**CENTRAL POLICY UNIT**

**HONG KONG SPECIAL ADMINISTRATIVE REGION**

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

**FIRST MONTHLY REPORT**

**COVERING GUANGXI, YUNNAN, GUIZHOU, SICHUAN**

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# Executive Summary

## 1. Research Background

This report on the "Social, Economic and Political Developments in Pan-Pearl River Delta Region – covering Guangxi, Yunnan, Guizhou and Sichuan" studies the four provinces/region concerned from the regional and developmental perspective and under a holistic framework. The report highlights the recent social, economic, political and international activities in the provinces/region concerned, investigates their general environment, predicts the forthcoming changes, and evaluates possible benefits/impacts on Hong Kong.

## 2. Topical Analysis

The Central Government drafted the *Guidelines of the Eleventh Five-Year Plan for National Economic and Social Development (the 11th Five-Year Plan)* after thoroughly reviewing the pros and cons of the country's economic reform over the past 20+ years, as well as the opportunities, challenges and developmental constraints imposed by prevailing global economic environment. This 11th Five-Year Plan represents a revolutionary shift of national strategy; it also fundamentally changes the development trajectory of the concerned provinces/region in the coming five to ten years.

The "Topical Analysis" section discusses the accomplishment of the 10th Five-Year Plan of the studied provinces/region. The research objective is to understand whether each province/region has achieved its preset policy objectives in "economic development" and "industrial re-structuring" during the 10th Five-Year Plan period, so as to identify and predict the challenges and difficulties that the province/region might encounter in the 11th Five-Year Plan period. During the 10th Five-Year Plan period, the four south-western Pan-PRD provinces/region successfully met the economic objectives by enhancing local GDP and GDP per capita, and reducing the economic significance of the primary industry. In particular, as Guangxi had aggressively promoted economic cooperation with the ASEAN countries, and Guizhou had benefited from rising mineral and resource prices since 2003, they delivered better GDP and GDP per capita results and outperformed other south-western provinces/region. However, urbanization of the studied provinces/region was lower than the national average, and Guizhou's urbanization rate was only at 26.9%. Low urbanization percentages combined with increasing urban-rural income gap had prominently impeded local industrial

advancement, slowed down growth momentum and hindered a sustainable regional development.

The report computes the "ratio of foreign trade dependence", the "ratio of foreign investment against total national investment in fixed assets" and the "ratio of trade induced by foreign invested enterprises" of the four south-western provinces/region. Data comparison is made between the concerned provinces/region and China/Guangdong. The findings indicate that the studied provinces/region are largely focusing on domestic economic activities and their international activities and exposure are lower than that of the national average and Guangdong. It implies that industrial complementarities between the studied provinces/region and Hong Kong are less evident. The inactive Hong Kong investment in the four provinces/region also affects economic closeness and mutualism between the two territories. It is suggested that Hong Kong should not only promote its traditional advantages in trade and services, but also re-define its industrial/service orientation and business model. Hong Kong can shift part of its trade focus to heavy industrial and agricultural sectors, encourage Hong Kong investment in the studied provinces/region, assist local Chinese entities to strengthen economic cooperation with the ASEAN countries under the Free Trade Agreement (FTA) framework, and foster trading, servicing and investment activities across the China-ASEAN region.

## 3. Trends and Updates on the Four South-western Provinces/Region

This section reports on each of the concerned provinces/region. It analyses the socio-economic performance in the first four months of 2006, identifies the most significant economic drivers or hindering factors, discusses various economic/social issues or a series of related incidents, pinpoints their underlying rationales and provides concrete policy recommendations.

- The Sichuan Government proposed to build Sichuan into a "strong industrial province" in its 11th Five-Year Plan. In recent years, global and Taiwan semi-conductors enterprises have made massive investment and set up manufacturing facilities in Chengdu (成都) and Mianyang (綿陽). This fosters cluster formation of semi-conductor industry and lays down a comprehensive industrial foundation in Sichuan. This emerging industrial cluster might pose competitive pressure to the similar cluster in the Yangtze River Delta. Hong Kong may re-develop its semi-conductor industry by cooperating with Taiwan enterprises and placing market emphasis to serve

the IT industry in Shenzhen and the Pearl River Delta, with a view to ultimately driving an industrial transformation.

- Guangxi is ambitiously promoting the region's automobile industry and enhancing economic cooperation with the ASEAN countries. Hong Kong auto-component manufacturers and research institutes should actively pursue business and technical collaboration with Guangxi industrialists. Hong Kong can also expand its scope of cooperation with Guangxi, speed up the negotiation of FTA with the ASEAN so as to maintain Hong Kong as an international commercial centre and regional logistics hub.

- Yunnan has experienced rapid development in the flowers industry and been aggressively building its railway network. Hong Kong can enhance its cooperation with Yunnan pertaining to logistics arrangement and commercial support, broaden the market exposure of Yunnan flowers by exporting them via Hong Kong, and try to develop Hong Kong as an international logistic hub in the flowers business.

- Both Guizhou and Yunnan decide to actively develop tourism and resource-oriented industries in the coming five years. In the area of tourism, Hong Kong can integrate and reconcile provincial sightseeing specialities, coordinate international flight routes, provide professional training to local hotel personnel and participate in hotel management. In the area of resource-oriented industries, Hong Kong can encourage sizable local Chinese enterprises to list on the Hong Kong stock market; alternatively, Hong Kong enterprises can engage in local development through capital investment.

## 4. Regional Cooperation

*The Guidelines for the Pan-PRD Regional Cooperation and Development (2006-2020)* proposed to implement Pan-PRD cooperation in two phases. The first phase (2005-2010) is to construct an integrated regional infrastructure network, optimize regional resource, improve market mechanism, and formulate a common platform to facilitate China-ASEAN economic cooperation and integration. As such, Hong Kong should accomplish seamless integration with the Pan-PRD and the four south-western provinces/region by 2010, else Hong Kong will face the crisis of being regionally marginalized.

Guangxi and Yunnan are mainly responsible for the China-ASEAN economic cooperation. Currently, they are actively developing the transportation network and resource trading (e.g. electricity) with the ASEAN. Hong Kong should swiftly complete an efficient transportation connection with Guangxi, so as to gain direct access to the ASEAN market via road and railway transportation. Hong Kong can also collaborate with the concerned provinces/region to establish regional hydroelectricity networks and engage in the related investment projects.

# 1. Foreword

This monthly consultancy study focuses on Social, Economic and Political Developments in the Pan-Pearl River Delta (Pan-PRD) Region of Guangxi, Yunnan, Guizhou and Sichuan. The study will focus on sustainable development, holistic characteristics and regionalism.

## 1.1. Development Perspective

Starting from the formation of the *Guidelines of the Eleventh Five Year Plan for National Economic and Social Development (the 11th Five –Year Plan)*, China abandoned its past economic strategy characterized by extensive, export-oriented economy and preferential encouragement on certain industries. Instead, the development strategy is to promote comprehensive and balanced growth, all-round instead of preferential development, and domestic–oriented economy. In other words, the situation requires a new perspective on economic growth and regional cooperation to comprehend and sort out the appropriate direction to the development of the four southwestern provinces/autonomous region.

## 1.2. Holistic Framework

The four provinces/region are very similar in terms of industrial structure and natural resource endowment. All are situated in the mountainous area, and together form a community with similar economic structures and culture. Their relatively remote location makes them less desirable for investors and economic development, and they rely on and compete with each other. When compared to the five eastern provinces in the Pan-PRD Region, these four south-western provinces are much less successful not only in attracting foreign investment, but also in fostering economic cooperation with Hong Kong and Macao. Having the absolute advantage of abundant natural resources and energy resources, their economic strategy in the Pan-Pearl River Delta regional cooperation is domestic-oriented with natural resources as the main item for development. Thus, in economic development, they interact and compete among themselves, their local development policies influence each other and have a cause – result interaction effect on themselves.

## 1.3. Regional Perspective

Economically, the four provinces/region are less well developed than their five eastern counterparts in the Pan-PRD Region. In terms of geographical and

economic links, Guangxi and Yunnan are more attached to the Association of South East Asian Nations (ASEAN) countries, and border Vietnam, Myanmar and Laos. Furthermore, trade between Guangxi and Yunnan, and South East and South Asian regions, has a long history. In the near future, the four provinces/region will be blessed with tremendous economic opportunities as a result of the construction of the Pan-Asian Railway connecting Yunnan, Singapore, Myanmar and South Asia, the opening of a navigation route along the Mekong River, and the signing of the bilateral free trade agreement between China and the ASEAN countries in the 2010s. In view of the fact that the Central Government has assigned Guangxi and Yunnan the responsibility of fostering Pan-Asia cooperation, the report will study regional cooperation from both Pan-PRD and Pan-Asian perspectives.

