Xi’an High Technology Industries Development Zone

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The Jets

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EXECUTIVE SUMMARY

Xi’an High Technology Industries Development Zone (XHTZ) is one of China’s 53 government-appointed high-tech industrial development zones created in large and medium-sized cities throughout the country. As one of the first inland high-tech zone enlisted to stimulate development in the Western portion of the country with the overarching goals of developing the foreign-focused economy through foreign exchanges, exporting products and importing technologies as well as encouraging and growing domestic economic development, XHTZ benefits from preferential policies and management systems. Home to thousands of domestic and multinational enterprises, XHTZ businesses are focused primarily on software- and service-outsourcing as well as electronic information, manufacturing and biopharmaceuticals which benefit from a highly talented population, low labor and land costs, and an abundance of natural resources in Xi’an. Like most of its type, XHTZ is focused on furthering science, gathering advanced technologies and encouraging foreign investment, and they achieve these visions by providing special incentives and subsidies for joining the zone, through a multitude of training opportunities for both existing and prospective employees, and by communicating opportunities and benefits to multinational customers. In executing its vision, XHTZ will face challenges inherent to many Chinese organizations, the lack of a market-oriented strategy with the ability to fully develop the value chain. Additionally, XHTZ will struggle with recruiting as its workforce and policies age and newer recruiting practices, which are often frowned upon in China, become common in the global marketplace. Finally, XHTZ, like nearly all global companies, will also face the universal challenges of cross cultural communication and relationships as it attempts to attract and retain foreign investors and employees. Despite the challenges, XHTZ has experienced success and fast growth since its inception and will need to continue growth and address adversity head on to meet the demanding goals set for the coming years.
XI’AN HIGH TECHNOLOGY INDUSTRIES DEVELOPMENT ZONE (XHTZ)
OVERVIEW

Background and Description

Through reforms in the national setup, China began establishing special economic zones (SEZ) in 1980 to encourage overseas investment and trade. As a part of this effort, China developed 15 free trade zones, 32 state-level economic and technological development zones and 53 new and high-tech industrial development zones in a multitude of large and medium sized cities (Goswami, 2007). XHTZ was approved as a state-level high-tech development zone by the State Council in March of 1991, was approved by the state council to be one of four high-tech parks opening to the Asia-Pacific Economic Cooperation members in 1997, and was approved to be one of the six most dynamic city regions in China after investigation of the UN Industrial Organization in 2002 (TNC, 2010). XHTZ resides on a 35 square kilometer area of land in Xi’an, Shaanxi, which is located 7 km from downtown Xi’an, 11 km from the nearest railway station and 35 km from Xi’an Xianyang International Airport (China Knowledge, 2009). It is an area physically separated from the rest of the city, enclosed by walls with border crossings and guards at its boundaries. In order to continue its progression as a destination for multi-national companies, construction has commenced on a ramp that will connect the expressway to the routes leading to the airport. These seemingly minor improvements to the area’s landscape are additional ingredients that influence companies to relocated employees and expertise into Xi’an’s Tech Zone (Center for American Progress, 2010).

XHTZ is home to over 12,000 foreign and domestic companies, with over 2400 technology companies, over 750 software- and service-outsourcing companies and contains an Electronics Park, Industrial Park, Pioneering Park, Shaanxi Export Processing Zone and Xi’an Software Park, which is one of only four commercial software bases authorized by the government. Given the extraordinary growth since inception, XHTZ has plans to expand to 98 square kilometers in the next few years (ASM, 2009; Zhang, 2009). XHTZ is currently one of the top 5 state-level high tech zones and is ranked as the largest and most competitive high tech zone in the Central and Western regions of
China. It leads China’s state-level high tech zones in terms of high tech innovation capability and has seen an annual growth rate of 30 percent in recent years. Taking advantage of the abundance of local high tech resources, XHTZ is one of the few high tech zones that has set up numerous innovative small and medium sized enterprises, further solidifying its position as the bridgehead of China’s western regional development (Jingqui, 2005).

