GOVERNANCE IN CHINA'S SECOND-TIER CITIES: INSIGHTS FROM NINE LEADING CASES

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China's second-tier cities are emerging as some of the country's most dynamic growth engines and governance quality is now a key differentiator shaping their competitiveness. New data point to three striking insights:

- First, Chengdu is the standout performer. Strong government efficiency, clean governance and robust legal services make it the most promising environment among the nine cities examined and a model for governance-driven growth.

- Second, several cities are especially well-positioned for external collaboration. Nanjing, Chengdu, Hangzhou, Wuhan and Hefei lead on legal services, contract enforcement and foreign enterprise presence, marking them as prime gateways for investment and partnerships.

- Third, Chongqing's strength lies in its strategic role. Despite mid-level rankings, its status as the only centrally administered municipality in western China gives it outsized regional influence.

Overall, governance across second-tier cities has improved, reinforcing their rise as competitive hubs for business and innovation. Yet fiscal strain—reflected in punitive revenue reliance—and persistent regional disparities continue to challenge cities in central, western and northeastern China. Governance capabilities are increasingly determining the cities that will attract capital, talent and opportunity in the years ahead.

(Click on the link to read the above in [Chinese](#), [French](#) and [Spanish](#))

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Chinese:
中国二线城市的治理：来自九个典型案例的启示

中国的二线城市正异军突起，成为最具活力的增长引擎之一，而治理质量是决定其竞争力的关键变量。用最新数据分析，揭示出有三点值得关注的洞见：

- 首先，成都表现最为突出。 高效的政府运作、廉洁的治理以及健全的法律服务，使其在所考察的九座城市中拥有最具潜力的营商与治理环境，并成为治理驱动型增长的典范。
- 其次，部分城市在对外合作方面具备独特的条件。 南京、成都、杭州、武汉和合肥在法律服务、合同执行以及外资企业集聚度方面处于领先地位，成为投资与合作的首选之地。
- 第三，重庆的优势在于其战略地位。 尽管整体排名处于中游，但作为中国西部唯一的直辖市，其拥有超越排名的区域影响力。

总体来看，中国的二线城市的治理水平在持续提升，强化了其作为商业与创新高地的崛起。然而，财政压力——体现为对罚没收入的依赖——以及持续的区域差异，仍考验着中部、西部与东北地区的城市。治理能力正日益决定未来哪些城市能够吸引资本、人才与发展机遇。

French:
GOUVERNANCE DANS LES VILLES CHINOISES DE SECOND RANG: LES ENSEIGNEMENTS TIRES DE NEUF CAS D'ETUDE

Les villes chinoises de second rang s'affirment comme des moteurs de croissance parmi les plus dynamiques du pays, et la qualité de la gouvernance est désormais un facteur clé de différenciation, façonnant leur compétitivité. De nouvelles données mettent en évidence trois principaux enseignements:

- Premièrement, Chengdu est la meilleure élève. Une forte efficacité gouvernementale, une gouvernance transparente et des services juridiques robustes créent l'environnement le plus prometteur parmi les neuf villes étudiées, et un modèle de croissance portée par la gouvernance.
- Deuxièmement, plusieurs villes sont particulièrement bien positionnées pour la coopération externe. Nanjing, Chengdu, Hangzhou, Wuhan et Hefei se distinguent par la qualité des services juridiques, l'exécution des contrats et la présence d'entreprises étrangères, ce qui en font des portes d'entrée privilégiées pour l'investissement et les partenariats.
- Troisièmement, la force de Chongqing réside dans son rôle stratégique. Malgré des performances intermédiaires, son statut de seule municipalité directement administrée par le gouvernement central en Chine intérieure lui confère une influence régionale majeure.

Dans l'ensemble, la gouvernance des villes de second rang s'est améliorée, consolidant leur ascension comme pôles compétitifs pour les affaires et l'innovation. Toutefois, les tensions budgétaires—illustrées par une dépendance à des recettes punitives (amendes, pénalités)

—et les disparités régionales persistantes continuent de poser des défis aux villes des régions centrales, occidentales et du nord-est de la Chine. Les capacités de gouvernance déterminent de manière croissante les villes qui attireront le capital, les talents et les opportunités dans les années à venir.

Spanish:
GOBERNANZA EN LAS CIUDADES DE SEGUNDO NIVEL DE CHINA: LECCIONES DE NUEVE CASOS LÍDERES

Las ciudades de segundo nivel de China están emergiendo como algunos de los motores de crecimiento más dinámicos del país, y la calidad de la gobernanza es ahora un factor diferenciador clave que moldea su competitividad. Nuevos datos señalan tres ideas destacadas:

- Primero, Chengdu es la gran destacada. Una alta eficiencia gubernamental, gobernanza limpia y servicios jurídicos sólidos la convierten en el entorno más prometedor entre las nueve ciudades analizadas y en un modelo de crecimiento impulsado por la gobernanza.

- Segundo, varias ciudades están especialmente bien posicionadas para la colaboración externa. Nanjing, Chengdu, Hangzhou, Wuhan y Hefei lideran en servicios jurídicos, ejecución de contratos y presencia de empresas extranjeras, lo que las marca como puertas de entrada preferentes para la inversión y las alianzas.

- Tercero, la fortaleza de Chongqing radica en su papel estratégico. A pesar de ubicarse en la mitad de la tabla, su condición de única municipalidad administrada centralmente en el oeste de China le confiere una influencia regional desproporcionada.

En conjunto, la gobernanza en las ciudades de segundo nivel ha mejorado, reforzando su ascenso como polos competitivos de negocios e innovación. No obstante, la presión fiscal —reflejada en la dependencia de ingresos punitivos—y las persistentes disparidades regionales siguen representando desafíos para las ciudades del centro, oeste y noreste de China. Las capacidades de gobernanza están determinando cada vez más qué ciudades atraerán capital, talento y oportunidades en los próximos años.

