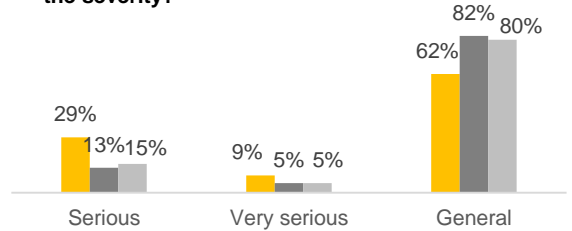
- Based on the survey, 81% of respondents were satisfied with the tax burden, increasing by 4% comparing with 2018, and only 3% of respondents were unsatisfied.
- Majority of respondents (61%) indicated that their tax burden had basically remained unchanged, and 31% of respondents indicated that the current tax burden was slight heavy, decreasing by 10% comparing with last year. While 59% of respondents indicated that it is basically reasonable.
- Besides the taxes, the top two governmental levies which the respondents considered being heavy are (1) social insurance and housing fund, (2) the employment guarantee fund for the disabled (accounting for 52% and 20% respectively). However, the impact of tax cuts and levies reduction reform is obvious in most of respondents (45%).
- 85% of respondents were satisfied with current tax preferential policies, increasing by 3% comparing with 2018. Regarding the problems of current tax preferential policies, 41% of respondents indicated that it was difficult for them to meet the requirements of tax preferential policies, 29% of respondents indicated that the interpretations of the grass-roots tax authorities were different, and 30% of respondents indicated that there was no enough propaganda on the policies. The respondents' concerns on tax preferential policies were basically same as last year.
- In a word, due to the successive measures of tax cuts and levies reduction conducted by the central government, the respondents' feedbacks became significantly better than previous years. However, it is still suggested that Chongqing government could continue taking feasible measures to ensure the tax cuts and levies reduction reform effectively, and inspire the confidence of enterprises given that the respondents indicated that they are still struggling in the circumstance of GDP growth decrease in China. From tax authorities perspectives, it is also suggested that the tax officials could improve their capability of understanding and interpreting policies, to ensure that enterprises could be assisted timely and effectively when they applying for relevant tax incentives, and the tax authority could lower the conditions or expand the scope of relevant tax incentives under the national-wide tax laws and regulations.

## 4.1.5 Financing cost

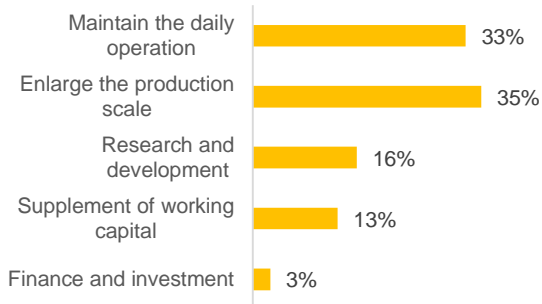
### ► Whether the respondents have fund shortage at current stage



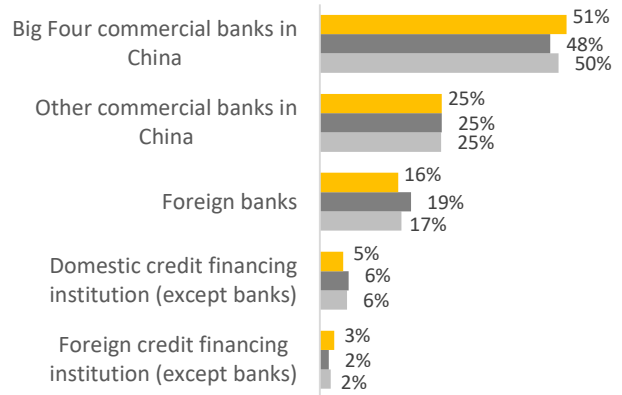
### ► If the respondents have fund shortage, what's the severity?