Goals and Visions

XHTZ, like all zones of its type is tasked with dual roles, which include external goals of developing the foreign-oriented economy and generating foreign exchanges through exporting products and importing advanced technologies as well as internal goals of accelerating inland economic development. Technology Development Zones are primarily focused on exporting processed goods and are meant to be a foreign-oriented area integrating science and industry with trade to turn technologies into a productive force (Xinhua News Agency, 1997). The overarching goals of XHTZ are to increase its domestic participants’ visibility and competitiveness while also attracting multinational enterprises in order to achieve greater foreign investment and advanced technology ventures, as well as to develop new industries and reform traditional industries (Zhang, 2009).

Companies in XHTZ benefit from preferential policies, tax structures and infrastructure, special managerial systems and low labor costs (Fitzsimmons, 1990). Through these preferential policies, XHTZ is working to develop something of a “headquarters economy” in that multinational companies and high growth enterprises view Xi’an as the ideal location for administration and R&D headquarters (Zhang, 2009). Confronted with the historic opportunity of developing the west, Xi’an Hi-Tech Development Zone is ready to make new headway. This year it will focus its attention on the construction of 8 biological engineering parks with the cooperation of universities: Chang'an Technology & Industry Park, Xi'an Software Park, Hi-Tech Export Industry Park, Xi'an Pharmaceutical Industry Park, Xi'an Jiaotong University Technology & Industry Park, Northwestern Polytechnical University Technology & Industry Park, Xi'an Electronic Sci-Tech University Technology & Industry Park and Northwest University
Technology and Industry Park. The aim is to expand the room of maneuver and enlarge the industrial scale (China Knowledge, 2009).

**Major Industries, Focus Areas and Financial Performance**

Industries in XHTZ include electronics and information technology, equipment manufacturing, biomedicine, biopharmaceuticals and automobile manufacturing, and its primary industries include both software- and service-outsourcing. XHTZ’s self-stated five pillars are software generation and processing, communication, environmental protection, bio-pharmaceuticals and new and creative products, with the motto “The environment is the primary resource, source of competitiveness and productive force” (Jingqui, 2005). Some of the major investors include Oracle, Emerson Electric, Huawei Technologies, ZTE, SPSS, Qimonda AG, Sybase, New Egg, Fujitsu and Kingdee, (hktdc.com) and Fortune 500 enterprises, including Coca-Cola, IBM, Dezhou Instruments, Royal Dutch/Shell Group, Finnish Nokia, German Siemens and Japanese Mitsubishi (Xi’an Business Forum, 2009). XHTZ realized a value-added industrial output of RMB 42.2B (US $5.6B) in 2007, with the software- and service- outsourcing sector realizing sales revenue of RMB 15.6B, representing a 38% year over year increase. The software- and service-outsourcing sector expects to realize sales revenue and export value of RMB 40B, US $225M, in 2010 (China Knowledge, 2009).

**Xi’an Advantages**

Located in the Guanzhong Plain, long known as the “cradle of the Chinese nation,” Xi’an is the birthplace of the Chinese nation, connecting the Eastern and Western regions of China, and holds an important strategic position in China’s Western Development Strategy. Xi’an is often considered the gateway from the Northwest to Southwest regions as well as the Central and North to East regions of China (TNC, 2010) and holds the position of a base of scientific research and a center of finance and commercial trade (Xi’an Business Forum, 2009). It is a vital city along the Eurasia Continental Bridge and serves as the venue of the Euro-Asia Economic Forum. This, combined with tourism derived from its rich cultural history, gives Xi’an a competitive edge in earning foreign exchange. Clearly, Xi’an is strategically located and uniquely
equipped to promote expanded cooperation, common development and enhanced friendly exchanges within China and between the European and Asian countries (Xi’an Outsourcing Services, 2009).