GOVERNANCE IN CHINA'S SECOND-TIER CITIES: INSIGHTS FROM NINE LEADING CASES

SHAN Wei & CHUA Jing Yee[*]

Governance in Second-Tier Cities

1.   Over the past two decades, China's second-tier cities have become key engines of economic growth. Many now serve as hubs for innovation and entrepreneurship, attracting talent and investment through targeted industries and supportive policies.[1] Local governments have promoted business-friendly environments by offering tax incentives, simplifying regulations and backing emerging sectors. The rise of technology parks, innovation clusters and startup ecosystems has helped build skilled labour pools and diversify industrial bases.[2] These cities now play a central role in China's transition to an innovation-driven economy.

2.   Local governance plays a crucial role in shaping these cities' economic success.[3] Governance refers to how authority is exercised, decisions are made and policies are implemented to manage public affairs.[4] It includes government efficiency, cleanliness, institutional stability and the legal environment. Local governance drives business development through regulation, efficiency and institutional support. Clear policies minimise bureaucratic barriers, while efficient administration and e-government services enhance operational ease. Effective

corruption control reduces costs and promotes fair competition, while strong legal infrastructure ensures contract enforcement. A city's commitment to contract enforcement is essential for fostering trust in the local business environment and ensuring secure, reliable transactions.

3.   The business environment in China's second-tier cities, with emphasis on governance factors such as government behaviour and legal institutions, is examined using the Doing Business in Chinese Cities (DBICC) 2024 database, which covers nearly 300 prefecture-level cities and municipalities.[5] It includes key indicators from 2017 to 2022, covering aspects such as local governance and the legal environment. The dataset is widely used to evaluate the business environment in China.[6]

4.   The six variables used in the analysis include government efficiency, government corruption punitive revenue dependency, availability of legal services, contract enforcement and foreign enterprise share. These variables provide insights into both governmental and judicial governance, each of which plays a crucial role in local business development. See the appendix for definitions and measurements of the variables.

5.   Nine cities, namely Changsha, Chengdu, Chongqing, Hangzhou, Hefei, Nanjing, Wuhan, Xi'an and Zhengzhou, were chosen for their growth momentum, future-oriented industrial positioning, regional representativeness and strong potential in complementarities across city groups. Each city is positioned in priority sectors such as AI and digital economy, EVs and batteries, biomedicine, green energy and new materials. They align with major national and regional initiatives including the AI+ Action Plan, Chengdu-Chongqing Economic Circle, underscoring the emphasis on improving governance and economic environments.

[5]   Zhang Sanbao, Zhang Zhixue (correspondent) and Huang Minxue, 2023, "Evaluation of Doing Business in Chinese Cities", Peking University Open Research Data Platform, V3, https://doi.org/10.18170/DVN/9NJDWE, accessed March 2025.

[6]   For instance, Hu, S (2024). How business–government relationships drive digital innovation and entrepreneurship: A study of 292 cities in China using NCA and TDQCA. Sustainability, 16(16), 6718. https://doi.org/10.3390/su16166718; Zhang, S and Zhang, Z (2023). China Urban Business Environment Research Report 2023 [Report, in Chinese]. Beijing: Guanghua School of Management, Peking University, and School of Economics and Management, Wuhan University.

6.   The key focus of this analysis is twofold. First, it compares governance indicators across the nine selected cities, allowing their governance quality to be evaluated from different perspectives. Second, it looks at how these cities' scores have moved from 2017 to 2022, showing whether they have improved or declined compared with other cities each year. The analysis also briefly considers the development trajectories of second-tier cities across China's four major regions—eastern coastal, central, western and northeastern provinces—to capture broader disparities in socio-economic dynamics.

7.   The 2022 values of the six governance indicators for the nine promising second-tier cities are presented in Table 1.[7] All the variables in the table (except Legal Services and Foreign Enterprise Share) have been normalised, that is, the value of the indicator is a relative score that shows where the city stands compared to all others. A score of 0 indicates that the city has the lowest value of the indicator in the dataset, while a score of 100 means it has the highest value.[8] Due to the normalisation, the year-to-year trends revealed by this dataset reflect only changes in a city's relative ranking compared to other cities, not shifts in its absolute values.

TABLE 1   GOVERNANCE INDICATORS OF THE NINE PROMISING SECOND-TIER CITIES

Cities	Government Efficiency	Government Corruption	Punitive Revenue Dependency	Legal Services	Contract Enforcement	Foreign Enterprise Share
Chengdu	93.10	13.25	94.04	29.08	95.94	23.57
Wuhan	92.35	6.90	96.31	14.97	90.37	33.39
Nanjing	79.93	19.56	95.80	14.58	98.77	43.37
Hangzhou	78.60	25.19	96.56	20.30	93.85	33.90
Hefei	94.81	26.18	95.36	7.97	98.29	23.35
Chongqing	89.50	20.61	92.40	13.51	88.92	17.61
Changsha	93.28	12.22	93.89	13.38	81.52	14.41
Zhengzhou	82.23	20.41	96.28	18.70	97.93	9.78
Xi'an	84.33	14.77	92.07	11.96	63.33	21.66

8.   Data analysis reveals several major takeaways. First, Chengdu stands out among the nine promising second-tier cities, showing the strongest overall governance performance, suggesting the most promising potential for future business

7   Please see Table 2 for the ranking of the cities.

8   http://www.niehuihua.com/uploads/soft/241031/1-241031110341.pdf, accessed March 2025.