# 2. 10th Five-Year Plan Achievements and Comparisons with the Export-Oriented Chinese Economy

## 2.1. New Opportunities under the 11th Five-Year Plan (2006-2010)

Two decades of economic reform has made China the wonder of the modern world. A recent interest rate hike by the People's Bank of China triggered more turbulence in global financial markets than the US Federal Reserves, and clearly indicated the extent of China's economic prowess.

However, China's economic success comes at a heavy price. Under the policy of the so-called "preferential development", the Central Government "let part of the population get rich first", and "let the eastern region get rich first". Consequently, the first areas blessed by favourable economic policies were the four economic special regions, followed by the Pearl River Delta, and then the eastern coast. All these areas are now extremely well developed. However, their economic growth is largely driven by foreign investment, especially in the export-oriented processing industry. Within the eastern area, labour wages are miserably low, the gap between rich and poor is glaringly large, the environment has been devastated and natural resources exhausted. Meanwhile foreign investors enjoy privileges and earn huge profits. Social conflicts of all kinds are severe, and social relations are deteriorating. Nationwide, a huge gap divides the backward west and developed east, the privileged and the underprivileged, and the rural and the urban. While Shanghai becomes the national financial and manufacturing centre, agricultural production in some parts of the western region (especially those populated by ethnic minorities) still relies on human and animal power. It is high time that China implemented a new economic and social development model designed to address these issues.

The 11th Five-Year Plan was formulated in response to these difficulties and the Central Government is now attempting to revise its "preferential development" strategy. More favourable economic policies will be introduced in backward regions and will cover previously underprivileged social groups. The four provinces/region, with their backward economies and underprivileged social groups, will benefit greatly from these initiatives.

The following section will evaluate what the four provinces/region have achieved during the 10th Five Year Plan and will examine the basic social and economic conditions of the four provinces/region. It will also then predict what

economic strategies the four provinces/region might adopt during the 11th Five-Year Plan period, and how they might interact with Hong Kong.

As the national economic strategy is set to be changed by the 11th Five-Year Plan, so will the economies of the four provinces/region. However, any such change will be based on the current social and economic conditions including the industrial structure. This section will study the performance of the four provinces/region during the 10th Five-Year Plan period, and compare it with the nationwide average and Guangdong. Constrained by their natural environment and resource endowment, the four provinces/region have an economic development model that is very different from the export-oriented one, or the "Guangdong model".

Since Hong Kong entrepreneurs and merchants are more familiar with the export-oriented industry, how might these four provinces/region interact and cooperate with Hong Kong? To find out the answer, this section will pay special attention to foreign investment and exports in the four provinces/region.

## 2.2. Achievements of the Four Provinces/Region during the 10th Five-Year Plan Period

In terms of Gross Domestic Product (GDP) and GDP per capita, all of the four provinces/region saw growth beyond their original goals. Guangxi and Guizhou even experienced double-digit GDP growth, ahead of the national average. Guangxi benefited from their trade with the ASEAN countries in general and with Vietnam in particular, whilst Guizhou gained from a price rise in mineral products and other industrial resources between 2003 and 2005. In 2004, for instance, Guangxi and Guizhou saw 25.5% and 23.7% nominal growth in GDP, respectively[1]. All of the four provinces/region achieved double-digit GDP per capita growth, especially Guangxi which saw the most outstanding growth at 15.2%, ahead of a national average of 14.4%.

Before 2000, the share of primary industry in the economy in the four provinces/region ranged between 22% and 27%, characterising them as agricultural and primary resource producers. During the 10th Five-Year Plan period, the provincial governments endeavoured to lower the share of primary industry while increasing that of manufacturing and services. Consequently, the

1 In 2004, Guangxi and Guizhou saw 11.8% and 11.4% real growth in GDP respectively.

share of primary industry in the four provinces/region has been reduced to between 18% and 22%. Nevertheless, this share was higher than the national average of 12.5% and Guangdong of 6.3%. See Table 2.1 for details.

**Table 2.1: Macroeconomic Performance of the Four Provinces/Region**

| Item | 2000 | Planned Target for the 10th Five-Year Plan Period | 2005 | Annual Growth in the 10th Five-Year Plan Period | Target for the 11th Five-Year Plan Period |
|---|---|---|---|---|---|
| GDP (RMB 100 million) | | | | | |
| Nationwide | 99,215 | 125,000 (7.0%) | 182,321 | 9.9% | 261,000 (7.5%) |
| Guangdong | 9,662 | 16,300 (9.0%) | 21,701 | 12.5% | 33,500 (9.0%) |
| Sichuan | 4,010 | 5,890 (8.0%) | 7,385 | 11.4% | 12,000 (9.0%) |
| Guangxi | 2,050 | 3,000 (8.0%) | 4,063 | 10.7% | 10.0% |
| Yunnan | 1,955 | 8.0% | 3,472 | 8.8% | 9.0% |
| Guizhou | 994 | 1,530 (9.0%) | 1,942 | 10.2% | 3,400(10.0%) |
| | | | | | |
| Per Capita GDP (RMB) | | | | | |
| Nationwide | 7,077 | 9,400 | 13,985 | 14.4% | 19,270 (6.6%) |
| Guangdong | 12,885 | 20,000 (7.7%) | 23,674 | 12.9% | 34,400 |
| Sichuan | 4,784 | - | 9,020 | 13.5% | 14,000 |
| Guangxi | 4,319 | 6,050 | 8,746 | 15.2% | - |
| Yunnan | 4,637 | 6.5% | 7,826 | 11.0% | - |
| Guizhou | 2,662 | - | 5,222 | 14.4% | - |
| | | | | | |
| Industry Structure (Ratio of Primary, Secondary and Tertiary Industries) | | | | | |
| Nationwide | 15:46:39 | 13:51:36 | 13:47:40 | - | - |
| Guangdong | 10:51:39 | 7:51:42 | 6:50:44 | - | 5:50:45 |
| Sichuan | 24:42:34 | 20:44:36 | 20:41:39 | - | 16:44:40 |
| Guangxi | 26:37:37 | 22:39:39 | 22:37:41 | - | 18:44:38 |
| Yunnan | 22:43:35 | 19:43:38 | 19:42:39 | - | - |
| Guizhou | 27:39:34 | 21:43:36 | 18:43:39 | - | 13:45:42 |

Note: The figures in brackets represent average annual growth. The GDP figures are at current prices but the GDP average annual growth is calculated at constant prices.

Source: Website of the National Bureau of Statistics of China, 2000-2005 National and Provincial Annual Statistical Report; and the National and Provincial/Region's Guideline on the "10th Five-Year Plan" and the "11th Five-Year Plan".

The four provinces/region are home to many ethnic minority peoples, most of whom farm the land in mountainous areas. There are great differences between the rural and urban areas. In Guangxi, the annual growth rate of per capita disposable urban income was 3.3% higher than that of per capita rural net income during the 10th Five-Year Plan period. In Guizhou, the gap was even higher at 4.2% (see Table 2.2). In RMB terms, the per capita income of the urban population in the four provinces/region saw promising growth, whereas that of the rural population only just met the preset goal. The income gap was particularly glaring in Guangxi, Guizhou and Yunnan, with urban per capita income ranging between 4.50 and 4.95 times that of the rural one, while the national average was 3.22 times (see Table 2.3).

