

QINGDAO CITY REPORT

GROUP 1

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Part 1: Briefly about Qingdao	1
Part 2: Further analysis of Qingdao	5
Part 3: Singapore-Shandong relations and partnerships	9

Part 1: Briefly about Qingdao

Basic Information

A major trade port and regional financial hub, Qingdao is also production base for both high-speed trains and home appliances. It is home to leading electronics companies such as Haier and Hisense, as well as Tsingtao Brewery, the second largest brewery in China. In recent years, the city has hosted an increasing number of key international events. This includes the 29th Olympic Sailing Regatta in 2008 and the 18th summit of Shanghai Cooperation Organization (SCO) in 2018. It is the third China city to host the international summit, after Shanghai and Beijing.¹

Basic geography

A coastal city located in the southeast of Shandong province in China, Qingdao covers an area of 11,282 square kilometers (721.5 square kilometers for Singapore) with a population of 9.2 million as of 2017. It borders Yantai to the northeast, Weifang to the west and Rizhao to the southwest. Administered at the sub-provincial level, Qingdao governs three county-level cities: Jiaozhou, Pingdu and Laixi, and seven districts: Shinan, Shibei, Licang, Laoshan, Huangdao, Chengyang and Jimo.²

Historical background

Intended to be the primary defense base against naval attacks during the Qing Dynasty in 1891, Qingdao was subsequently ceded to the Germany in 1898 under the Kiautschou Bay concession. The Chinese fishing village was transformed into modern city with wide streets and sewage system. In 1903, the Germans opened the Germania Brewery, which eventually became today's popular Tsingtao Brewery.³

During World War I, Germany was defeated and lost Qingdao to Japan in 1914. The failure of the Allied powers to restore Chinese rule to Shandong after the war triggered the May Fourth Movement.⁴ On 4th May 1919, more than 3,000 students marched in the streets and gathered in Tiananmen Square to protest the unfair treaty terms, return of Shandong and boycott of Japanese goods. The city reverted to Chinese rule in 1922 but was later re-occupied by Japan in the 1938 during World War II (WWII).

¹ Nan, H. (2018, June 09). Summit brings global spotlight to Qingdao. Retrieved January 24, 2019, from http://qingdao.chinadaily.com.cn/2018-06/09/c_311141.htm

² Overview. (2017, December 12). Retrieved January 24, 2019, from http://qingdao.chinadaily.com.cn/2017-12/12/c_240533.htm

³ Jing, X. (2007, August 10). History of Qingdao. Retrieved January 24, 2019, from http://www.chinadaily.com.cn/china/2007-08/10/content_6020685.htm

⁴ Panda, A. (2015, May 05). The Legacy of China's May Fourth Movement. Retrieved January 24, 2019, from <https://thediplomat.com/2015/05/the-legacy-of-chinas-may-fourth-movement/>

After World War II ended, China regained control of Qingdao in 1949. In 1984, the Chinese government shifted towards an open-door policy to encourage foreign investment and trade. Qingdao was selected as the main port city to be part of the initiative and has since developed into a vital port city. It is now the headquarters of the Chinese navy's northern fleet.

Current economic and sociocultural qualities

One of the major port cities in China, Qingdao is designated as the hub of the New Eurasian Continental Bridge Economic Corridor and a strategic city for maritime cooperation in the Belt and Road Initiative. Qingdao's investments in countries involved in the initiative accounted for about 48.3% of the city's total in 2017.⁵ It has both land connections with Europe via railways and maritime connections with many seaports across the world. As of 2018, the city has established trading partnerships with 215 countries and has 70 international sister cities.

Qingdao is listed in the 13th Five-Year Plan (2016-20) to boost the development of China's marine economy. The city has 20% of all the maritime-related research institutes in China and 27.7% of maritime-related academicians at the Chinese Academy of Sciences and the Chinese Academy of Engineering. "Blue Valley," located in Jimo, became the fifth national-level model base of marine technology in China in 2014. Launched in 2015, Qingdao National Laboratory for Marine Science and Technology sets to become a world-class comprehensive marine research center, focusing on basic research and R&D of cutting-edge marine science technologies.

In 2014, the central government selected Qingdao as the first Wealth Management Financial Comprehensive Reform Pilot Area in China. The city is home to 18 foreign-invested banks, accounting for 75% of similarly invested banks in the province. It has received The World Bank Group's "Golden Medal City" honor.⁶ Foreign investment amounted to 52.1 billion RMB in 2017, up 10.3% from a year earlier and accounting for 50% of the province's total. The city was ranked 46th place on the list of top global financial centers in 2016, closely following Shanghai, Beijing, and Shenzhen in the domestic financial center rankings.