development. Second, cities like Nanjing, Hangzhou, Wuhan, Hefei, Changsha and Zhengzhou also demonstrate strong governance in several areas, indicating solid potential to further improve their business environments. Third, external partnership potential, proxied by the arithmetic mean of Legal Services, Contract Enforcement and Foreign Enterprise Share, places Nanjing, Chengdu, Hangzhou, Wuhan and Hefei at the top. Fourth, Chongqing, despite mid-table rankings, remains strategically important. As the only centrally administered municipality in western China, it has strong political backing and is expected to play a key role in regional economic development. Finally, Xi'an performs relatively weakly across multiple governance indicators, which may limit its capacity to attract future business growth.
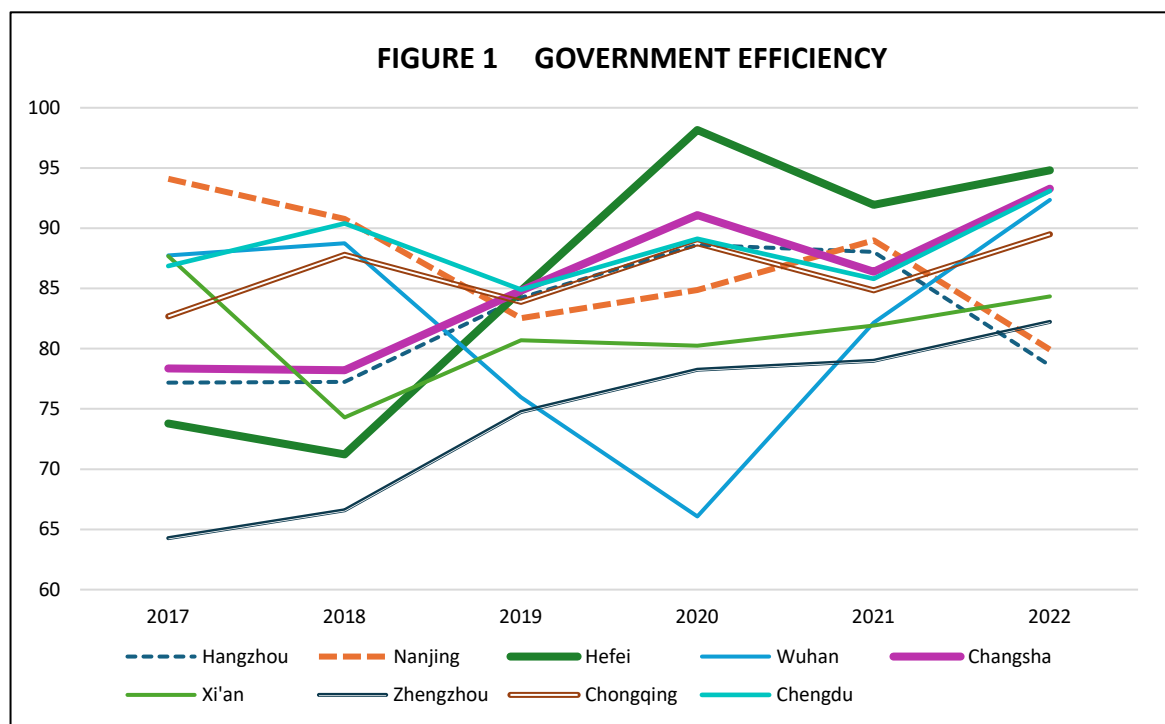
9.   Overall, in comparison with other Chinese cities, governance across China's second-tier cities has generally improved in recent years, with gains in efficiency, reduced corruption and expanded legal services contributing to more business-friendly environments. However, common challenges persist. Many cities still rely heavily on punitive revenue, suggesting that local governance is under strain amid the broader economic slowdown. Regional disparities also remain pronounced, as cities in the central, western and northeastern regions continue to face greater obstacles than their eastern counterparts.

Government Efficiency

10.   Government efficiency significantly shapes the business environment by ensuring effective resource use and smooth interactions with regulatory agencies. A capable government supports infrastructure, reduces bureaucracy and fosters a predictable economic climate. In this analysis, efficiency is measured by a normalised index of government size (public spending as a share of gross domestic product, GDP) and digital governance (ease of accessing services).[9] The DBICC dataset shows that most second-tier cities in the east, central and west have improved relative to their peers, reflecting better fiscal management and service delivery. Only some cities in the northeast have declined.

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[9]   Report of Government E-Services Capability Index, see https://www.sklib.cn/booklib/bookPreview?SiteID=122&ID=10334509, accessed January 2025.