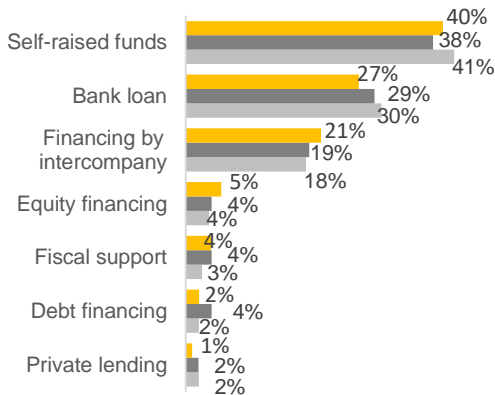
### ► If the respondents have fund shortage, which areas the fund (to be financed) will be used for?



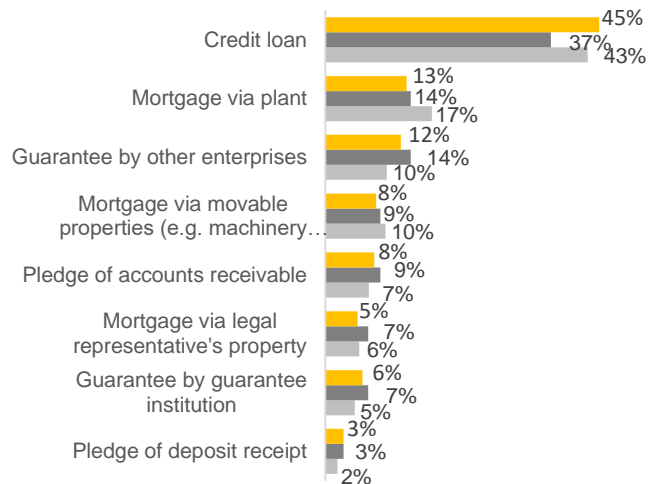
### ► If the respondents need financing via bank loan, which financing institution is preferred?



### ► Respondents' funding sources



### ► Which pattern of loan the respondents prefer?

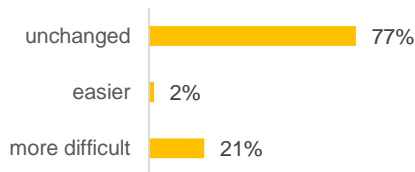


2019 2018 2017

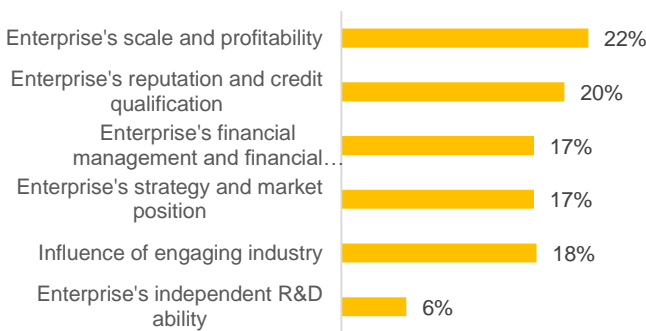


## Financing cost

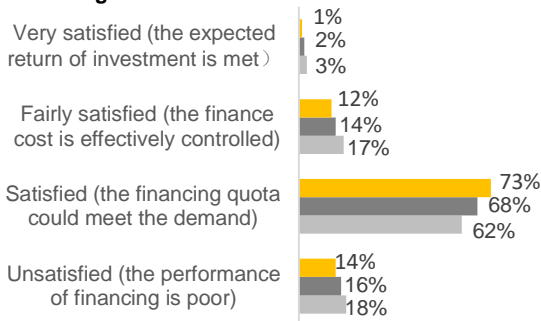
### ► Difficulty of financing compared with last year



