

**CONSULTANCY STUDY ON
SOCIAL, ECONOMIC AND POLITICAL
DEVELOPMENTS
IN THE PAN-PEARL RIVER DELTA REGION**

**FIRST MONTHLY REPORT
COVERING FUJIAN, JIANGXI, HUNAN AND HAINAN**

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EXECUTIVE SUMMARY

1. At the end of 2005, bank deposits in all nine Pan-Pearl River Delta (Pan-PRD) provinces/region recorded a two-digit percentage increase. The total bank deposits in the 11 Pan-PRD constituents including Hong Kong and Macao reached RMB12,400 billion, marking year-on-year growth of 13.3%. On the other hand, outstanding loans reached RMB7,800 billion, representing growth of 6.5% year-on-year. This showed that there was a large amount of excess funds available for making loans. For the insurance industry, the total premium income in Mainland China nearly reached RMB500 billion in 2005, while the total premium income in the nine Pan-PRD provinces/region accounted for 24% of it, at RMB120 billion (12.5% growth year-on-year). In terms of insurance penetration (i.e. insurance premium income as a percentage of GDP), Shenzhen and Xiamen ranked second and third respectively amongst the Mainland provinces and cities, just after Shanghai.
2. In September 2005, the Second Pan-PRD Government Think-tanks Cooperation Meeting was held. At the meeting, the China Development Bank presented a “Proposal for constructing a financial cooperation consortium for the ‘9+2’ constituents based on the ‘Airbus Cooperative model’”. It is to appoint or establish a special purpose venture (SPV) amongst the “9+2” constituents to serve as a financing platform. The China Development Bank, in view of the demand for funding, consorts with other financial institutions to work with the SPV. The credit rating of the SPV is based on the credits of the related provincial/regional governments. The SPV would bear limited liability when cooperating with other financial institutions. On the other hand, the “9+2” constituents bear unlimited liability for the SPV as a way to strengthen the collaboration and credit rating of the consortium.
3. In March 2006, the Second Pan-Pearl River Delta Region Financial Services Forum (泛珠三角區域金融服務論壇) was held in Hong Kong. The forum discussed four major topics, namely, equity market financing, private equity investment, asset management and bond financing, to address the diverse needs of Mainland enterprises of different sizes by providing a variety of financing channels and information. Small Mainland firms not meeting the requirements for listing in Hong Kong were informed of the use of venture capital funding as a kind of private equity investment to accelerate expansion in order to comply with the requirements for listing in Hong Kong. Mainland firms qualified for listing in Hong Kong could participate in the equity market financing panel discussions; while the larger Mainland enterprises could find what they need from the panel discussions on bond financing and fund management.

4. In face of persistent growth of the saving rate in the Mainland, continued pressure of Renminbi (RMB) appreciation and a financial market that is still far from perfect, Joseph Yam, Chief Executive of the Hong Kong Monetary Authority (HKMA), proposed a five-pronged financial development strategy: first, to expand the scope of services provided by Hong Kong financial institutions in the Mainland (“going in”); second, to serve as a gateway for Mainland capital to “go out”; third, to introduce Hong Kong’s financial instruments to the Mainland; fourth, to enhance Hong Kong’s capability to handle RMB-denominated transactions; and fifth, to strengthen financial infrastructure linkages with the Mainland. On 5 June 2006, Mr. Yam would visit Beijing and meet the Governor of the People’s Bank of China to seek support for launching QDII in Hong Kong. To prepare for the opportunities brought by QDII, Hong Kong has just passed the Revenue (Profits Tax Exemption for Offshore Funds) Bill. This has further enhanced the competitiveness of the asset management industry in Hong Kong and provided a better investment environment for Mainland funds. The relevant details of QDII are going to be promulgated.
5. In 2005, the insurance industry in Xiamen maintained the good development trend as in the previous year. The total premium income was RMB2.331 billion, with a 12% growth year-on-year. The total asset of the insurance industry grew 21% year-on-year to RMB5.56 billion. After the Central Government confirmed the strategic development plan of the Economic Zone of the West Coast of the Taiwan Strait, the development of Fujian Province has been heading towards the goals concerned. In view that the current year is the beginning of the 11th Five-Year Plan, the Xiamen Bureau of the China Insurance Regulatory Commission set up two objectives: to establish Xiamen as the insurance hub on the West Coast of the Taiwan Strait, and to construct a safe financial and insurance zone in Xiamen. The Mainland insurance industry has accumulated a large amount of funds, and there is a trend for these funds to enter the capital market. With rich experience in the fields of fund management, investment, and operation, Hong Kong enterprises should not miss this opportunity.
6. In 1993, Jiangxi Province had its first case of enterprise stock listing. Compared with other provinces/region in Pan-PRD, the initial public offering development of Jiangxi’s enterprises is not satisfactory despite successful stock listing cases like Jiangxi Copper Co., Ltd., Jiangling Motors Co., Ltd., etc. In March 2006, the China Royal Nanfeng Tangerine Orange Science & Technology Co., Ltd. became Jiangxi’s first US-listed private company after this company had acquired the American listed company DVFN. In recent years, emerging overseas capital markets have been actively soliciting Mainland enterprises to list their shares on their markets. With

satisfactory result of the non-tradable share reform in the security markets of the Mainland and the restoration of financing function of the Mainland stock markets, financial companies of Hong Kong should seize the business opportunity and enter the Mainland capital markets.

7. The past five years was the fastest developing period for the banking industry of Hunan. The Hunan Bureau of the China Banking Regulatory Commission, a new watchdog of the industry, has been successful in monitoring the banking industry of Hunan. In recent years, there has been much cooperation between banks in different cities. Six Hunan financial institutions signed a co-operation framework agreement by the end of last year. It is expected that many financial institutions would consolidate and restructure soon to solve their internal problems and to achieve the required capital adequacy ratio of 8% for commercial banks at the end of this year. Foreign investment in the Mainland banking industry is a new trend. Banking institutions of Hong Kong should make use of their absolute competitiveness in risk management, operation and innovative services, and adopt appropriate strategies to explore new business opportunities in the changing environment of the Mainland banking industry.
8. Hainan was once on the list of high-risk financial regions. It is especially difficult for small and medium-sized enterprises (SMEs) to borrow money. The China Construction Bank and China Development Bank have helped many enterprises to solve their problems in obtaining loans by setting up enterprise credit rating. The China Development Bank first proposed credit lending in Chengmai, a county in Hainan, with satisfactory results. The 11th Five-Year Plan encourages qualified SMEs to list their shares on overseas stock markets as one of the methods to expand the channels of direct financing. On the other hand, Mainland enterprises are welcome by overseas securities markets. The Stock Exchange of Hong Kong has also started inviting Mainland enterprises to list their shares on the Hong Kong stock market. The development of SMEs in Hainan is relatively slow as compared with those in other provinces. However, the future economic development in Hainan is expected to be good and there are many business opportunities to provide financing to SMEs.

TOPICAL ANALYSIS

Development of Pan-PRD Financial Services Industries: Opportunities and Challenges for Hong Kong

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Overview and Trends in Development of the Banking Industry in Pan-PRD

Overview of the Banking Industry in Pan-PRD in 2005

In 2005, the momentum of development of the banking industry in the Pan-Pearl River Delta (Pan-PRD) was still impressive, as reflected by ample local capital, gradually improving loans condition, rapid growth of different types of banks and growing scale of the insurance industry in the region. However, the cooperative modes of regional investment financing had yet been explored. At the end of 2005, all provinces/region in Pan-PRD recorded two-digit increase in all deposit balance. The total deposit balance of 11 Pan-PRD members (including Hong Kong and Macao) reached RMB12.4 trillion, representing year-on-year growth of 13.3%, while the balance of loans reached RMB7.8 trillion, with a year-on-year growth of 6.5%. This shows that there was a large amount of excess funds in Pan-PRD pending exit (See **Table 1**)

Table 1: Scale of Pan-PRD Financial Sector in 2005

Province/Region	All Types of Deposits		All Types of Loans Outstanding	
	(RMB100mn)	Year-on-year Change %	(RMB100mn)	Year-on-year Change %
Fujian	7,654	18.7	5,413	14.1
Jiangxi	4,446	16.3	3,019	5.1
Hunan	6,590	17.6	4,590	5.4
Hainan	1,302	12.4	996	8.2
Guangxi	4,203	12.4	3,057	9.7
Yunnan	5,141	14.9	3,988	15.6
Guizhou	2,778	18.6	2,304	13.3
Sichuan	9,905	17.1	6,743	1.4
8 Pan-PRD Provinces/Region	42,018	16.0	30,110	9.1
Guangdong	38,120	14.6	23,261	5.9
8 Pan-PRD Provinces/Region + Guangdong	80,138	15.8	53,371	8.7
Hong Kong & Macao	44,199	3.9	24,766	-6.9
Pan-PRD "9+2" region	124,336	13.3	78,138	6.5

Note: There may be a slight discrepancy between the sum of individual items and the total due to rounding.

Sources: Report on the Situation of the Financial Industry in Respective Provinces/Region 2005, Hong Kong Monetary Authority, and Monetary Authority of Macao.

According to the data from the China Banking Regulatory Commission (中國銀行業監督管理委員會), there were 70 branches of foreign banks in the nine Pan-PRD provinces/region as at 1 December 2005, accounting for 35% of the national total. Out of the 70 branches, 51 were located in Guangdong, 15 in Fujian, two in Sichuan and one in Hainan and Yunnan respectively. Among the 51 foreign banks, 13 were from Europe, 10 from Southeast Asia, six from America and Canada, four from Japan and two from South Korea.¹ 25 cities have opened Renminbi business to foreign banks, of which eight were located in Pan-PRD.² The foreign banks recorded considerable profit last year and the network of their branches was expanding continuously.

In the insurance industry, the total income of insurance premium reached approximately RMB500 billion in 2005, while the total premium of the nine Pan-PRD provinces/region reached about RMB120 billion, with growth of about 12.5%, accounting for 24% of the national total premium. Shenzhen (深圳) and Xiamen (廈門) ranked second and third, after Shanghai (上海) in terms of insurance penetration (insurance premium income as a percentage of GDP) in China.³

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1. “China Banking Regulatory Commission” (中國銀行業監督管理委員會), *Foreign Banks*, 1 December 2005.
 2. The 25 cities are: Shanghai (上海), Shenzhen (深圳), Tianjin (天津), Dalian (大連), Guangzhou (廣州), Zhuhai (珠海), Qingdao (青島), Nanjing (南京), Wuhan (武漢), Jinan (濟南), Fuzhou (福州), Chengdu (成都), Chongqing (重慶), Kunming (昆明), Beijing (北京), Xiamen (廈門), Xi'an (西安), Shenyang (瀋陽), Shantou (汕頭), Ningbo (寧波), Harbin (哈爾濱), Changchun (長春), Lanzhou (蘭州), Yinchuan (銀川) and Nanning (南寧).
 3. “Overview of China Provincial and Municipal Insurance Business 2005” (2005年中國各省市保險業務情況綜述), *China Insurance News* (中國保險報), 13 March 2006. Computed by insurance penetration: Shanghai RMB2,452; Shenzhen RMB1,760, and Xiamen RMB1,478.

Table 2: Pan-PRD Insurance Premium Income in 2005

Province/Region	Insurance Premium Income (RMB100mn)	Year-on-Year Change (%)
Fujian	149.09	9.9
Jiangxi	89.79	11.0
Hunan	127.17	10.0
Hainan	14.95	3.9
Guangxi	73.17	10.2
Yunnan	81.03	9.2
Guizhou	40.45	20.0
Sichuan	189.43	18.5
8 Provinces/Region	765.08	11.6
Guangdong	392.84	14.1
8 Provinces/Region + Guangdong	1,157.92	12.9

Source: "2005 Report on Insurance Business in Respective Provinces/Region", *China Insurance Report*, 13 March 2006.

Progress of Cooperation of the Banking Industry in Pan-PRD

On 25 November 2004, the first Financial Forum on Pan-PRD Regional Cooperation and Development (泛珠三角區域合作與發展金融論壇) was held in Guangzhou. Representatives of financial associations of the nine Pan-PRD provinces/region jointly signed the "Memorandum for Corporation and Development of the Pan-PRD Financial Forum" (泛珠三角區域合作與發展金融論壇備忘錄), marking the official establishment of a cooperative mechanism between financial associations of the nine provinces/region. This mechanism is expected to help reinforce regional financial cooperation and drive forward the realization of economic complementarities among the nine provinces/region. The Pan-PRD constituents have held a number of fairs and forums on regional financial cooperation since 2005, which indicated that there were many opportunities for mutual benefit and complementarities in financial cooperation. The content and agenda of such fairs and forums have not only reflected current issues of common concern among the constituents, but also those themes and proposals requiring joint investigation and implementation in the future.

(1) Development and Utilization of Capital Market in Pan-PRD Forum: Complementary Advantages in Pan-PRD

The Forum on Development and Utilization of Capital Market in Pan-PRD (泛珠三角發展利用資本市場論壇) was held in Chengdu (成都), Sichuan, on 26 July 2005. Song Hai (宋海), Deputy Governor (副省長) of Guangdong Province pointed out that despite problems facing the capital markets in the Mainland and Pan-PRD, the Pan-PRD provinces/region were still enjoying an extremely great development potential in their respective capital markets. To maximize the comparative advantages of different capital markets in the Pan-PRD, Mr. Song proposed that: (i) all provinces/region in Pan-PRD should jointly push forward the non-tradable share reform of listed companies within Pan-PRD, (ii) Hong Kong should fully manifest its key role in international finance, (iii) further support should be provided to the development of the Small and Medium Enterprises (SMEs) Board of the Shenzhen Stock Exchange, (iv) Mainland enterprises, particularly those listed enterprises in the Pan-PRD, should be encouraged to undertake cross-region, cross-sector investment and corporate reorganisation as well as mergers and acquisitions through maximization of capital, technology and management strengths in the eastern Pan-PRD area, and through resources and human resources (HR) advantages in the western Pan-PRD area, and (v) support for regional financial innovation should be obtained from the State authorities concerned. These practical and concrete proposals may help to lead cooperation of Pan-PRD constituents in the capital markets in a new direction.

(2) Pan-PRD Government Think-tanks Cooperation Meeting: “9+2” Financial Cooperation Platform

The Pan-PRD Regional Co-operation Framework Agreement (泛珠三角區域合作框架協議) was signed in June 2004 and determined 10 areas of cooperation. However, as the Pan-PRD constituents were each at different stages of development and many key infrastructure projects were involved, such as the expressway and railway networks connecting the entire Pan-PRD Region, some cooperation projects came to a standstill due to the large scale of investment, long period of development, low economic efficiency and long payback time. Against this background, the Second Pan-PRD Government Think-tanks Cooperation Meeting (泛珠三角區域政府研究機構調研合作會議) held in September 2005 specifically discussed the topic of setting up a “9+2” development financing cooperation platform.

At the meeting, the China Development Bank (國家開發銀行) presented a “Proposal to construct a financial cooperation consortium for the ‘9+2’ constituent units based on an ‘Airbus Cooperative model’” (以“空客聯合體”模式構建“九加二”金融合作平台工作方案).⁴ It proposes that a special purpose venture (SPV) would be set up amongst the “9+2” constituent units to serve as a financing platform. The China Development Bank, in view of the demand for funding, would consort with other financial institutions to work with the SPV. The credit rating of the SPV would be based on the credit of the provincial/regional governments concerned. The SPV would bear limited liability when cooperating with other financial institutions. On the other hand, the “9+2” constituent units would bear unlimited liability for the SPV, as a way to foster the collaboration and credit rating of the consortium.

Lin Huifu (林回福), President of the Hainan Branch of the China Development Bank (國家開發銀行海南省分行) expressed the view that the active participation of the Development Bank in the construction of the Pan-PRD financial cooperation platform would have a demonstrative effect in guiding the commercial banks to pay attention to social bottleneck areas, and to support the development of SMEs and a “three-dimensional rural” economic development within the region. The participants at the meeting generally agreed to support the establishment of the regional development financial cooperation platform, and unanimously proposed that the establishment of the “9+2” development financing cooperation platform should be included in the next joint conference of the Pan-PRD chief executive officers.

(3) China Pan-PRD Regional Economic Summit: “Multilateral Cooperation for a Brighter Future”

The First China Pan-PRD Regional Economic Summit cum China International Fair for Investment Cooperation (首屆中國區域經濟泛珠峰會暨國際投資合作洽談會) was held in Dongguan (東莞) in November 2005, taking “Multilateral Cooperation for a Brighter Future” (多邊合作、共創未來) as its theme. During this event, topics such as the development and financing of private enterprises and the environmental protection industry were discussed. Moreover, experts and scholars discussed, among others, topics such as “The spatial

4. The Airbus Cooperative model is an economic consortium model adopted by France, UK, Germany, Spain and other Western European nations in the 1970s to establish the Airbus Industries (空中客車工業公司) in face of competition from Boeing (波音), by eliminating inter-national divergence, sharing the R&D cost and jointly developing an “aviation market share”. This consortium has operated successfully and surpassed Boeing to become the world’s top civil aircraft manufacturer. “The China Development Bank Conceived to Establish a ‘9+2’ Model for Financial Cooperation Platform” (國家開發銀行構想搭建“九加二”金融合作平台模式), *China News Service* (中國新聞社), 29 September 2005.

Structure Adjustment and Cooperation with Areas Surrounding the Pearl River Delta”, “Historical Opportunities for Enterprises from Regional Economic Integration”, and aroused a great deal of interests among the attendees.

(4) Pan-PRD Venture Investment Forum

The Pan-PRD Venture Investment Forum 2005 (2005 泛珠三角風險投資論壇) was held in Zhuhai (珠海) in December 2005, aiming to provide a communication platform for domestic and foreign venture investors and to promote communication and cooperation among the venture investors, entrepreneurs and policy makers. The Forum discussed many topics such as “How SMEs can break through the financing bottleneck” and others that provided a real communication opportunity for venture investors, entrepreneurs and participants.

(5) Pan-PRD Regional Financial Service Forum: Hong Kong - International Investment Platform

The Second Pan-PRD Regional Financial Services Forum (泛珠三角區域金融服務論壇) was held in Hong Kong in March 2006, covering topics on market financing, private investment, assets management and bond financing, and providing different channels of financing and information on Hong Kong for different scales of Mainland enterprises. Small firms not meeting the requirements for listing in Hong Kong learned that they might use the venture capital funding as a kind of private investment to accelerate their expansion thus compliance with the requirements for listing in Hong Kong. Larger firms qualified for listing in Hong Kong learned from specific discussion topics such as equity market financing, while even larger Mainland enterprises were able to find what they need from the panel discussions on bond financing and fund management.

Paul Chow (周文耀), the Chief Executive Officer of Hong Kong Exchanges and Clearing Limited (HKEX, 香港交易所) pointed out some of the advantages for Mainland enterprises listing their shares in Hong Kong. For instance, a freely convertible Hong Kong currency and an efficient capital market could help enterprises raise capital in sufficient quantity within a short time to facilitate mergers and acquisitions overseas. The status of a Hong Kong listing could also help enterprises to bring their standards of corporate governance on a par with internationally accredited benchmarks, which would benefit corporate brand building and international business expansion. Moreover, Hong Kong’s advantage lies in its being the freest economy in the world, free of dividend tax, and its attractive pool of professional talents.

Currently, the Hong Kong stock market is the eighth largest in the world. In 2005, Hong Kong even overtook Japan in terms of equity funds raised in Asia, establishing itself as the IPO (Initial Public Offering) centre in Asia, ranked fourth globally. The total assets managed by Hong Kong fund managers amounted to HK\$3.618 trillion by the end of 2004, making Hong Kong one of the largest asset management centres in Asia. Of the top 100 banks in the world, more than 70 have branches set up in Hong Kong. In the past three years, transactions made by overseas investors have continued to account for 35%-40% of the total trading volume on Hong Kong stock markets. In 2004, capital from non-local investors represented 63% of the total assets managed by Hong Kong fund managers.

The National 11th Five-Year Plan included Hong Kong in the nation's development framework for the first time, with emphasis on sustaining Hong Kong's status as an international financial centre from the perspective of long-term planning of the national economy and social development. This forum, the first of its kind on the theme of Pan-PRD financial cooperation and held in Hong Kong, has not only enhanced the understanding of different financial and investment services by government officials and corporate representatives from Pan-PRD constituents, but it has also helped to promote the advantageous position of Hong Kong as an international financing and investment platform.

The Role of Hong Kong in the Future

At the end of 2005, the cumulative value of Hong Kong's realised direct investment in the Mainland reached US\$259.5 billion. Of which, about 60% went to the provinces/region in Pan-PRD, with more than 130 000 enterprises established. Hong Kong had financed HK\$91 billion for the enterprises in Pan-PRD in the past decade, accounting for 9% of the total capital raised on the Hong Kong market. It was expected that the enterprises in Pan-PRD would increase their capital raising activities in Hong Kong. Xu Xianping (徐憲平), Deputy Governor of Hunan Province, expressed the view that besides Hunan Nonferrous Metals which had listed in Hong Kong, more Hunan enterprises would come to Hong Kong and list. People in the financial sector expect that medium-sized Mainland private enterprises will follow the footsteps of the large State-owned enterprises (SOE) to list in Hong Kong.

Five Strategies of Hong Kong Banking Institutions

In face of persistent growth of the saving rate in the Mainland, continued pressure of Renminbi (RMB) appreciation and a financial market that is still far from perfect, the future development of the PRD financial industry will certainly bring huge opportunities for Hong Kong. In this respect, Joseph Yam Chi Kwong, Chief Executive of the Hong Kong Monetary Authority (HKMA), proposed a five-pronged financial development strategy initiatives for Hong Kong, as follows:

- (a) To expand the scope of services provided by Hong Kong financial institutions in the Mainland ("going in"). With the implementation of the Closer Economic Partnership Arrangement (CEPA), Hong Kong banks have been admitted to penetrate into the Mainland market one step ahead of foreign banks. As a next step, with their international experience and familiarity with the circumstances of the Mainland, Hong Kong financial institutions could provide Mainland enterprises and individuals with more choices in terms of financial instruments and services;
- (b) To serve as a gateway for Mainland capital to "go out". Hong Kong can help converge Mainland savings and funds with investment demand from Mainland investors, and allow Mainland investors to invest in shares and bonds issued in Hong Kong by Mainland enterprises, so as to support the development of Mainland enterprises listed in Hong Kong. It is expected that the Qualified Domestic Institutional Investors (QDII) Scheme will be introduced opportunely.

- (c) To introduce Hong Kong's financial instruments to the Mainland. Where relevant Mainland regulations permit it, introduce Hong Kong's financial instruments, particularly those issued in Hong Kong by Mainland enterprises, for sale on Mainland markets. For example, with CDR (Chinese depository receipt) financing or dual listing, investors both from Hong Kong and the Mainland are able to deal in shares listed in Hong Kong.
- (d) To enhance Hong Kong's capability to handle RMB-denominated transactions. At the end of 2005, total RMB deposits in Hong Kong reached RMB22.6 billion; the number of RMB accounts reached 428 000 and 38 Hong Kong banks provided RMB-related services. The next step is to seek the issue of RMB-denominated bonds and payment in RMB for cross-boundary trading.
- (e) To strengthen financial infrastructure linkages with the Mainland. The HKMA payment system has been linked with those systems of different Mainland regions. In the future, such links, including those between the Hong Kong central clearing systems for bonds and equities and those systems of the Mainland, will be expanded further. This, together with the expansion of the RMB-related financial infrastructure and its interconnectivity with counterpart Mainland systems, will facilitate cross-boundary cash flow and financial activities.