11. The nine promising second-tier cities in Figure 1 are shown to be maintaining relatively high levels of efficiency, with signs of continued growth, increasing from an average of 81.4 in 2017 to 87.6 in 2022. Hefei and Changsha have improved significantly, increasing from 73.8 to 94.8 and 78.4 to 93.3 respectively, demonstrating the effectiveness of administrative reforms. Cities such as Chengdu and Chongqing maintained a high level of governmental efficiency throughout the years, showing sustained efforts at improving government efficiency and streamlining administration. However, Nanjing and Hangzhou have decreased in government efficiency to 79.9 and 78.6 respectively, showing the difficulty of managing rapid economic development while maintaining bureaucratic effectiveness. Wuhan experienced a sharp decline in 2020, likely due to the severe disruptions caused by COVID-related lockdowns and other pandemic impacts. Generally, the nine promising second-tier cities need to balance rapid economic development with bureaucratic efficiency.
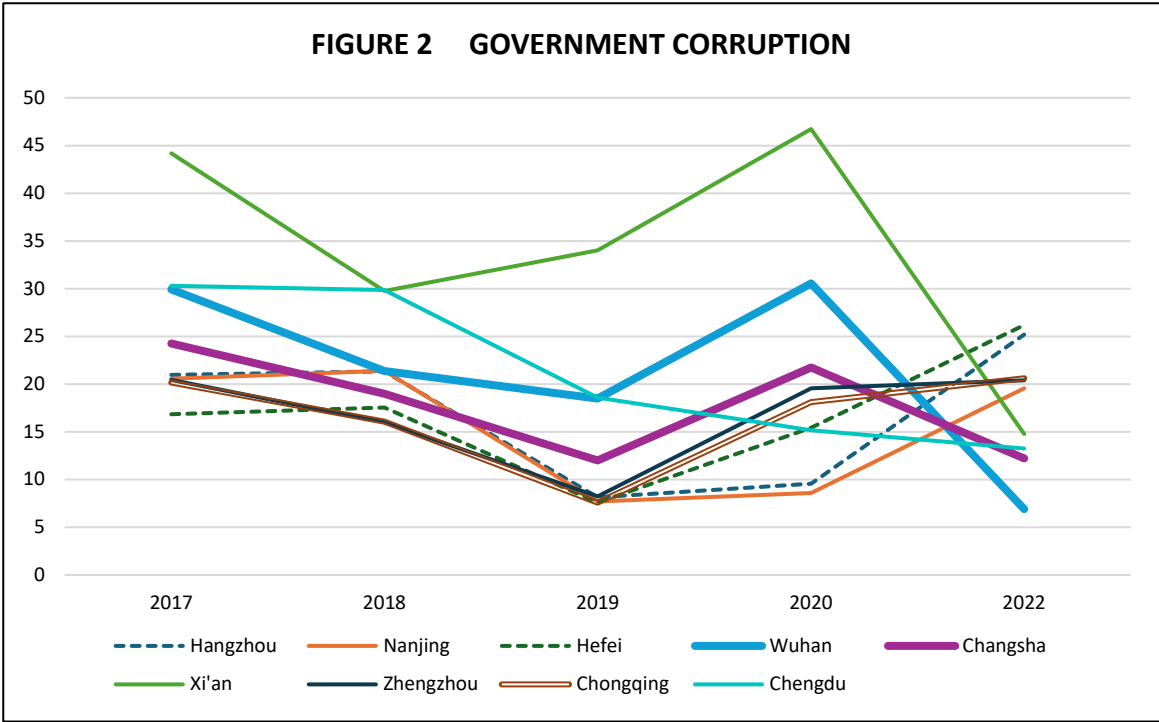

FIGURE 1   GOVERNMENT EFFICIENCY

Government Corruption

12. Corruption raises business costs, creates regulatory uncertainty and distorts market competition, discouraging investment and innovation.[10] Companies may face bribery, bureaucratic inefficiencies and uneven enforcement of rules, favouring politically connected firms over merit-based competition while low corruption promotes transparency and attracts investment.

13. The Chinese government has implemented a sweeping anti-corruption campaign during Xi Jinping's office, which has led to the investigation of a significant number of corrupt officials across different regions and is expected to improve the local business environment. The government corruption index in the DBICC dataset normalises and combines two indicators, namely the ratio of the cost of obtaining a local food safety permit to the local minimum wage and the ratio of local corruption-related news to all local news on Baidu, into an index to assess the level of local corruption.[11] From 2017 to 2019, all regions showed a relative decline in corruption levels in second-tier cities, though some cities saw increases after 2020. These trends highlight ongoing governance challenges and the need for sustained anti-corruption and transparency efforts.

14. The nine promising second-tier cities exhibit trends of decreasing government corruption compared with their peers. The average corruption level fell from 25.3 to 17.7 in 2022 (Figure 2), showing concerted efforts to reduce government corruption. While most cities experienced a rebound in corruption levels after 2019 such as Wuhan and Changsha, their corruption levels fell to 6.9 and 12.22 respectively, forming the lowest corruption score among the nine cities. Meanwhile, Hangzhou and Hefei previously saw low corruption levels in 2019 but these rose to 25.19 and 26.18 in 2022, respectively. The nine cities thus showed a rebound in corruption levels after the initial decrease, reflecting the persistent challenges of governance and the difficulty of sustaining anti-corruption momentum. However, most cities

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[10]   Méon, Pierre-Guillaume and Khalid Sekkat, "Does Corruption Grease or Sand the Wheels of Growth?" *Public choice,* 122 (2005): 69-97.

[11]   See: http://www.niehuihua.com/uploads/soft/241031/1-241031110341.pdf, accessed January 2025.

again reduced corruption in 2022 after the rebound, demonstrating concerted efforts to reduce corruption levels.