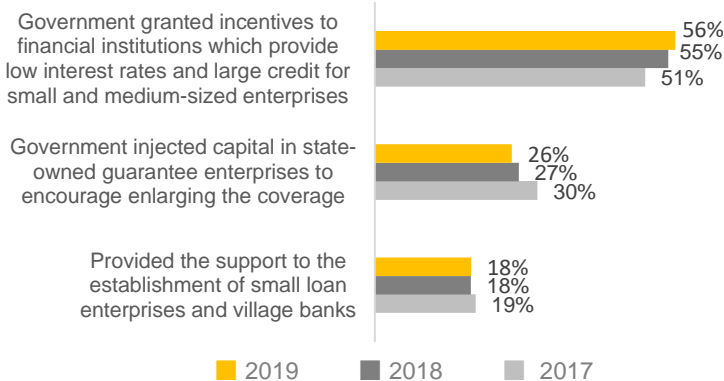
### ► Which factor will lead to the success of financing?



### ► Respondents' satisfaction on the effect of current financing channels



### ► Which is the most effective measures carried out by government to resolve the financing difficulty?



► Based on the survey, 30% of respondents indicated clearly that they are facing the fund shortage. In addition, for the severity, 38% of respondents chose "serious" or "very serious", 20% increasing comparing with 2018.

► 33% of respondents indicated that the fund (to be financed) will be used for maintaining the daily operation, 35% for enlarging the production scale, and only 16% for research and development.

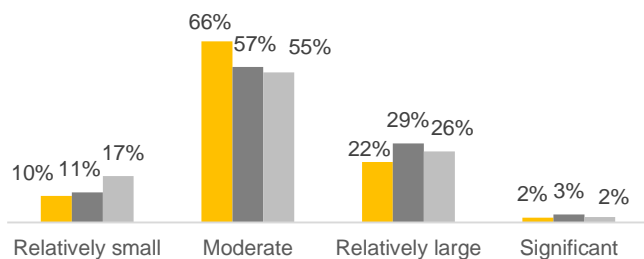
► Regarding the funding sources, the top three are (1) self-raised funds, (2) bank loan, and (3) financing by intercompany. And the most preferred financing institutions are the Big Four commercial banks in China (accounting for 51%). 73% of respondents indicated that the current financing channels can basically meet the current needs of financing, increasing 5% comparing with last year.

► Enterprise's scale and profitability, reputation and credit qualification are key factors for success of financing. 56% of respondents believed that the government shall offer incentives and tax cuts and levies reduction, for those which provide a large number of credit availability and low interest rate to small and medium-sized enterprises, to solve the problem of "financing difficulties" effectively.

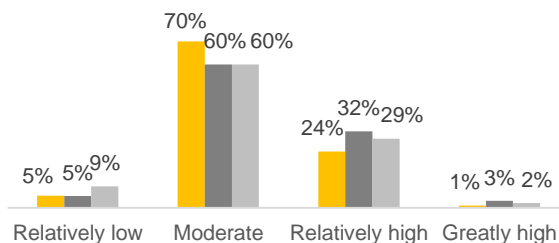
► In conclusion, the fund shortage of respondents was not significant. However, there was still room in improvement in financing effect given the feedbacks from respondents was not so good. Therefore, it is suggested that Chongqing government could further reduce financing costs and enhance the financial service quality for the real economy. Also, in order to prefect the financing policy and facilitate the financing service innovation, the government could continue promoting the establishment of multi-level capital market, and supporting qualified enterprises to conduct equity financing through capital market. Meanwhile, the government could assist enterprises in financing through granting interest subsidy and risk compensation, reducing the reserve ratio for financial institutions who meet certain conditions, leveraging credit policies to support the refinancing and rediscount, and enhancing medium-long-term financial support for technological innovation and upgrading of manufacturing industry.