Private Funds and Fund Companies

According to the managing director of a foreign investment consortium, said that the amount of accumulated private funds in Hong Kong reached US\$2.343 billion in 2005, and private funds would play a greater role in the Mainland capital market. It is because SOE needs a large quantity of capital for reorganisation, private enterprises could neither obtain the necessary funds they need from the equity market due to their failure to comply with the requirements for public listing, nor secure adequate bank loans due to certain restrictions; and in addition to venture capital, start-up businesses need private equity funds to develop their technologies and business models. Moreover, there were 52 Mainland fund companies, including 20 joint ventures by the end of 2005. The Mainland fund industry still has a lot of space for growth. The bank deposit of Mainland residents will turn to other modes of savings gradually, for example, insurance and fund. It was estimated that the total amount of the social security fund would reach RMB1 trillion within five years, and 40% of which would be invested in funds. Hong Kong has solid advantages in the fund management industry, for example, its possession of top investment bankers, professional lawyers, as well as accountants and evaluators who are experienced in the Mainland market.

Future Challenges and Opportunities

The development outlook of the banking industry in Hong Kong and Pan-PRD appears positive. The financial contacts between Hong Kong and Pan-PRD is getting closer with the establishment of a cross-boundary mechanism of cheque settlement in HKD and USD with Shenzhen and Guangdong and the launch of RMB cheque settlement service by Hong Kong banks in Guangdong in early March. With the accelerated reform of the Mainland banking system, however, Hong Kong's role as the banking intermediary between the Mainland and foreign countries would possibly be marginalized. The chairman of a foreign investment bank warned that the Mainland stock market would be a rival of Hong Kong, because the market system reform implemented by the Mainland regulatory organisations would instill investor confidence, while market mobility would be intensified with the increase of the market flow. A professor of the Department of Economics of a Hong Kong university expressed the view that the banking infrastructure in Hong Kong was rather perfect and developed, and believed that the Hong Kong financial services industry would not be marginalized in five to ten years. In conclusion, he believed that the prospect of Hong Kong financial services industry was relatively optimistic and it could play a very important role in the development of the Mainland financial services industry.

Joseph Yam, Chief Executive of Hong Kong Monetary Authority, would visit Beijing with representatives of the Hong Kong banking industry on 5 June to seek support from the Governor of the People's Bank of China for the implementation of QDII in Hong Kong. In early June, the Hong Kong Monetary Authority and the People's Bank of China would organise large-scale symposiums in Shanghai and Beijing to promote the financial facilities in Hong Kong and attract investors. Hong Kong has just passed the bill relating to profits tax exemption for offshore funds, which serves to further sharpen the competitiveness of Hong Kong's asset management industry and to provide a favorable investment environment for Mainland investors. Hong Kong is well prepared for the business opportunities brought about by the implementation of QDII, and is only awaiting the subsequent announcement of its detailed provisions.

Xiamen, Fujian - Insurance Centre on the West Coast of the Taiwan Strait

In 2005, the insurance industry in Xiamen maintained the good trend of development as in the previous year. The total premium income was RMB2.331 billion, with a 12% growth year-on-year. The total asset of the insurance industry grew 21% year-on-year to RMB5.56 billion. Since the Central Government confirmed the strategic development plan of the Economic Zone on the West Coast of the Taiwan Strait, the development of Fujian Province has been heading towards the goals concerned. In view that the current year was the beginning of the 11th Five-Year Plan, the Xiamen Bureau of the China Insurance Regulatory Commission (also called Xiamen Insurance Regulatory Bureau) has set up two objectives: to establish Xiamen as the insurance hub in the West Coast on the Taiwan Strait, and to build a safe financial and insurance zone in Xiamen.

The Present Situation of Insurance Industry in Fujian

The insurance industry in Fujian had a good development during the period of 10th Five-Year Plan (2000-2005). By the end of 2005, there were 20 insurance companies in Fujian and the number of insurance intermediaries increased dramatically from zero to 52. In 2005, the insurance premium reached RMB14.909 billion, about two times of that in 2000. The total insurance assets reached RMB35 billion approximately and it was about six times of that in 2000. The insurance penetration was 2.3% and the insurance density (per capita insurance premium income) reached RMB421.75, with an increase of 1% and RMB263.13 respectively. In terms of insurance penetration, Fujian followed Guangdong as the second highest among the nine provinces/region in Pan-PRD, while other provinces/region lagged behind. (See **Table 3**)

In 2005, the Fujian insurance industry provided 66 500 jobs and an aggregate insured amount of RMB1.4 trillion for life insurance, health insurance and accident insurance, representing increases of 671% in terms of coverage and 756% in terms of insured amount over those figures for 2000, respectively. The insured amount for property insurance reached RMB1.95 trillion, representing an increase of 356% over that of 2000. For the past five years, the province's insurance companies paid a total of RMB14.36 billion in settling claims and other charges. In 2005 alone, insurance companies paid RMB350 million to settle claims arising from disasters.

Table 3: Insurance Densities and Penetration Ratios of the Nine Pan-PRD Provinces/Region in 2005

Province/Region	Insurance Density (RMB)	Insurance Penetration Ratio (%)
Fujian	421.8	2.3
Jiangxi	208.0	2.2
Hunan	189.0	2.0
Hainan	181.0	1.7
Guangxi	148.6	1.8
Yunnan	182.1	2.3
Guizhou	103.0	2.1
Sichuan	216.0	2.6
8 Provinces/Region	206.2	2.1
Guangdong	543.0	2.3
8 Provinces/Region + Guangdong	374.6	2.2

Source: "Report on Insurance Business in Respective Provinces/Region 2005", China Insurance Report, 13 March 2006.

By November 2005, the premium revenue collected by Fujian's life insurance sector ranked 14th across the whole of China, representing an increase of 9.6% year-on-year (ranked No. 5 in terms of growth rate year-on-year). With a relatively developed private economy and high per capita income, Fujian is a province of great potential for rapid insurance growth, and is expected to become a major province in respect of insurance development in Southeast China.

Xiamen - the Insurance Centre on the West Coast of the Taiwan Strait

The Xiamen Insurance Regulatory Bureau was officially established in July 2005. At the very beginning of 2006, the Bureau planned to work out two objectives in the next five years. It was to build Xiamen as a key insurance city on the West Coast of the Taiwan Strait and to establish a financial security zone in Xiamen. The Bureau's four working objectives were: to fulfill a fast growth in business; to increase the economic and social benefits steadily; to effectively control business risk and promote its business image, and perform well in the following eight aspects:

- (a) To develop the insurance industry, participate in the peak season of investment and optimise the structure of personal insurance;

- (b) To introduce diversified subjects, stress on internal control and management and enhance external cooperation;
- (c) To strengthen product development, marketing channels and service providing;
- (d) To standardize market order, monitor and enforce the self-discipline and collaboration of the industry;
- (e) To set up the perfect risk prevention mechanism;
- (f) To draft the development of Xiamen's insurance industry in the 11th Five-Year Plan;
- (g) To improve the quality of insurance service and establish the industrial supervision, self-discipline and internal control; and
- (h) To be people-oriented, actively train the talents in monitoring, operating managerial and other fields.

Eight similar key initiatives were proposed at Fujian's insurance conference over the past years. However, what makes it different this year is the focus on driving forward the Xiamen insurance sector to better serve the Economic Zone on the West Coast of the Taiwan Strait, which is one of the two major objectives to be achieved in the next five years. For a number of years in the past, trade and economic exchanges across the Strait have been the backbone of the economic activities in Fujian, playing a critical role in the Economic Zone as a whole. For example, by mid-2005, the accumulated total of cross-Strait direct trade reached US\$438.2 billion, and the Mainland has become Taiwan's largest export market and source of the biggest trade surplus. Besides the four Taiwan Investment Zones in Fujian, the cities of Shenyang (瀋陽) and Nanjing (南京) have each established their own Cross-Strait Science and Technology Industrial Parks (海峽兩岸科技工業園區), while Chengdu and Wuhan (武漢) have also each obtained approval to establish their own Cross-Strait Science and Technology Industrial Park respectively. The Taiwan Strait economic zones enjoy a bright prospect. With favorable geographical position and cooperation over the years, Fujian will definitely get "twice the result with half the effort" in the Taiwan Strait business.

Insurance Capital Driving the Development of Capital Market

The insurance industry has been strongly encouraged in Fujian. It has driven the development of the capital market and the opportunities in fund investment were the most obvious result of this development. In the past years, investment in funds had become the third major investment channel for insurance funds in the Mainland, after bank deposits and bonds. Statistics show that the value of investment of insurance capital in funds has increased to 15% of the total asset of an insurance company at present, from an initial value of not exceeding 5%. With rising amount of investment, insurance capital has become the major investor in funds.

The direct investment of insurance capital in the market would require the fund companies to become more professional and tailor-made additional products and better service with reference to the specific features of an insurance capital. In addition, the participation of banks, the insurance sector and organisations of similar nature would help develop the Mainland capital market by providing the funding required. After the promulgation and implementation of the “Measures on the Administration of Pilot Establishment of Fund Management Companies by Commercial Banks” (商業銀行設立基金管理公司試點管理辦法), Mainland investors believe that the Mainland insurance industry will set up or launch fund management companies by means of holding or mutual holding of the shares concerned. The participation of insurance company groups or insurance asset management companies in fund management will be conducive to the development of the fund industry and the stability of the stock market, so as to achieve a positive interaction between the insurance market and the capital market.

Personal Savings Diverted to Insurance Taking

With the development of the economy, the rural and urban residents’ awareness of the security provided by insurance has increased. This will speed up the entry of savings capital into the insurance sector. Such capital will directly enter into the insurance sector, and then into the insurance asset management sector. The direct entry of insurance capital into the market will benefit the insurance companies, which are able to share the diverted savings capital through the issuance of insurance-related fund products to enlarge the scale of assets under the management of trust, and resulting in expansion of the insurance industry in China.

Business Opportunities for Hong Kong Insurance Industry and Fund Industry

The Hong Kong insurance industry has benefited from the insurance-related arrangement of CEPA. Hong Kong insurance personnel have entered into the Mainland market in the recent two or three years. Not only it has relieved the problem of insufficient professionals engaged in the Mainland insurance intermediary market, it has also introduced advanced managerial skills with regard to retail operations, marketing, legal advice, actuarial, IT and training services. To strive for business in the Mainland market, the Hong Kong insurance industry should enhance cooperation with the Mainland insurance industry, establish joint insurance companies through stock buying, joint management and provision of managerial talents to develop new businesses and channels for profit growth. On the other hand, with the development of the Mainland capital market, the Mainland insurance industry has accumulated a pool of capital and tends to enter into the capital market. With a wealth of experience in fund management, investment and operation, the Hong Kong fund industry should not miss these business opportunities.

Inspiration from Backdoor Listing of Jiangxi's Private Enterprises

In 1993, Jiangxi Province had its first case of enterprise listing. Compared with other provinces/region in Pan-PRD, the initial public offering development of Jiangxi's enterprises is not satisfactory despite successful listing cases like Jiangxi Copper Co., Ltd. (江西銅業股份有限公司), Jiangling Motors Co., Ltd. (江鈴汽車股份有限公司), etc. In March 2006, the China Royal Nanfeng Tangerine Orange Science & Technology Co., Ltd. (煌佳南豐蜜橘科技股份有限公司, or Nanfeng Tangerine Orange for short) became Jiangxi's first US-listed private company after this company had acquired DVFN, an American listed company. In recent years, emerging overseas capital markets have been actively soliciting Mainland enterprises to list on their markets. With satisfactory result of the non-tradable share reform in the security markets of the Mainland and the restoration of financing function of the Mainland stock markets, financial companies of Hong Kong should grasp the business opportunity and enter the Mainland capital markets.

Overview of Jiangxi Enterprises Listing

Jiangling Motors Co., Ltd. was the first Jiangxi enterprise listed on the Shenzhen Stock Exchange (深圳證券交易所) in December 1993. Although the Jiangxi Provincial Government had urged its enterprises to go into the capital market, there were only 24 Jiangxi enterprises listed on the Mainland stock markets (including the Shanghai Stock Exchange (上海證券交易所) and Shenzhen Stock Exchange) by the end of May 2006, and only three were listed on HKEX. Among them, Jiangxi Copper Co., Ltd. was listed on both the Shanghai Stock Exchange and HKEX.

Table 4: Number of Jiangxi Enterprises Listed in the Mainland and Hong Kong

Year of Listing	1993	1996	1997	1999	2000	2001	2002	2003	2004
Number of Enterprises	1	5	6	1	3	2	6	1	2

Sources: Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Exchanges and Clearing Ltd., May 2006.

Compared with other provinces/region in Pan-PRD, although the number of Jiangxi enterprises listed on the domestic markets was after Guangdong (including Shenzhen), Sichuan, Fujian and Hunan, it was just 55.8% of that of Hunan and 15.6% of that of Guangdong. Most of Jiangxi's listed enterprises were from the secondary industry, and industrial enterprises accounted for 79.2% of 24 listed enterprises.

Table 5: Number of Pan-PRD Enterprises Listed on the Shanghai and Shenzhen Stock Exchanges

Province/ Region	Listed on Shanghai Stock Exchange		Listed on Shenzhen Stock Exchange		Total	
	Number	% to Total	Number	% to Total	Number	% to Total
Guangdong	33	19.6%	121	50.0%	154	37.6%
Sichuan	34	20.2%	30	12.4%	64	15.6%
Fujian	27	16.1%	17	7.0%	44	10.7%
Hunan	19	11.3%	24	9.9%	43	10.5%
Jiangxi	16	9.5%	8	3.3%	24	5.9%
Yunnan	13	7.7%	9	3.7%	22	5.4%
Guangxi	10	6.0%	12	5.0%	22	5.4%
Hainan	7	4.2%	13	5.4%	20	4.9%
Guizhou	9	5.4%	8	3.3%	17	4.1%
Total	168	100.0%	242	100.0%	256	100.0%

Sources: Shanghai Stock Exchange and Shenzhen Stock Exchange, May 2006.

Latest Development of Listing of Jiangxi Enterprises

Over a decade ago, there was only a few listed enterprises in Jiangxi and most of them were state-owned enterprises with similar industrial categories. Some non-state-owned enterprises or industries (e.g. tourism) with bright prospect could not be listed. With the implementation of the non-tradable share reform, as well as the modification and enforcement of the Securities Act (證券法) and Company Law (公司法), the findings of several research studies showed that the Mainland capital market would gradually shake off the sluggishness in recent years.⁵ With the changes in the overall situation, there are new developments in the listing of Jiangxi enterprises:

5. "Re-financing in Chinese Stock Market", *Financial Times* (金融時報), 22 April 2006; "China Legislation Encourages Listed Companies Acquisition", *International Finance News* (國際金融報), 23 May 2006.

- (a) Diversified trades of listed companies. In 2004, there were only two listed Jiangxi enterprises. The Jiangxi Hongcheng Waterworks Co., Ltd. (江西洪城水業股份有限公司) was listed on the Shanghai Stock Exchange, and the Xingzhi Education Software (行知教育軟體) on the Growth Enterprise Market of HKEX (the name has been changed to A&K Educational Software Holdings Ltd. (A & K 教育軟體控股有限公司) after listing. It is also known as Xingzhi Education Software (行知教育軟體)). On 28 March 2006, Jiangxi's China Royal Nanfeng Tangerine Orange Science & Technology Co., Ltd. officially acquired an American listed company DVFN, (proposed new name China Fruit (中國果業)) and listed in the USA by "backdoor listing" (借殼上市). The trade categories of these listed companies are worthy of note: Jiangxi Hongcheng Waterworks Co., Ltd. is a utility company, Xingzhi Education Software is an information technology company and Nanfeng Tangerine Orange is a technology-based brewery. In recent years, the listed Jiangxi enterprises have moved away from the traditional industrial category and become diversified.
- (b) Enterprises go for overseas listing. In the past years, only a few Jiangxi enterprises listed their shares abroad, such as the Jiangling Motors Co., Ltd. and Jiangxi Copper Co., Ltd. Jiangxi enterprises once embarked on an overseas listing spree after the listing of Nanchang Golding Software (南昌金鼎軟體) (renamed as Golding Soft Ltd. after listing) and Xingzhi Education Software on the Hong Kong Growth Enterprise Market in February 2002 and August 2004 respectively.⁶ Nanfeng Tangerine Orange was successful in listing on the US OTCBB capital market at the end of March this year.⁷ As there were very few listings of Jiangxi's private enterprises over the past years, the success of Nanfeng Tangerine Orange, being Jiangxi's first private enterprise listed on an overseas market, is significant and provides a demonstration effect on other Jiangxi enterprises which want to go to the overseas market.

6. "Difficulties in Obtaining Financing for Listing in the Mainland, Increasing Number of Jiangxi Enterprises Going for Listing Overseas", *China Business Times* (中華工商時報), 19 April 2005.

7. "OTCBB", *Guide to Members of US Chamber of Commerce*, website: <http://www.americamember.org/usavip/stock/otcbb.htm>.

OTCBB

The full name of OTCBB is Over the Counter Bulletin Board (場外櫃檯交易系統), which was established in the USA in 1990. It is the over the counter trading system managed by NASD, NASDAQ's operator. Compared with NASDAQ, the companies listed on OTCBB are small enterprises or enterprises that cannot satisfy the requirements on the main board. The enterprises listed on OTCBB are small, with little influence on the market, have a lower stock price, few transactions and poor financing ability. However, due to the relatively low requirements, simple listing procedure and low cost for listing, many new enterprises, including Microsoft, had chosen to list on OTCBB before they could fulfill the listing requirements of the main board.

- (c) China's securities market reform has shown good preliminary results. After years of reform, the market has gradually stepped out of depression and got back onto normal development tracks, with a gradual resumption of financing functions and a return of confidence. The reform of the split share structure launched on 29 April 2005 has helped to correct the situation with regard to the structural conflict of interests due to the split in tradable and non-tradable shares for Mainland listed enterprises, and it is expected to be essentially completed within 2006. For Jiangxi listed companies, the reform of the split share structure has proceeded smoothly, with 14 out of 24 Jiangxi listed companies having completed their split share structure reform by the end of May 2006. The reform would come to its final stage in the second half of 2006.

Future Development of Jiangxi Securities Industry

Notwithstanding the fact that there are many Jiangxi enterprises with potential for IPO, unfortunately they suffer from limited scale and profitability. In an attempt to address the needs of the Mainland SME capital market segment, many emerging overseas capital markets have come to promote themselves in the Mainland, one after another. The move to go overseas for listing or to raise funds can facilitate internationalisation of the enterprises in question and achieve penetration into international markets for their products. Moreover, the relatively lower requirements, lower costs and shorter time for listing in emerging overseas capital markets are also factors which appeal to many Mainland enterprises when it comes to listing their shares or raising funds overseas. The recent listing of Nanfeng Tangerine Orange on the US capital market was one of the successful cases.

To compete for the big market of the listing of Mainland enterprises, some of the overseas capital markets actively seek for business and lower the threshold of listing requirements. In mid-2005, Singapore Exchange Limited (新加坡交易所) (SGX) lowered the threshold of listing to attract Chinese enterprises. Statistics showed that 24 Chinese

enterprises or enterprises that have Chinese background listed on SGX in 2005. By the end of 2005, the number of Chinese enterprises or enterprises that have Chinese background listed on SGX was 90, with a total market value of 16 billion Singapore dollars (about US\$9.8 billion). People in the industry pointed out that Singapore boasted the following three selling points: active promotion by the Singapore Government to attract overseas enterprises to list in Singapore; the listing requirements and costs were lower than that in Hong Kong; investors paid more attention to setting up China Concept Stock (中國概念股) in Singapore.⁸

In mid-2005, SGX held a promotion fair in Guangzhou. Some entrepreneurs from Nanchang (南昌) attended it and expressed the view that Jiangxi enterprises were eager to list in Hong Kong. However, listing in Singapore became their new choice because of the lower listing requirements and costs.⁹ Apart from Singapore Exchange Limited, a number of other overseas capital markets have also been casting their greedy eyes on the Mainland SME financing market. For example, as Jiangxi possesses abundant mineral resources and has many mineral resource related enterprises, the US securities market has recommended future cooperation, citing the fact that 20% of the enterprises listed thereon are mining businesses.

Opportunities and Challenges of Hong Kong

The China Nanchang Seminar on Launching IPO in Hong Kong (中國南昌·香港上市研討會) was held in Nanchang on 14 June 2006. It was the first of its kind co-organised by HKEX in Jiangxi. Deputy Mayor of Nanchang Zhou Guan (周關) expressed the view that Nanchang would further enhance the understanding of the securities markets in Hong Kong and speed up the pace of listing its enterprises in Hong Kong.¹⁰ Compared with other overseas capital markets, HKEX was not active enough in promoting itself in Nanchang or Jiangxi.

Jiangxi has abundant natural resources and many of its outstanding enterprises have the potential for a listing. The Jiangxi officials have expressed the view that Jiangxi's advantages lay in four industry categories and resources: organic food, rare earth of nonferrous metal, tourism and IT industry. The Jiangxi Government wished to speed up the

8. "Henan Enterprises Galloping Listed in Overseas?", *Orient Today* (東方今報), 21 April 2006.

9. "Difficulties in financing in the Mainland, increasing numbers of Jiangxi Enterprises Going abroad for Listing", *China Business Times* (中華工商時報), 19 April 2005.

10. "China Nanchang-Hong Kong Listing Seminar", Nanchang Development and Reform Commission (南昌發展和改革委員會), 14 June 2006.

listing of its enterprises by means of overall planning and upgrading of business operations. However, according to some analyses, many Jiangxi enterprises are only at the fledgling stage of development, and are still far from complying with international requirements in terms of finance and management. Moreover, the non-tradable share reform has not yet been completed and it would be difficult for Jiangxi enterprises to have a new round of listing spree this year.

Facing the fact that overseas capital markets are competing for the listing of Mainland enterprises, Hong Kong should not lag behind and should actively seize the opportunities of the financing of Mainland enterprises, in particular those enterprises from Jiangxi. Hong Kong should not ignore Jiangxi enterprises even though the size of their business is not big. The Jiangxi Development and Reform Commission proposed that the Provincial Government should make greater efforts to promote and encourage enterprises to list their shares in Hong Kong, sponsor enterprises to visit Hong Kong for study and exchange trips, or invite Hong Kong securities professionals to give lectures on their securities experience and the laws and regulations of Hong Kong. In addition, the Provincial Government should also organise business, investment and information exchange visits for enterprises wishing to list or seeking cooperation partners in Hong Kong¹¹. Hong Kong enterprises should seize the opportunities to do business in the Mainland capital market.

11. “Hong Kong Securities Market and Listing of Mainland Enterprises in Hong Kong”, Jiangxi Development and Reform Commission (江西省發展和改革委員會), 17 April 2006.

City Commercial Banks in Hunan Join Forces for Way Out

The last five years have witnessed the fastest growth for the banking sector in Hunan. The Hunan Bureau of the China Banking Regulatory Commission (also called the Hunan Banking Regulatory Bureau (HBRB, 湖南銀監局)) was set up as a new watchdog to regulate the industry effectively. In recent years, many city commercial banks¹² in different cities of Hunan have begun to make alliances, one after another. By the end of 2005, six Hunan financial institutions signed an overall cooperation framework agreement. It is also expected that consolidations and reorganisations of Hunan financial institutions will soon occur to help solve their internal problems and to achieve the required capital adequacy ratio of 8% for commercial banks by the end of this year. Foreign investment in the Mainland banking industry has become a new trend. Hong Kong banking players should adopt appropriate strategies to explore new business opportunities in face of the recent changes of the Mainland banking sector, by leveraging their absolute advantage in risk management, operation and innovative services, among others.