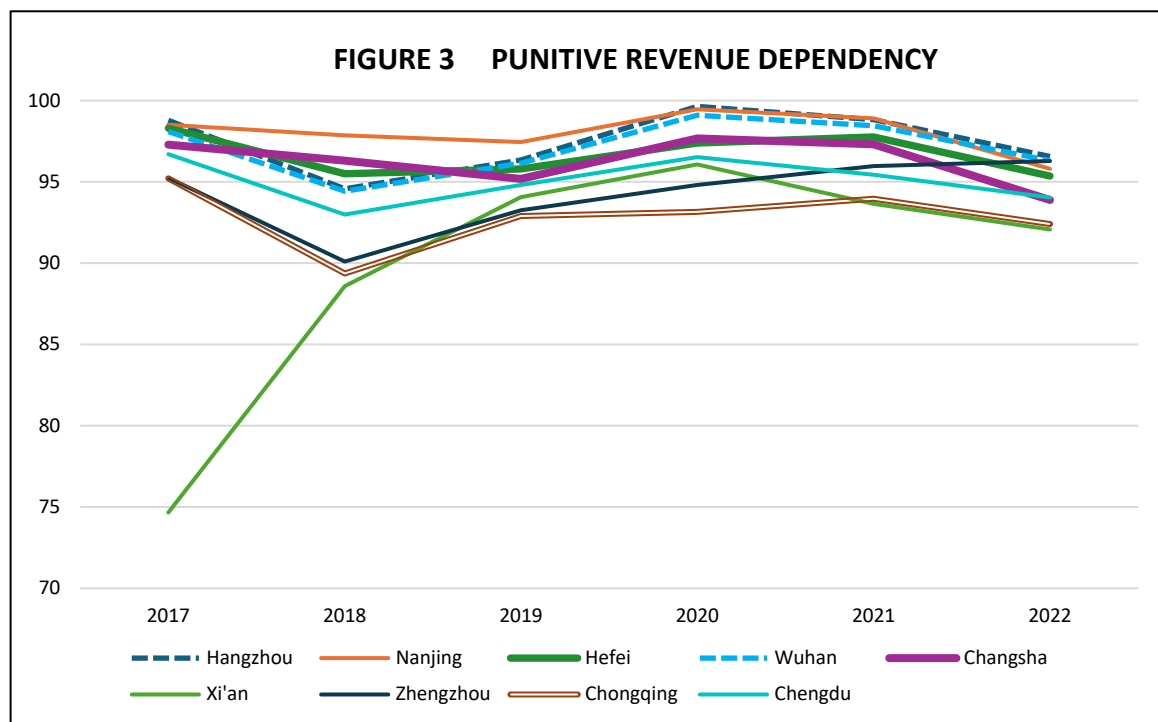**FIGURE 2   GOVERNMENT CORRUPTION**

Punitive Revenue Dependency

15.   In recent years, many Chinese cities have seen a sharp rise in punitive revenue—income from fines and penalties—raising concerns about governance and economic stability.[12] A high ratio of punitive revenue to tax revenue may indicate weak tax systems or efforts to compensate for economic shortfalls, leading to predatory practices that raise business risks.[13] In contrast, cities with lower ratios rely more on stable, activity-based tax revenue, reflecting better governance. These trends point to the need for stronger tax systems and reduced dependence on fines. The DBICC dataset captures this through the ratio of punitive to tax revenue. Second-tier cities across all regions of China exhibit high and stable reliance on punitive revenue

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[12]   According to the 2024 financial report published by China's Ministry of Finance, China's national tax revenue decreased by 3.4% compared to the previous year, while non-tax revenue, primarily derived from fines and penalties, rose sharply by 25.4%. See https://finance.eastmoney.com/a/202501253308084067.html, accessed March 2025.

[13]   https://www.nytimes.com/2024/11/26/business/china-economy-police-business.html, accessed March 2025.

relative to tax revenue from 2017 to 2022, with occasional fluctuations in certain cities.
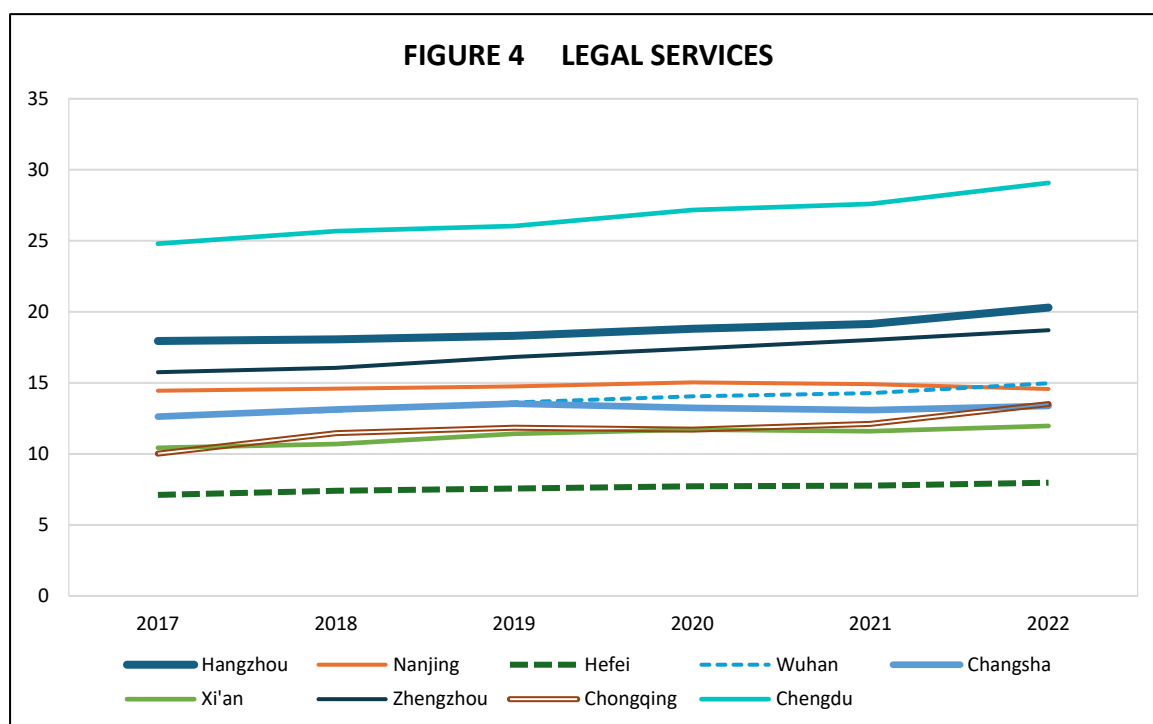
16. The nine promising second-tier cities also demonstrate relatively high and stable punitive-revenue dependency, averaging from 94.76 in 2017 to 94.75 in 2022 (Figure 3). This indicates heavy dependence on punitive rather than tax revenue. Hangzhou and Wuhan have consistently maintained the highest levels at 96.6 and 96.3 respectively. While Xi'an has the lowest ratio among the nine cities, its dependence increased drastically from 2017 to 2019, after which it stabilised at similar levels as the others. Xi'an's sharp rise may stem from its 2018 designation as a national pilot city for green development and one of China's first eco-model cities. To achieve this recognition, the local government launched tough campaigns to curb pollution and improve urban sanitation, likely generating substantial punitive revenue.[14] The persistent reliance on punitive revenue highlights a common governance challenge that requires sustained attention to providing a stable and transparent environment for business operations.