**Table 2.2: Urban and Rural Development in the Four Provinces/Region**

| Item | 2000 | Planned Target of the 10th Five-Year Plan Period | 2005 | Annual Growth of the 10th Five-Year Plan Period | Target of the 11th Five-Year Plan Period |
|---|---|---|---|---|---|
| Per Capita Annual Disposable Income of Urban Households (RMB) | | | | | |
| Nationwide | 6,280 | 5.0% | 10,493 | 10.8% | 13,390 (5.0%) |
| Guangdong | 9,762 | 5.0% | 14,770 | 8.6% | 5.5% |
| Sichuan | 5,894 | 7,700 (5.5%) | 8,386 | 7.3% | 11,000 |
| Guangxi | 5,834 | 5.0% | 9,287 | 9.7% | 6.0% |
| Yunnan | 6,325 | 5.0% | 9,266 | 8.0% | 6.0% |
| Guizhou | 5,112 | 5.0% | 8,451 | 10.6% | 7.0% |
| | | | | | |
| Per Capita Annual Net Income of Rural Households (RMB) | | | | | |
| Nationwide | 2,253 | 5.0% | 3,255 | 7.6% | 4,150 (5%) |
| Guangdong | 3,655 | 5.0% | 4,691 | 5.1% | 6.0% |
| Sichuan | 1,904 | 2,300 (3.5%) | 2,803 | 8.0% | 3,750 |
| Guangxi | 1,374 | 6.0% | 1,877 | 6.4% | 5.0% |
| Yunnan | 1,479 | 4.0% | 2,042 | 6.7% | 6.0% |
| Guizhou | 1,374 | 4.5% | 1,877 | 6.4% | 5.0% |
| | | | | | |
| Urbanisation Degree | | | | | |
| Nationwide | 36.2% | - | 43.0% | - | 47.0% |
| Guangdong | 55.0% | - | 60.7% | - | 65.0% |
| Sichuan | 26.7% | 32.0% | 33.0% | - | 38.0% |
| Guangxi | 28.0% | 31.0% | 34.0% | - | - |
| Yunnan | 23.4% | 31.0% | 33.6% | - | 35.0% |
| Guizhou | 23.9% | 25.0% | 26.9% | - | 35.0% |

Note: The figures in brackets represent average annual growth.

Source: Website of the National Bureau of Statistics of China, 2000-2005 National and Provincial Annual Statistical Report, and the National and Provincial/Region's Guideline on the "10th Five-Year Plan" and the "11th Five-Year Plan".

**Table 2.3: Ratio between Urban Disposable Income Per Capita and Rural Net Income Per Capita[2]**

| | 2000 | 2005 |
|---|---|---|
| Nationwide | 2.79 | 3.22 |
| Guangdong | 2.67 | 3.15 |
| Sichuan | 3.10 | 2.99 |
| Guangxi | 4.25 | 4.95 |
| Yunnan | 4.28 | 4.54 |
| Guizhou | 3.72 | 4.50 |

Source: Calculated with figures from Table 2.2.

In 2000, none of the four provinces/region experienced urbanisation beyond 30%, while the Guangdong and the national average stood at 55% and 36.2%, respectively. During the 10th Five-Year Plan period, urbanisation in Sichuan, Guangxi and Yunnan went beyond 30%, but was still below the national average. Meanwhile, Guizhou experienced urbanisation of only 26.9%, the least of the four provinces/region. With the huge gap between urban and rural per capita income and a low degree of urbanisation, the four provincial governments found it difficult to eliminate their financial deficits. Guizhou in particular was used to receiving financial "blood transfusions" from the Central Government.

During the 10th Five-Year Plan period, the four provinces/region more than met their "economic development" goals and also fulfilled the basic requirements of "industrial restructuring". However, the rural-urban divide has severely compromised the "trickle-down" effect of the manufacturing industry and local consumption is largely concentrated in urban areas. Communities in rural and mountainous areas, especially those of minority peoples, have been largely overlooked by the government. Consequently, the four provinces/region have a very fragile basis from which to sustainably develop their economies.

Between 2003 and 2005, thanks to price increases for energy and industrial resources, and trade with the ASEAN countries, the four provinces/region saw

2 Since rural people usually reside on land that is collectively owned and consume their own agricultural products, their net income per capita is necessarily lower than the urban income per capita. This comparison therefore highlights relative, not absolute values.

remarkable economic growth. However, it is doubtful if windfalls like these will occur again during the 11th Five-Year Plan period. During this period, the top two goals for the country in general, and for the four provinces/region in particular, will be to restructure industry and address the urban-rural divide. It remains to be seen how devoted the four provinces/region will be to pursuing these two goals, and how much they do in fact achieve.

## 2.3. Comparison between the Four Provinces/Region and the Export-Oriented Chinese Economy

In the past two decades, foreign investment and export-oriented industrial development have contributed to an economic miracle in the Pearl River Delta. Across the country, Foreign Direct Investment (FDI) accounted for more than 15% of investment in total fixed assets and the ratio is likely to increase further. This national average figure was in turn dwarfed by Guangdong, which between 2000 and 2001 saw FDI account for almost 30% of investment in fixed assets (see Table 2.4). Later on, because of its strength in the local economy, the FDI ratio began to fall; yet the FDI ratio in the four provinces/region has never exceeded 10% and in Yunnan and Guizhou, the ratio does not even exceed 1%.

**Table 2.4: Share of FDI in the Investment in Fixed Assets in 2000-2005**

| | Share of FDI in the Investment in Fixed Assets | | | | | |
|---|---|---|---|---|---|---|
| Year | Nationwide | Guangdong | Guangxi | Guizhou | Sichuan | Yunnan |
| 2000 | 15.69% | 29.69% | 7.45% | 0.52% | 2.55% | 1.55% |
| 2001 | 15.39% | 28.34% | 4.85% | 0.44% | 2.98% | 0.72% |
| 2002 | 15.75% | 24.36% | 4.60% | 0.50% | 2.42% | 1.13% |
| 2003 | 17.14% | 13.45% | 3.76% | 0.50% | 1.46% | 0.69% |
| 2004 | 18.02% | 14.12% | 1.98% | 0.62% | 2.94% | 0.91% |
| 2005 | 17.48% | 14.81% | 1.79% | 0.87% | 2.54% | 0.89% |

Source: The raw data, from which the above percentages were calculated, is from the website of the National Bureau of Statistics of China, 2000-2005 National and Provincial Annual Statistical Report, and the China Statistic Summary 2006.

Starting from 2003, the national average ratio of foreign trade to GDP surged beyond 50%, and in Guangdong, it even reached 100%. However, it was not until two years earlier that the ratio in Guangxi and Yunnan exceeded 10%. In Sichuan and Guizhou, the ratio still did not exceed 10% (see Table 2.5).

**Table 2.5: Trade Dependence Ratio, 2000-2005**

| | Trade Dependence Ratio (Total Foreign Trade/GDP) | | | | | |
|---|---|---|---|---|---|---|
| Year | Nationwide | Guangdong | Guangxi | Guizhou | Sichuan | Yunnan |
| 2000 | 39.57% | 145.74% | 8.21% | 5.50% | 5.25% | 7.68% |
| 2001 | 38.47% | 137.19% | 6.67% | 4.93% | 5.80% | 7.93% |
| 2002 | 42.70% | 155.94% | 8.19% | 4.83% | 7.59% | 8.26% |
| 2003 | 51.86% | 172.23% | 9.64% | 6.01% | 8.55% | 8.96% |
| 2004 | 59.77% | 156.69% | 10.31% | 7.47% | 8.91% | 10.05% |
| 2005 | 63.89% | 161.54% | 10.44% | 5.91% | 8.76% | 11.18% |

Source: The raw data, from which the above percentages were calculated, is from the website of the National Bureau of Statistics of China, 2000-2005 National and Provincial Annual Statistical Report, the China Statistic Summary 2006 and the Monthly Digest of Chinese Maritime Customs.

Similarly, the ratio of foreign trade contributed by foreign enterprises to local GDP is extremely low in the four provinces/region. This value did not even exceed 1% in Sichuan while in Guizhou it did not exceed 2%. This was a far cry from the national average and Guangdong, in which the ratios climbed to 37.37% and 105.19% respectively in 2005 (see Table 2.6).

**Table 2.6: Trade Dependence Ratio Contributed by Foreign Invested Enterprises**

| | Trade Dependence Ratio Contributed by Foreign Invested Enterprises (Foreign Trade of Foreign Invested Enterprises / GDP) | | | | | |
|---|---|---|---|---|---|---|
| Year | Nationwide | Guangdong | Guangxi | Guizhou | Sichuan | Yunnan |
| 2000 | 19.75% | 78.86% | 2.23% | 0.47% | 1.27% | 0.83% |
| 2001 | 19.55% | 76.67% | 1.72% | 0.48% | 1.25% | 0.85% |
| 2002 | 22.72% | 90.71% | 2.64% | 0.89% | 1.13% | 0.94% |
| 2003 | 28.77% | 106.11% | 3.14% | 1.69% | 1.45% | 0.90% |
| 2004 | 34.33% | 99.39% | 3.54% | 1.91% | 1.69% | 0.85% |
| 2005 | 37.37% | 105.19% | 3.61% | 1.14% | 1.65% | 0.94% |

Source: Raw data, from which the above percentages were calculated, is from website of the National Bureau of Statistics of China, 2000-2005 National and Provincial Annual Statistical Report and the Monthly Digest of Chinese Maritime Customs.