Xi’an’s economic allure stems from its resource abundance of educational institutions including over 40 Universities in the area, second-only to Beijing, which provide a rich resource for human capital. The area is home to 50 national laboratories, engineering research centers and electronics and information technology research institutes, 672 scientific institutions, and more than 30 electronics and information technology-related universities, which contribute to the development of a highly talented employee base with in depth knowledge of high level technologies and relatively low labor costs (Zhang, 2009). Additionally, land costs are low, and the area is rich in coal, natural gas and oil, resulting in available land and an ample energy supply for industrial and residential use (Xi’an Business Forum, 2009). XHTZ takes the lead in China in its planning and basic construction. It is complete in such facilities as the supply of water, power, steam and heat, roads, communications, computer network, and bonded warehouses. Its primary and middle schools, kindergartens, 3-star hotels, clubs, golf courses, parks and beautiful residential quarters provide a pleasant surrounding for work and recreation. It has been rated as a green-space model for several years running by Xi’an Municipal government. Its two residential districts of Fengyeyuan and Gaoke Huayuan have been cited as exemplary units by China's Construction Ministry. The property management of its Gaoke Huayuan and Ziwei Huayuan has secured the international authentication of ISO9002 (China Knowledge, 2009).

**XHTZ BUSINESS STRATEGIES**

**Business Objectives**

XHTZ has been charged with the daunting task of developing the Western/North Western region of China, by way of furthering science and technology with the target of transformation; gathering advanced technologies; providing the best services; driving productivity of companies towards excellence and capitalizing a large talent pool. One of the key objectives of XHTZ is to foster the “Three Steps Program” of continuous
development of infrastructure and industrial growth. The Three Steps Program dictates specific milestone goals over the next ten years, including a goal of RMB 370B income and creation of initial characteristics of a top-level science and technology park by 2010. By 2015, XHTZ aims to achieve income of RMB 1T and reach a state of science and technology park Demonstration Zone, which is defined by a self-contained capability of innovation, ability to generate economies of scale and maintain sustainable development. Finally, the goal for 2020 is an income of RMB 2.48T, a large talent pool, entrepreneurial and innovative activities, international competitiveness and top level international science and technology enterprises (Xi’an Hi-Tech Industries Development Zone, 2010).

Consistent with its motto, XHTZ expects to achieve these goals through environmentally friendly industries and projects, with customer-focused service and with an eye on increasing technological capabilities (Xi’an Hi-Tech Industries Development Zone, 2010). In addition, XHTZ will maintain its focus on encouraging and attracting foreign investments, technology ventures and partnerships, specifically design companies which use less energy resources and demand higher quality talent, as well as supporting economic development further inland, with an emphasis on both research and development and end-use output in all industries. Currently local enterprises outnumber offshore participants, and a concerted effort is underway to grow the foreign sector in 2010.

**Subsidies and Incentives**

In order to achieve to goals of increased foreign and domestic investment and to meet the objectives of the Three Steps Program, XHTZ provides subsidies and incentives to industries, making the zone attractive to both foreign and domestic companies looking to expand or transfer into the Xi’an market. With an annual spend on company support of approximately RMB 800M, US $117M, XHTZ has the ability to provide special incentives and tax breaks to companies and industries that are considered critical to the zone’s success and has allocated specific funds for the support of five companies with annual business revenues of RMB 10B, US $1.2B, ten firms with annual business revenues of RMB 5B, US $600M, and 50 firms with annual business revenues of RMB 1B, US $120M (Jingqui, 2005; Zhang, 2009). XHTZ’s administrators have established
new policies aimed at attracting multinationals, including allowances for subsidies for rent fees in order to abate costs as well as subsidies for movement, transportation and installation of equipment for companies who choose to relocate operations to Xi’an. Located in a center of finance, the zone also has the ability to provide discounts for loans when companies appear valuable to Xi’an. XHTZ has also expressed a willingness to build additional international schools for the children of expatriates working in Xi’an (Xi’an Business Forum, 2009).