Current Development of Hunan Banking Industry

In 2005, the total deposit balance with all Hunan banks reached RMB659 billion, representing a year-on-year growth of 17.6%; the balance of loans reached RMB459 billion, representing a year-on-year growth of 5.4%. Over the past five years, the deposit balance and loan balance with all Hunan banks increased by RMB360 billion and RMB248.7 billion respectively, representing year-on-year growths of 17.3% and 14.9% respectively, making it the period of fastest growth in Hunan's banking history. Among the eight provinces/region (excluding Guangdong), the scale of Hunan's banking industry is just close to that of Fujian and Sichuan. Last year, the Hunan Provincial Government intended to introduce further reforms in the following areas: speeding up the ownership reform of rural credit cooperatives; striving for the "Three Prosperities" in respect of credit services for small businesses, consumer credit and intermediary services; strengthening regulation of the banking industry and improving prudent regulatory capabilities for the "Three Drops" in terms of the non-performing loans (NPL) balance, NPL ratio and incidence of banking-related criminal cases.

12. According to Article 13, "The Law of the People's Republic of China on Commercial Banks" (中華人民共和國商業銀行法): the minimum registered capital for nationwide commercial banks is RMB1 billion, for city commercial banks it is RMB100 million, and for rural commercial banks RMB50 million.

In addition, the Hunan Banking Regulatory Bureau (HBRB) has continued to strengthen its supervision over Hunan's banking industry since the official establishment of this Bureau in October 2003. In 2005, HBRB set up a new regulatory division for city commercial banks to strengthen the supervision of any risks related to small- and medium-sized financial institutions, such as city commercial banks and rural credit cooperatives, and to urge all Hunan financial institutions to comply with the rules and regulations, while at the same time stepping up investigation and punishment in respect of banking-related criminal cases.

Hunan Banking Regulatory Bureau (HBRB)

HBRB is the outreach agency of the China Banking Regulatory Commission (CBRC, 中國銀監會) at the provincial level. It is being authorized to uniformly regulate the banks, financial asset management companies, trust and investment corporations, financial services companies, credit cooperatives and other deposit taking financial institutions within the jurisdiction of Hunan province, with a view to maintaining the stability and development of the banking industry. Its specific responsibilities include: review and approval of the establishment, change, termination and scope of business of financial institutions; on-site and remote supervision of banks and financial institutions and investigating and prosecuting illegal acts or other violations according to the law; overseeing qualifications of senior executives in banking institutions; preparation of standardized banking statistics and reports; providing opinions and recommendations jointly with other relevant authorities on emergency risk measures for deposit-taking financial institutions; and handling other relevant matters.

Alliance of City Commercial Banks

In recent years, the city commercial banks in different regions of Hunan have suffered from tremendous threats in the form of competition from State-owned banks, joint-equity banks and foreign banks. At the beginning of 2004, the commercial banks in many regions of Hunan began to ally and restructure. In November 2005, the Changsha City Commercial Bank (長沙市商業銀行), Zhuzhou City Commercial Bank (株洲市商業銀行), Xiangtan Commercial Bank (湘潭市商業銀行), Yueyang City Commercial Bank (岳陽市商業銀行), Hengyang City Commercial Bank (衡陽市商業銀行) and Shaoyang Credit Cooperative (邵陽城市信用社) (collectively known as the Five Banks and One Credit Cooperative (五行一社)) signed a framework agreement, whereby the six parties would cooperate in financing, credit operations, bills transaction business, the currency market, personal banking, e-banking, agency business, business training and service-related communications and others, while focusing on building up convenient financing and service channels for SMEs.

Among the Five Banks and One Credit Cooperative, the Changsha City Commercial Bank had the highest total assets and bank loans. At the end of 2005, its total assets reached RMB36.015 billion, while bank loans reached RMB10.933 billion and outstanding of deposits reached RMB25.099 billion. These banking figures and growth were unprecedented. According to CBRC's ranking of the competitiveness of city commercial banks, Changsha City Commercial Bank ranks first among city commercial banks in central and western China, and moves up from ninth place last year to eighth among 120 city commercial banks in China in terms of comprehensive strength. It is also accredited as a Class one bank by the CBRC.

Compared with national commercial banks, city commercial banks usually have problems in quality of assets and capital replenishment. These are some of the hidden worries in the development of China's banking industry. The Regulations Governing Capital Adequacy Ratio of Commercial Banks (商業銀行資本充足率管理辦法) issued by CBRC in 2004 stipulates that "the capital adequacy ratio of commercial banks shall not be less than 8% and the core capital adequacy ratio shall not be less than 4%". The 2005-2006 Report on the Evaluation of Competitiveness of China Commercial Banks shows that only 23 out of more than 100 city commercial banks in China could meet the capital adequacy ratio requirement of 8%. It is estimated that city commercial banks would not be able to overcome the obstacle of inadequate capital for a rather long period. Additionally, the CBRC has explicitly required that all commercial banks have to meet the capital adequacy ratio of 8% by the end of 2006. If their capital were still insufficient, these banks would not be allowed to enter the market. It has been decided that "capital adequacy" is the core indicator in the regulation of China's commercial banks.

Many city commercial banks have attributed all of the above-mentioned problems to their small size, making it difficult for them to compete with large banks. They believe that the problem could be solved, however, and that they would be able to compete with the large banks as long as they could operate in a trans-regional mode through consolidation and reorganisation. For example, seven city commercial banks, led by Shenyang City Commercial Bank, exchanged shares for mutual equity participation, and 10 city commercial banks in Jiangsu were consolidated into the Jiangsu Bank. Such consolidations and reorganisations have also been supported by local banking regulatory bureaus, as consolidation of medium-sized city commercial banks facilitates both easier regulatory supervision as well as the introduction of foreign strategic investors into such banks following their consolidation and reorganisations. Such measures will not only be helpful in improving the quality of banking assets and other issues, but also in facilitating the establishment of a mechanism for capital control.

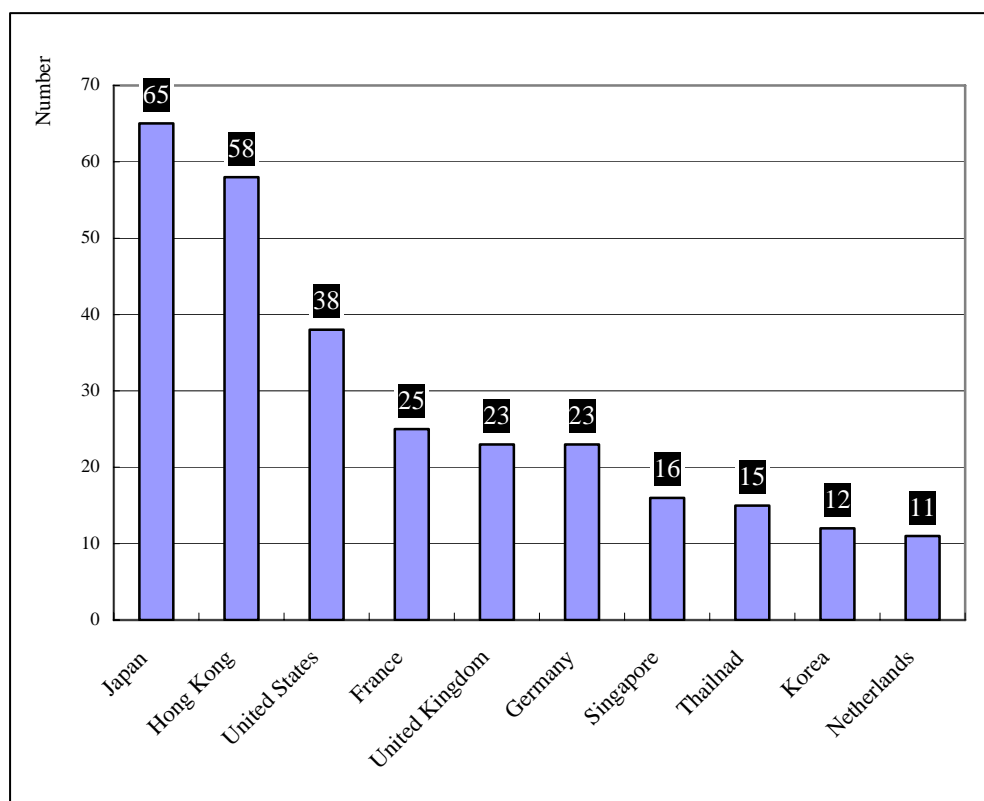
Introducing External Capital

By the end of 2005, eight city commercial banks have included overseas strategic investors who injected capital of RMB4.6 billion¹³. The introduction of foreign capital into regional city commercial banks could help to alleviate the urgent problem of excessive non-performing assets. However, as the ownership of these small- and medium-sized city commercial banks is diversified, the foreign investors might easily control the board of directors of such banks or even obtained control over some of the branches. After all, one of the major purposes of foreign investors injecting capital into such banks is to seek control of the banks. A number of Mainland sponsored research studies has warned that, notwithstanding the good results that may be achieved, the introduction of excessive foreign capital into the banking system may allow foreign investors to obtain control of the commercial bank network covering major regions in the Mainland at a very low cost through an increase in shareholding and certain consolidation activities when relevant liberalisation policies are introduced in the future.

Opportunities for Hong Kong Banking Industry

As at the end of 2004, the number of Hong Kong banks in the Mainland was next only to Japan. (See **Figure 1**)

13. Eight city commercial banks, including those of Shanghai, Beijing, Xi'an (西安), Jinan (濟南), Hangzhou (杭州), Nanjing, Ningbo (寧波) and Nanchong (南充), have introduced overseas strategic investors.

Figure 1: Distribution of Foreign Banks in China by Country/Region

Source: *Beijing Daily and Research Centre of Finance and Insurance, Tianjin University of Finance and Economics.*

The Hong Kong banking industry is experienced in asset management, business management, capital operation and innovation services, etc. It can contribute much useful experience to the reform of the Mainland's banking industry. As the transition period for China's entry into the WTO will end by the end of 2006, it is expected that China's banking industry will face intense competition by then. The Hong Kong banking industry should seize every possible opportunity arising in the reform of the Mainland's regional banks. For example, HSBC (滙豐銀行) became a shareholder of Bank of Communications (交通銀行) and thus obtained more than 100 network points distributed across Mainland China. Currently, city commercial banks in different regions in the Mainland have begun to pursue consolidation and restructuring activities, which means business opportunities. Hunan's Five Banks and One Credit Cooperative have formed an alliance, indicating that the anticipated consolidation and restructuring of the Hunan banking institutions is not far away.

Financing Mechanism of SMEs in Hainan Province

Hainan was once on the list of high-risk financial regions. It is especially difficult for small and medium-sized enterprises (SMEs) there to borrow money. The China Construction Bank and China Development Bank have helped many enterprises to solve their problems in obtaining loans by setting up an enterprise credit rating system. The China Development Bank chose Chengmai, a county in Hainan, as the pilot in the nation for credit lending with satisfactory results. The 11th Five-Year Plan encourages qualified SMEs to list on overseas stock markets as one of the capital raising methods to expand the channels of direct financing. On the other hand, Chinese Mainland enterprises are welcome by overseas securities markets. The Stock Exchange of Hong Kong has also begun inviting Mainland enterprises to list in Hong Kong. Compared with those in other major Mainland cities, Hainan SMEs still lag somewhat behind in their development. However, the momentum of Hainan's economic development is thriving and a number of opportunities exist in respect of SME financing there.

Status of Hainan Financial Industry

During the Asian Financial Crisis in 1998, Hainan was coincidentally suffering from a real estate bubble, when most financial institutions participated in speculating on real estate. The Hainan Development Bank (海南發展銀行) suffered from a payment crisis and became the first local bank to be closed down by the Central Government since the establishment of the PRC in 1949. Eight trust companies¹⁴ were liquidated¹⁵ subsequently and the financial industry in Hainan was unable to recover after that setback. After years of efforts by the government, the financial and investment conditions in Hainan have been gradually improved. As at the end of 2005, the deposit balance in both domestic and foreign currencies at all

14. Including Hainan International Trust and Investment Corporation (海南省國際信託投資公司), Hainan SEG International Trust and Investment Corporation (海南賽格國際信託投資公司), Hainan Trust and Investment Corporation (海南省信託投資公司), Haikou Trust and Investment Corp. (海口市信託投資公司), Hainan Hong Kong & Macao International Trust Investment Company (海南港澳信託投資公司), Hainan Huayin International Trust and Investment Corp. (海南華銀信託投資公司), Hainan Huitong International Trust and Investment Corp. (海南匯通國際信託投資公司) and Sanya Zhongya International Trust and Investment Corporation (三亞中亞國際信託投資公司).

15. "Eight trust and investment corporations in Hainan have been liquidated due to the real estate bubble since 1994 and the financial crisis in Southeast Asia in 1998 had an impact on the Hainan Development Bank of", extracted from "Fundamental Change of Hainan's Financial Environment", *Investment News* (投資資訊), Investment of Hainan website: <http://www.hnzs.gov.cn>.

Hainan banks reached RMB130.2 billion, representing an increase of 12.4% over the previous year. The balance of bank loans in both domestic and foreign currencies reached RMB99.6 billion, an 8.2% increase than that in the previous year. By November 2005, five out of 10 banks recorded profits in that year and the ratio of non-performing loan dropped by 2.85% when compared to that at the beginning of the year. Relevant data showed that the financial risks of Hainan had been eliminated.

The China Construction Bank (CCB, 中國建設銀行) entered into a RMB50 billion cooperative agreement with the Hainan Provincial Government at the end of 2005. In the same month, the China Development Bank (CDB, 國家開發銀行) provided loans of RMB20 billion and RMB5.7 billion respectively to the municipal governments of Haikou (海口) and Sanya (三亞). By the end of March 2006, the total loan provided by CDB in Hainan was RMB48.856 billion, with managed assets totalled RMB39.575 billion. CCB has also continued to support Hainan's economic development and provided accumulative loan of RMB21.4 billion. People in the industry believed that the strong financial support from CCB and CDB to Hainan was a vote of confidence in Hainan's economic development in the future. In addition, the commercial cooperative agreements entered into between Hainan and commercial banks signified that Hainan had walked out from the shadow of high financial risks.

Solutions to the Financing Problems Faced by Hainan SMEs

Although the economy had improved, the outflow of deposits in most financial institutions of Hainan still continued, resulting in high cost of loan and difficulties in obtaining bank loans. Thus, SMEs in Hainan suffered. To tackle the problem, CCB and CDB had focused the credits provided on financial support to SMEs and social infrastructure projects.

Haikou established the Haikou SMEs Credit Association (海口市中小企業信用協會) jointly with CDB in August 2005 in order to set up a credit construction platform for SMEs. Reportedly, the relevant "secured loan" had three advantages: (i) simple and efficient application procedures; (ii) a mortgage loan would be provided under counter guarantee conditions such as equipments, stock equity and personal joint liability, etc.; and (iii) a rational cost of loan (free of any other hidden cost) and an open and transparent operation. It was reported that the association and bonding companies had since provided secured loans of more than RMB40 million to over 20 SMEs in Haikou. These loans accounted for more than half of the bank loan in Hainan. At present, the Haikou municipal government had borrowed RMB60 million from CDB to increase the capital of its bonding companies. It was estimated

that more than RMB200 million of secured loan would be granted to more than 100 SMEs within the year.

Two years ago, Chengmai County (澄邁縣), as a pilot point of CDB, set up a credit financing platform jointly with the county government. A petty loan programme for SMEs was implemented. The Chengmai County Urban and Rural Credit Association (澄邁縣城鄉信用協會) was established jointly by CDB, Hainan Branch and the Chengmai county government in June 2004. It adopted an operational mode of “voluntary participation of members, guarantee provided by SMEs, and loans provided by CDB to the members of the Association”. It solved the members’ problems of capital shortage for expansion, production and marketing. The applicant for a CDB loan must be a member of the Association. To share the risks and to intensify supervision over loans, CDB, Hainan Branch, the Chengmai County Urban and Rural Credit Association and the Chengmai County Petty Loan Bonding Company had entered into an agreement. Under this agreement, the county government had invested RMB3 million in the County Bonding Company as the guarantee deposit for the credit loan of SMEs, while CDB would offer an annual loan of RMB15 million, with the multiplication factor of 1:5. Generally, the term of the loan was 1-3 year(s), with the total amount of loan not greater than RMB2 million.

To prevent defaulting on debts, the urban and rural credit associations and the guarantee companies are required to enter into an agreement, so as to establish an effective mechanism to share default risks. They would collect a mutual assurance fund and guarantee fee at a specific ratio. They also shared the risk of breach of contract of the members with CDB. Prior to grant of loan, the enterprises were required to sign a letter of commitment and to provide counter guarantees so as to reduce the risks being transferred from the Bonding Company to the government. In case of any risks, the counter security would be disposed of first, then the mutual assurance fund was utilised and finally CDB and Bonding Company would share the remaining risk. This mechanism tackled the breach of “credit”. In providing loans, the relevant agencies shall stringently follow the “five strict rules”, that is, strict project assessment, strict loan review and approval, strict financial guarantee, strict post-loan supervision and strict mutual supervision between members, to prevent financing risks proactively. Reportedly, the related associations had offered loan support amounted to RMB8.9 million to 11 members by the end of 2005 and created more than 3 600 jobs. This innovative mode of financing had played an active role in solving the SMEs’ financing problems.

Present Situation of SMEs in China

At the beginning of 2006, the number of SMEs registered at the departments of business administration reached more than 4.3 million and individual proprietors reached 39 216 thousand, accounting for 99.6% of the total number of enterprises and 75% of the new jobs in cities and towns. The exports and imports of SMEs account for 68.3% and 39% of the total exports and imports respectively. The exports of apparel, handicrafts, metal products, toys and other labour-intensive products in particular were provided by SMEs. In 2005, the value of the final products and services provided by SMEs accounted for 55.6% of the nation's GDP. Since the implementation of policy reforms and the opening up of the market, 65% of Chinese patents were invented by SMEs; more than 75% of technical innovations and over 80% of new products were completed and developed by SMEs.¹⁶ It showed that SMEs occupy a rather important position in the Mainland economy.

The Chinese Government was fully aware of the benefits brought by the development of SMEs to the economy and the financing problem faced by SMEs. Therefore, the Law of the People's Republic of China on Promoting Small and Medium-Sized Enterprises (中華人民共和國中小企業促進法) and the "Opinions of the State Council on Encouraging, Supporting and Guiding the Development of Individual, Private and Non-public Ownership Economy" (國務院關於鼓勵支持和引導個體私營等非公有制經濟發展的若干意見) were promulgated in early 2004, creating the framework for major legislations, rules, regulations and policies to promote the development of SMEs. In accordance with the 11th Five-Year Plan, the Chinese Government would carry out the "Growth Project for SMEs", the main contents of which included: solving the SMEs' financing problem; incubating the SMEs' socialized service system; enhancing the training of SMEs; promoting the independent innovation ability of SMEs and driving the adjustment of industry, product and organisational structure of SMEs. To solve the financing problem of SMEs, the 11th Five-Year Plan had concentrated on guiding and encouraging all financial institutions to develop appropriate financial products for SMEs and strengthening the support of credit loans. Qualified SMEs were encouraged to list their shares on overseas markets to widen the financing channels.

16. "World Top 500 Cooperating with Chinese Innovative SMEs", *China Enterprise Newspaper*, 22 May 2006. "The SMEs Registered in China by October 2005 has Exceeded 3.6 Million", *Financial Times*, 1 October 2005.

New Trends for SMEs in Financing

In order to encourage the development of the financial products that were appropriate for SMEs, many Mainland banks had launched relevant mechanisms at the beginning of the year. For example, the China Minsheng Bank (中國民生銀行) tried a new loan arrangement for SMEs,¹⁷ the Pudong Development Bank (浦發銀行) had established a Business Department specially for SMEs financing,¹⁸ and the Industrial and Commercial Bank of China (ICBC, 工商銀行) was going to introduce a series of preferential measures to enhance its support to SME financing.¹⁹ Foreign banks also took similar actions. For example, the Standard Chartered Bank had introduced a “credit loan” with no security or guarantee required and that credit loan became the first credit loan product for ordinary Chinese SMEs.²⁰ The China Banking Regulatory Commission also strongly supported the banks’ new approaches in loans to SMEs. It had developed a differential institutional system for the special features of SMEs, including the loan category, assessment of accountability of non-performing loan and so on, in order to provide an encouragement and guidance to the banks.²¹

Since the promulgation of the “Notice Regarding Certain Administrative Measures on Financing and Inbound Investment by PRC Residents through Offshore Special Purpose Vehicles” (關於境內居民透過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued by the State Administration of Foreign Exchange (SAFE), individual overseas financing and merging did not require the approval of the Ministry of Commerce. The red-chip listing was opened to SMEs and particularly private enterprises again. The listing of Chinese Enterprises in overseas markets is expected to be very popular.²² On the other hand, overseas markets would like to seize the opportunities to lure outstanding SMEs. For example, the Genesis Equity Partners LLC (GEP, 美國創世紀資本合夥人有限公司) had introduced a reciprocal growth special investment project for SMEs (中小企業互惠成長特別投資項目) in Beijing, to offer assistance to Mainland SMEs in obtaining listing and

17. *China Business* (中國經營報), 6 January 2006.

18. “Standard Chartered Bank Planning the Financing for SMEs to Prepare for the Opening of Renminbi Business”, *First Financial Daily* (第一財經日報), 17 May 2006.

19. “ICBC Allowing SMEs Financing at RMB20 Million”, *China Securities Journal* (中國證券報), 17 May 2006.

20. “Standard Chartered Bank Planning the Financing for SMEs to Prepare for the Opening of Renminbi Business”, *First Financial Daily* (第一財經日報), 17 May 2006. “Foreign Banks Initially Trying Unsecured Mortgage to SMEs”, *First Financial Daily*, 11 May 2006.

21. “China Banking Regulatory Commission Strongly Recommending Small Enterprise Loan”, *Shanghai Securities News*, 12 January 2006.

22. “Overview of China’s SMEs Tackling the Problem of Financing on Overseas Market”, *Market Daily* (市場報), 25 November 2005.

financing in the United States.²³ KOSDAQ provided preferential listing conditions. For example, the cost of listing was equivalent to half of that in Hong Kong (accounting for 5%-9% of financing amount); and the time to market was short, without the need to seek the approval of the Korean Government.²⁴ The Tokyo Stock Exchange (TSE, 東京證券交易) had also taken actions to attract Chinese Mainland enterprises to list on TSE.²⁵ It was reported that some Chinese enterprises would list on TSE within this year. There was an upsurge of SMEs listing overseas.²⁶

Opportunities for Hong Kong

In view of the growth momentum of SMEs, while attracting Mainland “giants” to Hong Kong, HKEX had also begun to lure Mainland SMEs to list their shares on the Hong Kong stock market. In recent years, HKEX had held many listing forums in Fujian, Jiangsu, Shenzhen and other places for Mainland SMEs. HKEX would set up a dedicated Chinese Business Group this year. The Hong Kong Securities and Futures Commission (香港證監會) announced that it would enhance the cooperation between the government and other organisations, and improve enforcement across jurisdictions in view of the surge of Mainland enterprises listed in Hong Kong. It was to prevent possible problems in governance and to prepare for the upsurge of Mainland enterprises seeking to list in Hong Kong.²⁷

Hong Kong is an international financial centre. The legal system, corporate governance and intermediary service are well-developed. The promotion of Mainland SMEs listing in Hong Kong can optimise Hong Kong’s industrial structure and enhance the economic and trade exchanges between Hong Kong and the Mainland. Hainan had resumed a strong momentum for its economic development and had improved its financial environment in recent years. Many Hong Kong businessmen had also noticed Hainan’s improved investment environment and began to invest in Hainan.²⁸ Compared with the coastal and inland big cities, SMEs in Hainan were underdeveloped. With effort driven by the China Construction Bank, the China Development Bank and other developmental financial institutions sponsored by the

23. “GEP Launching Reciprocal Growth Special Investment Project for SMEs”, *China Securities Journal*, 26 May 2006.