FIGURE 3   PUNITIVE REVENUE DEPENDENCY

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[14]   https://sn.ifeng.com/a/20190121/7176087_0.shtml, accessed November 2025.

Legal Services

17.   A strong legal environment, reflected in the number of law firms, is essential for business development by ensuring contract enforcement, regulatory compliance and dispute resolution. A higher concentration of law firms indicates a well-developed legal infrastructure that reduces risks and fosters investor confidence. This stability attracts investment, supports entrepreneurship and enhances corporate governance, creating a more predictable business climate. Thus, the number of law firms serves as a key indicator of a city's legal capacity and overall business environment.

18.   The DBICC data reveal that second-tier cities in eastern China lead in judicial development, with stable or modestly increasing numbers of law firms; judiciary development is also concentrated in major hubs in central and western regions, which consistently maintain the highest number of law firms, while other cities lag behind. The northeastern region reveals a low and stagnant trend, showing weaker expansion in legal infrastructure, suggesting a slower pace of development in judicial services.

19.   An upward trend is evident for the nine promising second-tier cities, where the judiciary environment has been gradually strengthening, averaging 16 in 2022. As seen in Figure 4, Chengdu consistently surpasses other second-tier cities, leading with a score of 29.1, demonstrating its specialisation in providing judiciary services. Hangzhou and Zhengzhou lead in the number of law firms at a respective 20.3 and 18.7, showing strong legal environment. In contrast, Hefei lags in the development of the legal sector, maintaining a score of 7 throughout 2017 to 2022, showing weaker development of the judicial environment. These disparities impact city development, as a strong legal environment fosters business confidence, contract enforcement and investment. Expansion of the legal sector indicates increasing demand for legal services and institutional strength. In contrast, regions with fewer law firms face governance challenges, higher business risks and slower economic growth

FIGURE 4   LEGAL SERVICES

Legend: Hangzhou, Nanjing, Hefei, Wuhan, Changsha, Xi'an, Zhengzhou, Chongqing, Chengdu
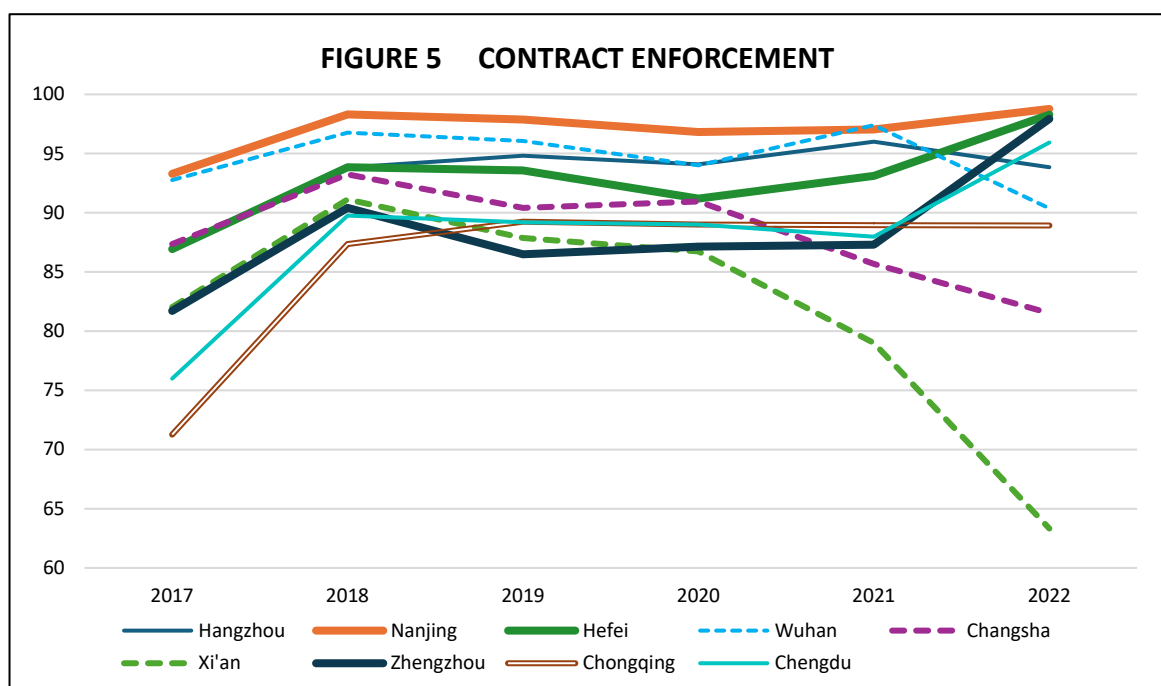
Contract Enforcement

20.   Commitment to contract enforcement is a cornerstone of a reliable business environment. When businesses trust that agreements will be honoured and disputes fairly resolved, they are more willing to invest, expand and engage in complex transactions. Inconsistent or weak enforcement, by contrast, increases uncertainty and raises the costs and risks of doing business.

21.   The DBICC dataset includes a variable related to contract enforcement, measured by the normalised index of the number of contract disputes filed in court in each city, divided by the city's GDP to adjust for differences in city size and business activity. In China, where courts are closely linked to local governments, a higher number of disputes in court often indicates that businesses trust the legal system to handle disagreements, suggesting that the local government takes contract enforcement more seriously. In this sense, a higher value for this variable in a given city may also reflect greater efforts by the local government to improve the business environment.