The above three sets of figures clearly demonstrate the economic differences between the four provinces/region when compared to Guangdong and to the nation as a whole. The four provinces/region rely mainly on the local economy, with little dependence on foreign trade and foreign investment. As far as Hong Kong is concerned, the implications of this are as follows:

1. There is little economic reciprocity to speak of between Hong Kong and the four provinces/region. At present Hong Kong acts as the office and its entrepreneurs invest in export-orientated factories along the Pearl River Delta which provides land and labour. However, this type of economic partnership cannot be transplanted to the four provinces/region. Hong Kong enterprises are small in size and mainly specialize in export-oriented processing. They have to be close to supplier clusters, servicing agents and dockyards so as to quickly and flexibly fulfil small-scale manufacturing orders. Their manufacturing activity is also labour-intensive. The four provinces/region, however, are not interested in labour-intensive or export-oriented industries; they would rather have their peasants recruited by labour-intensive factories in the coastal areas. Instead, they prefer technology-intensive industries like those of car or info-electronics. What they need is strategic heavy equipment industries or processing industries for agricultural products but none of these types of industry, nor their expertise, exist in Hong Kong. This is because such industries require expensive and long-term investment whilst Hong Kong investors prefer small investments and quick returns.

2. If Hong Kong has little to offer the four provinces/region in terms of investment, the four provinces/region also have little demand for Hong Kong trade, logistics and servicing support. Guangzhou, Chongqing, and Chengdu, or indeed their own provincial capitals can more than adequately fulfil their needs. They could also turn to places like Singapore to enhance their regional economic integration. In short, there is very little scope for economic cooperation between Hong Kong and the four provinces/region.

3. The Central Government claims to support the development of finance, logistics, tourism and information industries in Hong Kong in the 11th Five-Year Plan, and to maintain Hong Kong's position as an international financial, trade, and navigation centre. However, without the backing of any substantial investment projects from the central or provincial governments, such promises remain words on paper and will have no effect at all. Moreover, given that the four provinces/region have little involvement in foreign trade, it is extremely doubtful that Hong Kong could turn them into its economic hinterland.

4. Transport and communication links between Hong Kong and the four provinces/region are poorly developed. The four provinces/region find it cheaper and quicker to trade with the ASEAN countries directly, instead of

via Hong Kong. If they were made to rely on the dockyards in the Pearl River Delta, they would have chosen those in Shenzhen or Guangzhou, not Hong Kong. Moreover, cargo transport along China's railway system is poorly developed, and cargo truck traffic between Hong Kong and the four provinces/region can take more than four days, thus inflicting heavy costs in terms of time and capital. As a result the four provinces/region care very little about the development of Hong Kong's international trade and navigation, and Hong Kong has very little edge when it comes to bargaining with the four provinces/region.

In other words, instead of reiterating its current industrial advantages, Hong Kong should devise economic strategies that cater for the needs of the four provinces/region. One solution would be to encourage Hong Kong investors to increase investment in the four provinces/region. More importantly, Hong Kong should try to create new types of service industry and new commercial models. In this way Hong Kong could use capital and human resources, and not only within the manufacturing orientated trading sector, to foster links with the four provinces/region.

Commercial consultancy is another role that Hong Kong could offer to play. Hong Kong should deepen its understanding of law and regulations, economy, commerce, cultures, languages and religions (Islam in particular) in various ASEAN countries. In this way Hong Kong could provide highly professional commercial consultancy for the four provinces/region and facilitate their trade and investment within ASEAN countries. Under the regional Free Trade Agreement (FTA) framework, Hong Kong should change its industrial structure from one that specializes in light and export-oriented industries to one that at least partly covers products in heavy industry and agriculture, as well as other commercial products. In so doing, Hong Kong would not only cater for the needs of the four provinces/region, but also that of other provinces as well.

In fact, light and processing industries in China have reached their peak and are now saturated. In the future, the industrial centre will move to heavy industry and the information industry, whilst the domestic market becomes ever more important. If Hong Kong wants to avoid being marginalised, it has to transform at least part of its servicing sector. In particular, Hong Kong has to expand and upgrade its logistics and commercial servicing industries.

# 3. Trends and Updates on the Four Provinces/Region

## 3.1. Economic Performance of the Four Provinces/Region

The first four months in 2006 saw remarkable economic growth in the four provinces/region. Guangxi outperformed not only Guangdong, but also the national average in terms of value-added industry and urban investment. Sichuan also outperformed Guangdong according to these two indicators, and Guizhou performed just as well as the national average. Unfortunately, Yunnan lagged behind Guangdong and the national average for all indicators. Meanwhile, Guangdong began a period of steady, if not slack, development, with its industrial growth coming close to the national average. Its urban investment did not perform so well and lagged behind the national average, Sichuan, Guangxi, and Guizhou (see Table 3.1).

**Table 3.1: Economic Performance of the Four Provinces/Region, January to April 2006**

| Region | Value-Added by Industry (RMB 100 mil.) | | Sales of Industrial Product (%) | | Urban Investment in fixed asset (RMB 100 mil.) | | Urban disposable income per capita in April (RMB) |
|---|---|---|---|---|---|---|---|
| | Jan-Apr | Yr.-on-yr. growth | Jan-Apr | Change | Jan-Apr | Yr.-on-yr. growth | |
| Nationwide | 24,611 | 16.7% | 97.4 | -0.1 | 18,006 | 29.6% | 887 |
| Guangdong | 3,036 | 17.6% | 97.2 | -0.9 | 1,485 | 21.0% | 1,200 |
| Sichuan | 780 | 23.4% | 96.6 | -1.8 | 911 | 35.6% | 701 |
| Guangxi | 335 | 20.8% | 89.2 | -4.5 | 353 | 27.5% | 726 |
| Yunnan | 374 | 9.6% | 94.6 | -0.6 | 427 | 31.6% | 779 |
| Guizhou | 200 | 16.6% | 96.7 | 0.1 | 232 | 20.9% | 709 |

Source: Website of the National Bureau of Statistics of China: http://www.stats.gov.cn/tjsj/

In the first four months of 2006, Sichuan outperformed the national average in terms of foreign trade growth whilst imports drove foreign trade in Guangxi and Yunnan. Guizhou lagged behind the national average for both import and export growth due to the nature of its inland economy. Since there are few foreign enterprises in the four provinces/region, exports are mainly limited to local resource products; and large-scale imports or exports of products driven by foreign enterprises hardly exists. In Guangdong, on the contrary, it is exactly that which dominates the economy, and its export-oriented economy works perfectly well with Hong Kong's trade and service industries. In this sense, the four provinces/region could be said to be in a state of autarky (see Table 3.2 and 3.3)

## Table 3.2: Imports and Exports of the Four Provinces/Region, January to April 2006

| | Jan-Apr (USD million) | | | Year-on-Year Growth (%) | | |
|---|---|---|---|---|---|---|
| | Total | Export | Import | Total | Export | Import |
| Nationwide | 5,147.2 | 2,742.3 | 2,404.8 | 24.0 | 25.8 | 22.1 |
| Guangdong | 1,485.5 | 824.8 | 660.8 | 25.4 | 28.4 | 21.9 |
| Sichuan | 30.0 | 17.0 | 13.0 | 36.5 | 27.7 | 50.1 |
| Guangxi | 18.8 | 10.1 | 8.7 | 20.8 | 17.5 | 24.9 |
| Yunnan | 18.0 | 9.1 | 8.9 | 17.9 | 9.9 | 27.4 |
| Guizhou | 4.6 | 2.7 | 1.9 | 9.5 | 3.1 | 20.1 |

Source: Monthly Digest of Chinese Maritime Customs.