24. “New Orientation for China’s Financing Overseas”, *China Securities Journal*, 19 May 2006.

25. “Japan Attracting Chinese Enterprises to List on TSE”, *International Business Daily*, 18 May 2006.

26. “Harbin’s Seven SMEs Listed Overseas by Backdoor Listing Until April 2006”, *Securities Daily* (證券日報), 2 April 2006.

27. “HKEX Straining After China’s SME Resource”, *China Securities Journal*, 20 April 2006.

28. “Famous Hong Kong Enterprises Heating up Their Investment in Hainan”, *China Industry News*, 23 June 2005.

government, the difficulties faced by local SMEs in obtaining financing had been put to an end. The 11th Five-Year Plan has encouraged eligible Mainland SMEs to list at home and/or abroad in order to widen their direct financing channels. It is believed that the Mainland Government's proactive promotion will generate strong demand for financing among the large number of Mainland SMEs, and that more and more Mainland SMEs will seek listing in Hong Kong in the future.

TRENDS AND UPDATES ON THE FOUR EASTERN PROVINCES

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Overview of Economic Development Trends of the Four Provinces in the First Quarter of 2006

The four provinces saw continuous economic growth in the first quarter of 2006, with Fujian recorded the fastest growth. During January to March 2006, the GDP of Fujian, Jiangxi, Hunan and Hainan reached RMB134.8 billion, RMB85.4 billion, RMB152.7 billion and RMB21.7 billion respectively. Compared with the same period last year, the GDP of the four provinces increased by 12.7%, 11.1%, 12.0% and 11.7% respectively, while the growth rates of Fujian and Hunan were the highest in their historical records over the same period since the 10th Five-Year Plan.

Fujian: The industrial production, consumption, total fixed asset investment, foreign investment and total import and export values achieved two-digit growth in the first quarter of 2006. The total industrial output value of enterprises above designated size recorded RMB199.4 billion, 23.2% higher than that recorded in the same period of last year. Three leading industries, namely, electronics, machinery and petrochemicals accounted for 43.9% of the total industrial output, providing a great support to the industrial growth. Foreign direct investment increased continuously during the first quarter and the contract value of foreign investment reached US\$2.228 billion, 84.4% higher than that recorded in the same period of last year. Of which, Taiwan investment was US\$0.652 billion and investment from Hong Kong was US\$1.356 billion.

Jiangxi: The industrial growth in the first quarter of 2006 was satisfactory. The value-added of industry exceeded RMB20 billion for the first time, whereas the pace of growth of industrial parks doubled that of the provincial average. Non-state-owned enterprises and small-size enterprises recorded strong year-on-year growth of 35.4% and 45.2% respectively. In addition, the consumer goods market and tourism were booming in the first quarter. The Jiangxi Provincial Government had defined the year 2006 as the “Year of Inbound Tourism”. In the first quarter of 2006, the number of visitor arrivals to Jiangxi reached 99 000 representing year-on-year growth of 58.2%. The number of tourists received in Jiujiang (九江) and Nanchang reached a historical high.

Hunan: There were multiple times of growth in investments of agriculture, forestry and animal husbandry in the first quarter of 2006, while the secondary industry still acted as the major driving force of the province’s economic growth. The development of industrial parks was fast. It achieved the value-added of RMB7.562 billion and accounted for 18.8% of the total industry by enterprises above designated scale, 31.4% higher than that recorded in the same period of last year. Affected by the adjustment of prices of product oil and consumption tax, the profits of steel and automobile industries decreased in the first quarter.

The accumulative profit created by the provincial steel industry was RMB39 million, 95.2% lower than that recorded in the same period of last year. The profit margin for the related industries was narrowed. The manufacturing industry of synthetic fibre in Hunan experienced loss of RMB16 million.

Hainan: Major indicators such as investment, number of tourists received, revenue and others recorded an increase in the first quarter of 2006. Having eliminated the impact of drought and storms, the provincial agricultural value-added of the economy reached RMB6.604 billion in the first quarter and recorded a year-on-year growth of 8.5%. The industrial economy demonstrated the development of diversification in the first quarter, with the major driver of economic growth being transferred from automobile to petrochemical and ferrous metal mining. Tourism had thoroughly got away from the adverse impact of typhoon David last year. Hainan received 4 513 500 “overnight stay” tourists in the first quarter, 13.5% higher than that recorded in the same period of last year. Among them, 155 000 were foreign visitors, representing growth of 47% year-on-year.

Fujian: Fuzhou Customs Implemented Nine Measures

The China Customs (中國海關) proposed “10 Measures to Promote Pan-PRD Customs Cooperation” (海關積極參與和推動泛珠三角區域合作的十項措施) at the beginning of 2005. It aimed to simplify customs clearance procedures and improve the efficiency. The implementation of “Multi-point Declaration and Goods Release at the Port” had largely shortened the customs clearing time and accelerated the movement of goods and economic development in the nine provinces/region. In view of this, Fuzhou (福州) Customs proposed nine measures on 15 February 2006. The purpose of the measures was to enhance the efficiency of customs clearance procedure through cooperation with other provincial customs in the Pan-PRD.

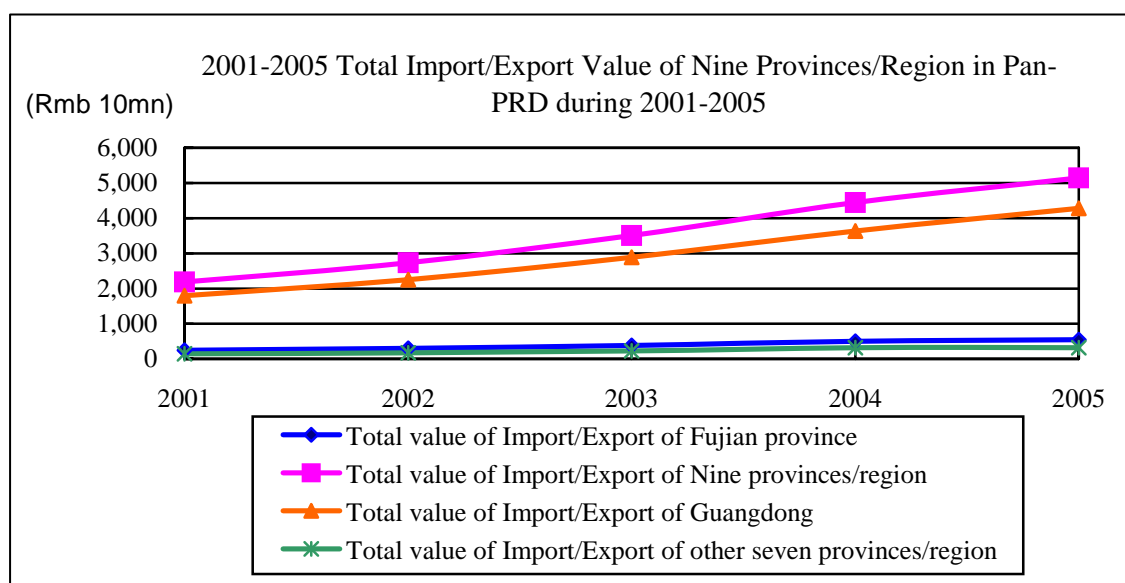
Multi Customs Declaration Points and Goods Release at the Port

“Multi-point Declaration and Goods Release at the Port” meant that enterprises were allowed to choose any port for declaring its traded goods in the Pan-PRD, so that goods were examined at the clearance port once only. Since July of last year, 12 subordinate customs authorities directly under the general administration of Customs, including, among others, the Guangzhou, Chengdu, and Nanning Customs authorities, have collaborated in the formation of a cross-customs mechanism, whereby the old clearance mode of dual inspections by both the competent customs and port customs were dropped. This is a revolutionary change to the traditional clearance mode. This not only makes it possible for goods consolidation in different customs jurisdictions, but also increases the efficiency of customs clearance for goods, in fulfilment of the principle of “one-time declaration, one-time inspection and one-time release”. As reported by a Fuzhou enterprise, the customs clearance time for goods shipping from Fuzhou to the Guangzhou Baiyun Airport (廣州白雲機場) was shortened from at least one day to less than 1.5 hours.

Nine Measures Taken by Fuzhou Customs

According to the statistics of Fuzhou Customs, the total value of imports and exports in the Pan-PRD achieved a record high of US\$514.3 billion in 2005. Fujian ranked second at US\$54.43 billion, just after Guangdong (see **Figure 2**).

Figure 2: Total Value of Import and Export of Nine Pan-PRD Provinces/Region in 2001-2005



Considering the satisfactory outcome of “Multi-point Declaration and Goods Release at the Port”, and in order to boost economic and trade activities in the nine Pan-PRD provinces/region, Fuzhou Customs introduced a number of measures at the beginning of this year, as follows:

- (a) Fully implementing the customs supervision mode of “Multi-point Declaration and Goods Release at the Port”;
- (b) Streamlining railway, land customs transfer clearance procedures, and further promoting the mode of Rail-Sea Transport (鐵海聯運)²⁹;
- (c) Strengthening the reform of the water transport regulations and fully introducing a small-sized ship express clearance system;
- (d) Continuing the promotion of special zones and bonded logistics supervision model and the reform of processing trade supervision;

29. “Railway-Sea Transport” means a mode of transport whereby the import or export cargo is transported to a coastal port by railway or transhipped by railway after such cargo has been shipped to a coastal port based on a facilitated customs practice of “one-time declaration, one-time inspection and one-time release”.

- (e) Strengthening intellectual property rights (IPR) protection cooperation at the border, by establishing an information exchange system on IPR infringement cases and a joint IPR training system;
- (f) Simplifying enterprises' record in different regions, establishing enterprises' practice to observe the law with a view to facilitating management, and commissioning test runs of convenient clearance measures for class A and class AA enterprises;
- (g) Integrating resources of tariff zones in Pan-PRD and developing a comprehensive customs tariff coordination and monitoring system;
- (h) Strengthening cooperation between regional customs statistics department to provide a more comprehensive statistical analysis and information alert mechanism; and
- (i) Establishing a complementary work mechanism for anti-smuggling departments in the region and a regional customs anti-smuggling cooperative system to enhance the overall efficiency of law enforcement.

These nine measures not only further ensure the implementation of the principle of “one-time declaration, one-time inspection”, but also coincide well with customs departments in the other eight Pan-PRD provinces/region in such fields as statistical data exchange, anti-smuggling and intellectual property protection measures. These measures have speeded up the cooperation of customs departments of the nine provinces/region and the development of import and export trade in the nine provinces/region.

Economic and Trade Partnership between Hong Kong and Pan-PRD

Hong Kong is one of the leading trading partners of the nine provinces/region in the Pan-PRD. In 2000-2004, products re-exported through Hong Kong increased from US\$96.1 billion to US\$186.02 billion, representing an average increase of 18% per annum and accounted for more than 40% of the total value of import and export of the nine Pan-PRD provinces/region. During January-September 2005, the goods re-exported via Hong Kong valued at US\$149.47 billion, representing growth of 12.1% and accounted for 41.1% of the total value of import and export. The implementation of CEPA has further accelerated the economic and trade cooperation between Hong Kong and the Pan-PRD.

Fujian: Fujian Shoe-Making Enterprises Going Global

In face of intense international competition, Fujian's shoe-making enterprises, especially the shoe-making enterprises in Jinjiang (晉江), have actively expanded overseas in recent years. Besides participating in the China Sports Show (全國體育用品博覽會), the Premier Shoes Event (also known as GDS, 德國杜塞爾多夫國際鞋展), the WSA Show (美國拉斯維加斯鞋展) and other famous expositions, many Fujian shoe-making enterprises, e.g. Jinjiang Anta (晉江安踏), Aile (愛樂), Bieke (別克), Hengqiang (恒強), Quanzhou Sanxing (泉州三興), Huanqiu (寰球), and the like had jointly established the "Jinjiang Street - the Shoes Capital of China" in the Budapest Asia Centre, Hungary to sell shoe products made in Fujian. This was a new attempt for Fujian shoes to go global. In December 2003, the China National Testing Centre For Footwear (CFT, 國家鞋類檢測中心) began to operate in Jinjiang to ensure that shoes were produced with good quality. Separately, the Jinjiang shoe-making enterprises began admitting foreign investment in order to expand their business. They also imported advanced machines, developed new products, and changed their past production process that was principally through imitation.

According to Fuzhou Customs, Fujian exported 234 million pairs of shoes to the European Union (EU) last year (11.8% growth year-on-year), at value of US\$779 million (48.04% growth). The quantity and value of export accounted to 17.2% and 22.5% to the total quantity and value of Fujian's footwear export in the same period respectively. The export value of footwear products to USA was US\$1,389 million. The exports to EU and USA made up nearly 50% of Fujian's total footwear export in the same period.

Problems Encountered in Fujian Shoe-Making Industry

The Fujian shoe-making industry plays host to a number of well-known company brand names, but most of these companies are SMEs. Especially when it comes to export, most of the footwear products from Fujian have to be sold at low prices in the international market due to the lack of advanced production technologies, R&D capacities and brand-building capabilities. Coupled with a heavy reliance on the EU and US markets, the Fujian shoe-making industry is vulnerable to a number of hidden problems.

On 30 June and 7 July 2005, EU conducted consecutive anti-dumping investigations on footwear with protective toecap and leather uppers. 48 Quanzhou shoemakers and some shoemakers from Guangdong and Wenzhou were being investigated. Thereafter, these shoemakers formed an alliance and filed a “no-injury defence” against the EU’s anti-dumping measures. On 23 March 2006, EU declared the imposition of an anti-dumping duty on Chinese leather shoes. On 7 April, it began to phase in the duty over the next six months, increasing from 4.8% to 19.4%.

Hong Kong Enterprises Seeking New Way out for Fujian Shoe-Making Industry

To address the problem of anti-dumping duty imposed by EU, all shoe-making enterprises in the country should unite together to initiate counter movements such as filing a “no-injury defence”. Furthermore, the shoe-making enterprises should design a new development roadmap, upgrade their manufacturing technologies and change their low-price marketing strategy. The shoe-making enterprises should actively penetrate markets other than the EU and the USA, for example, the Middle East, Russia, Africa, and Latin America. Hong Kong has an innovative and diversified market, and Hong Kong-based enterprises may leverage their experience in brand building to invest in Fujian shoe-making enterprises and act as a gateway for them to tap into the broader international markets.

Jiangxi: Provincial Vocational Training

In light of further social and economic development and a severe shortage of skilled workers within certain sectors in Jiangxi Province, a vocational education work conference was convened in Nanchang, Jiangxi in April 2006. The conference pointed out that the plans and measures for vocational education development should be included in the 11th Five-Year Plan for National Economic and Social Development, and indicated that the training of a skilled workforce should be one of the training objectives.

Lack of Skilled and High Academic Qualification Labour

According to the China Statistical Yearbook, the proportion of population with college and higher education level was 4.7% in 2004 to the population cohort of persons aged 6 and over in Jiangxi; as against the national figure of 5.8%. On the other hand, the proportion of illiterate and semi-literate was 9.1% of the population cohort of persons aged 15 and over in Jiangxi; versus the national figure of 10.3%. Both indicators of the education and illiterate levels in Jiangxi were in the middle of the nation's ranking. The proportion of skilled worker to the total number of workers in Jiangxi was 47.6%. Most of them were primary and junior-level workers. Technicians and senior-level skilled workers only accounted for 1% of total work force in Jiangxi. It happened in some of the enterprises that there was a serious shortage of skilled workers. This became a hindrance to the sustainable development and industrial upgrading of an enterprise. Besides, about 785 000 workers entered the Jiangxi labour market every year. Among them, more than 100 000 were junior high school graduates who could not further their education in senior high schools, and around 100 000 were high school graduates who could not enter the colleges. 86.7% of the rural work forces' education were at junior secondary school level. Most of the workers in Jiangxi were unskillful and with low education levels.

“Four Projects” (四大工程) and “Four Plans” (四個計劃)

Pursuant to the “State Council Decision on Vigorously Boosting Vocational Education Development” (國務院關於大力發展職業教育的決定), the Jiangxi Provincial Government has accorded equal priority to vocational education and basic education as well as to higher education, and intends to foster more than one million secondary vocational school graduates, over 600 000 high level vocational school graduates and cultivated more than one million rural labourers during the 11th Five-Year Plan. The vocational development would be guided by the Jiangxi Provincial Government and supported by the enterprises. The aim is to build a secondary vocational school or vocational education centre in each county, as an important

base for human resource development, job-transfer-oriented rural workforce training, skills training and promotion, and development-oriented poverty relief.

The Jiangxi Provincial Government proposed “Four Projects” and “Four Plans” to speed up the training of a skilled workforce. The “Four Projects” include (1) the State Project for Training a Skilled Workforce, aimed at speeding up the training of first-line skilled workers; (2) the Project for Training a Practical Rural Workforce, aimed at training the new-type of educated and skilled peasants capable of conducting an operation; (3) the State Project for Job-Transfer-Oriented Rural Workforce Training, aimed at improving occupational skills for farmers who have turned into peasant workers and are seeking jobs in cities; (4) the Project for Adult Continuing Education and Re-employment Training, which aims to push forward corporate education, community education, and distance learning for the creation of a learning society.

In addition, in order to strengthen educational development, Jiangxi is also going to implement “Four Plans”, including (1) a plan for the construction of secondary vocational schools at the county level. During the period of the 11th Five-Year Plan, Jiangxi will accord priority to the construction of 100 secondary vocational schools at county level; (2) a plan for the construction of demonstration vocational education schools, aiming at building 100 demonstration secondary vocational schools, each of which can accommodate 3 000 students or above and 10 demonstration higher vocational colleges; (3) a plan for the construction of a vocational practice base, aimed at building 100 select specialties and 100 vocational practice bases with complete subject disciplines and sound facilities; (4) a plan for improving the quality of vocational instructors and setting up a mechanism whereby vocational teachers are placed in the corporate workplace to gain experience for a certain period of time.

State Council Decision on Vigorously Boosting Vocational Education Development

In 2005, the State Council made nine decisions, including: to position the development of vocational education as the key basis for economic and social development as well as the strategic focus of education administration; to train a large quality workforce in billion numbers and also millions of highly skilled workers with a view to serving the construction of socialist modernization; to strengthen the construction of infrastructural capabilities and enhance the level and quality of vocational education institutions; to boost vocational education with the assistance of trade enterprises and to forge a close link between vocational schools and business organisations; to increase capital input through multiple channels and set up a financial assistance mechanism for vocational students; and identify vocational education objectives.

Vocational Education Development Included in the 11th Five-Year Plan

With the economic transformation and huge and urgent demand for a highly skilled workforce, the Central Government will inject RMB10 billion to support vocational education during the 11th Five-Year Plan period. The fund will be used to build vocational practice and training bases, employ the necessary educational resources, reinforce cultivation and training of vocational teachers and support students from poor families to receive vocational education. The objectives are to provide vocational training to urban and rural job seekers, and technical training to on-the-job staff, with a view to fostering highly skilled personnel, particularly in the area of vocational education for peasants to improve their vocational skills and job-transfer capabilities.

Jiangxi: Boosting Automobile Industry Vigorously

On 16 April, the Jiangxi Provincial Government declared that the “Suggestions on Support for Stable Development of Automobile Industry” (關於支持汽車工業穩健發展的意見, hereafter called “Suggestions”) would be enforced with effect from 1 May 2006, whereby six measures would be implemented to promote the development of Jiangxi’s automobile industry. The policy measures include, among others, governmental procurement of Jiangxi-made vehicles; encouraging the public to buy Jiangxi-made vehicles; promoting innovation; and enhancing coordinated services for the provision of production assurance and credit loan support.

Automobile Industry Development Incorporated in the 11th Five-Year Plan

In the “Suggestions”, the Jiangxi Provincial Government would encourage government departments at county level or below to buy homemade vehicles after comparing the vehicles, in fair and equal terms, with other brands in the market. In addition, the competent construction and traffic authorities as well as the city governments are instructed to encourage urban public transportation companies and taxi companies to buy Jiangxi-made vehicles. At the Joint Meeting of Government, Banks and Enterprises³⁰ (政銀企聯席會議), Jiangxi automobile manufacturers were counted as a focal point for support. The banks also provided a preferential policy of setting a lower limit for initial payment when buying homemade vehicles.

Furthermore, the Jiangxi Provincial Government targets to achieve an income of RMB50 billion and tax turnover of RMB6.5 billion from sales of automobiles during the 11th Five-Year Plan. It would further develop the automobile industry, increase the total output and create the provincial vehicles brands. In order to establish Jiangxi as a competitive international automobile centre and to develop Jiangxi’s automobile industry into the growth engine of Jiangxi’s economy, the Jiangxi Provincial Government will invest RMB7.1 billion

30. Jiangxi’s Joint Meeting of the Government, Banks and Enterprises consists of the chiefs or competent leaders from the Jiangxi Provincial Economic and Trade Commission (江西省經貿委), Department of Foreign Trade and Economic Cooperation of Jiangxi Province (省外經貿廳), Jiangxi SME Provincial Bureau (省中小企業局), People’s Bank of China, Nanchang Central Branch (人民銀行南昌中心支行), Jiangxi Banking Regulatory Bureau (江西銀監局) and other financial institutions. This Meeting is held every quarter to report on the economic operation and development status of the open economy, capital financing, changes in the State’s industrial policies and currency policies, with a view to coordinating settlement of the problems faced and submitted by banks and enterprises.

from this year to construct 10 automobile projects. It is expected that sales income from the automobile industry would be increased by RMB27.2 billion and the revenue from profits tax would be increased by RMB2.67 billion every year. Jiangxi expects to produce 750 000 vehicles per year by 2010.

Automobile Industry of Jiangxi

Besides the active promotion of local automobile industry by the Provincial Government, the Jiangxi automobile manufacturers have devoted to boost the development of the local automobile industry. The Jiangling Motors Company Group (JMCG, 江鈴汽車集團) is the leader of the industry. The Jiangling Motors Corporation Ltd. (JMC), a subsidiary of JMCG, made 67 000 automobiles in 2004, ranked as the 14th among all the automobile manufacturers in China, and has established a strategic relationship with Ford (福特). JMC owns many brands, which include the Transit (全順), Jiangling BaoDian (江鈴寶典), Kaiyun (凱運), JMC Light Truck (JMC 輕卡) and others. Another subsidiary of the JMCG, namely, the Jiangling Holding Ltd. (江鈴控股有限公司) has created the brand LandWind (陸風) that is sold in Europe.

JMCG is involved in more than half of the automobile projects in the 11th Five-Year Plan period. In the first quarter this year, 20 861 Jiangling automobiles were sold, representing year-on-year growth of 26%, and net profits had increased by 173%.