## 4.1.6 Institutional transaction cost

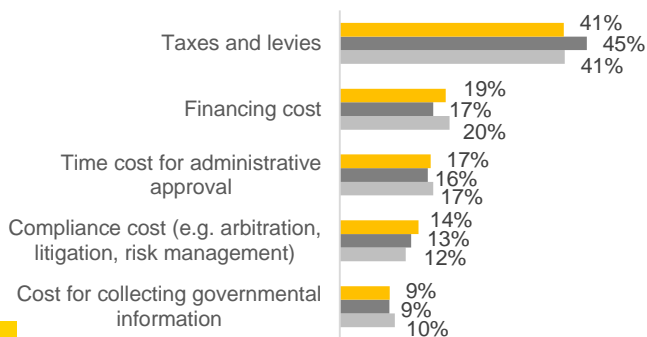
► How about the severity that the institutional transaction cost affect the respondents' operation?



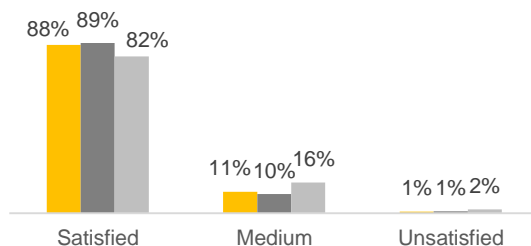
► What's the level of the current institutional transaction cost?



► Main types of the existing institutional transaction costs



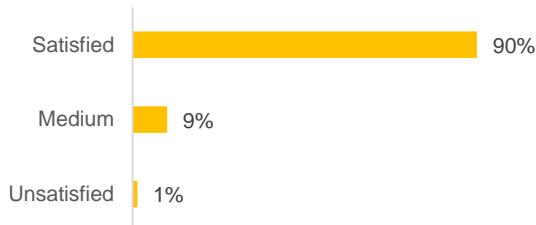
► Respondents' satisfaction on the implementation of the existing measures for reducing institutional transaction cost



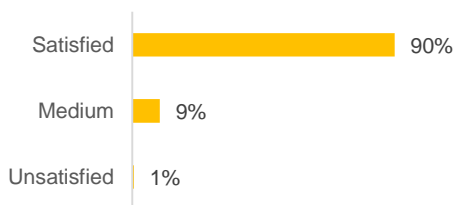


## Institutional transaction cost

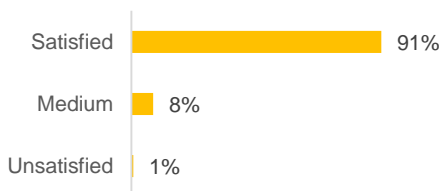
### ▶ Respondents' satisfaction on the measures for tax cuts and fee reduction reform



### ▶ Respondents' satisfaction on institutional reform of streamlining administration and decentralization



### ▶ Respondents' satisfaction on the perfection of Intellectual Property Rights



- ▶ Based on the survey, regarding the severity that the institutional transaction cost affect the respondents' operation, 66% of respondents chose moderate, and 24% of respondents considered it was "relatively large" or "significant", decreasing by 8% comparing with 2018.
- ▶ The top three of existing types of institutional transaction cost are (1) taxes and levies (accounting for 41%), (2) financing cost (accounting for 19%) and (3) time cost for administrative approval (accounting for 17%).
- ▶ Regarding the effects of the existing measures in relation to reducing institutional transaction cost, tax cuts and levies reduction, streamlining administration and decentralization as well as strengthening intellectual property rights protection, approximately 90% of the respondents were satisfied, while less than 1% were unsatisfied.
- ▶ Overall, the government's effort on reducing institutional transaction cost were acknowledged and recognized by the respondents. Current tax burden, financing costs and time cost for administrative approval are still major components of institutional transaction cost. To improve the efficiency of resources allocation and stimulate the market vitality, it is suggested that the Chongqing government could promote the simplification of administrative procedures, minimize micro-management affairs and specific approval matters, prevent the government from directly allocating market resources and intervening marketing activities. Also, the government could manage to create a good business environment for enterprises, improve the competitiveness of enterprises, stimulate the entrepreneurship and innovation, expand the scope of tax cuts and fee reduction reform for further tax release. In order to create a business environment which is international, convenient and efficient, it is also suggested that the government's service quality and take advantage of Cloud and Big-data technology for carrying out "Internet + administration".