With innovation-driven development as their top goal, Qingdao has been ramping up operations on key organizations, such as China's first National High-Speed Train Technology Innovation Center. Along with five other cities, Qingdao National Hi-Tech

⁵ Ying, C. Y. (2018, January 25). Qingdao charts fresh routes to success. Retrieved January 24, 2019, from http://www.chinadaily.com.cn/cndy/2018-01/25/content_35576981.htm

⁶ Qingdao attracts foreign investors with a world-class business environment. (2017, December 28). Retrieved January 24, 2019, from <https://www.prnewswire.com/news-releases/qingdao-attracts-foreign-investors-with-a-world-class-business-environment-300575975.html>

Industrial Development Zone was approved by the State Council to build the Shandong Peninsula national independent innovation demonstration in 2016.⁷ With more than 30,000 applications for invention patent submitted from 2013 to 2016 and 96 national incubators located in the city, Qingdao is ranked among the best of sub-provincial cities.⁸

⁷ Galvan, B. M. (2017, March 02). Qingdao's Report Card. Retrieved January 24, 2019, from http://www.bjreview.com/Special_Reports/2017/NPC_CPPCC_Sessions_2017/Regional_Special/Hunan/201702/t20170228_800088647.html

⁸ Sitong, L. (2018, January 03). Qingdao releases technology innovation report. Retrieved January 24, 2019, from http://www.china.org.cn/travel/qingdao/2018-01/03/content_50187531.htm

Per Capita Disposable Income & Expenses (Year 2017)

Category	Urban Residents		Rural Residents	
	Absolute Value (RMB)	Growth (%)	Absolute Value (RMB)	Growth (%)
Income	47176	8.2	19364	7.8
Expenses	30569	8.1	12928	7.7

Adopted from Qingdao People's Government Reports
<http://www.stats-qd.gov.cn/>

Industry Added Value of Qingdao (Year 2017)

Rank	Occupation	Total Amount (100 Million RMB)	Total (%)	Growth (%)
1	Industrial	3952.87	36	6.7
2	Other Services	2404.25	22	10.3
3	Wholesale & Retail	1337.85	12	9.4
4	Transportation, Warehousing and Postal	776.64	7	7.3
5	Financial Services	750.98	7	8.1
6	Construction	602.22	5	7.5
7	Real Estate	587.36	5	1.1
8	Agriculture & Forestry	403.36	4	3.6
9	Housing & Food and Beverage	221.75	2	5.9
Total		11037.28	100	7.5

Adopted from Qingdao People's Government Reports
<http://www.stats-qd.gov.cn/>

Part 2: Further analysis of Qingdao

Strengths & weaknesses

To further understand Qingdao's current economic environment as well as the potential growth areas, following the government's budget positions will be necessary for providing insights about Qingdao's economy.

The budget position of the Qingdao government is determined by the difference between its incomes and spendings. A negative budget position, where spending is greater than income, suggests that the government might require loaning to fund the current growth model, therefore indicating unsustainable growth.

This report accepts the potential pitfall where Qingdao government might not best represent the city's economic status and the government might not strive for self-sustaining development.

Top tax incomes & expenses

The relationship between tax incomes and spendings to a huge extent indicates general strength and weaknesses. The returns from government bonds, carried over funds shall be neglected.

Top Tax Incomes (10,000 RMB)									
Rank		Year 2015			Year 2016			Year 2017	
1	Sales Tax	2051221	26.4%	Value-Added Tax	2115716	27.8%	Value-Added Tax	3090488	37.5%
2	Value-Added Tax	1070389	13.8%	Sales Tax	1026216	13.5%	Corporate Tax	1466509	17.8%
3	Corporate Tax	1151030	14.8%	Corporate Tax	1241398	16.3%	Increment Tax On Land Value	924243	11.2%
Total		4272640	55.0%		4383330	57.6%		5481240	66.5%

Adopted from Qingdao People's Government Reports
<http://www.qingdao.gov.cn/n172/>

Tax Incomes

The top 3 tax incomes as of 2017 are value-added tax (VAT), corporate income tax (CIT) and land appreciation tax, or increment tax on land value. Generally, CIT, VAT and land

appreciation tax took up most of the local government's income. These three taxes sums up to more than half (66.5%) of Qingdao government's total revenue.