Besides, Jiangxi's automobile SMEs have moved into industrial parks such as the Fuzhou Industrial Park (撫州工業園), the Ganzhou Shahe Industrial Park (贛州沙河工業園), and the Nanchang City Changnan Industrial Park (南昌市昌南工業園) to produce automobile parts and assemblies. According to the statistics of the Jiangxi Branch of the Agricultural Bank of China (中國農業銀行江西分行), one of its major growth of new loans was related to the automobile industry.

10 Automobile Industry Projects in Jiangxi during the 11th Five-Year Plan

Jiangling Motors Company Group (JMCG, 江鈴汽車集團)

1. invests RMB0.81 billion³¹ to produce 100 000 vehicles per annum;
2. invests RMB0.921 billion to produce 40 000 vans per annum;
3. invests RMB0.35 billion to produce 40 000 PUMA diesel engines per annum;
4. invests RMB0.25 billion to produce 300 000 various driving axles per annum;
5. invests RMB0.697 billion to produce 60 000 VM engines per annum;
6. invests RMB1.53 billion³² to produce one million gear boxes per annum;

Jiangxi Changhe Suzuki Automobile (昌河鈴木汽車有限公司)

7. invests RMB0.498 to produce 70 000 YK5 serial new-type cars per annum;
8. invests RMB0.3 billion to produce 50 000 K serial engines Project Phase II per annum;
9. invests RMB1.1 billion to produce 300 000 K serial engines per annum;
10. invests RMB0.7 billion to produce 200 000 automobiles per annum.

31. Invested by Jiangling Holding Ltd., a joint venture between JMCG and Chang'an Automobile Group Co., Ltd. (長安汽車股份有限公司)

32. Invested by GETRAG (Jiangxi) Drive System Corp. (格特拉克 (江西) 傳動系統股份公司), a joint venture between JMC and GETRAG (德國格特拉克集團公司).

Hunan: Constructing Expressways at Quick Pace

Current Situation and Future Planning

In the 11th Five-Year Plan of Hunan Province issued in mid-January this year, the construction of expressways in Hunan Province is once again listed as one of the development foci in the next five years. Nine major expressways would be built in 2006 (shown in **Table 6**), and 16 expressways would be constructed during 2006-2007 (shown in **Table 7**). It is predicted that by 2007, Hunan will achieve the target of having “expressway links with all 14 cities and autonomous prefectures in Hunan”. During the 11th Five-Year Plan (2006-2010), it is expected that the traffic mileage of the expressways to be built in the province would exceed the total of that built in the previous 15 years, and the total amount of investment will double that of the 10th Five-Year Plan.

Table 6: Major Expressway Construction Projects in Hunan in 2006

Name of Expressway	Date to Commence Work	(Expected) Date to Open	Brief Introduction of Projects
Shaoyang (邵陽) – Huaihua (懷化)	September 2003	July 2007	A part of the major national trunk line Shanghai – Ruili (瑞麗), which is in the plan of “five vertical and seven horizontal” (五縱七橫). The new highway starts at Zhouwangpu (周旺鋪) viaduct, the end point of Tanshao (潭邵) Expressway and ends at Zhongfang County (中方縣), to be connected with Huaihua (懷化) – Xinhuang (新晃) Expressway (completed).
Huaihua (懷化) – Xinhuang (新晃)	End of 2005	End of 2007	A part of the major national trunk line Shanghai – Ruili (瑞麗), which is in the plan of “five vertical and seven horizontal”. It starts at Zhutian (竹田) Viaduct, Zhongfang County (中方縣), Huaihua City (懷化市), end point of Shaohuai (邵懷) Expressway, passing through Zhijiang County (芷江縣), Xinhuang County (新晃縣) and Xinhuang County (新晃縣), connecting with the section from Nianyupu (鯢魚鋪) to Yuping (玉屏), Yushan (玉山) Expressway, Guizhou.
Changde (常德) – Jishou (吉首)	March 2004	End of 2007	One part of major channel of Changsha (長沙) – Chongqing (重慶) Expressway, starting from Doumu Lake (鬥姆湖), Changde City (常德市), connecting Changzhang (常張) Expressway which is being constructed, going through Dingcheng District (鼎城區) in Changde City (常德市), Taoyuan County (桃源縣), Yuanling County (沅陵縣) under Huaihua City (懷化市), Luxi County (瀘溪) and Jishou City (吉首市) in Xiangxi Autonomous Prefecture (湘西自治州), passing over No. 209 National Road at Qianzhou (乾州), urban area of Jishou City (吉首市) and Zhiliu (枝柳) Railway and arriving at the end point of Linmuchong (林木沖).

Table 6 (continued)

Name of Expressway	Date to Commence Work	(Expected) Date to Open	Brief Introduction of Projects
Hengyang (衡陽) – Yanling (炎陵)	End of 2005	End of 2008	An important section of the expressway from Quanzhou City (泉州) (Fujian) to Nanning City (南寧) (Guangxi) in Hunan Province, starting at Dapu (大浦), Hengyang City (衡陽), Jingzhu (京珠) Expressway, connecting Jingzhu Expressway and Hengda (衡大) Expressway, ending at Fenlukou (分路口), Yanling County (炎陵縣).
Changsha (長沙) - Xiangtan (湘潭) West Line	End of 2003	End of 2006	Located in Chang-Zhu-Tan (長株潭) Golden Triangle Region which is the best in industry, economy, technology, intellectual density and urbanization developments in Hunan.
Liling (醴陵) – Xiangtan (湘潭)	May 2004	End of 2006	A part of the major national trunk lines Shanghai – Ruili (瑞麗), which is in the plan of “five vertical and seven horizontal”. It starts at Jinshiyu (金石魚) (connecting Jiangxi (江西) Shangrui (上瑞) section Expressway) on the boundary of Hunan and Jiangxi Province, ends at Yingjiaou (殷家坳) Toll Station of Changtan Expressway.
Shangyang (邵陽)- Yongzhou (永州)	May 2006	May 2009	One section of constructed national expressway network Er (Erliahaote City 二連浩特) Guang (Guangzhou) Expressway (二廣高速) in Hunan which is an important part of Hunan’s “five vertical and seven horizontal”.
Changsha (長沙) – Zhuzhou (株洲)	End of 2005	October 2007	Core part of Chang-Zhu-Tan (長株潭) City Group, forming large external loop of road traffic of Chang-Zhu-Tan (長株潭) City Group with Changsha (長沙) – Xiangtan (湘潭) West Line.
Xiangtan (湘潭) – Shaoshan (韶山)	End of 2005	End of 2006	Starting at Shaoshan (邵陽) Viaduct of Xiangtan (湘潭) – Shaoyang (邵陽) Expressway, ending at Dongjiangkou (洞江口), Qingxi Town (清溪鎮), Shaoshan City (韶山), connecting with loop of Shaoshan City and Line S208. After its opening, the traffic time from Changsha (長沙) to Shaoshan (韶山) will be reduced from 1.5hr to 40 or 50 minutes.

Sources: Governmental website of Hunan Province and various major press websites, after proper treatment.

Table 7: 16 Hunan Expressway Construction Projects in 2006 – 2007

Name of Projects	Expected Starting Time	Expected Opening Time	Name of Projects	Expected Starting Time	Expected Opening Time
Baomao (包茂) Expressway Jishou (吉首) – Chadong (茶洞)	End of 2006	End of 2009	Xiacheng (廈城) Expressway Ningyuan (寧遠) - Daoxian (道縣)	November 2007	October 2010
Erguang (二廣) Expressway Yongzhou (永州) – Lanshan (藍山)	August 2007	October 2010	Baomao (包茂) Expressway Jishou (吉首) – Huaihua (懷化)	October 2007	End of 2012
Erguang (二廣) Expressway Changde (常德) – Meicheng (梅城)	August 2007	October 2010	Hengyang (衡陽) – Shaoyang (邵陽)	July 2006	October 2009
Erguang (二廣) Expressway Meicheng (梅城) – Shaoyang (邵陽)	August 2007	October 2010	Xiangtan (湘潭) – Hengyang (衡陽) West Line	October 2006	October 2009
Erguang (二廣) Expressway Lixian (澧縣) – Changde (常德)	September 2007	October 2010	Changsha (長沙) – Liuyang (瀏陽)	December 2006	October 2009
Hangrui (杭瑞) Expressway Huayong (華容) – Changde (常德)	September 2007	October 2010	Suiyue (隨嶽) Expressway Hunan Section	August 2007	October 2010
Xiacheng (廈城) Expressway Rucheng (汝城) – Chengzhou (郴州)	October 2007	October 2010	Loudi (婁底) – Xinhua (新化)	February 2008	End of 2011
Xiacheng (廈城) Expressway Chengzhou (郴州) – Ningyuan (寧遠)	October 2007	October 2010	Zhangjiajie (張家界) – Huayuan (花垣)	October 2008	End of 2011

Source: *Changsha Evening Paper* dated 5 May 2006.

Implications of the Construction of Hunan's Expressways to Hong Kong

The rapid development of Hunan's expressways has made a better highway connection within and outside of the province. With this, Hong Kong enterprises can reach any part of Hunan conveniently, and are able to penetrate further into the western part of China for expansion of Hong Kong's economic hinterland. Positive impact on Hong Kong includes:

First, Hunan's active development of its infrastructure may bring a number of opportunities for the Hong Kong infrastructure sector. Hong Kong businessmen can participate in new road construction projects, rebuilding low-quality road and road management. The "Decision on Investment Structure Reform" (關於對投資體制進行改革的決定) issued by the State in July 2004 allowed Hong Kong to take part in the Mainland construction market more easily. Hong Kong businessmen should grasp the opportunity to enter the market.

Second, convenient traffic connections will reduce logistics costs of Hong Kong businesses and enable them to develop the Mainland logistics market. For example, upon completion of the construction of the Expressway from Shaoyang (邵陽) to Yongzhou (永州) which began on 14 May 2006, the travel time from Shaoyang City to Yongzhou City will be reduced to just 90 minutes from 3.5 hours. With further improvement of the expressway network, it is expected that it can travel from Hong Kong to Changsha (長沙) and Zhangjiajie (張家界) within one day.

Finally, the rapid development of the highway network in Hunan will be of help to Hong Kong service sectors for penetration into the Mainland market. With the further cooperation of the Pan-PRD constituents, Hunan may turn itself into a base for the relocation of Hong Kong's service sectors, export of education and training services, and interactive tourist source. After the completion of the expressway to Shaoshan (韶山), the development of Red Tour Industry of Hunan Province will be activated. The Hong Kong tourism, transport service and retail industries can seize the business opportunities and enter the markets. In general, looking at the great efforts which are being made in improving the transport infrastructure in Mainland provinces and cities such as Hunan, Hong Kong itself should consider how to connect better with the Mainland transport network and how to improve the quality of its highways, so as to be able to cope with the increasingly busy cross-boundary traffic between Hong Kong and Guangdong.

Hunan: Building the First Medicine Logistics Bonded Warehouse

At the beginning of this year, the application for building the first drugs logistics bonded warehouse for pharmaceutical products (醫藥物流保稅倉) in China was duly approved by the Changsha (長沙) Customs authority. It is expected that, when the bonded warehouse becomes operational in a short time, customs declaration formalities for drugs will be handled in a central location, and the customs clearance process for the import or export of drugs will be accelerated. Moreover, lower drug prices, as a result of reduced tariffs, may indirectly boost the development of the pharmaceutical sector in Hunan.

A Distributing Base of Medicines in the World

The Hunan medicine logistics bonded warehouse was established by the Quanzhou Medicine and Food Logistics Distribution Co., Ltd. (全洲醫藥食品物流配送有限公司). Besides offering declaration service, bonded warehousing, warehouse management, international transportation and circulation processing and other services, this bonded warehouse has also adopted the just-in-time system (JIT) of the supply chain to realise a nearly “zero inventory” (零庫存). In order to control the inventory of drugs effectively, the dates and quantities of drugs entering and leaving the bonded warehouse need to be recorded accurately. The pharmaceutical manufacturers, in response to the demands of customers, can calculate the quantities of medicine to be produced, organise real-time production, manage production effectively, reduce production and overstocking cost and, therefore effectively reduce the selling price of medicine.

In addition, the company has also invested in the Medicines and Foods Logistics Centre in Changsha, which is the largest in Central and Southern China. This centre owns the first-class logistics facilities in Mainland China, including an infrared remote temperature control system, an electronic ordering system, an e-retailing management system, an automatic delivery car, an automatic cargo sorting system, a digital display product picking system and other advanced logistics equipments. It achieves full automatization in receiving, storage, delivering, sorting and exporting. The total capacity of this logistics centre is 600 000 cartons. It can manage a daily throughput of 60 000 cartons, and handle more than 2 000 customer orders per day. The centre will be opened within this year.

At the same time, Quanzhou Pharmaceutical Group (全洲藥業集團), the parent company, is building an international pharmaceutical exchange house (國際藥品交易所). The 4 000 sq. metres exhibition hall of the centre would contain more than 300 modern standard booths and 80 computers to provide on-line billing service. The transaction screen display will show information generated by the e-commerce platform under the international pharmaceutical exchange house established by the company, serving global drugs suppliers, dealers, agents and end customers. The ultimate objective is to create an integrated global pharmaceutical industry and build the pharmaceutical exchange into a Global Pharmaceutical Distribution Hub (全球醫藥集散基地).

Possible Roles of Hong Kong Businesses

The Global Pharmaceutical Distribution Hub will not only provide pharmaceutical services across the country, but also facilitate pharmaceutical research and development, and the introduction of foreign drugs as well as the latest pharmaceutical information, so as to enhance medical services for Hunan residents. Hong Kong will also be able to leverage its advantage as an international financial hub to provide financing channels for Hunan's pharmaceutical industry and for tapping into the pharmaceutical market in the Mainland. Hong Kong-based pharmaceutical enterprises and even universities may also get in touch with Hunan's pharmaceutical companies for the sharing of resources and joint research and development of new drugs.

Hainan: Hainan Tourism Vigorously Expands to International

During the Golden Week of May 1st (五·一黃金周), Hainan received 550 400 tourists, representing growth of 11.37% year-on-year. The tourism revenue in the seven days was RMB477 million (17.82% increase). The development of Hainan's tourism industry has been growing vigorously since early 2006, as evidenced in three aspects, as follows:

To Expand International Tourist Source Markets

The ratio of international tourists in the total number of tourists visiting Hainan was always low. In order to expand the international source markets, Hainan attended the Berlin International Tourism Exposition (德國柏林國際旅遊展), North Europe Joint Promotion Activity (北歐聯合促銷活動), Moscow International Tourism Fair (莫斯科國際旅遊交易會), Singapore and Malaysia Travel Fair (新加坡馬來西亞旅遊促銷), Japan Golf Special Promotion (日本高爾夫專項促銷) in January-March this year. These events have been very helpful for promoting awareness of Hainan, awareness in the international market and attracting international tourists. In April 2006, Haikou opened a new low-cost route to Singapore, which provided convenient service for tourists from Singapore to visit Hainan. Statistics showed that during the Golden Week of May 1st, the occupancy rate of foreign tourists in the Yintai Holiday Hotel (銀泰渡假酒店) situated in Dadong Seaview Area (大東海景區) of Sanya City (三亞市), the Sheraton (喜來登) and the Wanhao (萬豪) Holiday Hotel situated in Yalong Bay Scenic Area (亞龍灣景區) was 10% more than that recorded in the same period of last year.

To Create a Well-Regulated Tourist Market

In 2006, the Hainan Tourism Bureau adopted a series of measures to regulate the tourism market, which included quality evaluation of tourist spots, replacing nine small and low grading tourist spots, introducing consolidated price control at various tourist spots, and stopping unnecessary high charges, high rebates and other improper activities. Travel agencies which received the Excellent Top 10 award in Hainan joined forces for the first time to boycott travel agencies that offered a poor service. During the Golden Week of May 1st, the Hainan Tourism Bureau set up a 110 Complaint Hotline and Fast Response training for handling tourists' complaints for 24 hours per day and seven days per week.

To Adjust the Tourist Structure

Hainan is actively promoting its transformation from a destination for sightseeing into a leisure and vacation resort. For example, Nanqiang Village (南強村), Boao Town, and Qionghai City are placing emphasis on the fact that they offer a clean and welcoming ecological village environment as well as the nearby Wangquan River (萬泉河). During the Golden Week of May 1st, on average some 1 500 tourists were received each day. The “Family Water Life” introduced by Boao (博鰲) and the “Expanding Training Base” promoted by the Wanquanhu Tourism Area (萬泉湖旅遊度假區) also attracted many tourists. Wenchang (文昌) City rolled out its countryside tour, ecological tour, mangrove tour and other featured tours such as the “Happy Fisherman’s Home” (漁家樂) and “Happy Rural Village” (農家樂), which attracted crowds of tourists to the city’s popular attractions. During the Golden Week of May 1st, Hainan Island witnessed an influx of more than 16 000 cars driven by people on self-guided driving tour programmes, a record high for the island. Tourists on self-guided driving tours with other partners in particular made up the majority of the Golden Week visitors.

Impact of the Recent Development of the Hainan Tourism Industry on Hong Kong

The vigorous development of Hainan tourism provides unlimited commercial opportunities and challenges for Hong Kong. In general, opportunities can be found in the following aspects:

There are many problems and shortcomings in Hainan’s tourism industry management. For example, high-end tourists have commented that Hainan offers “first-class resources but second-class management”. There are gaps between the service qualities of tourist spots, hotels, bus services, travel agencies and tour guides and the demands of tourists. There is a lack of scientific guidance and supervision in respect of the exploitation and protection of ecological resources. Concerning the operation and management levels of tourism, the Sanya City (三亞市) is far behind its target of becoming the “Eastern Hawaii” (東方夏威夷). Hong Kong companies may utilize their strengths in international standard operation and management to provide consultation and training services for Hainan’s tourism management personnel. They can further establish and develop travel agencies in Hainan, and utilise Hainan’s tourism resources to strengthen their own business.

Hong Kong consultation and design companies can participate in the planning and construction of selected tourism spots and leisure and holiday destinations in Hainan. Currently, the major tourist spots to be opened are the Boao Water Town Phase II (博鰲水城二期), the Shenzhou Peninsula (神州半島), the Haitang Bay (海棠灣), the Qixian Mountain (七仙嶺), the Shimei Bay (石梅灣), the Qingshui Bay (清水灣), the Qizi Bay (棋子灣), the Tonggu Mountain (銅鼓嶺), the Yingbing Peninsula (盈濱半島) and the Xisha (西沙) Tour. Major special tours to be developed are the golf and leisure tour, the health-care tour, the tropical forest tour, the aquatic tour and the exhibition tour. Direct support from the Hainan Provincial Government will be granted to these key destinations and projects, with such gestures surely bringing about certain economic viability and social benefits. In addition, related industries such as shopping, catering, amusement entertainment, real estate, will be further expanded along with the development of Hainan's tourism.

However, the prosperous Hainan tourism also brings some challenges to the tourism industry of Hong Kong, especially in the competition for Mainland tourists. For example, in the Golden Week of May 1st this year, the number of Mainland tourists visiting Hong Kong was far below the expected number. In comparison with the crowded tourist spots in Hainan, the two major theme parks in Hong Kong, the Ocean Park and the Disneyland, were short of tourists. As the Mainland has become the largest source of tourists, the Hong Kong tourism industry should pay attention to how to deal with market changes and sustain its appeal to Mainland visitors. However, Hong Kong and Hainan provide different types of tour and attract different types of tourists. These two markets complement with each other rather than compete with each other. Hong Kong and Hainan could work together to develop the domestic and overseas tourism markets, for example by introducing "business + leisure and holiday" packages to attract tourists to visit Hainan after visiting Hong Kong.

Hainan: Hainan Airlines Becomes a Shareholder of a Hong Kong Airline

In May 2006, the Hong Kong SAR Government approved Hainan Airlines' (海南航空) participation in the equity of Hong Kong CR Airways (中富航空). It was reported that there were questions as to whether the "designated airline" status of CR Airways would be changed after Hainan Airlines' participation in the equity, specifically, whether CR Airways would still be based in Hong Kong as its principal place of business and whether its management and decision-making processes would be based in Hong Kong. The share of CR Airways held by Hainan Airlines was reduced from the initial 65% to 45%, with the remaining 55% being held jointly by Robert Yip Kwong (葉長青), the Chairman of CR Airways and Meng Jianqiang (蒙建強), the former non-executive director of Haikou Meilan International Airport Co., Ltd. (海口美蘭國際機場股份有限公司)

Reengineering of Hainan's Aviation Industry

The Hainan Airlines is a regional enterprise of Hainan Province, directly under the Hainan Airlines Group (海航集團). In 1993, the Hainan Provincial Government invested RMB10 million to develop Hainan Airlines. By 2005, the Hainan Airlines owned assets of RMB43.5 billion and realised business income of RMB15 billion. It has established nine aviation bases in Haikou (海口), Beijing, Ningbo (寧波), Sanya (三亞), Xi'an (西安), Taiyuan (太原), Tianjing, Urumqi and Guangzhou. Hainan Airlines operates nearly 500 domestic and overseas air routes, including international routes from Sanya to Seoul, from Haikou to Bangkok, Osaka, Singapore, etc. In 2005, the annual sales income of the Hainan Airlines broke the record of RMB10 billion and the company became one of the four major airlines in China.

The Hainan Airlines Group, the parent company of Hainan Airlines, is an enterprise with business engaged in aviation transportation, airports and hotels. Recently, the Hainan Airlines Group has made positive steps towards reorganizing its subsidiary airline companies and airports, for example, the China Xinhua Airlines (新華航空), the Chang'an Airlines (長安航空), the Shanxi Airlines (山西航空), the Sanya Phoenix International Airport (三亞鳳凰國際機場), the Yichang Sanxia Airport (宜昌三峽機場), and the Shandong Weifang Airport (山東濰坊機場), etc. to prepare for the incorporation of a company called Grand China Airlines Group (中國新華航空集團), or Grand China Air (大新華航空) for short. In October 2005, the Hainan Airlines Group received an investment of US\$25 million from George Soros. After that, the Hainan Provincial Government injected RMB1.5 billion to pave the road for the listing of shares of the China Xinhua Group (中國新華航空集團).

Hainan Aviation Industry Expands out of Hainan

Besides its reorganisation, fund raising and listing activities, the Hainan Airlines Group has taken active investment steps in recent years. In May, the Hainan Airlines Group cooperated with the Gansu Airport Group (甘肅機場集團) to establish an aviation operation subsidiary and aviation base. It also participated in the development of tourism, logistics, real estate, business and food industry of the Gansu Province. This will not only introduce advanced management mechanism for the Gansu airport, but also support the development of civil aviation in the 11th Five-Year Plan. It also expands the airlines for the Hainan Airlines Group and develops business in different fields.

In addition, the Hainan Airlines Group (海航集團) and the Hainan Airlines Co., Ltd. (海南航空股份有限公司) will invest RMB100 million in Tianjin to establish the Great Xinhua Express Co., Ltd. (大新華快運航空有限公司) and set up the head office of the Great Xinhua Group Branch. Besides the Great Xinhua Express, the Hainan Airlines Group will set up the Yangtze River Express Northern Freight Company (揚子江快運北方貨運公司) and the Aviation Lease Company (航空租賃公司) in Tianjin. Within five years, the Hainan Airlines Group will invest RMB10 billion in Tianjin, and jointly develop air transport, air logistics, aviation lease, aviation maintenance and other relevant sectors with the Tianjin municipal government. It intends to incorporate the largest national aviation lease company based in Tianjin.

In addition, the Hainan Airlines Group has set up Yunnan Xiangpeng Airlines (雲南祥鵬航空) with its subsidiary Shanxi Airlines (山西航空), Chongqing Airlines (重慶航空) with the Chongqing Real Estate Group, and opened air routes to/from Tibet. At the beginning of this year, it also established a branch in Guangzhou as part of the Pan-PRD cooperation.