## Table 3.3: Imports and Exports by Foreign Enterprises in the Four Provinces/Region in the First Quarter of 2006

| | Export (USD million) | | | Import (USD million) | | |
|---|---|---|---|---|---|---|
| | Total | Foreign Invested Enterprise | Export Ratio of Foreign Enterprise | Total | Foreign Invested Enterprise | Import Ratio of Foreign Enterprise |
| Nationwide | 197,304 | 117,627 | 59.6% | 173,996 | 101,541 | 58.4% |
| Guangdong | 58,255 | 37,829 | 64.9% | 47,519 | 31,4645 | 66.2% |
| Sichuan | 1,247 | 197 | 15.8% | 991 | 322 | 32.5% |
| Guangxi | 731 | 152 | 20.8% | 656 | 269 | 41.0% |
| Yunnan | 646 | 59 | 9.2% | 675 | 42 | 6.2% |
| Guizhou | 193 | 29 | 14.8% | 142 | 27 | 18.7% |

Source: Monthly Digest of Chinese Maritime Customs.

## 3.2. Trends and Updates on Sichuan

### 3.2.1. Economic Performance of Sichuan

Hitherto, Sichuan was a major agricultural province. It was not until 1992 that value-added industry grew faster than agriculture. By 2005, industry claimed 34% of Sichuan's GDP and[3], according to other major economic indicators, Sichuan generally exceeded the requirements set by the 10th Five-Year Plan. This growth trend continued in the first four months of 2006 (see Table 3.4).

**Table 3.4: Economic Performance of Sichuan (January to April 2006)**

| | Total (RMB 100 mil.) | Growth |
|---|---|---|
| Value-added of non-state-owned Enterprise above Designated Size | 780 | 23.4% |
| Total investment in fixed assets | 1,049 | 35.0% |
| Investment in Industry | 423 | 45.0% |
| Investment in Transport & Communication | 72 | 58.1% |
| Total Retail Sales of Consumer Goods | 1,055 | 14.2% |
| Foreign Trade (US$, 100 million) | 30 | 36.5% |
| - Export | 13 | 50.1% |
| - Import | 17 | 27.7% |
| Regional budgetary government revenue | 188 | 28.8% |
| Regional budgetary government expenditure | 286 | 27.0% |
| Per capita urban disposable income (RMB) | 3,316 | 9.9% |

Source: Sichuan Statistics and Information Website:
http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200605180029.htm

Compared with 2005, Sichuan's investment in fixed assets grew by 4.3%,[4] and investment in transport and communication, and industry grew by 58.1% and 45%, respectively.[5] According to the Sichuan Institute of Statistics and Information, every RMB 100 million increase in industrial output will generate a corresponding increase of RMB 259 million in general output,[6] and this trend shows no sign of slowing down. Sichuan is expected to see even stronger industrial growth in 2006.

3 Sichuan Statistics and Information Website: http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200603240071.htm

4 Sichuan Statistics and Information Website: http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200603010057.htm

5 Sichuan Statistics and Information Website: http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200605180029.htm

6 Sichuan Statistics and Information Website: http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200603240071.htm

Sichuan is endowed with a huge population, a vast territory and rich natural resources. In the Pan-PRD Region, Sichuan's economy is second only to Guangdong and Sichuan has been able to generate a virtuous economic cycle single handedly. Better still, in the first four months of 2006, the growth rate in Sichuan's foreign trade saw a rise of 21.4% when compared to 2005. This will give a great boost to Sichuan's industry. In addition, Sichuan is set to have a good start to the 11th Five-Year Plan period thanks to its strong industry and expanding agriculture sector, as well as increases in urban income per capita, retail sales of consumer goods and retail prices.

Notwithstanding the rosy picture above, there are some shortcomings in Sichuan's economy. The problems which haunt the Sichuan economy include increasing industrial inventory, poor industrial product sales performance, price rises for industrial raw materials outpacing those for industrial products, and poor rural consumption. In fact the regional industrial imbalance is a particularly serious problem. In 2005, the first six regions with the highest value-added industry were: Chengdu (成都), Deyang (德陽), Mianyang (綿陽), Yibin (宜賓), Leshan (樂山) and Panzhihua (攀枝花). These six regions alone boasted a value-added industrial total of RMB 148.69 billion, or 61.2% of the provincial total. This translated to 1.7 times the total value of the remaining 15 regions.[7] It remains to be seen what effect such a regional imbalance will have on Sichuan.

### 3.2.2. Updates on Sichuan

The Sichuan provincial government formulated a plan to strengthen and enhance its industries based on the guidance in the 11th Five-Year Plan, in May 2006. Details of the plan included: increasing the gross industrial value, improving the industrial structure, better utilisation of industrial raw materials and prioritizing certain favoured industries.[8] At the same time, Mianyang (綿陽), a city famous for its technology, also formulated its own municipal planning guidelines for 2005 to 2020. According to the guidance, Mianyang is to position itself as China's "science and technology city" and manufacturing base of the Western Region.[9] These two documents, one each from the provincial and municipal levels, tell much about Sichuan's industrial strategy for the next five to ten years.

7 Sichuan Statistics and Information Website: http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200603240071.htm

8 "Sichuan shishi gongye qiangsheng zhanlue jueding zhengshi chutai" Sichuan Daily, 11th May 2006: http://www.pprd.org.cn/news/province/200605110011.htm

9 "Sichuan fu zhongxin chengshi zai na--mianyang xiubian dingwei fazhan", Sichuan News Net, 29th May 2006: http://scnews.newssc.org/system/2006/05/29/000130422.shtml

Known as the "country of heaven's treasury", Sichuan has been famous for its agriculture for a long time. In the past two decades, however, Sichuan has witnessed significant achievements in its electronic and information industries, thanks mainly to the transformation of its military-industrial complex. The Changhong (長虹) Corporation is a good example. During the past five years, the multi-national corporations drove the electronic and information industries. In April 2004, Intel, for instance, invested USD 375 million in Chengdu for the establishment of a packaging and testing factory. In the second half of 2005, Intel invested USD 450 million to build a second factory in Chengdu which is expected to open in early 2007.[10] In March 2006, SMIC's integrated circuit testing factory, a project worth RMB 1.4 billion, was formally put into operation.[11]

The presence of foreign investors in Sichuan's information industry did not come out of the blue. Since 2005, Taiwan's semiconductor manufacturers have been flocking to Chengdu and Mianyang.[12] One of the reasons for this is that Sichuan is endowed with rich reserves of silicon. Another reason is that electricity and labour is cheaper in Sichuan, so much so that it is still 50% cheaper to manufacture chips in Shanghai and send them to Sichuan for testing than to have them tested in Shanghai. According to one Japanese enterprise, the investment cost in Mianyang is 60% cheaper than that in the costal areas, and 20% to 30% cheaper than that of Chengdu. With permission from Beijing, Mianyang is now the sole science-and-technology city in China, and therefore one of the most favoured cities for Taiwan businesses in Sichuan and western China.

By the end of 2005, Taiwan enterprises, numbering more than a hundred, accounted for one-third of Mianyang's foreign investment.[13] Mianyang, being one of the major research and development bases for China's defense industry, offers two important features for the electronic and information industry. Firstly, the industry is well served by a concentration of top scientists and technology experts. Secondly, there is a huge demand for integrated circuits within Mianyang itself. Chips manufactured by Intel, SMIC, and Taiwan enterprises can be immediately sold to customers within Mianyang, after finishing the testing process. EMC, the world's sixth largest software service provider, saw its annual sales grow by 20% in the market of Western China, and is now poised to strengthen its investment in

10 "Intel bu hui fangqi zhongguo, chengdu chang zai tou liu yi", Sichuan News Net, 28th March 2005: http://cpu.zol.com.cn/2005/0328/159314.shtml ; Cai Jinkun, "Intel zai dalu de buju qingtai", Taiwan Institute of Industry: http://www.itri.org.tw/chi/services/ieknews/20060126025711557EE-0.doc

11 "Touzi shisiyi RMB, zhongxin guoji chengdu fengzhuangchang touchan", Sichuan News Net, 17th March 2006.

12 "Taixi bandaoti changshang qunju sichuan", Taiwan gongshang shibao, 15th July 2005.

13 "Mianyang cheng touzi xijin retu, taibao xiehui chengli, ma yingjiu zhi hehan", China News Agency, 28th May 2006: http://www.china.org.cn/chinese/TCC/1221298.htm。

Chengdu and foster partnerships with local enterprises. Its goal is to have Sichuan mobile phone operators adopting EMC's software platform.[14]

The semiconductor industry requires the comprehensive linkage of the industrial value chain more than any other industry. As more and more international hardware and software businesses flock into Sichuan, the province will become another important base for China's electronics industry. It may even be capable of competing with the Yangzi River Delta.