22.   From 2017 to 2019, second-tier cities across regions showed relative gains in contract enforcement, indicating stronger performance compared with other cities
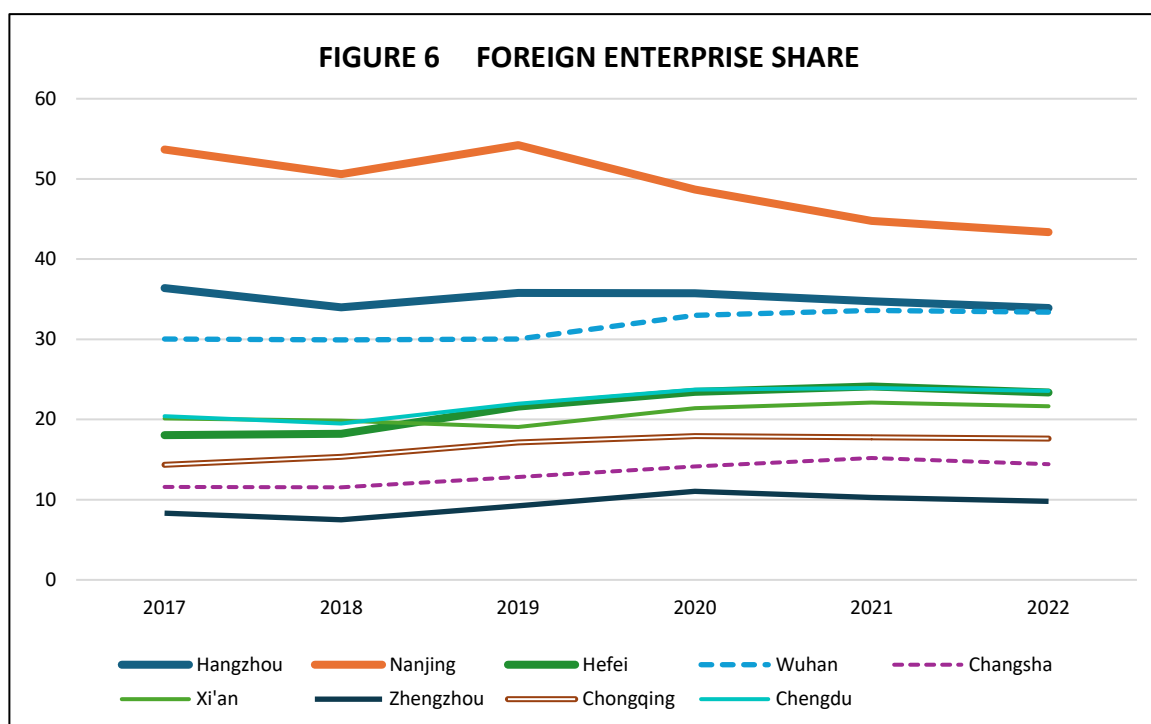
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and reflecting nationwide efforts to enhance legal and institutional frameworks. After 2020, regional divergence became clearer. In the central region, cities continued to post modest gains. The western, eastern and northeastern regions showed more mixed outcomes. Some cities maintained high levels post-2020—such as Huizhou (east) and Xuzhou (northeast)—while others declined significantly, including Urumqi, Foshan and Shenyang. These trends point to increasingly fragmented institutional trajectories.

23. According to Figure 5, the nine promising second-tier cities show notable differences in contract enforcement. Nanjing, Hefei and Zhengzhou lead with scores above 98, reflecting strong legal environments and contract protection. Chengdu, Hangzhou and Wuhan follow closely with solid performance. Chongqing scores slightly lower, but its high share of the rural economy may dilute the indicator, suggesting its actual contract commitment may be underestimated. In contrast, Changsha and Xi'an lag behind, especially Xi'an with a score of 63. Since 2018, Xi'an and Changsha have shown a steady decline—especially Xi'an. This likely reflects a weakening willingness to honour and enforce contracts as economic conditions shifted, particularly with the downturn in the real estate sector. A large share of the resulting contract disputes may be tied to property-related industries. Overall, while most cities perform well, gaps remain that could affect business confidence.

FIGURE 5   CONTRACT ENFORCEMENT

Foreign Enterprise Share

24.   The share of foreign-invested enterprises reflects how attractive a local business environment is to foreign investors. Regions with better governance—such as transparent regulation, efficient administration and reliable legal enforcement—are more likely to draw foreign firms. A higher foreign enterprise share thus serves as an indirect indicator of local governments' capacity to foster openness, stability and business confidence.

25.   In the DBICC database, the Foreign Enterprise Share is calculated as the number of enterprises with direct investment from foreign sources (including Hong Kong, Macao and Taiwan) divided by the total number of industrial enterprises above designated size. The data show clear regional divergence. In the eastern coastal region, some cities remained stable, but others saw sharp declines—Dongguan fell from over 95% to below 75%, Huizhou from around 90% to 65% and Zhuhai from nearly 100% to the mid-80s. By contrast, cities in central, western and northeastern China were mostly stable, with some showing slight gains. In central China, most cities remained flat. Western cities, starting from a low base, saw mild growth—for example, Hohhot rose from around 20% to 26%. In the northeast, most cities were stable, but Changchun notably increased from just over 20% to about 40%.

26.   Figure 6 shows that despite a slight decline in recent years, Nanjing still ranks first among the nine promising second-tier cities in terms of the share of foreign enterprises, at 43.37% in 2022. It is followed by Hangzhou (33.9%) and Wuhan (33.39%). Chengdu in the western region and Hefei in the central region also perform well, with shares of 23.57% and 23.35%, respectively, demonstrating that strong foreign investment attraction is not limited to the eastern coastal cities. In contrast, Zhengzhou continues to lag, with a foreign enterprise share of just 9.79%, despite being home to major foreign investors such as Foxconn. While cities such as Chengdu may rank only mid-table on foreign enterprise share, this does not imply weaker governance. Strong governance can attract more domestic investment, reducing the foreign share and signalling deeper development potential.