Planning to Purchase Shares in Hong Kong Express (港聯航空)

Recently, it was reported that the Hainan Airlines Group would become a shareholder of another Hong Kong airline, the Hong Kong Express. The Hong Kong Express, formerly the Helicopters Hong Kong Limited (港聯直昇機有限公司), is owned by businessman Stanley Ho (何鴻燊). It obtained its Air Operators Certificate (AOC) in 1997 and provides helicopter services between Hong Kong and Macao. In 2004, the Hong Kong Express decided to invest in civil airline service and aimed to operate scheduled air services from Hong Kong to second-class cities in Mainland China. If the cooperation between the Hong Kong Express and the Hainan Airlines Group were successful, the Hainan Airlines Group might set up a base in Hong Kong by leveraging on its role of a shareholder of the CR Airways. On the other hand, Hong Kong Express can expand its air route network into the Mainland and speed up the development of air industry between Hong Kong and the Mainland China.

Memorabilia of Pan-PRD Regional Cooperation

Fujian

The First Global Procurement Fair Held in Fuzhou

(5 April 2006) The First Global Procurement Fair on the West Bank of the Taiwan Straits (海峽西岸全球採購交易會) was held in the Fuzhou International Conference and Exhibition Centre. The main purpose of the Fair was to develop and open the domestic and international markets at a faster speed for more enterprises based in Fujian. The fair witnessed booming large-scale purchase transactions, the first of their kind in the business development history of Fujian. This is also an innovation in terms of the marketing method for Fujian enterprises. (Hong Kong Commercial Daily (香港商報), 5 April 2006)

The First Employment Fair in Mainland China for Professional Personnel cum College Graduates from the Taiwan Region Held in Fujian

(8 April 2006) The Mainland Employment Fair (大陸就業洽談會) held in Xiamen had more than 500 high-salaried posts on offer for Taiwanese applicants. At present, there are about 7 000 Taiwan students studying in Mainland China. (Fujian Daily (福建日報), 10 April 2006)

The Fourth China-Fujian Project Achievement Trade Fair

(29 April 2006) The Fourth China - Fujian Project Achievement Fair would be held on 18-20 June 2006 at the Jinshan Exhibition Town, Fuzhou City (福州金山展覽城). The theme of the fair was to realise a perfect combination of the project, technology, capital and qualified personnel. The target was to boost the project achievement of over 5 000 items and the technical demand of enterprises for over 400 items. (Ta Kung Pao (大公報), 29 April 2006)

Hunan

The First Trade Fair for Investment and Trade in the Central Region of China

(12 January 2006) It was released in the Working Meeting of Directors of Bureau of Commerce (Merchants), Hunan (湖南省商務(招商)局長工作會議) that the First Trade Fair for Investment and Trade in the Central Region of China would be held in Hunan in the first

10 days of November 2006, which was the only comprehensive investment promotion activity held in the name of the provincial government this year. (China Economy Net (中經網), 12 January 2006)

Guangdong and Hunan Agricultural, Economic and Trade Fair

(13 January 2006) The Fair, held in Changsha, Hunan, saw the signing of some 135 contracts which worthed RMB14.3 billion, with projects relating to farm production, fish breeding and poultry raising, processing and other fields. (Nan Fang Daily (南方日報), 13 January 2006)

Delegation of Hunan Education participated in Hong Kong Educational and Professional Exposition

(23 February 2006) The Vice-Governor of Hunan, Xu Yunzhao (許雲昭), said that 12 universities or colleges in Hunan had foreign students as well as students from Hong Kong, Macao and Taiwan. He also extended a welcome to Hong Kong students to come and study and seek personal careers in Hunan. At the same time, he thanked the people of Hong Kong who had donated money to assist in the development of education in Hunan. (Wen Wei Po (文匯報), 23 February 2006)

European Industrial Park Recommendation Conference Held in Hunan

(20 March 2006) The European Information Centre (歐洲資訊中心), the Economic and Trade Delegation of the State of Hessen in Germany (德國黑森州經貿代表團), and the British Education Delegation (英國教育代表團) made successive trips to attend the promotional meeting and visit the industrial park. The European Industrial Park in Hunan Province is an industrial park in the Central Region of China designed mainly for accommodating European investors. This park was developed by a company jointly sponsored by the Zhuzhou State High-Tech Industrial Development Zone Management Committee and the Hunan Branch of the China Council for the Promotion of International Trade (中國貿促會湖南省分會), and is operated on the basis of market principles under the direction of the government. (Consumption Daily (消費日報), 20 March 2006)

Michel Sapin (米歇爾·薩潘), Regional President of the *région* Centre of France (法國中央大區), and His Entourage, Visited Hunan Province

(30 March 2006) Zhang Chunxian (張春賢), Secretary of provincial party committee, interviewed a 19-member delegation led by Michael Sapan, Regional President of the *région*

Centre of France and signed the “Friendly Exchange Memo for Friendly Delegation of Centre of France Visiting Hunan Province” (法國中央大區友好代表團訪問湖南省友好交流備忘錄). Hunan Province and the Centre of France concluded friendly relations as early as in 1991. The data showed that in 2005, the total amount of import and export with France was US\$45.19 million, of which the amount of export was US\$30.30 million. (China Press Agency (中國新聞社), 31 March 2006)

Hunan Enterprises in ASEAN Fair

(8 May 2006) The Hunan Provincial Department of Commerce issued a circular stating its determination to promote a number of “going-out” (走出去) strategy projects in the Third China – ASEAN Fair held in Nanning (南寧) on 19-22 October. It mainly involved six industries, namely, mechanical equipment, electronic appliance, building material, household article, and agricultural material, agricultural product and food. (China Economic Net (中經網), 8 May 2006)

Hainan

China and Saudi Arabia Jointly Built 100M Tons of Petroleum Storage Base in Hainan

(24 January 2006) President Hu Jintao (胡錦濤) and King Abdur of Saudi Arabia (阿卜杜拉) jointly attended the signature ceremony of five cooperative agreements relating to petroleum and nature gas, etc. According to a report of the Eastern Morning (東方早報), China and Saudi expected to enter into an agreement on the cooperative project of building a large-scale petroleum storage base in Hainan. This base, after completion, could provide 100 million tons of petroleum storage capacity for China. (Sing Tao Daily (星島日報), 24 January 2006).

Delegation of Singapore Hainan Club Visited Hainan

(13 February 2006) Vice Governor of Hainan Chen Cheng (陳成) interviewed a 45-member delegation of the Hainan Club of Singapore. This delegation visited Haikou (海口), Qionghai (瓊海), Wenchang (文昌), Wanning (萬寧) and Sanya (三亞) in order to understand the situation of Hainan in investment, industry, commercial trade, etc. The Hainan Club of Singapore has been established for 152 years and now has 4 000 members. (China Press Agency (中國新聞社), 14 February 2006)

Delegation of Thailand Upper House Visited Hainan

(1 March 2006) A 15-member delegation from Thailand led by the Honourable Nipon Wisityuthasart (尼蓬·威實育塔薩), First Deputy Speaker of the Senate of the Thai National Assembly, visited Hainan for three days. The governor of Hainan Wei Liucheng (衛留成) introduced the 11th Five-Year Plan and the prospects of Hainan to Wisityuthasart. (China Press Agency (中國新聞社), 2 March 2006)

Enterprise Heads Summit Held in Hainan

(4 April 2006) The Hong Kong, Macao and Taiwan Chinese and Mainland Corporate Leaders Summit cum Hainan New Industries Development Forum (港澳台僑與內地企業領袖峰會暨海南新型工業發展論壇) was opened on 3 April 2006 in Haikou City. The experts attending the meeting pointed out that Hainan should give priority to expediting the construction of its energy resources and transport infrastructure in the future and extend its development into the deep-water area of the sea to become a large-scale petrochemical base primarily relating to the opening up of large oil field and natural gas resources. (China Economic Net (中經網), 4 April 2006)

Annual Session of Boao Asian Forum

(21-23 April 2006) The theme this year is “Asia seeks win-win outcomes – new opportunities for Asia” (亞洲尋求共贏-亞洲的新機會). Some 850 guests from 39 nations and regions attended the annual session, with three-quarters of them from the corporate community, while about 40 attendees were officials at the level of minister or above in charge of the economy and trade of the relevant nations, including Japan, the Philippines, Indonesia, Korea, etc. Long Yongtu (龍永圖), the Secretary-General of the forum indicated that the annual session of the Boao Asian Forum should be developed into a grand meeting of entrepreneurs from Asia or even the world, as well as a platform for promoting exchange and cooperation between such entrepreneurs. (Wen Wei Po (文匯報), 21 April 2006)

Hainan and Macao Golf Club Signed a Cooperative Agreement

(24 April 2006) The Macao Golf Club and the Hainan Golf Association formally signed an agreement on the Hainan-Macao Golf Club Cooperation (瓊-澳兩地高爾夫球會合作), and intended to hold the first Qiong’ao Cup (瓊澳盃) Golf Friendship Game. Now there are 16 courts in the whole Hainan Island, and every year there are 400 000 people attending golf tournaments and on golf holidays in Hainan. (Macao Daily (澳門日報), 24 April 2006).

Tianjin and Hainan Signed a Cooperative Agreement

(26 April 2006) In Tianjin, Hainan held a forum to promote its special projects, and signed a cooperative agreement on promoting cooperation and development in business and trade in these two places. According to the agreement, Tianjin and Hainan would establish a business and trade cooperation joint conference system whereby business departments would hold regular business and trade contact meetings and cooperate in eight aspects, which included establishing a distribution mechanism for agricultural and sideline products as well as self-owned brand products of the two places. (Jin Wan Bao (今晚報), 20 April 2006; China Economic Net (中經網), 26 April 2006)

Jiangxi

Chief Executive of MSAR and Delegation Visited Jiangxi

(16-18 January 2006) Chief Executive of Macao Special Administrative Region Ho Hau Wah (何厚鏞) led a delegation of more than 60 members, consisting of governmental officials and entrepreneurs of Macao visited Jiangxi for three days. The governments of the two places signed a business and trade cooperation memo and a tourism cooperation memo. During January to November of 2005, the total import and export of Jiangxi to Macao amounted to US\$1.55 million, an increase of 26.3%. In Jiangxi, there are 88 enterprises receiving investment from Macao. Contracted capital with Macao as its source totals more than US\$200 million, while the actual capital used with Macao as its source is US\$160 million. (Jiangxi Daily (江西日報), 17 January 2006)

Zhejiang and Jiangxi Culture Interactive Forum Held in Nanchang

(1 March 2006) The Jiangxi Academy of Social Science (江西省社科院) and Zhejiang Academy of Social Science (浙江省社科院) jointly held the Zhejiang and Jiangxi Culture Interactive Forum. Over 60 experts, scholars and administrative leaders from the two provinces attended the forum. The Forum conducted interactive discussions on subjects such as how to strengthen economic cooperation between Zhejiang and Jiangxi from the perspective of regional culture. (Jiangxi Daily (江西日報), 1 March 2006)

Ganzhou City and the Jiangxi Branch of the Construction Bank of China Jointly Signed a Government and Bank Cooperative Agreement on 11th Five-Year Plan

(29 March 2006) According to the agreement, the Jiangxi Branch of the Construction Bank of China would provide credit of RMB10 billion and various financial services to support the development of education, traffic, electricity, non-ferrous metal, chemical, pharmaceuticals, machinery, cigarette, and infrastructure projects of Ganzhou City during the period of the 11th Five-Year Plan. (China Economic Net (中經網), 29 March 2006)

Macao Higher Education Delegation Visited Jiangxi

(11 April 2006) The person-in-charge of the Macao Higher Education Delegation briefed students and parents in Jiangxi on Macao tertiary institutions' admission policies for Mainland students. The Delegates comprised members from the Macao University (澳門大學), the Macao Science and Technology University (澳門科技大學) and the Macao College of Technology (澳門理工學院). (China Press Agency (中國新聞社), 11 April 2006)

Pan-PRD (9+2)

The Preparatory Meeting of the Third Pan-PRD Media Cooperation Forum Held in Kunming

(12 February 2006) The meeting focussed on how to conduct the Third Pan-PRD Media Cooperation Forum cum ASEAN Media Summit and matters relating to the "*Newsletter for the Third Pan-PRD Regional Cooperation and Development Forum cum Economic and Trade Fair*" (第三屆泛珠三角區域合作與發展論壇暨經貿洽談會會刊). At the meeting, the forum to be held in Yunnan in early June 2006 was given the theme "to boost construction of the platform for mutual development and success". (Yunnan Daily (雲南日報) network version, 14 February 2006)

Pan-PRD Office Delegation Visited Hong Kong

(21 February 2006) The Pan-PRD Office Delegation visited Hong Kong for three days in order to enhance its understanding on the developments of Hong Kong in various aspects. The delegation visited the Hong Kong Exchanges and Clearing Limited, the Hong Kong Monetary Authority and Superterminal One at the airport and container terminals in Kwai Chung and other infrastructures. (Wen Wei Po (文匯報), 21 February 2006)

Pan-PRD Financial Services Forum Held in Hong Kong

(23 March 2006) Over 300 attendees, including officials from relevant ministries of the Central Government and Pan-PRD Region as well as Pan-PRD entrepreneurs, attended the Forum held in Hong Kong. In addition, there were more than 100 attendants from the Hong Kong financial sectors. Financial Secretary Tang Ying-yen (唐英年) said that the regulatory level, the quality of professional personnel and information communication of the financial system in Hong Kong were always in line with international standards. He believed that Hong Kong was the best service platform for Mainland enterprises to “go into” and “go out”. By the end of February 2006, Hong-Kong-listed Mainland enterprises accounted for about 30% of the total enterprises listed in Hong Kong, and the amount of fund raised was over US\$142 billion. To the present date, there are about 100 enterprises based in the nine Pan-PRD provinces/region which have listed their shares in Hong Kong, and over half of them are from Guangdong. (Wen Wei Po (文匯報), 23 March 2006)

The Second Pan-PRD Women Development and Cooperation Conference Held in Nanning

(23 March 2006) The “*Second Pan-PRD Women’s Development and Cooperation Agreement*” (第二屆泛珠三角區域婦女發展合作協議) was signed at the Conference which defined the cooperation fields and set up the cooperation mechanism. During the Conference, the Guangxi Women’s Federation sponsored the Chairperson Forum and three topical forums, i.e. investment promotion by woman entrepreneurs, labour export cooperation, and women and children communication. The next conference will be held in and organised by Hunan. (People Net (人民網), 24 March 2006)

Hong Kong SAR Government Held Pan-PRD Forum in Singapore

(1 April 2006) The Hong Kong Economic and Trade Office based in Singapore held the Pan-PRD Regional Cooperation - What is the “9+2” Forum (泛珠三角區域合作—何謂『九加二』論壇) on 31 March in Singapore, with a view to enhancing the understanding of Singapore businessmen of the economic development and business opportunities of the Pan-PRD regional cooperation. (Ta Kung Pao (大公報), 1 April 2006)

The Third Pan-Pearl Delta Mayors Forum

(13 April 2006) The Third Forum for the Mayors of Provincial Capitals in the Pan-PRD Region will be held in Nanchang, Jiangxi in May. The theme of the Forum is “To Strengthen

Regional Cooperation and Build a Green Passageway”. (Journal Va Kio (華僑報), 13 April 2006)

The Third Pan-PRD Cooperation and Development Forum Will be Opened in the Pearl River Source Region

(8 May 2006) The Forum will be held in Kunming (昆明) on 5-6 June with the theme of “Cooperation and Development for a Mutually Bright Future”. The opening ceremony would be held at Qujing City (曲靖市), the source of the Pearl River. The trade fair would be held from 6-10 June together with the Kunming Import and Export Goods Fair 2006 (2006年昆明進出口商品交易會), at the Kunming International Conference and Exhibition Centre (昆明國際會展中心). (Yunnan Daily (雲南日報) Network Version, 8 May 2006)

The Fourth National (Guangzhou) Special Agricultural Products Fair

(12 May 2006) The annual Fair was the fourth one held in Guangzhou. The first three fairs were held in Hainan, Guangxi and Fujian respectively. Nearly 300 agricultural enterprises (units) attended the Fair, of which 85% came from the Guangdong Province. There were 18 enterprises from Fujian, 18 from Guangxi and five from Hainan. (People Daily (South China Version) (人民日報 (華南版)), 9 May 2006)

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Fujian

	2004	2005	2006 Jan-Mar	2006 Jan	2006 Feb	2006 Mar
Nominal Gross Domestic Product (Rmb100 mn) ²	6,053	6,560	1,348	-	-	-
Real Gross Domestic Product Growth (%) ^{2,5}	12.1	11.3	12.7	-	-	-
Urban Per Capita Disposable Income (Rmb) ²	11,175	12,321	4,123	1,245	1,863	1,014
Rural Per Capita Net Income (Rmb) ^{2,3}	4,089	4,450	1,315	-	-	-
Consumer Price Index (%) ²	4.0	2.2	-0.1	1.0	-0.6	-0.8
Retail Sales of Consumer Goods (Rmb100 mn) ²	1,996	2,346	672	237	231	204
Year-on-year growth (%) ^{2,5}	14.7	13.8	15.3	14.3	15.1	16.6
Value-added of Industry (Rmb100 mn) ^{2,6}	1,846	2,274	549	187	159	208
Year-on-year growth (%) ^{2,5,6}	23.5	17.9	19.3	14.4	24.5	23.2
City, County and Above Investment in Fixed Assets (Rmb100 mn) ^{2,4}	1,601	1,986	423	97	221	423
Year-on-year growth (%) ^{2,4,5}	29.0	24.1	43.8	26.3	41.2	43.8
Value of Exports (US\$100 mn) ^{7,8}	294.0	348.5	87.2	31.1	22.2	33.9
Year-on-year growth (%) ^{5,7,8}	39.1	18.5	13.8	22.1	-	-
Value of Imports (US\$100 mn) ^{7,8}	181.5	195.9	54.0	17.1	15.9	21.0
Year-on-year growth (%) ^{5,7,8}	27.9	8.0	17.5	10.7	-	-
Foreign Direct Investment (US\$100 mn) ⁹	53.2	62.3	16.7	-	-	-

- Notes:
- 1 - Values are all in nominal terms.
 - 2 - 2004, 2005 & Jan-Mar 2006 data source: Fujian Provincial Bureau of Statistics Website.
 - 3 - Jan-Mar 2006 data refer to cash income, normally announced only in March, June, September and December.
 - 4 - 2006 monthly data are year-to-date data.
 - 5 - Real growth rate.
 - 6 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
 - 7 - Classification according to source and destination of product.
 - 8 - 2004 & 2005 data source: Fujian Provincial Bureau of Statistics Website; Jan-Mar 2006 data source: China Customs.
 - 9 - Actually utilised amount of foreign direct investment. 2004 data source: China Commerce Yearbook 2005; 2005 data source: Fujian Provincial Bureau of Statistics Website; Jan-Mar 2006 data source: Haixia Xian Economics Zone website, April 21, 2006.

Jiangxi

	2004	2005	2006 Jan-Mar	2006 Jan	2006 Feb	2006 Mar
Nominal Gross Domestic Product (Rmb100 mn) ²	3,496	4,056	864	-	-	-
Real Gross Domestic Product Growth (%) ^{2,5}	13.2	12.8	11.1	-	-	-
Urban Per Capita Disposable Income (Rmb) ²	7,560	8,620	2,695	845	1,126	724
Rural Per Capita Net Income (Rmb) ^{2,4}	2,953	3,266	929	-	-	-
Consumer Price Index (%) ²	3.5	1.7	0.4	1.4	0.7	0.4
Retail Sales of Consumer Goods (Rmb100 mn) ²	1,060	1,236	349	129	113	107
Year-on-year growth (%) ^{2,5}	14.8	15.0	14.9	-	-	-
Value-added of Industry (Rmb100 mn) ^{2,3,6}	618	829	211	-	123	88
Year-on-year growth (%) ^{2,3,5,6}	26.1	23.6	21.4	-	20.8	-
City, County and Above Investment in Fixed Assets (Rmb100 mn) ^{2,3}	1,488	1,934	271	-	134	137
Year-on-year growth (%) ^{2,3,5}	36.0	30.9	35.8	-	28.0	-
Value of Exports (US\$100 mn) ^{7,8}	19.9	24.4	7.2	2.4	1.8	3.0
Year-on-year growth (%) ^{5,7,8}	32.5	22.3	34.2	27.0	-	-
Value of Imports (US\$100 mn) ^{7,8}	15.4	16.2	6.4	2.2	2.0	2.3
Year-on-year growth (%) ^{5,7,8}	50.3	5.4	16.9	8.6	-	-
Foreign Direct Investment (US\$100 mn) ^{2,9}	20.5	24.2	5.3	1.6	2.0	1.7

Notes: 1 - Values are all in nominal terms.

2 - 2004, 2005 & Jan-Mar 2006 data source: Jiangxi Statistical Information Net.

3 - Feb 2006 data is the accumulated amount for Jan-Feb 2006.

4 - Jan-Mar 2006 data refer to cash income, normally announced only in March, June, September and December.

5 - Real growth rate.

6 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.

7 - 2004 & 2005 data source: Jiangxi Statistical Information Net; Jan-Mar 2006 data source: China Customs.

8 - Classification according to source and destination of product.

9 - Actually utilised amount of foreign direct investment.

Hunan

	2004	2005	2006 Jan-Mar	2006 Jan	2006 Feb	2006 Mar
Nominal Gross Domestic Product (Rmb100 mn) ²	5,612	6,474	1,527	-	-	-
Real Gross Domestic Product Growth (%) ^{2,6}	12.0	11.6	12.0	-	-	-
Urban Per Capita Disposable Income (Rmb) ²	8,618	9,524	3,129	-	-	-
Rural Per Capita Net Income (Rmb) ^{2,3}	2,838	3,118	1,070	-	-	-
Consumer Price Index (%) ⁴	5.1	-	-0.3	1.1	-0.5	-0.4
Retail Sales of Consumer Goods (Rmb100 mn) ²	2,070	2,459	688	253	227	208
Year-on-year growth (%) ^{2,6}	14.0	14.4	14.5	15.8	12.9	14.7
Value-added of Industry (Rmb100 mn) ^{2,7}	1,198	1,536	403	127	119	157
Year-on-year growth (%) ^{2,6,7}	24.1	20.6	20.0	-	27.8	20.9
City, County and Above Investment in Fixed Assets (Rmb100 mn) ^{2,5}	1,690	2,194	362	-	166	196
Year-on-year growth (%) ^{2,5,6}	36.0	29.8	31.6	-	34.4	-
Value of Exports (US\$100 mn) ^{8,9}	31.0	37.5	9.2	2.8	2.8	3.6
Year-on-year growth (%) ^{6,8,9}	44.3	20.9	17.6	11.5	-	-
Value of Imports (US\$100 mn) ^{8,9}	23.4	22.6	6.1	2.0	2.5	1.7
Year-on-year growth (%) ^{6,8,9}	47.2	-3.5	-11.9	-14.6	-	-
Foreign Direct Investment (US\$100 mn) ^{2,5,10}	16.4	23.3	4.5	-	3.2	1.4

- Notes:
- 1 - Values are all in nominal terms.
 - 2 - 2004, 2005 & Jan-Mar 2006 data source: Statistical Information of Hunan Website.
 - 3 - Jan - Mar 2006 data refer to cash income, normally announced only in March, June, September and December.
 - 4 - 2004 data source: Statistical Information of Hunan Website; Jan-Mar 2006 data source: Hunan Provincial Department of Commerce.
 - 5 - Feb 2006 data is the accumulated amount for Jan-Feb 2006.
 - 6 - Real growth rate.
 - 7 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
 - 8 - 2004 & 2005 data source: Statistical Information of Hunan Website; Jan-Mar 2006 data source: China Customs.
 - 9 - Classification according to source and destination of products.
 - 10 - Actually utilised amount of foreign direct investment.