The globalisation of Sichuan's electronic and information industries has the following implications for Hong Kong:

1. Sichuan is upgrading and transforming itself to create a hi-technology industrial base, and as a result it might not find investors of labour-intensive industries very attractive. This is not good news for the Hong Kong manufacturers interested in investing in Sichuan.

2. Sichuan has succeeded in restructuring its industry by relying on its own expertise in science and technology, and utilizing investment from Multi National Companies (MNCs) and Taiwan manufacturers. The example of Sichuan shows the importance of technology in industrial upgrading. Hong Kong's finance, logistics, commerce and trade sectors can no longer satisfy the needs of the Mainland provinces. When compared to some industries in Sichuan, Hong Kong has already lagged behind. This is a serious warning for Hong Kong's entrepreneurs. To maintain or strengthen its economic prowess, Hong Kong must fully understand what the Mainland provinces need in the field of science and technology, and devise policies for developing science and technology accordingly. Only in this way can Hong Kong avoid becoming marginalised or lagging behind in scientific innovation.

3. The semiconductor industry played a significant role in the foundation of the modern digital industry. During the 1960s, 1970s and 1980s, Hong Kong outperformed the East Asian countries thanks to investment from the US. Today, Hong Kong should give serious thought to reviving its

14 "Ruanti jutou zengzi chengdu", Huaxi dushi bao, 30th May 2006: http://big5.xinhuanet.com/gate/big5/www.sc.xinhuanet.com/content/2006-05/30/content_7126366.htm

semiconductor industry, and Taiwan should be its potential partner. Taiwan has the world's largest semiconductor manufacturing and testing capacity and is the world's second largest chips designer. However, since Taiwan's semiconductor manufacturers are not allowed to directly invest in or to move their manufacturing facilities to the Mainland, and since the Pearl River Delta lags far behind the Yangtze River Delta in the semiconductor industry, Hong Kong could fill the gap and create a niche for itself by cooperating with Taiwan's semiconductor businesses and servicing the IT industry in the Pearl River Delta.

4. The success story of Sichuan shows that government policy could play a decisive role in transforming and upgrading industry. While Sichuan started its semiconductor industry out of the blue, Hong Kong still has some remaining facilities and expertise from Motorola's previous semiconductor investment. If so, it would not be too difficult for Hong Kong to revive its semiconductor industry.

## 3.3. Trends and Updates on Guangxi

### 3.3.1. Economic Performance of Guangxi

Guangxi, a poor autonomous region, has recently benefited from the "trickle-down effect" of Guangdong, its rich neighbour. During the 10th Five-Year Plan period, thanks to the Central Government's "Developing the Western Region" strategy, the establishment of China-ASEAN free-trade zone, and the forming of the Pan-PRD Region, Guangxi experienced drastic economic growth. This growth has continued into 2006, the first year of the 11th Five-Year Plan period (see Table 3.5).

**Table 3.5: Guangxi's Major Economic Indicators (January to April 2006)**

| Item | January-April (RMB 100 million) | Year-on-Year Growth |
|---|---|---|
| GDP in 1st Quarter | 965 | 13.5% |
| Government revenue | 169 | 21.3% |
| Value-added of Enterprise above Designated Size | 335 | 20.8% |
| Total Retail Sale of Consumer Goods | 512 | 13.1% |
| Foreign Trade (US$, 100 million) | 19 | 20.9% |
| Consumer Price Index (%) | 100.5 | 0.5% |

Source: Guangxi Statistics and Information Net: http://www.gxtj.gov.cn/

Rapid economic growth in the first four months of 2006 was partly the continuation of growth in the 10th Five-Year period, during which substantial investment in fixed assets greatly improved transport and production capacity in Guangxi. Economic cooperation between China and the ASEAN countries means that Guangxi is set to occupy a niche in terms of resources and location. Probably because of such rosy prospects, investment in fixed assets is still growing and shows no sign of slowing down.

GDP growth in the first quarter of 2006 was the highest since 1995. Since 2002, consecutive annual growth rates have been above 11%. Primary industry contributed 5.6%, secondary industry 54.4%, tertiary industry 40% and industry as a whole accounted for 48%. Clearly, industry is still the engine of economic

growth in Guangxi.[15] Regional cooperation is also booming in the region, with trade and foreign direct investment growing by 20.9% and 15.8%, respectively.

Notwithstanding this remarkable growth, some problems remain unresolved:

- A substantial drop was seen in investment in technological renovation and this will surely slow down Guangxi's technological advancement. In the first quarter of 2006, investment in technological innovation amounted to RMB 4.33 billion. In terms of value, the figure represented an increase of 26.9%, although in terms of growth, the figure amounted to a fall of 15.1% compared with the previous year.[16]

- The ratio of sales of industrial products has also declined and at 86.1%, the ratio was 4.8% lower. Excluding the seasonable effect of the sugar industry, the ratio of sales of light industrial product saw a decrease of 8.6%, and that of heavy industrial product by 1.3%.[17]

- Price rises for raw materials and energy cut the profit margins of some industries. For three consecutive years, there has been 11% price rise in raw materials and energy during the first quarter.[18] Profits are still healthy in such industries as sugar, metal and electricity but industries such as metallurgy, automotives and chemicals have done less well. Some enterprises, whilst earning handsome profits last year, are now in the red.

### 3.3.2. Updates on Guangxi

Industrial upgrading and foreign trade are the two major engines behind the drastic economic growth in Guangxi. However, Guangxi's economic growth will depend on the following three factors: the automotive industry, the trade between China and the ASEAN countries, and the development of the Tonkin Gulf Rim.

15 Guangxi Statistics and Information Net: http://www.gxtj.gov.cn/news_issue/news_display.asp?sendid=10343

16 Ibid.

17 Ibid

18 Ibid.

### 3.3.2.1. Guangxi's Automotive Industry

In the first four months of 2006, Guangxi saw an industrial growth rate of 20.8%, ahead of the national average of 16.7%. Such rapid growth has been driven by the automotive industry. Guangxi, following Jilin, Shanghai, Hubei and Guangdong, has become one of China's main automotive manufacturing bases.

In 2005, SAIC-GM-Wuling Automobile Co. Ltd (SGMW), a car manufacturer jointly formed by the Shanghai Automobile Industry Company, General Motors and Wuling Automobile, manufactured 340,088 vehicles, out of which 337,188 were sold. These sales figures were 43% higher than for the previous year, and nearly four times higher than the growth rate of the national average. SGMW's market share also climbed from 25% to 30.7%.

SGMW offers 210 different types of vehicle and groups them under five major product categories: commercial vehicles, rear box mini-vans, the double-cab pick-up, the single-cab pick-up and the mini-passenger car. Having set the sales goal for 2006 at 400,000 vehicles,[19] SGMW made 142,200 sales in the first quarter, which represented growth rate of 63%. In particular, sales of mini-passenger car surged by 59% to 130,500, and accounted for 40.2% of the car market. In other words, SGMW has achieved a record high in terms of sales, growth, and market share.

Since last year, oil price increases have encouraged consumers to buy smaller cars and mini cars. The Central Government has also lessened its control over small vehicles. As a result, demand for small and mini cars is extremely strong and they now account for half the car market share. SGMW's "Chevrolet Spark", which sells at RMB 50,000 to RMB 60,000 each, is in hot demand, so much so that its sales have far exceeded SGMW's manufacturing capacity. Thanks to SGMW, Guangxi has become an important automotive manufacturing base.

SGMW's success has benefited the rest of Guangxi's car servicing industry. As an SGMW's engine manufacturer, Liuzhou Mechanical Factory saw its sales surging by 46.4% to 303,000 in 2005. Its cooperation index with SGMW also reached 95.85%.

19 Li RMB, "Shangqi tongyong wuling jinnian xiaoshou yu chao sishiwan liang", Liuzhou News Net: http://www.lzxw.com/md/show.asp?id=5281

Apart from supplying the domestic market, SGMW has also entered into markets in Southeast Asia, the Middle East, and South America. Wagner, General Motors' CEO, is poised to sell SGMW cars through GM's own market network. In March 2006, Indian, Thai, and Malaysian importers expressed interest in importing SGMW products. Earlier, too, the Shanghai Automobile Industry Company was authorized by the Central Government to establish an automotive manufacturing enterprise with Vietnam, and representatives from Shanghai Automobile have been sent to Vietnam to start negotiations.[20]

Apart from SGMW, Guangxi also boasts Dongfeng Liuzhou Automobile and Guilin Automobile. These three car manufacturers, in addition to the Yuchai group which specializes in car servicing, have transformed Guangxi into a core player in China's car industry. SGMW has now claimed 24% of the national mini car market, and has achieved the second largest sales nationwide.