## 4.2 Interviews With Typical Enterprises in Key Industries in Chongqing

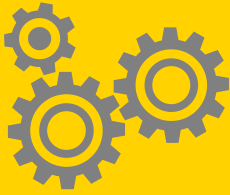




# Overview

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- ▶ In order to further understand the enterprises' actual feelings of Chongqing foreign investment environment, and veritably reflect the problems the enterprises met in production and development, EY conducted on-sites visits to typical enterprises in key industries in Chongqing. EY learned about the enterprises' background information, inquired about their current production and operation status and their evaluation on Chongqing foreign investment environment, and acquired the opinions and suggestions on improving Chongqing foreign investment environment from the enterprises.
- ▶ EY have summarized the opinions and presented in this report as special topics, hoping to further benefit to Chongqing foreign investment environment.
- ▶ The key points of the on-site visits are:
  - ▶ Impact from the changes of the local business environment in recent years;
  - ▶ View or evaluation on the local business environment;
  - ▶ Opinions/suggestions to further improve the local business environment;
  - ▶ Expectation on the development of the enterprise and Chongqing's foreign investment environment.



## 4.2.1 Machinery manufacturing industry

### Overview

Chongqing has numerous large-scale machinery manufacturing industry groups. As being a leading industry, machinery manufacturing industry has played a substantial role in the industrial development and economic construction of Chongqing. Hence, EY have selected some large-scale foreign-invested enterprises as typical interviewees to understand their evaluations on the current business environment and their opinions or suggestions to further improve the business environment in Chongqing.

### Content

#### ➤ *Impacts from the change of business environment*

The respondents generally expressed that Chongqing government's efforts to improve the local business environment have achieved significant results. In recent years, especially since 2016, many aspects of the business environment have been greatly improved, and the satisfaction with the local business environment has increased year by year, such as the energy environment, economic environment, supporting facility environment, and human resources environment, etc. The improvement of the local business environment also made most of the respondents express their willingness to continue to increase investment and expand production scale in the local area.

#### ➤ *Evaluation on local business environment*

Regarding the energy environment, the respondents generally stated that energy supply was generally sufficient. The respondents were also satisfied with the energy quality. However, some respondents said that the electricity price-level is relatively high, which increases the cost of electricity. Nevertheless, these respondents also indicated that the electricity price-level has been decreasing year by year. In conclusion, the overall rating of local energy environment is high.

Regarding the human resources environment, the respondents mentioned that they had encountered many obstacles when hiring high-level talents with high technology, higher education background and strong foreign language ability. It is more difficult to compete with enterprises in the eastern coastal areas when attracting the high-level talents. However, the improvement of human resources environment in recent years is very obvious.

With the increase of foreign investment and outbound investment, the demand for high talents is increasing. However, due to the lack of related living facilities, the enterprises incurred higher labor costs in order to attract high-end talents. With the vigorous improvement of human resources environment and related living facilities made by the Chongqing government in recent years, more and more high-level talents are willing to resident in Chongqing. Also, the respondents stated that the attraction of high-level talents has gradually broken through regional restrictions. Many foreign-invested enterprises are focusing on hire high-level technical and managerial talents directly from eastern coastal areas such as Guangzhou and Shanghai instead of overseas, which provides an effective way to reduce the cost of talents introduction.

In addition, the respondents stated that the enterprises have incurred a large amount of recruitment and training expenses on mid-level talents and front-line employees. On the other hand, Chongqing government has provided enterprises with many measures to assist in the recruitment and training of talents, such as controlling the minimum wages, reducing the social insurance rates, completing ID registration system, and providing free technical training. The measures has improved the local human resources environment effectively.

#### ➤ *Suggestions to improve the business environment and expectations for future*

The respondents are full of confidence on the development of Chongqing. They also hope the government could continuously improve the business environment, such as conducting electricity price reform, reducing the local energy price, publishing preferential housing policy, making and conducting international community development plan, creating a more international language environment, and providing preferential financial policy to enterprises and individuals, to finally create an attractive development environment for talents.