**Guiding Business Strategies**

XHTZ seeks to reach its business goals through customer-focused service; helping businesses within its realm guide their strategies for the betterment of the entire zone. While the main focus for assisting larger companies is in the arena of cost control, XHTZ has greater ability to guide smaller companies to more effective business strategies not related solely to cost benefit. The goal in XHTZ is for local R&D firms and larger industrial enterprises to complement each other and complete the full value chain. Often this can be achieved by guiding the local R&D firms towards more market-oriented strategies, focusing more on meeting the needs of the customer based on demand for a specific product or service, rather than embarking on research and development projects without regard to market conditions. Additionally, XHTZ plans to concentrate efforts to help companies focusing on niche markets to expand their business scope and grow their marketability. Another issue that many XHTZ firms face is the necessity of both building a brand identity and remaining attentive to the design services portion of the business. Often these can be competing objectives, and XHTZ is committed to supporting these companies in both efforts (Zhang, 2009)

**Developing Workforce and Showcasing Talent**

One of the key strategies of the XHTZ is workforce development, which includes begins with ongoing recruiting efforts for area university students and potential employees and continues with numerous training opportunities for existing employees. The zone puts a great deal of effort into attracting high quality talent, and has established a series of funds aimed at supporting young high-tech talents as well as overseas students
who are willing to begin a new undertaking in Xi’an (Jingqui, 2005). XHTZ offers internships and recruiting opportunities for students attending area universities and provides subsidies for graduates choosing to remain in the Xi’an area (Zhang, 2009). Prospective employees from multinational locations are offered housing subsidies for relocating to Xi’an and committing to remaining in the area for a predetermined period (Xi’an Business Forum, 2009), and mid-level personnel in the zone are frequently receive individual income tax breaks of 40-60 percent. As the workforce is one of the selling points of the entire zone, XHTZ allocates a large portion of funding to recruiting and attracting high value technical talent as well as retaining them once they have committed to working in the zone. In order to retain and enrich these employees and attract both new enterprises and potential employees, software parks and technology incubators within the zone frequently offer free weekly training courses with lectures from renowned specialists, professors and company executives, and the zone often funds additional external training courses for employees (Zhang, 2009). These training sessions serve dual purposes of workforce development and more importantly, marketing existing talent to attract new industries to the zone.

XHTZ CHALLENGES

Market-Oriented Strategy

A key challenge for XHTZ in the coming years is the lack of a market-oriented strategy. With a market-oriented strategy, goals and action plans are based on the fundamental structure of the marketplace by identifying growth opportunities, understanding demand for new products and services and creation of competitive advantages. Understanding the market needs and building total value chains with complete cooperation and cohesion is invaluable to a system like XHTZ, and this can only be achieved with companies working together to serve the demands of the marketplace. Industrial chains exist in XHTZ; however, the links between them are not yet strong enough to form a complete value chain. Considering that some local firms suffer from limited marketability due to the limited reach of the niche markets they serve, integrating into a complete value chain would serve to further increase the market value of these local firms and extend their reach (Zhang, 2009).
Some believe that in order to align daily operations with long-term targets and effectively set goals and objectives, the market should serve as the basis for strategy. Market-oriented strategies rarely, if ever, rely on subsidies, and government intervention is hardly factored in to the equation. Although subsidies can have a positive effect by encouraging long-term market development, some researchers suggest that subsidies serve more to distort the market when used in smaller to medium scale enterprises and true demand for goods and services can become unclear (Hallberg, 2000). Furthermore, the willingness to research and develop creative ideas in response to market demands and needs is often a crucial factor in the success of a company, and design companies in XHTZ will not grow if they cannot meet the market needs (Zhang, 2009).

Global competition is moving increasingly towards a market oriented economy, where it has been demonstrated that high growth rates accompanied by high per capita incomes is not only possible, but likely. While mixed economic systems like those in China and India have demonstrated success (Economy Watch, 2009), global competition will become more challenging in the future, and by basing a strategy on changing market needs rather than dependence on government intervention and subsidies, a globally competitive enterprise like XHTZ is likely to secure a stronger position in the global marketplace.

**Recruiting**

Many large corporations are saddled with overcapacity while large numbers of small and medium-size businesses are at risk of collapsing. Unemployment is rising among the highly educated population while the supply of cheap labor from rural farming regions becomes tighter, and the Chinese economy is also beginning to feel the impact of the aging population. About 13% of the 6.1 million new graduates last year failed to find work, while another 6.3 million are expected to enter the job market across China this summer (Yan, 2010).