**Table 3.6: Vehicle Production in China**

| Region | Production（10,000） | | | Share of national total | | | January-February 2006 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2003 | 2004 | 2005 | Production (10,000) | Cumulative growth | Cumulative share of national total |
| Nationwide | 206.89 | 226.14 | 295.84 | — | — | — | 60.47 | 83.10% | — |
| Tianjin | 17.25 | 21.98 | 32.56 | 8.34% | 9.72% | 11.01% | 7.93 | 150.20% | 13.11% |
| Jilin | 35.07 | 33.68 | 30.46 | 16.95% | 14.89% | 10.30% | 4.83 | 15.60% | 7.99% |
| Shanghai | 58.84 | 54.99 | 48.09 | 28.44% | 24.32% | 16.26% | 9.19 | 89.50% | 15.20% |
| Jiangsu | 8.42 | 8.99 | 14.94 | 4.07% | 3.98% | 5.05% | 2.50 | 78.60% | 4.13% |
| Zhejiang | 4.91 | 1.99 | 13.43 | 2.37% | 0.88% | 4.54% | 3.10 | 162.70% | 5.13% |
| Guangxi | 0.05 | 1.12 | 2.68 | 0.02% | 0.50% | 0.91% | 0.73 | 143.30% | 1.21% |
| Sichuan | 0 | 0 | 0 | 0% | 0% | 0% | 0 | 0% | 0% |
| Guizhou | 0.13 | 0.02 | 0 | 0.06% | 0.01% | 0.00% | 0 | 0% | 0% |
| Yunnan | 0.05 | 0.17 | 0.11 | 0.02% | 0.08% | 0.04% | 0.02 | 0% | 0.03% |

*The mini car is not counted as vehicle.
Source: National Statistics Bureau Website: http://www.stats.gov.cn/tjsj/qtsj/qcmtccl/

20 Zhu Zhongqi, "Xin SPARK jiang lumian, shangqi tongyong wuling yuenan jianchang", New China News Net Yunnan Channel: http://www.yn.xinhuanet.com/auto/2006-05/15/content_6984281.htm

**Table 3.7: Pick-up Truck Production in China**

| Region | Production (10,000) | | | Share of national total | | | January-February 2006 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2003 | 2004 | 2005 | Production (10,000) | Cumulative growth | Cumulative share of national total |
| Nationwide | 115.67 | 167.73 | 191.11 | — | — | — | 28.72 | 0.60% | — |
| Tianjin | 0 | 0.01 | 0.01 | 0% | 0.01% | 0.01% | 0 | 0% | 0% |
| Jilin | 18.28 | 23.01 | 16.30 | 15.80% | 13.72% | 8.53% | 2.25 | -32.80% | 7.83% |
| Shanghai | 0.5 | 0.48 | 0.06 | 0.43% | 0.29% | 0.03% | 0 | 0% | 0% |
| Jiangsu | 4.63 | 5.61 | 7.00 | 4.00% | 3.34% | 3.66% | 1.12 | 8.70% | 3.90% |
| Zhejiang | 0.08 | 1.25 | 0.69 | 0.07% | 0.75% | 0.36% | 0.09 | 50.00% | 0.31% |
| Guangxi | 5.21 | 7.41 | 6.17 | 4.50% | 4.42% | 3.23% | 1.30 | 23.80% | 4.53% |
| Sichuan | 1.99 | 5.15 | 5.01 | 1.72% | 3.07% | 2.62% | 0.47 | -4.10% | 1.64% |
| Guizhou | 0 | 0 | 0.04 | 0% | 0% | 0.02% | 0 | 0% | 0% |
| Yunnan | 4.03 | 4.95 | 6.10 | 3.48% | 2.95% | 3.19% | 0.77 | -14.40% | 2.68% |

Source: National Statistics Bureau Website: http://www.stats.gov.cn/tjsj/qtsj/qcmtccl/

During the past three years, according to Table 3.6 and 3.7, production, growth rates and market share in the automotive industry in Guangxi have continued to boom. Guangxi's production of pick-up trucks declined sharply in 2005, but in January and February of 2006, production surged, and Guangxi's share in the national pick-up truck market is at its highest for the past three years.

With the boom in both mini cars and pick-up trucks, the Guangxi government hopes to have its automotive industry producing more than one million vehicles and achieving sales revenue of more than RMB 100 billion during the 11th Five-Year Plan period. In terms of the industrial cluster, Liuzhou is the assembly base for Guangxi's automotive industry, and the servicing and spare parts enterprises are located in Guilin, Yulin and Nanning. To achieve better economies of scale and horizontal integration, Guangxi's government has produced plans for the establishment of an automotive production zone and is very keen to make this happen.[21]

21 Huang Han, "Guangxi qiche gongye yao jiqun fazhan, lizheng shixian zhengche chanliang baiwanliang", Guangxi government website: http://www.gxi.gov.cn/200603/200639110946.htm

With the exception of the investment in Chengdu by China First Automotive Works (FAW), Guangxi features prominently in south-western China's car market. In fact, Guangxi is capable of dominating this regional market. Moreover, with the establishment of trade links between China and the ASEAN countries, Guangxi's automotive manufacturers are likely to tap the Southeast Asian market. The automotive industry is destined to become Guangxi's major economic engine as has already happened in Jilin, Hubei, Shanghai and Guangdong.

#### 3.3.2.2. The Establishment of the Free Trade Zone between China and ASEAN

Guangxi celebrated the establishment of a free trade zone between China and ASEAN, with the slogan "Serve ASEAN, serve the country". The region aims to transform itself into a regional logistics centre and regional hub, in the free trade zone between China and ASEAN.

Geographically speaking, Guangxi is situated at the heart of the China-ASEAN economic circle. It is effectively the stepping stone for Chinese entry into Indochina, or Southeast Asian entry into China. Large number of overseas Chinese in ASEAN countries originated from Guangxi and subsequently there are very close ties between the region and the ASEAN countries.

In 2002, for example, Guangxi's trade value with the ASEAN countries amounted to USD 620 million, or 26% of Guangxi's total trade value and ASEAN has long been its largest trading partner. Consequently, Guangxi benefited the most when China started to enhance its trade with ASEAN. Nanning, the provincial capital of Guangxi, is now the permanent home for the China-ASEAN Exposition, and Guangxi is also the coordinator of the Exposition (see Table 3.8).

**Table 3.8: Trade between the Pan-Pearl River Delta and ASEAN**

| Region | Trade with ASEAN (USD 100 million) | | | Export to ASEAN (USD 100 million) | | | Investment from ASEAN (USD 100 million) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | Growth (%) | 2004 | 2005 | Growth (%) | 2004 | 2005 | Growth (%) |
| Guangdong | 322.93 | 369.04 | 14.30 | 92.69 | 116.79 | 24.90 | 3.87 | 4.15 | 7.20 |
| Sichuan | 7.09 | 7.74 | 9.20 | 5.45 | 6.61 | 21.30 | 0.62 | 0.81 | 30.60 |
| Guangxi | 10.01 | 12.24 | 22.20 | 6.36 | 8.31 | 30.50 | 0.50 | 0.82 | 64.00 |
| Guizhou | 2.81 | 2.55 | -9.25 | 1.97 | 1.87 | -5.08 | 0.02 | 0.03 | 35.03 |
| Yunnan | 12.76 | 15.57 | 22.00 | 9.62 | 10.91 | 13.40 | 0.21 | 0.29 | 39.00 |

Source: Pan-Pearl River Delta Region website:
http://www.pprd.org.cn/shuju/fz/200605190024.htm

In order to strengthen its ties with ASEAN, Guangxi is endeavoring to improve its infrastructure and servicing capacity, whilst the Guangxi government has been carrying out the following activities:

- Sending trade promotion delegations to the ASEAN countries every year.
- Enhancing official communication with the ASEAN governments.
- Enhancing transport and communication links with ASEAN such as increasing direct flights, opening navigation routes and developing new trade ports,
- Enhancing border communication networks (river and land routes, and railways).

