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More firms venturing into China's heartland

Local firms should go in early for bigger long-run gains, says PM Lee

By LEE U-WEN

FOR the longest time, mega-cities such as Beijing, Shanghai and Shenzhen were the pillars of China's red-hot economic growth.

But as business costs in these cities continue to spiral, more foreign investors, including those from Singapore, are venturing inwards, to second and third-tier cities in the country's central provinces, where manpower and resources are aplenty and cost a fraction of what it does in the coastal cities.

Singapore Prime Minister Lee Hsien Loong himself made a week-long working visit last September to learn more about the interior of the world's second-largest economy, coming away visibly impressed with what he saw in three booming cities - Chongqing, Changsha and Wuhan.

A key message he had for Singapore businesses that are considering taking the plunge into China's heartland: Go in early if you can, and you'll be able to spot the opportunities faster than your competitors and reap bigger rewards in the long run.

It's no secret that these up-and-coming Chinese cities are fast outpacing the traditional 'Big Two' of Shanghai and Beijing where economic growth is concerned. Economists have long said that the emerging inland cities - where productivity is much lower - will be the catalysts for China's expansion over the next 10-15 years.

According to latest trade figures, 14 of China's second-tier cities account for 8 per cent of China's population but 53 per cent of the country's total imports.

Take Chongqing, for instance. Back in 1998, this south-western city's gross domestic product was just US\$21 billion. In 2009, it had more than quadrupled to US\$86 billion. Last year, Chongqing's GDP grew 14.9 per cent, nearly twice what China achieved as a whole.

Mr Lee told reporters during his trip: 'You may have a first-mover advantage. If you go earlier, then you would be able to spot the opportunities and if you can make the project succeed then the upside may be larger.'

But one caveat he pointed out is that companies needed to have 'staying power' in order to succeed, as well as be discerning enough to know where to find a suitable local partner.

'You have to take a chance, because nothing is certain, and you have to continue to work at it for a long period of time,' he said.

International Enterprise Singapore, the lead government agency spearheading Singapore's efforts to develop its external economy, said that more companies have noticed the 'rising potential' of China's inland regions.

Besides lower operating costs, there is a ready supply of natural resources and huge support by the central government in terms of preferential policies and funding to develop these economies, said an IE spokesman in response to BT queries.

'These positive developments have attracted growing interest from large multinational companies and foreign firms, many of whom have begun to scrutinise their cost structure and look towards tapping the huge Chinese domestic market instead of relying on a pure export model,' he said.

US coffee-chain giant Starbucks recently opened its 400th outlet, in Changsha in Hunan province, making it the second city in central China to host Starbucks after Wuhan, the capital of neighbouring Hubei province.

'China is the second-largest market of Starbucks, following the US,' said Wang Jinlong, board chairman of Starbucks Greater China. 'China's second-tier cities, and even the third and fourth-tier cities, represent remarkable opportunities for Starbucks.'

IE Singapore also said that global MNCs moving into the inland cities will also open up opportunities for Singapore-based companies to provide supporting services to them.

Singapore Business Federation chief executive Teng Theng Dar said that China remains the top destination that its members would like to venture into.

'China presents a diverse range of business opportunities. As such, our companies are generally interested in sectors that are profitable, including real estate development, infrastructure, food services and clean and green solutions,' he said.

One Singapore firm, EnGro, has already gone one better. The slag cement producer signed a lucrative deal with state-owned Wuhan Iron and Steel to establish a joint venture company to produce eco-friendly building materials.

Mr Lee, who witnessed the signing ceremony together with Hubei party secretary Luo Qingquan during that September visit, said that Singapore companies have an edge over their competitors because of the country's brand name and reputation for quality and efficiency.

'All the places we go to, they would like Singapore to be a partner with them. They like our companies to invest, and the government to support them. Our brand name is good, and they see that there is value to them, to be able to say that they have got Singapore in as their partner,' said Mr Lee.

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