Hainan

	2004	2005	2006 Jan-Mar	2006 Jan	2006 Feb	2006 Mar
Nominal Gross Domestic Product (Rmb100 mn) ²	790	904	217	-	-	-
Real Gross Domestic Product Growth (%) ^{2,4}	10.4	10.1	11.7	-	-	-
Urban Per Capita Disposable Income (Rmb) ²	7,736	8,124	2,924	934	1,261	729
Rural Per Capita Net Income (Rmb) ^{2,3}	2,818	3,004	947	-	-	-
Consumer Price Index (%) ²	4.4	1.5	1.4	1.8	1.6	0.9
Retail Sales of Consumer Goods (Rmb100 mn) ²	219.0	269.0	75.4	24.7	26.4	24.3
Year-on-year growth (%) ^{2,4}	14.4	13.4	13.7	-	12.8	12.3
Value-added of Industry (Rmb100 mn) ^{2,5}	123.5	148.5	41.0	13.8	11.8	13.7
Year-on-year growth (%) ^{2,4,5}	18.4	18.6	20.1	-	24.3	15.5
City, County and Above Investment in Fixed Assets (Rmb100 mn) ^{2,6}	235.3	351.5	61.4	-	38.6	22.8
Year-on-year growth (%) ^{2,4,6}	16.6	20.8	19.5	-	13.3	-
Value of Exports (US\$100 mn) ^{7,8}	10.9	10.2	2.1	0.6	0.5	1.0
Year-on-year growth (%) ^{4,7,8}	26.0	-6.4	23.8	18.4	-	-
Value of Imports (US\$100 mn) ^{7,8}	23.1	15.7	3.6	1.5	0.7	1.4
Year-on-year growth (%) ^{4,7,8}	63.8	-32.0	23.5	42.9	-	-
Foreign Direct Investment (US\$100 mn) ^{2,9}	6.7	6.8	1.3	-	-	0.6

- Notes:
- 1 - Values are all in nominal terms.
 - 2 - 2004, 2005 & Jan-Mar 2006 data source: Statistical Bureau of Hainan Province Website.
 - 3 - Jan-Mar 2006 data refer to cash income, normally announced in March, June, September and December.
 - 4 - Real growth rate.
 - 5 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
 - 6 - Feb 2006 data is the accumulated amount for Jan-Feb 2006.
 - 7 - Classification according to source and destination of products.
 - 8 - 2004 & 2005 data source: Statistical Bureau of Hainan Province Website; Jan-Mar 2006 data source: China Customs.
 - 9 - Actually utilised amount of foreign direct investment.

Major Economic Indicators of Nine Pan-PRD Provinces/Region (Jan-Mar 2006)

	Fujian	Jiangxi	Hunan	Hainan	Guangxi	Yunnan	Guizhou	Sichuan	Guangdong
Nominal Gross Domestic Product (Rmb100 mn) ³	1,348	864	1,527	217	965	-	389	1,731	5,207
Real Gross Domestic Product Growth (%) ^{2,3}	12.7	11.1	12.0	11.7	13.5	-	11.8	13.0	13.7
Urban Per Capita Disposable Income (Rmb) ^{3,4,5}	4,123	2,695	3,129	2,924	2,870	2,655	2,506	2,615	4,909
Rural Per Capita Cash Income (Rmb) ³	1,315	929	1,070	947	863	602	469	926	1,609
Consumer Price Index (%) ^{3,6}	-0.1	0.4	-	1.4	0.6	-	0.8	1.4	1.3
Retail Sales of Consumer Goods (Rmb100 mn) ^{3,7}	672	349	688	75	388	263	172	800	2,246
Year-on-year growth (%) ^{2,3,7}	15.3	14.9	14.5	13.7	13.1	15.6	13.6	13.8	14.7
Value-added of Industry (Rmb100 mn) ^{3,9}	549	211	403	41	256	273	142	570	2,178
Year-on-year growth (%) ^{2,3,8,9}	19.3	21.4	20.0	20.1	19.7	8.7	17.0	23.9	17.2
Total Investment in Fixed Assets (Rmb100 mn) ³	482	311	422	65	313	356	193	726	1,234
Year-on-year growth (%) ^{2,3}	42.2	32.0	29.4	19.5	34.7	30.3	26.2	31.8	19.2
City, County & Above Investment in Fixed Assets (Rmb100 mn) ³	423	271	362	61	261	-	164	-	1,007
Year-on-year growth (%) ^{2,3}	43.8	35.8	31.6	19.5	37.9	-	25.7	-	16.1
Value of Exports (US\$100 mn) ¹⁰	87.2	7.2	9.2	2.1	7.4	5.8	2.5	10.5	589.6
Value of Imports (US\$100 mn) ¹⁰	54.0	6.4	6.1	3.6	7.7	7.9	2.0	11.5	498.9
Foreign Direct Investment (US\$100 mn) ^{3,11,12,13,14,15}	16.7	5.3	4.5	1.3	0.5	0.2	0.1	2.7	-

- Notes:
- 1 - Values are all in nominal terms.
 - 2 - Real growth rate.
 - 3 - Data source: Provincial (Regional) Statistical Reports.
 - 4 - Yunnan data source: Yunnan Economic Daily, 13 April 2006.
 - 5 - Sichuan data source: Sichuan Economics Informational Net.
 - 6 - Sichuan data source: Sichuan Provincial Department of Commerce.
 - 7 - Yunnan data source: Xinhuanet Yunnan channel, 6 May 2006.
 - 8 - Yunnan, Guizhou and Sichuan data source: National Bureau of Statistics of China.
 - 9 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
 - 10 - Classification according to source and destination of products. Data source: China Customs.
 - 11 - Fujian data source: Haixia Xian Economics Zone website, 21 April 2006.
 - 12 - Hunan data source: Hunan Provincial Department of Commerce.
 - 13 - Yunnan data source: Yunnan Daily, 13 April 2006.
 - 14 - Guizhou data is the accumulated amount for Jan-Feb.
 - 15 - Actually utilised amount of foreign direct investment.

Nine Pan-PRD Provinces/Region: 10-Year Economic Trend (1996-2005)

Nominal growth (%)	Fujian	Jiangxi	Hunan	Hainan	Guangxi	Yunnan	Guizhou	Sichuan	Guangdong	Total
Real Gross Domestic Product (%) ³	11.5	10.7	10.1	8.6	9.4	8.6	9.4	10.1	11.4	10.0
Per Capita Nominal Gross Domestic Product (%) ⁴	9.6	11.0	10.0	8.0	8.4	8.7	10.1	9.6	10.8	9.6
Above Designated-sized Value-added of Industry (%) ^{5,9}	26.5	28.2	29.2	25.3	28.1	34.6	28.1	30.6	23.8	28.3
City, County & Above Investment in Fixed Assets (%)	13.4	24.0	17.5	8.0	16.7	16.6	20.3	15.1	11.9	15.9
Retail Sales of Consumer Goods (%)	13.5	11.7	11.4	9.6	10.9	10.9	11.9	9.3	13.1	11.4
Value of Exports (%) ¹⁰	17.6	14.4	11.6	11.6	7.9	9.5	10.9	11.1	15.5	12.2
Value of Imports (%) ¹⁰	11.6	16.2	13.4	8.7	7.9	9.9	11.2	11.3	14.9	11.7
Foreign Direct Investment (US\$100 mn) ^{6,7,8,11}	418.5	93.5	105.1	58.8	57.3	12.5	4.8	51.9	1,118.8	1,921.2
Urban Per Capita Disposable Income (%)	10.6	9.9	7.4	5.6	6.5	8.7	7.6	7.7	7.1	7.9
Rural Per Capita Net Income (%)	8.2	8.1	8.4	7.1	5.8	7.4	5.7	9.4	5.8	7.3

- Notes:
- 1 - All data above are nominal growth (%) except foreign direct investment.
 - 2 - 1996-2004 data source: China Statistical Yearbook; 2005 data source: Provincial (Regional) Statistical Communiques.
 - 3 - Data source: CEIC Data.
 - 4 - Average growth in 1997-2005.
 - 5 - Average growth in 2001-2005; 2001-2004 data source: China Statistical Yearbook; 2005 data source: Provincial (Regional) Statistical Communiques.
 - 6 - 1996-2005 is cumulative data, not nominal growth (%).
 - 7 - 2004 and 2005 data source: Provincial (Regional) Statistical Communiques.
 - 8 - Sichuan 2004 data source: China Commerce Yearbook 2005.
 - 9 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
 - 10 - Classification according to source and destination of products.
 - 11 - Actually utilised amount of foreign direct investment.

Nine Pan-PRD Provinces/Region: Statistics at a Glance (2005)

	Fujian	Jiangxi	Hunan	Hainan	Guangxi	Yunnan	Guizhou	Sichuan	Guangdong	Total
Land Area (10,000 sq km) ^{2,4}	12.1	16.7	21.2	3.5	23.7	39.4	17.6	48.5	17.9	200.6
Population (10,000 persons) ⁷	3,535	4,311	6,732	828	4,925	4,450	3,931	8,750	9,194	46,656
Natural Growth Rate (‰) ⁷	6.0	7.8	5.2	8.9	8.2	8.0	7.4	2.9	7.0	6.8
Non-agricultural (%) ^{3,5}	30.9	26.1	21.4	37.8	18.5	16.4	15.8	22.3	48.7	26.4
Tertiary-educated (%) ^{3,6,11}	4.6	4.7	5.2	5.2	5.2	3.8	4.5	3.6	5.2	4.7
Illiterate and Semi-illiterate (%) ^{3,6,12}	15.3	9.1	7.4	7.4	8.1	16.4	17.0	11.5	6.9	11.0
Life Expectancy (Numbers of years) ^{1,6}	72.6	69.0	71.0	72.9	71.3	65.5	66.0	71.2	73.3	70.3
Nominal Gross Domestic Product (Rmb100 mn) ⁷	6,560	4,056	6,474	904	4,063	3,472	1,942	7,385	21,701	56,557
Per Capita Gross Domestic Product (Rmb) ⁷	18,557	9,408	9,617	10,918	8,250	7,802	4,940	8,440	23,603	11,282
Real Gross Domestic Product Growth (%) ⁷	11.3	12.8	11.6	10.1	12.7	9.0	11.5	12.6	12.5	11.6
Industrial Structure: Primary (%) ⁷	12.6	19.0	19.4	33.1	22.2	18.9	18.5	20.3	6.3	18.9
Secondary (%) ⁷	49.2	47.2	40.2	25.9	37.0	41.7	42.4	41.3	49.5	41.6
Tertiary (%) ⁷	38.2	33.8	40.4	41.0	40.8	39.4	39.1	38.4	44.1	39.5
Urban per Capita Annual Disposable Income (Rmb) ⁷	12,321	8,620	9,524	8,124	8,917	9,266	8,147	8,386	14,770	9,786
Rural Per Capita Annual Net Income (Rmb) ⁷	4,450	3,266	3,118	3,004	2,495	2,042	1,877	2,803	4,691	3,083
Average Wage (Rmb) ^{3,6}	15,603	11,860	13,928	12,652	13,579	14,581	12,431	14,063	22,116	14,535
Retail Sales of Consumer Goods (Rmb100 mn) ⁷	2,346	1,236	2,459	269	1,397	1,034	607	2,981	7,883	20,212
Total Value-added of Industry (Rmb100 mn) ⁷	2,870	1,456	2,200	167	1,263	1,200	712	2,513	9,891	22,272
Above Designated-sized Value-added of Industry (Rmb100 mn) ^{7,13}	2,274	829	1,536	149	833	1,018	562	2,034	8,290	17,525
Total Fixed Asset Investment (Rmb100 mn) ⁷	2,345	2,293	2,540	377	1,776	1,743	1,015	3,462	6,957	22,508
City, County & Above Investment in Fixed Assets (Rmb100 mn) ^{7,10}	1,986	1,934	2,194	352	1,596	1,066	916	3,081	5,847	18,972
Real Estate Investment (Rmb100 mn) ⁷	540	301	448	71	287	234	153	699	1,498	4,231
Total Sales of Commercial Housing (Rmb100 mn) ⁸	511	183	213	45	213	143	84	327	1,382	3,101
Average price (Rmb / sqm) ⁸	2,836	1,501	1,559	2,573	2,037	2,059	1,548	1,632	3,754	2,167

(continued)	Fujian	Jiangxi	Hunan	Hainan	Guangxi	Yunnan	Guizhou	Sichuan	Guangdong	Total
Total External Trade (US\$100 mn) ^{7,14}	544.3	40.6	60.1	25.9	51.8	47.4	14.0	79.0	4,280.0	5,143.1
Value of Exports (US\$100 mn) ^{7,14}	348.5	24.4	37.5	10.2	28.8	26.4	8.6	47.0	2,382.0	2,913.4
Value of Imports (US\$100 mn) ^{7,14}	195.9	16.2	22.6	15.7	23.1	21.0	5.5	32.0	1,898.0	2,230.0
Trade Balance (US\$100 mn) ^{7,14}	152.6	8.2	14.9	-5.5	5.7	5.4	3.1	15.0	483.4	682.8
Tourism Foreign Exchange Receipts (US\$100 mn) ^{7,15}	13.1	1.0	3.9	0.8	3.2	5.3	1.0	3.2	64.0	95.5
Foreign Visitors (visitor times) ^{7,16}	1,974	373	720	432	1,462	3,476	276	1,063	18,970	28,746
Utilised Foreign Direct Investment (Rmb100 mn) ^{7,17}	62.3	24.2	23.3	6.8	3.8	1.9	1.1	11.0	123.6	258.0
Number of Foreign Bank Branches ^{3,9}	12	0	0	1	0	1	0	2	44	60
Bank Loans (Rmb100 mn) ⁷	5,413	3,019	4,590	996	3,057	3,988	2,304	6,743	23,261	53,371
Per Capita Savings Deposits (Rmb) ^{2,4}	8,385	4,738	4,557	6,743	4,059	4,037	2,359	4,981	17,679	6,393
Hong Kong-listed Companies ¹⁸	3	3	1	1	0	2	0	5	33	48

Notes:

1 - 2000 data.

2 - 2003 data.

3 - 2004 data.

4 - Data source: CEIC Data.

5 - Data source: China Population Statistical Yearbook 2005.

6 - Data source: China Statistical Yearbook 2005.

7 - Data source: Provincial (Regional) Statistical Reports.

8 - Data source: China Monthly Statistics.

8 - Data source: Almanac of China's Finance and Banking 2005

9 - Yunnan data is 2004 data.

11 - Refer to proportion of 6 years old and above population.

12 - Refer to proportion of 15 years old and above population.

13 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.

14 - Classification according to source and destination of products.

15 - Hainan data is 2004 data.

16 - Including tourists from Hong Kong, Macao and Taiwan.

17 - Actually utilised amount of foreign direct investment.

18 - The statistics is up to 30 April 2006. The data before 15 September 2004 is based on the Twelfth Monthly Report of this series, others are based on their registered addresses.

Data source: Hong Kong Exchanges and Clearing Ltd website, securities companies websites & relevant news reportings.

BACKGROUND INFORMATION ON THE FOUR SOUTH-EASTERN PROVINCES

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Fujian Province (Min)

2005 Data at a Glance	
Provincial Capital	Fuzhou
Party Committee Secretary	Lu Zhangong
Governor	Huang Xiaojing
Population (10,000)	3,535
Gross Domestic Product (RMB100 million)	6,560
Per Capita Gross Domestic Product (RMB)	18,557
Industrial Structure - Primary industries	12.6%
- Secondary industries	49.2%
- Third industries	38.2%
Export as % of GDP	67.0%
Foreign Direct Investment (US\$100 million)	62.3
Average Annual Wage (RMB)	15,603
International Airports	Fuzhou Changle, Xiamen Gaoqi
Main ports	Fuzhou, Xiamen, Meizhou

Province In Brief

Administrative structure: the total land area of Fujian Province is 121 000 sq. km, which accounts for 1.26% of the total area of the whole country. Fujian Province exercises jurisdiction over nine municipalities (Fuzhou (福州), Xiamen (廈門), Putian (莆田), Quanzhou (泉州), Zhangzhou (漳州), Longyan (龍岩), Sanming (三明), Nanping (南平), Ningde (寧德)) and 85 administrative regions at county level.

Natural resources: there are 118 mineral types with proven reserves in Fujian. Among them, the amount of reserves and quality of quartz sand are the best in the country. Boasting abundant water resources, Fujian possesses 29 water systems and a theoretical hydropower reserve of 10.46 million kilowatts (kW), with about 7.05 million kW of exploitable hydropower resources, ranking it No. 1 in Eastern China. Fujian's famous agricultural products include shaddocks of Xiamen (廈門柚子), tangerines of Fuzhou (福州蜜橘), dried longans of Putian (莆田桂圓), lychees of Zhangzhou (漳州荔枝), etc. Fujian's forest coverage reached 62.96%, also ranking it first in the country.

Manpower: Fujian has a population of about 35.35 million, accounting for 2.59% of the national total and ranking it 18th nationally. The natural population growth rate is 6‰. Some 47.3% of Fujian's population, or 16.71 million people, are urban residents, while 52.7%, or 18.61 million people, are rural residents. Compared with that of five years ago, the ratio of urban residents rose by 5.3%. Among the entire permanent resident population in the province, there are 1.63 million people with an education level of college standard of above.³³

Resident incomes: the per capita disposable income of urban households was RMB12,321 in 2005, with growth of 10.3% year-on-year; while the per capita net income of rural households was RMB4,450, with growth of 8.8% year-on-year. During the 10 years from 1996 to 2005, the annual growth rate of the per capita disposable income for urban residents was 10.6%, representing an increase of 230%. During the same period, the annual growth rate of the per capita net income for farmers was 8.2%, representing an increase of 170%.

Economic Performance

During the 10 years from 1996 to 2005, Fujian's annual gross domestic product (GDP) growth in real term was 11.5%, and annual retail sales growth was 13.5%, both were the highest among the nine Pan-PRD provinces/region. In 2005, real GDP growth slowed down slightly from 12.1% in 2004 to 11.3%. During the 10th Five-Year Plan Period (2001-2005), the industrial value-added amount increased at an annual growth rate of 26.5%. The growth rate for 2005 was 17.9%, slightly slower compared with the past three years. Fixed asset investment in 2005 grew three times over that of 1996.

In terms of foreign trade, Fujian's export growth averaged 17.6% per year in the past 10 years. In 2005, the export value rose 18.5% to reach US\$34.85 billion. Its major export markets include US, Hong Kong, Japan and the European Union. In recent years, the share of primary products in exports decreased while those of industrial products grew more rapidly. Major industrial products exported include monitors, computers, fluorescent lamps, garments, shoes and boots, furniture, luggage and bags, and electric irons. In 2005, imports rose 8.0%, and major imported commodities include industrial materials, fittings and equipment. In the area of foreign direct investment (FDI), Fujian accumulated a total of US\$41.85 billion utilized FDI between 1996 and 2005, ranked second among the nine Pan-PRD provinces/region.

33. Data of Fifth National Census in 2000, total population may be different with that in 2005.

Industrial Structure

The structure of Fujian industries experienced a substantial adjustment during the 1990s, and the process accelerated in 2005, with continued rise in secondary and tertiary industries at the expense of the primary industries. In 2005, the proportion of primary, secondary and tertiary industries was 12.6: 49.2: 38.2. The secondary industry has become a major impetus of Fujian's economic growth. In 2005, the value-added of industrial output of all state-owned and non-state-owned industrial enterprises above designated size ("Above Designated-sized Industrial Value-added" for short) reached 227.4 billion, representing growth of 17.9% year-on-year.

In 2004, Fujian was the fifth major producer of microcomputers in China, accounting for 6.5% of the national total. In 2005, Dell, an American computer company, started its second phase project in Xiamen, which would turn Xiamen into a major computer production base in China. Fujian is the largest producer of timber and the fourth largest hydropower generator in China, providing 11.2% of timber and 7% of hydropower supply in China.

Future Development

On 12 January 2006, the National People's Congress of Fujian Province passed the 11th Five-Year Plan (2006-2010) for the province, which set the future road map of Fujian over the next five years. The Plan has set targets for a local GDP of over RMB1,000 billion and per capita GDP of over RMB28,000 by 2010. In the next five years, the average annual growth rate of the total industrial value-added is set to be 12% or higher for an ultimate target of more than RMB500 billion.

In addition, the National 11th Five-Year Plan formally documented the support to the development of the West Bank of the Taiwan Strait. To complement the relevant development, Fujian will continue to organise the existing Taiwan-involved economic and trade exhibitions; encourage joint construction of a regional logistics centre on the west coast of the Taiwan Strait with Taiwan counterparts; drive joint-equity commercial banks on both sides to set up representative offices and branches across the Strait; endeavour to establish a cross-Strait currency clearing mechanism; develop and implement plans for tourism cooperation between Fujian and Taiwan, etc. The objective is to build Fujian into a key base for reciprocal tourism and cooperation, and the hub and point of transit across the Strait.

In the aspect of regional cooperation, Fujian will continue to develop its close relations with the Pearl River Delta and Yangtze River Delta, to turn itself into a powerhouse through dynamic economic development in the south-eastern coastal area of China, and constructs an economic area in the west bank of the Taiwan Strait. The fields of mutual cooperation cover such fields as financial services, logistics, trade, information and tourism between Fujian and Hong Kong as well as Fujian and Macao. They also include facilitation of industrial and market integration between the Pearl River Delta and Yangtze River Delta for a smooth exchange of human resources, goods, funds and information.

Fujian-Hong Kong Relations

Over a million or 15% of Hong Kong's population originated from Fujian. Hong Kong has always been an important source of foreign funds and trading partner of Fujian. There are currently about 18 000 Hong Kong enterprises in the province, and nearly half of the utilised FDI in Fujian originated from Hong Kong. Hong Kong is the fourth major export-trading partner of Fujian, with Hong Kong-related trade accounting for about 20% of the province's total external trade value. If transit goods were included, the proportion of Hong Kong-related trade would reach 50%. Major commodities exported from Fujian to Hong Kong include textile and garments, electronic communication products, electrical appliances, and silver and gold jewellery, etc.

In June 2004, Fujian and Hong Kong entered into an agreement to build up eight platforms of cooperation, including promoting investment jointly by Fujian and Hong Kong, financial cooperation, trade cooperation, tourism development, development of small and medium-sized enterprises, cooperation on infrastructure and public utility development, cooperation on logistics industry and cooperation on qualified personnel. Looking ahead, besides industrial relocation, the cooperation between Fujian and Hong Kong will mainly focus on financial services, import and export trade, logistics, distribution and tourism.