FIGURE 6   FOREIGN ENTERPRISE SHARE

Legend: Hangzhou, Nanjing, Hefei, Wuhan, Changsha, Xi'an, Zhengzhou, Chongqing, Chengdu

Policy Implications

27.   Overall, in recent years, governance in China's second-tier cities has improved, with notable gains in government efficiency, reduced corruption and stronger institutional support such as the expansion of legal services. However, regional disparities remain prominent: while eastern cities show consistent progress, many in the central, western and northeastern regions continue to face uneven development and fluctuating policy implementation.

28.   Table 2 ranks the nine promising second-tier cities based on a composite Governance Index, calculated as the arithmetic average of their scores across six governance-related indicators.[15] It also shows the frequency with which each city appears among the top three performers across these indicators and lists the specific indicators in which each city excels.[16] The Governance Index offers a general overview of each city's relative standing in terms of governance and business environment quality.

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[15]   Government corruption and punitive revenue dependence are reverse-coded, meaning lower raw values indicate better performance.

[16]   The indicator for dependence on punitive revenue was excluded from the top-three frequency count, as all cities scored similarly high, limiting its comparative value.

**TABLE 2   GOVERNANCE RANKINGS AND INDICATOR EXCELLENCE
ACROSS THE NINE PROMISING CITIES**

Rank	City	Governance Index	Times in Top 3	Indicators Appeared
1	Chengdu	55.73	3	Government Efficiency, Government Corruption, Legal Services
2	Wuhan	54.65	2	Government Corruption, Foreign Enterprise Share
3	Nanjing	53.55	2	Contract Enforcement, Foreign Enterprise Share
4	Hangzhou	50.82	2	Legal Services, Foreign Enterprise Share
5	Hefei	50.48	2	Government Efficiency, Contract Enforcement
6	Chongqing	49.42	0	—
7	Changsha	49.41	2	Government Efficiency, Government Corruption
8	Zhengzhou	48.66	2	Legal Services, Contract Enforcement
9	Xi'an	45.74	0	—

29.   Chengdu stands out among the nine second-tier cities with consistently high scores in government efficiency, clean governance and legal services. While it ranks fourth in contract enforcement, its score remains strong, underscoring its overall governance strength. Other cities such as Wuhan, Nanjing, Hangzhou, Hefei, Changsha and Zhengzhou each perform well in two indicators, but with varying weaknesses—for example, Changsha lags in contract enforcement and Zhengzhou has a low foreign enterprise share. Chongqing does not appear in the top or bottom rankings, which likely reflects the dilutive effect of its large rural population and economy, which may mask stronger performance in urban-centric indicators such as legal services, contract enforcement, or foreign investment. Xi'an, by contrast, ranks lowest overall, hindered by consistently weak performance across several key governance dimensions.

30.   Looking ahead, Chengdu appears to be the most promising city for future business development. Its consistently strong performance in administrative efficiency, clean governance and legal services—along with a high contract enforcement score— reflects a governance environment highly conducive to attracting investment, positioning it as a leading hub in western China.

31.   Cities like Nanjing, Hangzhou and Wuhan also show considerable potential. Nanjing and Hangzhou benefit from a high presence of foreign enterprises and strong legal or institutional infrastructure, while Wuhan combines clean governance with a solid legal environment. Hefei, Changsha and Zhengzhou, despite having lower foreign enterprise shares, show strengths in administrative efficiency and legal capacity, which could be further leveraged through targeted reforms.

32.   Chongqing, despite moderate composite scores, should not be overlooked due to its strategic importance. As China's only inland municipality under central government jurisdiction, it plays a pivotal role in national strategy—serving as the core of the Chengdu–Chongqing Economic Circle and a hub for cross-border rail links,[17] the Yangtze River inland port[18] and trade logistics development. As these infrastructural and institutional upgrades take hold, Chongqing is well-placed to emerge as a significant gateway for business and trade in western China.

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[17]   https://www.scmp.com/economy/china-economy/article/3315518/chinas-chongqing-rises-global-rail-hub-linking-asean-eu-amid-trade-war-risks, accessed August 2025.

[18]   https://english.scio.gov.cn/2024-06/05/content_117236772.htm, accessed August 2025.

Appendix

Variables in the Analysis

Indicators	Definition	Measurement
Government Efficiency	The ability of public institutions to use resources effectively, deliver services reliably and minimise bureaucratic burdens on businesses	Normalised index of government size (public spending as a share of GDP) and digital governance (ease of accessing services)
Government Corruption	The prevalence of bribery, regulatory favouritism and uneven enforcement of rules which increase business costs and distort market competition.	Composite index combining the ratio of the cost of obtaining a local food safety permit to the local minimum wage and share of local corruption-related news to all local news on Baidu
Punitive Revenue Dependency	The reliance on punitive measures such as fines and penalties rather than activity-based taxation which could reflect predatory practices or weaker governance	Share of punitive revenue relative to total tax revenue
Legal Services	The legal capacity of a city for contract enforcement, regulatory compliance and dispute-resolution infrastructure that support business development	Number of law firms in the city
Contract Enforcement	The reliability of legal and institutional mechanisms to uphold agreements and resolve dispute; stronger enforcement would lower business risks	Normalised index of the number of contract dispute filed in court divided by the city's GDP
Foreign Enterprise Share	The attractiveness of local business environment to foreign investors, indicating openness, stability and business confidence	Number of enterprises with foreign direct investments (including Hong Kong, Macao and Taiwan) divided by the total of industrial enterprises over designated size.

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