Closely aligned with the challenges posed by a generational shift in the workforce, are the corporate recruiting strategies employed by organizations within XHTZ. In the United States and Britain, as well as in multinational corporations like
IBM, executives now actively encourage workers to open accounts with Facebook, Twitter and Linkedin to not only advertise events and vacancies organized by the company, but to aid communication between staff.

Chinese companies, however, still rely on traditional job fairs to find staff, and even continue to block access to many sites because they believe workers waste too much time online. It is this resistance to change in recruitment strategies and corporate culture that could limit necessary stimulation to expansion and handicap appeal on a broader scale. Talent pools stretch far and wide, but with the generational shift corporations must also transform their approach as to not get left behind. Similarly, the desire for outsourcing, which is up 20% from last year, has shifted the focus to cost reduction. Patterns of a transition must transcend the shift from strategic to tactical outsourcing in order to reduce the potential to push outsourcing and corporate growth back a decade. (Xi’an Outsourcing Service, 2009)

**Relationships and Communication**

While negotiating with foreign enterprises, the obvious result should be an agreement whereby both parties feel they have obtained what they need to function together. Chinese tend to view these agreements as long-term relationships which they take very personally and set firm goals to maintain their responsibilities in the relationship. Often representatives from foreign companies, specifically Americans and often Europeans, hold the actual agreement in higher esteem than the relationship. While the relationship is certainly part of the process, ultimately this final deal is most important. Additionally, many foreign companies tend to be less concerned with personal images and more concerned with the potential legal ramifications of not meeting the expectations of the agreement, often making the negotiations and partnerships even more impersonal. This is important to understand when entering into an agreement with a foreign entity because understanding the needs of potential partners can greatly affect the desired outcome (Li, 1995).

Chinese entities are often less concerned with near-term objectives and milestones than their American and European counterparts and will focus more on the longer term
goals and relationship issues. These diverging views in the importance of timeframes could stall negotiations and damage partnerships as foreign entities might view issues as minor and meeting specific milestones as vital while Chinese would want to focus on resolution of the issues as they arise, potentially at the expense of the milestones (Thompson, 2007).

Decision making can also differ greatly between various companies. Often foreign companies prepare to negotiate a deal with complete decision authority, with the intent to execute immediately, while Chinese companies have a tendency for group decision making with final approval required before negotiations can be completed. It is crucial that both foreign and Chinese companies understand and respect the decision making principles of the enterprises they plan to partner with (Thompson, 2007).

The timeframe over which progress is measured can also be quite different. Chinese business tends to look at success over the course of a generation, that is to say that if acceptable progress has been made over the long-term, short term variations mean far less. Compared to the American conscious of quarterly results and communications, the timing of success can be massively different, depending on the tendencies of the foreign entity (Li, 1995). This could very easily hinder success if the levels of urgency of partnering firms significantly differ.

CONCLUSION

Clearly, XHTZ is modeled for success, and has exhibited tremendous growth and accomplishment since its inception in 1991. Enlisted to stimulate development in the Western portion of the country, XHTZ has become not simply a technology zone but a gateway within China and between the European and Asian continents. As XHTZ continues to grow and hone its focus on outsourcing, technology, manufacturing and biopharmaceuticals, it will benefit from the vast amount of both natural resources and human capital that the Xi’an area boasts. XHTZ can achieve its goals and milestones by effectively employing these human resources to encourage further investment, design new and creative products, and develop and maintain full value chains with strong interconnections. As companies begin to depend on each other, incentives in the form of
subsidies will begin to phase out as becoming a link in the value chain is incentive in and of itself. The administrators must maintain vigilance and take care to address the challenges facing the company and modify policies when necessary to accommodate the constantly evolving business landscape and remain globally competitive and relevant.

1. What are the next steps necessary to attract global operations from other technology hubs across the world?

2. In your opinion, do you see similarities between XHTZ and Silicon Valley? If so, what are they? If not, what makes them different?

3. How will you adjust to the changing global climate as it relates to recruiting through social networking sites, such as Facebook or Linkedin?

4. How has China’s drive to create clean energy jobs helped XHTZ?

5. How do you prevent technological theft by multi-national competitors?


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