Jiangxi Province (Gan)

2005 Data at a Glance	
Provincial Capital	Nanchang
Party Committee Secretary	Meng Jianzhu
Governor	Huang Zhiquan
Population (10,000)	4,311
Gross Domestic Product (RMB100 million)	4,056
Per Capita Gross Domestic Product (RMB)	9,408
Industrial Structure - Primary industries	19.0%
- Secondary industries	47.2%
- Third industries	33.8%
Export as % of GDP	8.0%
Foreign Direct Investment (US\$100 million)	24.2
Average Annual Wage (RMB)	11,860
International Airports	Nanchang Changbei
Main ports	Jiujiang

Province In Brief

Administrative structure: the total land area of Jiangxi Province is 167 000 sq. km, which accounts for 1.74% the total area of the whole country and ranks first in the provinces and cities of East China. Jiangxi Province exercises jurisdiction over 11 municipalities (Nanchang (南昌), Jiujiang (九江), Jingdezhen (景德鎮), Pingxiang (萍鄉), Yingtan (鷹潭), Xinyu (新餘), Yichun (宜春), Shangrao (上饒), Fuzhou (撫州), Ji'an (吉安), Ganzhou (贛州)) and 99 regions at county level.

Natural resources: Jiangxi possesses 101 mineral types with proved reserves, among which the reserves for each of 12 types, including copper, silver, and uranium, are ranked the highest in China. Gold, silver, copper, tungsten, uranium, tantalum and niobium are referred to as the “Seven Flowers” (七朵金花) on the list of minerals of Jiangxi Province. The famous agricultural products of Jiangxi Province include the rice of Wannian (萬年), the white lotus of Guangchang (廣昌), tangerine of Nanfeng (南豐), etc. Jiangxi's forest coverage reached 59.7%, leading in China in this respect.

Manpower: Jiangxi has a population of about 43.11 million, accounting for 3.2% of the national total and is ranked 13th nationally. The natural population growth rate is 7.8‰. Some 37% of Jiangxi's population, or 15.93 million people, are urban residents, while 63%, or 27.13 million people, are rural residents. Compared with that of five years ago, the ratio of urban residents rose by 9.3%. Among the entire permanent resident population in the province, there are 1.49 million people with an education level of college standard or above. Jiangxi has principally popularized a nine-year compulsory education system and schooling conditions in rural areas have been remarkably improved.

Resident incomes: the per capita disposable income of urban households was RMB8,620 in 2005, with growth of 14% year-on-year; while the per capita net income of rural households was RMB3,266, with growth of 17.2% year-on-year. During the 10 years from 1996 to 2005, the annual growth rate of the per capita disposable income for urban residents was 9.9%, representing an increase of 230%. During the same period, the annual growth rate of the per capita net income for farmers was 8.1%, representing an increase of 170%.

Economic Performance

During 1996-2005, Jiangxi's real GDP average annual growth was 10.7%, ranking just next to Fujian and Guangdong among the nine Pan-PRD provinces/region, with its economy showing the most remarkable growth in the mid-1990s. Benefiting from a relatively high economic growth rate, urban residents' per capita disposable income increased 128% over the past 10 years, just after Fujian. During the period, both fixed asset investment and retail sales increased at an annual average rate of over 10%. By 2005, fixed asset investment was six times of the 1996 level. In 2005, the real GDP growth of Jiangxi Province decreased from 13.2% in 2004 to 12.8%, while consumer price index increased 1.7% in the same period.

For foreign trade, Jiangxi's exports recorded an average annual growth rate of 14.4% during the period from 1996 to 2005. Exports grew by 22.3% in 2005 to US\$2.44 billion. Its main trading partners include Hong Kong, the US, the European Union and Japan. Major export items include electrical machinery, garments and clothing accessories, textiles, yarns and their by-products. Over the past 10 years, the FDI in Jiangxi Province totalled US\$9.35 billion, over 80 per cent of which has been introduced since 2002. The province's major sources of FDI are Hong Kong, Taiwan and the USA.

Industrial Structure

According to the data in 2005, the GDP ratio of the three sectors was 19.0: 47.2: 33.8. The modification of industrial structure was still centralised in the secondary industry. Compared with 2004, the ratio of secondary industry increased 1.9%. In 2005, the value-added of industry of industrial enterprises above designed size was RMB82.9 billion. Jiangxi possesses comparative advantage in the following industrial sectors: light and passenger vehicles, engineering machinery, power plant equipment, electronic components and devices, computer parts and components, organic chemicals, fine chemical, rare earth materials, biomedicines, manufactured Chinese medicines, and new building materials.

In its Pillar Industries Development Plan (2003-2007) (江西省支柱產業發展規劃(2003-2007年)), Jiangxi outlined six pillar industries for priority development: automobile, aerospace, aviation and precision manufacturing, special metallurgy and metallic products, manufactured Chinese medicines and biomedicines, electronic information and modern home appliances, food industry, fine chemical and new building materials. Jiangxi possesses the largest copper mine in Asia and is the largest base for copper smelting in China. In recent years, the performance of the metallurgy, automobile and chemical industries has improved well, making a significant positive impact on the industrial performance of Jiangxi as a whole.

Future Development

On 12 February 2006, the National People's Congress of Jiangxi Province passed the 11th Five-Year Plan (2006-2010) for the Province. The Plan has set targets for a local GDP growth of an average of 11% per annum based on comparable prices for Jiangxi Province as a whole (the number in past 10 years was 10.7%); the GDP per capita will be more than US\$2,000, the ratio of primary, secondary and tertiary industries will be modified to 13: 52: 35, with progressive increases in the ratio of secondary and tertiary industries, and it will try to achieve RMB130 billion of value-added of industry of industrial enterprises above designed size in six key industries by 2010. Moreover, it is set to capitalise on comparative industrial advantages, giving priority to constructing 10 industrial bases with influence in Central China or even in the whole of China including: copper, organo-silicon, salt chemicals, light cars, new types of display, tungsten production and processing, rare earth production and processing, R&D and processing of special ceramics, modernization of Chinese medicine, clothing, footwear and headwear.

In the aspect of regional cooperation, the Plan proposed speeding up “integration into YRD, PRD and Fujian, linking up Hong Kong, Macao and Taiwan and moving towards globalisation” (對接長珠閩、聯結港澳台、融入全球化); continuing to upgrade the construction standard of the “three bases and one backyard” (三個基地、一個後花園) principle, and carrying on its “going out” strategy. By linking up the YRD and PRD in China, Jiangxi expects to become a focal point for the economy and culture of the two economic regions. The Plan emphasized the need to continue the practical promotion of regional cooperation, speed up integration with coastal regions in respect of institutional systems and mechanisms, and realise reasonable division of industry, mutual accessibility of infrastructure, and the interactive exchange of qualified personnel.

Jiangxi-Hong Kong Relations

Jiangxi is the source region of the Dongjiang River (東江), the major source of potable water for Hong Kong. The province is also an important supplier of perishable goods. Hong Kong is the largest trading partner of Jiangxi and the third largest import partner. By the end of May 2004, direct investment of Hong Kong in Jiangxi amounted to US\$3.54 billion, accounted for 54% of the FDI of Jiangxi and ranked first.

In April 2004, the leaders of Jiangxi Province led a delegation to Hong Kong for investment promotion. The China International Trade Promotion Commission Jiangxi Branch (中國國際貿易促進委員會江西省分會), the Hong Kong Trade Development Council (香港貿易發展局), the Jiangxi Tourist Bureau (江西省旅遊局), the Hong Kong Tourist Development Council (香港旅遊發展局), the Jiangxi Human Resources Market (江西人才市場) and the Hong Kong Chinese Enterprises Association (香港中國企業協會) signed three agreements namely, the “Memorandum on Further Promoting Jiangxi-Hong Kong Economic and Trade Cooperation” (關於進一步促進贛港經貿交流與合作備忘錄), the “Memorandum on Jiangxi-Hong Kong Tourism Cooperation” (贛港旅遊合作備忘錄), and the “Jiangxi-Hong Kong Enterprises’ Human Resources Exchange and Cooperation Framework Agreement” (贛港兩地企業人才交流與合作框架協議). All of which would contribute to heightened cooperation between Jiangxi and Hong Kong. Looking forward to the future, in addition to industry transfer, there are great potentials for cooperation and development between Jiangxi and Hong Kong, estimated mainly in financial services, industry, logistics and modern manufacturing. Based on the principle of “front shop and back factory” (前店後廠), Jiangxi can be developed into one of the major processing places of Hong Kong enterprises.

Hunan Province (Xiang)

2005 Data at a Glance	
Provincial Capital	Changsha
Party Committee Secretary	Zhang Chunxian
Governor	Zhou Bohua
Population (10,000)	6,732
Gross Domestic Product (RMB100 million)	6,474
Per Capita Gross Domestic Product (RMB)	9,617
Industrial Structure - Primary industries	19.4%
- Secondary industries	40.2%
- Third industries	40.4%
Export as % of GDP	7.5%
Foreign Direct Investment (US\$100 million)	23.3
Average Annual Wage (RMB)	13,928
International Airports	Changsha Huanghua

Province In Brief

Administrative structure: the total land area of Hunan Province is 212 000 sq. km, which accounts for 2.21% of the total area of the whole country. Hunan Province exercises jurisdiction over 14 municipalities (Changsha (長沙), Hengyang (衡陽), Zhuzhou (株洲), Xiangtan (湘潭), Shaoyang (邵陽), Yueyang (岳陽), Changde (常德), Zhangjiajie (張家界), Yiyang (益陽), Chenzhou (郴州), Yongzhou (永州), Huaihua (懷化), Loudi (婁底), Xiangxi (湘西)) and 122 regions at county level.

Natural resources: there are 140 minerals with proven deposits in Hunan Province. Among them, the reserves of tungsten and stibium (or antimony) rank first in China. The reserves of bismuth, zinc, lead, tin, fluorite, barite, sepiolite and graphite are the highest in China so, Hunan Province is titled as the “land of non-ferrous metals” (有色金屬之鄉) and the “land of non-metallic mines” (非金屬礦之鄉). Hunan is one of major production regions of cereals in China, titled as the “home of fish and rice” (魚米之鄉), and its output of rice, pig, tea and rapeseed and other major agricultural products rank front in China. Hunan’s forest coverage reached 52.8%, leading China in this respect.

Manpower: Hunan is a highly populated province. Its population is about 67.32 million, accounting for 5.15% of the national total and is ranked seventh nationally. The natural population growth rate is 5.2‰. Some 37% of Hunan's population, or 23.37 million people, are urban residents, while 63%, or 39.82 million people, are rural residents. Compared with that of five years ago, the ratio of urban residents rose by 7.3%. Among the entire permanent resident population in the province, there are 2.4 million people with an education level of college standard or above.

Resident incomes: the per capita disposable income of urban households was RMB9,524 in 2005, with growth of 10.5% year-on-year; while the per capita net income of rural households was RMB3,118, with a growth of 9.9% year-on-year. During 1996 to 2005, the annual growth rate of the per capita disposable income for urban residents was 7.4%, representing an increase of 180%. During the same period, the annual growth rate of the per capita net income for farmers was 8.4%, representing an increase of 160%.

Economic Performance

During 1996-2005, Hunan's annual average GDP growth rate was 10.1%, showing a generally steady economic growth. During this period, both fixed asset investment and retail sales increased at an annual average pace of over 10%. As at 2005, fixed asset investments were 3.7 times those of 1996. During the period of the 10th Five-Year Plan, the industrial value added for industrial enterprises above the designated size grew at 29.2% on average per year. Driven by foreign trade and industrial growth, the real GDP of Hunan Province in 2005 increased by 11.6%. In 2005, the per capita disposable income of urban residents was 10.5% more than that of the previous year, a growth higher than that of any other Pan-PRD provinces/region. In the same period, the total retail sales of consumer goods increased by 18.8%.

In foreign trade, Hunan recorded an annual average export growth rate of 11.6% during the period from 1996 to 2005. Exports rose 20.9% in 2005, with major markets being Hong Kong, Japan, the United States and the European Union. Its major export items include electric machinery and traditional light industrial products such as garments, textile, luggage and bags, shoes and hats, etc., as well as agricultural products. On attracting foreign investment, Hunan utilised a total FDI of US\$10.51 billion between 1996 and 2005 and ranked third among the Pan-PRD provinces/region, only after Guangdong and Fujian.

Industrial Structure

In 2005, the proportion of primary, secondary and tertiary industries of Hunan was 19.4: 40.2: 40.4. Compared with 2004, the ratio of primary and tertiary industry reduced 1.2% and 0.5% respectively, and the ratio of secondary industry increased 0.7%. In 2005, the year-on-year growth of value-added of industry of industrial enterprises above designed size was 20.6%. Metallurgy, machinery, electronics, foodstuff, energy and building materials are the core industries of Hunan. The province possesses abundant forestry resources, as half of the province is covered by forests. It is among the largest suppliers of forestry products in China and its output of timber ranks fourth in the whole of China.

Among the South China provinces, Hunan is relatively abundant in coal resources and possesses considerable water resources. There are about 10.84 million kw of exploitable hydropower in the province, and a number of fairly large hydropower stations have been built, including Fengtan (鳳灘), Dongjiang (東江), and Wuqiangxi (五強溪). Before 2010, more hydropower and thermal power plants will be in place and preliminary preparation for a nuclear power plant well conducted. Hunan is the second largest base for hydropower generation, providing about 7% of the hydropower supply in China, matching Fujian.

Future Development

On 22 January 2006, the National People's Congress of Hunan Province passed the 11th Five-Year Plan (2006-2010) for the province. The Plan has set targets for a local GDP of over RMB1,000 billion by 2010 and it will try to reduce the gap with the nationwide average in nominal GDP per capita. In the next five years, it is targeted that the financial revenue will reach RMB130 billion, total retail sales of consumer goods will reach RMB416 billion, the total amount of import and export will be more than US\$10 billion, and investment on fixed assets completed within five years will be RMB1,650 billion, the general price level will keep stable, and the unemployment rate in town will be controlled below 4.5%. The structure of three industries will be modified to 14: 44.5: 41.5, with the primary industry being reduced by 5.4%.

The labour service economy of Hunan Province has become a major economic development point of this province, and it has become a major channel for farmers of Hunan to increase income. In recent years, the number of migrant rural workers of Hunan origin working in Guangdong has reached nearly four million, ranking it first nationally in this respect. With regard to Pan-PRD regional cooperation, Hunan is relatively active in interacting with Guangdong. So far, Hunan has gained the support of the State and is building an expressway from Yongzhou City (永州) to connect directly to Qingyuan (清遠) and Guangzhou in Guangdong, and reaching further to Zhanjiang (湛江) in west Guangdong. In railway construction, Hunan plans to build a special passenger transport line leading to Guangdong, reducing the travelling time from Changsha to Guangdong to about three hours. It is also looking into constructing a passenger-cum-cargo transport railway line extending from the northwest to the southwest of Hunan, into Guangdong and reaching Zhanjiang.

Hunan-Hong Kong Relations

Hunan has a close trade relationship with Hong Kong, and its export products are mostly transited through Hong Kong. Since China's reform and opening up, Hunan has utilised US\$4.9 billion of capital from Hong Kong, accounting for half of the province's total utilised FDI. As for tourism, Hunan is a golden tourist destination for the Pan-PRD, with the number of visitors from Guangdong, Hong Kong and Macao reaching about 3.2 million annually over recent years.

Hunan formulated the Plan for Hunan in Pan-PRD Region Commercial Cooperation and Development (泛珠三角區域商務合作發展湖南規劃) in 2004, and brought forward work measures in eight aspects. In June of that year, five departments including the provincial Department of Commerce and Economic Commission jointly issued the document "Opinions on Further Strengthening Exchange and Cooperation of Economy and Trade with Hong Kong" (關於進一步加強與香港經貿交流合作的意見), so as to strengthen cooperation with Hong Kong in economic and trade exchange. With rising labour cost and land cost in the Pearl River Delta, many labour-intensive products manufactured in Hong Kong have gradually lost their competitive advantage; as a result, such sectors need to relocate to places outside of the PRD. For this, Hunan possesses advantages in terms of transport, technology, investment-related environmental policies and investment costs.

In 2005, Hunan further put forward the target of building up the "four bases" i.e. a receiving base for enterprises relocating out of the Pan-PRD Region, a labour export base, a tourism and leisure base, and an agricultural produce supply base. Looking ahead, besides industry transfer, the cooperation opportunities between Hunan and Hong Kong lie mainly in transit trade, education and tourism.

Hainan Province (Qiong)

2005 Data at a Glance	
Provincial Capital	Haikou
Party Committee Secretary	Wang Xiaofeng
Governor	Hui Liucheng
Population (10,000)	828
Gross Domestic Product (RMB100 million)	904
Per Capita Gross Domestic Product (RMB)	10,918
Industrial Structure - Primary industries	33.1%
- Secondary industries	25.9%
- Third industries	41.0%
Export as % of GDP	23.1%
Foreign Direct Investment (US\$100 million)	6.8
Average Annual Wage (RMB)	12,652
International Airports	Haikou Meilan, Sanya Fenghuang
Main ports	Haikou, Sanya

Province In Brief

Administrative structure: Hainan covers a land area of 35 000 sq. km in total, accounting for 0.36% of the national total. The Province has the smallest land area and the largest ocean area in China. Hainan Province exercises jurisdiction over six municipalities and cities (Hainan Island (海南島), Xisha Islands (西沙群島), Zhongshan Islands (中沙群島), Nansha Islands (南沙群島) and their sea areas, Haikou (海口), Sanya (三亞)) and 20 regions at county level.

Natural resources: natural tropical forest in Hainan covers about 1/4 of its whole area. Hainan Island is host to 1 680 species of fascicular plants, accounting for about 1/7 of the national total, of which 630 species are unique to Hainan, and 20 rare woods are listed as key nationally protected plants. There are 2 500 species of plants in Hainan island that can be used for medicinal purposes, accounting for 40% of the national total. Thus, Hainan Province has the title of the “Natural Medicine Warehouse”. The major tropical economic crops abound in Hainan are rubber, pepper, coconut, coffee, etc., and tropical fruits are mainly pineapple, lychee, longan, banana, etc.

Manpower: Hainan has a population of about 2.8 million, accounting for 3.2% of the national total. The natural population growth rate is 7.8‰. Some 40.1% of Hainan's population, or 3.16 million people, are urban residents, while 59.9% million people, or 4.71 million people are rural residents. Compared with that of five years ago, the ratio of urban residents rose by 16.2%. Among the entire permanent resident population in province, there are 0.249 million people with an education level of college standard of above.

Resident incomes: the average per capita disposable income of urban residents reached RMB8,124 in 2005, up 5% year on year, while the per capita cash income of rural residents reached RMB3,004, up 6.6%. During the 10 years from 1996 to 2005, the annual growth rate of the per capita disposable income for urban residents was 5.6%, representing an increase of 170%. During the same period, the annual growth rate of the per capita net income for farmers was 7.1%, representing an increase of 170%.

Economic Performance

In the 10 years from 1996 to 2005, Hainan experienced an average real GDP growth rate of 8.6% annually and an increase in fixed asset investments of 8% annually, both being the lowest among the nine Pan-PRD provinces/region. Real GDP growth in 2005 was 10.1%, slightly lower than 10.4% in 2004. In 2005, the per capita disposable income of urban residents grew 5% from the previous year, and the consumer price index rose 1.5%.

Hainan's major trading partners include the US, the European Union, Hong Kong and Korea. Major exported items include aviation equipment, motor vehicle parts and fittings, machinery equipment, natural gas, aquatic products, furniture, garments and accessories. During 1996-2005, direct foreign investment in Hainan was US\$5.88 billion.

Industrial Structure

The value added of the primary industries reached RMB16.7 billion. Agriculture, tourism, petrochemicals, electronic information and aquatic biomedicines are Hainan's pillar industries. In recent years, Hainan's tourism industry has experienced strong growth, as tourist arrivals into Hainan have averaged over 10 million per year since 2000. By 2004, the annual average growth in tourism income was 8.8%. The province's aquatic industry is also emerging rapidly, with an annual average output growth of 23.6% for the period from 1996 to 2002. Hainan also possesses the largest rubber production park in China.

Future Development

On 16 January 2006, the National People's Congress of Hainan Province passed the 11th Five-Year Plan (2006-2010) for the province. The Plan has set targets for a local GDP of 9% (8.6% for 1996-2005) and a nominal GDP per capita of over RMB16,000, 123% of that of 2000 by 2010. The average annual growth rate of the per capita net income of rural residents is set to be no less than 6%, while the average annual growth rate of the per capita disposable income of urban residents no less than 8%. The Plan has also set tasks of speeding up development of secondary industries and achieving a ratio of primary, secondary to tertiary industries of 29: 32: 39.

The industrial development of Hainan relies on the opening up of its six industrial fields to foreign capital, namely, emerging industries, agriculture and fisheries, tourism, port logistics, real estate and urban construction, and business services. From a perspective of integrating into the Pan-PRD regional cooperation, Hainan takes Guangdong, Hong Kong and Macao as its key indicators. However, Hainan has persistently adopted a multi-directional approach in regional cooperation: while speeding up Pan-PRD regional cooperation and development as a participant, it simultaneously pursues cooperation with the YRD as well as the Bohai economic circle, particularly with Shanghai. As Hainan overlooks a number of Southeast Asian countries across the South China Sea, it is expected that cooperation between Hainan and the ASEAN countries will be broadened in scope and facilitated to a higher degree as the China-ASEAN free trade area gradually takes shape.

Hainan-Hong Kong Relations

Hainan Province was established as a province and the largest special economic zone of China in April 1998. Hainan is one of seven major tourist destinations, and also a special area with liberated third, fourth and fifth aviation rights in China. Trade between Hainan and Hong Kong has accounted for more than 80% of the provincial total of imports and exports. Hong Kong is the largest trading partner of Hainan. In recent years, Hainan has actively introduced investment from Hong Kong to encourage cooperation and development of oil products, natural gas and petrochemical products. Hainan also welcomes Hong Kong capital by way of investment in pharmaceutical enterprises to expand the existing pharmaceutical sector.

The 2004 (Hong Kong) Hainan Trade and Investment Cooperation Fair (海南貿易與投資合作洽談會(海洽會)) was held in Hong Kong with the theme of “Hong Kong Fortune and Healthy Hainan” (財富香江，健康海南). It has helped to enhance cooperation between the governments and relevant industries of the two jurisdictions, and to develop cooperation in nine fields including tourism, pharmaceuticals and medicals. Looking ahead, Hainan is set to achieve four objectives, namely, to push forward construction of an integrated traffic infrastructure within the region so as to speed up construction of inter-province/region traffic links; to push forward mutual exploitation of resources in the South China Sea; to build the island into a leisure and holiday island destination in the Pan-PRD; to push forward cultivation of improved varieties of agricultural crops and cooperation on production, processing, transportation and marketing of agricultural products. What is worthy of note is the development of the Boao Asian Forum and its influence on the regional development of Asia. Through this forum, Hainan may become an important base for China to strengthen dialogue and economic connections between Asia and other regions of the world.

ENGLISH-CHINESE GLOSSARY OF TERMS

11th Five-Year Plan	「十一五」規劃
China Banking Regulatory Commission	中國銀行業監督管理委員會
China Construction Bank	中國建設銀行
China Development Bank	國家開發銀行
China Insurance Regulatory Commission	中國保險監督管理委員會
Economic Zone on the West Coast of Taiwan Strait	海峽西岸經濟區
Hong Kong Exchanges and Clearing Limited	香港交易所
Insurance penetration	保險深度
Integrating into YRD, PRD and Fujian and moving towards globalisation	對接長珠閩，融入全球化
Pan-PRD Government Think-tanks Cooperation Meeting	泛珠三角區域政府研究機構 調研合作會議
Pan-Pearl River Delta Region Financial Services Forum	泛珠三角區域金融服務論壇
Private investment	私募投資
Revenue (Profits Tax Exemption for Offshore Funds) Bill	收入（豁免離岸基金繳付利 得稅）條例草案
Venture capital fund	創投基金