The VAT is a consumption tax placed on a product whenever a value is added at each stage of production, till the point of sale.⁹ It is predicted that the future VAT will increase at a diminishing rate. This is due to slower growth in China's GDP at large, due to the ineffective switch from investment-driven model to consumption driven model. Also, Chinese savers are not contributing to economic growth.¹⁰

Land appreciation tax¹¹ is levied on the gains realized from real property transactions. Real properties contain both land and any property attached directly to it.¹² Since Land appreciation tax revenue tracks the real property prices, the demand and supply for real property will affect the size of income for land appreciation tax. It is likely that this particular tax revenue will increase at a diminishing rate as well due to the central government's control over housing prices.¹³

Corporate tax, on the other hand, remained stagnant.

⁹ Kagan, J. (2019, January 14). Value-Added Tax - VAT. Retrieved January 18, 2019, from <https://www.investopedia.com/terms/v/valueaddedtax.asp>

¹⁰ Balding, C. (2018, July 09). Chinese savers won't save China. Retrieved January 18, 2019, from <https://www.businesstimes.com.sg/government-economy/chinese-savers-wont-save-china>

¹¹ PricewaterhouseCoopers. (n.d.). Overview of PRC Taxation System. Retrieved January 18, 2019, from <https://www.pwccn.com/en/services/tax/accounting-and-payroll/overview-of-prc-taxation-system.html>

¹² Chen, J. (2018, December 13). Real Property. Retrieved January 18, 2019, from <https://www.investopedia.com/terms/r/real-property.asp>

¹³ How China's Going to Try to Control Its Massive Housing Bubble. (2017, November 28). Retrieved January 18, 2019, from <https://www.bloomberg.com/news/articles/2017-11-27/china-s-war-on-bubbles-means-homes-sales-set-to-fall-in-2018>

Top Expenditures (10,000 RMB)

Rank	Year 2015			Year 2016			Year 2017		
	Category	Amount	Percentage	Category	Amount	Percentage	Category	Amount	Percentage
1	Urban and rural communities	2546467	14.9%	Urban and rural communities	2960243	16.4%	Urban and rural communities	3225681	20.2%
2	Education	2340929	13.7%	Education	2530205	14.0%	Education	2538189	15.9%
3	Returning of Local government bonds	1411850	8.3%	Returning of Local government bonds	2212380	12.3%	Social security and employment	1533879	9.6%
4	Budget stabilization fund	1301372	7.6%	General public service	1410360	7.8%	General public service	1521288	9.5%
5	General public service	1269558	7.4%	Social security and employment	1337430	7.4%	Returning of Local government bonds	1031080	6.5%
6	Social security and employment	1052675	6.2%	Budget stabilization fund	1231607	6.8%	Health care and family planning	861562	5.4%
7	Transportation	852032	5.0%	Health care and family planning	888730	4.9%	Budget stabilization fund	795521	5.0%
8	Agriculture, forestry and water	791895	4.6%	Agriculture, forestry and water	859861	4.8%	Public safety	793851	5.0%
9	Health care and family planning	700007	4.1%	Public safety	858337	4.8%	Carry over funds	788890	5.0%
10	Public safety	622868	3.6%	Carry over funds	600766	3.3%	Agriculture, forestry and water	759036	4.8%
...				...					
Total		17093277	100%		18046208	100%		15934323	100%

Adopted from Qingdao People's Government Reports
<http://www.qingdao.gov.cn/n172/>

Expenses

The top expenses of Qingdao as of 2017 are firstly urban and rural communities expenditure (20.2%), secondly education expenditure (15.9%) and thirdly general public service expenditure (9.6%).

Not shown in the table, public infrastructure and other expenses took up most of the urban and rural communities expenditure, where other expenses are unknown from data. Next, primary school and secondary school education expenses took up most of

the education expenditure. Last but not least, administration expenses of the local government offices took up most of the general public service expenditure.

Based on absolute values, it is clear that there's an increasing trend of urban and rural communities expenditure and public service expenditure. The education expenditure, however, remained stagnant. It is worth noting that the social security and employment expenditure has increased both proportionally and in absolute value from 2015 to 2017.

The education system is well established, as seen from the stagnancy in its expenditures. The general public services, as well as the development of urban and rural infrastructures, are still increasing. This means that there will be more administrative capacities and hardware facilities in the future of Qingdao.

Discussion

In summary, Qingdao's tax incomes are likely to decrease while having its expenses spiraling as the year goes by. Consequently, a budget deficit in the future can be expected.

By cross-referencing to Qingdao government's executive report (2017 and 2018), it can be seen that Qingdao is pushing for structural reform to facilitate employment rate and to establish a greater economy. This can also be seen from the social security and employment expenditure.