## 4.2.2 Technology and Information Industry

### ► Overview

With the increasing influence of technological innovation affecting on the development of enterprise and society, and the more and more significant impact of the information industry on the industrial economy, the development of Chongqing's technology and information enterprises has become more rapid in recent years. Hence, EY have selected some large-scale foreign-invested enterprises as typical interviewees to understand their evaluations on the current business environment and their opinions or suggestions to further improve the business environment in Chongqing.

### ► Content

#### ➤ *Impacts from the change of business environment*

The respondents generally mentioned that they can deeply feel that Chongqing government has paid more and more attention to technology and innovative enterprises in recent years. They also felt that the government's measures to improve the business environment for the development of technology and innovative enterprises have achieved significant fruit. In recent years, the enterprises felt that the government functions are gradually changing from a management-oriented to a service-oriented and the service efficiency is constantly improving. The implementation of various measures to improve the business environment has also brought considerable benefits to enterprises. In conclusion, the respondents felt good about the business environment. However, some respondents suggested that more improvements are still necessary.

#### ➤ *Evaluation on local business environment*

Regarding the energy environment, the respondents generally stated that the energy supply, in terms of quality and quantity, generally met their daily production and operation needs, especially for the supply and price-level of water and gas. However, some respondents stated that there is still room for improvement in terms of power supply stability. For example, during the peak period of power consumption, there was a sudden drop in electricity supply, which caused economic losses to the enterprise. Therefore, how to effectively stabilize the energy supply and improve infrastructure construction to reduce the energy procurement costs, are the issues that the respondents would like the government to consider and resolve as soon as possible.

Regarding the financing environment and fiscal and taxation policy environment, due to the following facts [(a). the rapid development of new business such as Big Data, cloud computing, mobile Internet, and artificial intelligence, (b). the needs to be in line with international advanced technology, and (c). the requirements for development of innovation and overall manufacturing], most of the respondents have invested a lot of money in technology research and development, product innovation and promotion. Therefore, most of them stated that they have greater financing needs for the product in early development and innovation stages. The respondents stated that they were satisfied with the current local financing environment in Chongqing, which generally meet their financing needs. However, some respondents indicated that during the financing process, the approval procedures were complicated and the process was slow, which caused inconvenience for enterprises to obtain funds in time for R&D or production.

Meanwhile, in view of the fact that the technology and information industry has the characteristics of improving industrial competitiveness, promoting industrial transformation and upgrading, and improving social production and living efficiency, the industry is encouraged and supported by the government. However, technology and information enterprises usually bear higher risks in the early stage of their product, like R&D and promotion period. Therefore, those enterprises have more concerns on whether the government can provide fiscal and tax preferential policies to reduce the risks in the early stage.

#### ➤ *Suggestions to improve the business environment and expectations for future*

The respondents expressed their great expectation that the government can take effective measures to simplify the approval process of financing applications, improve financing efficiency, and expand financing channels, for example, establishing a industrial investment fund by government industry fund jointly with social capital, encouraging financial institutions such as banks to innovate financial products and services for the technology and information industry, and increasing credit support. At the same time, providing financial and taxation preferential policy to promote the industrialization and cluster development of the industry.



### 4.2.3 Special Material Manufacturing Industry

#### Overview

Special materials usually serve downstream manufacturing enterprises to provide them with special raw materials or parts needed in their production process. The development of this industry usually affects the production of downstream manufacturing enterprises, while the development of downstream enterprises will have certain restrictions on this industry. Besides, the enterprises which have demand for special materials are usually large-scale manufacturing enterprises with great influence on the industry. Hence, EY have selected some large-scale foreign-invested enterprises as typical interviewees to understand their evaluations on the current business environment and their opinions or suggestions to further improve the business environment in Chongqing.

#### Content

##### ➤ *Impacts from the change of business environment*

The respondents generally expressed their satisfaction with the local business environment in Chongqing. They also stated that the business environment has gradually improved in recent years. Therefore, more and more enterprises are willing to invest in Chongqing, or those already established in Chongqing are willing to increase investment and expand production scale, which also brings more opportunities for special material production enterprises. Most of the respondents stated that product orders have increased steadily in recent years. As the downstream enterprises have also raised higher requirements for product innovation and quality, most enterprises engaging in special materials manufacturing industry are focusing on the innovation of their products to meet the customers' needs. It requires the simultaneous upgrading of supporting environments in Chongqing, such as the energy environment, logistics environment, environment protection and supporting facility environment.

##### ➤ *Evaluation on local business environment*

Regarding the logistics environment, respondents generally stated that the local supply of logistics services in Chongqing is sufficient and the quality of daily logistics services is well, which can meet their transportation needs. Due to the special geographical environment, Chongqing has diversified but integrated logistics methods, including road, railway, shipping, air and pipeline transportation. Therefore, for different types of special materials, enterprises can choose different logistics methods to provide the downstream enterprises with the required raw materials or auxiliary materials conveniently and flexibly.

However, some respondents mentioned that the logistics requirements during the holidays or the emergency logistics requirements often encounter situations in which the relevant government departments have raised high standard of approval, which cause the shortage of raw materials for the downstream enterprises and it would affect the production and increase the relevant costs and risks.

Regarding the environment protection, the respondents indicated that the waste discharged during the production process can meet the environmental protection standards. However, some respondents said that some special waste discharged still have adverse impact on the environment such as sound pollution and waste water. They have strictly controlled the emission. The respondents stated that thanks to the strict supervision and law enforcement of environment protection, they can develop their business in such an excellent production and living environment.

Some respondents also said that as being socially responsible enterprises, they have paid more attention to meet the national and local environmental standards. However, during the governmental supervision process, the detection methods are still insufficient, which makes the results unstable and difficult for enterprises to monitor the emissions. In addition, for some enterprises with special emission requirements, the environmental protection policy is too strict for them to develop their business in the industry competition.

##### ➤ *Suggestions to improve the business environment and expectations for future*

The respondents expected the government to make logistics of special materials standardized in order to make the logistics system accurate and efficient. In addition, it is recommended to innovate the environmental supervision and law enforcement, promote an advanced and standardized detection methods to build a better living and business environment in Chongqing.



## 4.2.4 Living service industry

### ► Overview

The living service industry is a symbol of regional development, and it plays a connecting and coordinating role between various sectors of the national economy. The development of the industry has an increasing impact on the development of the entire economy. Hence, EY have selected some large-scale foreign-invested enterprises as typical interviewees to understand their evaluations on the current business environment and their opinions or suggestions to further improve the business environment in Chongqing.

### ► Content

#### ➤ *Impacts from the change of business environment*

Some respondents mentioned that in recent years, with the continuous improvement of the overall business environment in Chongqing, the quality of production and living for both enterprises and residents has continued to improve, which encourages the willingness to consume the relevant services, especially high quality services. It also encourages the industry to increase investments and enlarge the scale. Besides, due to the improvement of the related facilities, the overall living service industry has shown a strong growth. The development of the industry has also promoted the development of other industries. Therefore, the respondents expressed that they are very satisfied with the current local business environment in Chongqing. They have brilliant expectations for future. Most of them are willing to increase investment and expand business scale in Chongqing.

#### ➤ *Evaluation on local business environment*

Regarding the living environment, the respondents stated that they have benefited from the efforts of improving the living environment. The local living environment has been greatly improved, especially for the living environment of residents. The residents feel that the living quality is constantly improving. Therefore, all kinds of enterprises in the living service industry are encouraged to provide better services.

In recent years, Chongqing government has focused on the development of tourism and the construction of infrastructure and relevant facilities, which attracts more and more tourists and also leads to the development of the living service industry. The respondents stated that the government shall take this opportunity to attract more enterprises and talents to invest and live in Chongqing.