One of the Qingdao highlights is "haiyangjingji 海洋经济" [ocean economy]. While establishing a smooth channel in facilitating international trade, the most important aspect, however, is still the exporting of Qingdao produced products and the attracting of foreign investments.

Qingdao is still facing various domestic issues, such as poor basic infrastructure and slower economic growth. Similar to other cities in China, it is still developing and trying to open up to the world. The upshot is that, given the domestic expenses, it is unlikely for Qingdao to achieve its desired economic model in the short run.

Opportunities

Nonetheless, weaknesses come opportunities, Singapore in many aspects can tap on those areas. For example, smart city cooperation between Singapore and China, also other necessities of ocean development, infrastructure or management needs, for possible coordination.¹⁴

¹⁴ Noi, G. S. (2018, September 12). Smart cities need more than technology: Singapore's ex-master planner Liu Thai Ker. Retrieved January 18, 2019, from <https://www.straitstimes.com/asia/smart-cities-need-more-than-technology-singapores-ex-master-planner-liu-thai-ker>

Part 3: Singapore-Shandong relations and partnerships

Relations

Singapore and Shandong share a close bilateral trade relationship, with the establishment of the Singapore-Shandong Business Council (SSBC) in 1993. As the first council between Singapore and China, SSBC was a result of the mutual desire to strengthen economic and trade cooperation by Singapore's then-Prime Minister Goh Chok Tong and then-Shandong Governor Zhao Zhihao.¹⁵

Since then, Singapore-Shandong bilateral economic and trade relations have grown steadily over the years. Singapore is Shandong's third largest foreign investor with more than RMB 7.49 billion in cumulative investments. As of 2017, total trade between Singapore and Shandong amounted to RMB 17.93 billion, spanning from engineering and manufacturing to education and tourism industries.

Partnerships

Qingdao is Shandong's economic center, with the highest GDP recorded among major cities in Shandong.¹⁶ It is home to well-known Chinese brands such as Tsingtao Beer and Haier. It's main industries include logistics, shipbuilding and marine technology, ICT, water management, healthcare, wealth management, tourism, and fishery.

Expectedly, the SSBC has identified healthcare and logistics, including smart technologies, as key sectors that offer emerging opportunities for Singaporean companies in Shandong. In addition, under the Belt and Road Initiative mooted by President Xi Jinping in 2013, Singapore and Shandong are looking forward to investment cooperation in third countries under the Belt and Road Initiative; and people-to-people exchanges between Singapore and Shandong.¹⁷

Singapore and Qingdao share a mutual interest in the development of modern services like education, healthcare, retail, and logistics; food products; energy and petrochemicals. This is further support by large enterprises in Qingdao which are ready to grow internationally. From our visit to Qingjian, we were impressed by their internationalization strategy set forth since decades ago. On the other hand, Singapore

¹⁵ Enterprise Singapore. Business Councils between Singapore and China. Retrieved January 28, 2019, from <https://ie.enterprisesg.gov.sg/Venture-Overseas/Browse-By-Market/Asia-Pacific/China/Business-Councils>

¹⁶ Qingdao's GDP in 2017 was estimated at RMB 1,103.73 billion

¹⁷ Enterprise Singapore. (2018, April 14). Enhancing Singapore-Shandong collaboration to increase investments, trade and people-to-people exchanges. Retrieved January 28, 2019, from https://www.gov.sg/~sgpcmedia/media_releases/enterprise-sg/press_release/P-20180418-1/attachment/MR00418_Enterprise%20Singapore%20Statement_Enhancing%20Singapore-Shandong%20Collaboration_2018%2004%2018.pdf

firms also share similar development plans in growth areas such as technology, innovation, and modern services. From our visit to Unihearts International Education Group, a Singaporean company in Qingdao, it was proud to note that Singapore's trusted branding is one of the key attracting factors to Chinese consumers, as reflected in Unihearts' high quality and bilingual pre-school education.

With the rise of China's middle class, traditional sectors such as healthcare and education hold good potential for collaboration and cooperation, as Singapore also places great emphasis on these areas of development. Noting on the new Memorandums of Understanding (MOUs) signed between Singapore entities and Shandong partners at the 20th SSBC meeting in October 2018, the possibility for cooperation between Singapore and Shandong is ever-growing. Singapore companies should continue to leverage our credentials and seek to offer innovative and premium products. As for Singapore, the scale of the Chinese market offers many opportunities, including rapid development in new areas such as artificial intelligence.

Caveat

While first-tier cities such as Beijing seem lead in economic development, it is the second- and third-tier cities such as Qingdao and Jinan which possess greater potential for development and offer mutual benefits for bilateral cooperation.



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