Regarding the government service environment, the respondents expressed their satisfaction with the current government service. However, some respondents, especially the small-and-medium-sized service providers, mentioned that the procedures are still complicated and they do not have any communication channels with the government, which has resulted in a lower efficiency.

#### ➤ *Suggestions to improve the business environment and expectations for future*

The respondents suggested that Chongqing government continue the construction of infrastructure, rationally allocate resources such as land, energy, promote a diversified public service system, and encourage the innovation and upgrading of the service industry to accelerate the development of the living service industry. Besides, they also suggested the government improve the efficiency of process.

## Conclusion

Based on the analysis on the 873 questionnaires and the interviews with several respondents, Chongqing Association of Enterprises with Foreign Investment and EY obtained comprehensive data and information.

In general, the respondents were satisfied with Chongqing's fundamental environment construction, market climates, policy and government service environment and living environment.

In the respect of reasons for investing in Chongqing, the respondents indicated that the biggest reason is that Chongqing, as the sole municipality in western China, has a remarkable advantage in attracting foreign-invested enterprises. Besides, a great number of foreign-invested enterprises chose Chongqing's urban core areas for registration, while most of them chose the area in or nearby Liangjiang New Area.

Under the depression of macro economic, 55% of the respondents stated they are facing difficulties in business in 2019. Therefore, how to stabilize the economic development, how to keep the consistent growing, how to raise the new economics, are the key topics for Chongqing to research.

For the business confidence index and intention of future investment, nearly 57% of respondents were optimistic or slightly optimistic towards their development prospect in China within next two years, 35% of respondents had neutral expectation, while 8% of respondents were pessimistic or slightly pessimistic towards their development prospect in China for next two years. 68% of respondents indicated that they had intention to expand the enterprises scale, invest in new projects, and conduct mergers and acquisitions in China in future. The rate has increased 7% compared with 2018. Once respondents continue their investment in Chongqing, Yubei District and Jiangbei District would be more attractive compared with other administrative regions.

Regarding the operation costs of foreign-invested enterprises in Chongqing, the respondents were satisfied with energy cost, logistics cost and tax preferential policies in Chongqing. While the respondents reported the lowest satisfaction on labor costs and tax burden. They mainly stated that the labor costs have gradually increased in recent years, and the burden of government fees is still heavy. Based on the survey, respondents stated the level of financing cost and institutional transaction cost are within normal ranges.

Regarding the interviews, the interviewees from the machinery manufacturing industry, technology and information industry, special material manufacturing industry and living service industry, believed that the efforts made by Chongqing government in various aspects to improve the local business environment in recent years have achieved significant results. They all expressed their confidence in the development of Chongqing.

In general, it appears that Chongqing has growing strengths in investment environment from a comprehensive perspective. There is a large size of foreign-invested enterprises in Chongqing which have brought considerable energy on Chongqing's economic development.

In April 2019, Xi Jinping, General Secretary of the Communist Party of China Central Committee, took an inspection tour in Chongqing. He made important instructions on "Two Orientations", "Double-Place Goals" and "Double-High Goals", "Three Roles" and to build a good political ecosystem.

In October 22, 2019, the Conference named Full Integration into "the Belt and Road" and Promotion of Inland Opening-Up in Chongqing was held. During the conference, Chen Min'Er, secretary of Chongqing municipal party committee, emphasized the need to carry out the key instructions made by President Xi Jinping, to firmly implement the new concept of development, to pay more attention to the relation between the common development and the individual development, to fully integrate into the development of "the Belt and Road" and the Yangtze River Economic Belt, to cultivate new advantages of inland opening, to take the lead in western China opening up, and to contribute to the development of the land-sea connections and east-west interactions.

Chongqing will continuously develop an international and convenient business environment. Together with the foreign-invested enterprises and foreign investors in Chongqing, we will create a sound, mutual-benefit and win-win foreign investment environment.



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