To support underdeveloped regions in Southeast Asia and to facilitate the establishment of the China-ASEAN Free Trade Area, China will open its markets to ASEAN's agricultural products, minerals and raw materials such as rice, rubber and palm oil. Guangxi is in a good position to become the logistics centre serving south China, southwest China, and Southeast Asia. Policy makers in Guangxi are thinking of creating five logistic centres in places like Beihai and Qinzhou, and

two transport centres in Nanning and Liuzhou. Nanning, in particular, is capable of becoming a truly international logistics centre.[22]

### 3.3.2.3. Development of the Tonkin Gulf Rim

In early 2006, at the third meeting of the Tenth People's Congress of Guangxi, the government proposed a grand strategy of economic development. According to this so-called "three-dots-one-area" idea, Liuzhou will remain the base for traditional industry, Baise will become the base for new industries such as aluminum, and Guilin will become the base for hi-tech industries. Apart from the "three dots" above, the whole coastal area around the Tonkin Gulf Rim, namely, Nanning, Beihai, Qinzhou and Fangcheng will become a manufacturing base, hence the strategy "three-dots-one-area". As a result of these initiatives, Guangxi is set to become the platform for China-ASEAN economic cooperation.[23]

Chinese industry as a whole is still dominated by heavy and chemical industries. Its demand for energy and raw materials, especially oil and steel, is huge. Imports of oil and iron ore will continue to grow over the next few years, and for this reason, Guangxi's energy and raw material enterprises will benefit the most.

Meanwhile trade between China and Vietnam is booming, as a result of increasing investment by Mainland and Taiwan businesses. Vietnam is also keen to accelerate its economic liberalisation in order to join the World Trade Organisation (WTO). Consequently, economic power in the Tonkin Gulf Rim will expand from the north to the south, and incorporate Vietnam.

### 3.3.2.4. Guangxi’s Foreign Trade

Donald Tsang, HKSAR's Chief Executive, led a delegation of 80 officials and entrepreneurs and visited Guangxi between June 2 and 4, 2006. During the visit, an economic cooperation agreement was signed between HKSAR and Guangxi.[24] On 3rd June, when visiting one of Guangxi's cargo ports, Donald Tsang said that Hong Kong, with its expertise in logistics and cargo port, could

22 Liu Wei, Li Jia, "Guangxi quanli dazao zhongguo yu dongmeng ziyou maoyiqu de wuliu zhongxin", Jingji cankao bao, 22nd December 2003, p. 5.

23 "ShekeRMB fu RMBzhang tan jianshe huan beibuwan (beibu) jingjiqu", Committee of Development and Reform, Guangxi government: http://www.gxdrc.gov.cn/fzgh/115ghdt/20051011164554.htm

24 "Zeng Yinquan churen teshou yilai xia yue chu jiang shouci shuaituan fangwen guangxi", Wen Wui Po, 23rd May 2006.

assist Guangxi in its development of cargo ports. Representatives from Hong Kong's logistics industry also expressed an interest in investing in Fangcheng Port.

However, Hong Kong is not the only choice for Guangxi. For instance, on 7th April 2006, Singapore hosted a conference on enhancing Guangxi-Singapore economic cooperation and promoting the China-ASEAN Exposition. Over four hundred people attended the conference. The chairman of Guangxi Zhuang People's Autonomous Region praised Singapore for its leading edge capital, technology, expertise, management, information and market mechanisms. He pointed out that economic reciprocity between Singapore and Guangxi was substantial and that both parties could cooperate in the development of ports, logistics, tourism, real estate, manufacturing industry, agricultural product processing, hi-tech industry and servicing industry. Representatives of the Guangxi delegation also met officials from Singapore's Ministry of Trade and Industry, and the Ministry of Tourism, and discussed cooperation in the tourism industry.[25]

Guangxi's latest development in industry, and domestic and foreign trade has the following implications for Hong Kong:

1. Hong Kong's automotive spare part manufacturers could cooperate with Guangxi's car manufacturers. Previously, Hong Kong's automotive spare part manufacturers had tried to join in with the supply chain of Japanese car manufacturers in Guangdong. The attempt failed because of the high technological threshold and also because of the Japanese car manufacturers' tradition of maintaining close relationships with selected spare part suppliers. On the other hand, since Guangxi's car industry is booming, it is possible that Hong Kong's spare part manufacturers could tap into this market and create a niche for themselves.

2. To Guangxi officials, Singapore and Hong Kong are almost identical in terms of their economies. Hong Kong, as a member of the Pan-PRD Region, can still enjoy some privileges under the "one country, two systems" policy and the Closer Economic Partnership Agreement (CEPA). Meanwhile, Singapore, a free port and an influential country in ASEAN, is actively promoting trade and developing its research and development capacity. For this reason Singapore poses a great threat to Hong Kong.

25 "Guangxi zai xinjiapo juxing touzi hezuo qiatanhui ji bolanhui tuijiehui", Guangxi Daily, 8th April 2006, quoted from ChinaINFOBANK.

Singapore could easily overtake Hong Kong in strengthening its economic ties with Guangxi. Hong Kong should endeavor to secure free-trade agreements with ASEAN because it is a free trade port and a metropolitan centre with a world-class servicing industry. It should also liberalise its economy and servicing industry further, so as to become the platform for economic cooperation between the four provinces/region and ASEAN.

## 3.4. Trends and Updates on Yunnan

### 3.4.1. Economic Performance of Yunnan

During the 10th Five-Year Plan period, Yunnan had the lowest growth rate in GDP among the four provinces/region and also lagged behind the national average. In terms of resource utilisation, industrial upgrading, infrastructure, and regional cooperation, Yunnan's performance is mostly mediocre. In the first four months of 2006, Yunnan's investment in urban fixed assets surged by 31.6%, however, value-added industry only grew by 9.6%, the lowest of the four provinces/region. In terms of foreign trade, Yunnan also saw a remarkable growth rate of 17.9%, but this was mostly due to imports, which grew by 27.4%, than to exports, which only grew by 9.9%.

Generally speaking, Yunnan's economy is beset by the following problems:

1. Yunnan's industry is poorly structured and lacks dynamism.

2. Yunnan has little connection with the international economic community and little involves itself in foreign trade. Economic growth through exogenous impetus is unlikely.

3. During the 10th Five-Year Plan period, Yunnan benefited from a policy that supplied electricity from the west to the east. However, as more and more power plants are coming online in the southwestern region, the electrical oversupply will undermine Yunnan's industrial edge.

4. Although construction of the Pan-Asian Railway started in Yunnan in September 2005, it will take three years to complete and five years before any benefits reach the regional economy. Nevertheless, the Yunnan government and Ministry of Railway jointly designed the provincial railway network and the next five years will see the construction of railway networks throughout Yunnan. The "railway fever" will not only create large numbers of jobs, but will also attract large amounts of capital through investment. This "trickle down" effect will be beneficial to Yunnan's economy. Hong Kong's KCRC could have had a role in both professional consultancy and actual construction projects.

### 3.4.2 Updates on Yunnan

Yunnan's industry is poorly developed because it is geographically remote with a weak transportation network. Yunnan mainly relies on the herbal medicine industry, flower industry, and bio-chemical industry, all of which grew by 25% in 2005.[26] In 2004, Yunnan exported over 550 million bunches of flowers, yielding USD 39 million in export value, which was 40% higher than 2003. Given that the global flower industry grew by 25% each year during the past decade, Yunnan's performance is astonishing. Moreover, since flowers are the only agricultural product that is not bound by the quota system, Yunnan's flower industry is set to have a rosy prospect.[27]

With respect to light industry, Yunnan's growth mainly comes from the tobacco industry, whilst heavy industry growth is generated from metal mining and metallurgy[28]. State-owned enterprises still dominate the economy, dwarfing private enterprises in both scale and technology.

Endowed with natural beauty, and home to many ethnic minority communities, Yunnan will certainly not neglect its tourist industry. In 2005, numbers of overseas tourists visiting Yunnan increased by 36.5% to 1.5 million, domestic tourists also increased by 14% to 68.6 million. Total revenue from the tourist industry rose by 16.5% to RMB 43 billion. The Yunnan government is preparing to form a provincial tourist company, and intends to invest RMB 50 billion within the next five years to improve Yunnan's tourist industry.[29]

Sanhuan Chemical (雲南三環化工), Yunnan's major chemical enterprise, will launch its Initial Public Offering (IPO) in Hong Kong by the end of 2006, aiming to pool 2.34 billion HKD. Of the five major shareholders, Yuntianhua Group (雲天化集團公司) is the biggest, holding 77.69%; Yunnan State-owned Assets Company (雲南省國有資產經營公司) holds 15.31%; and the remaining three are Yunnan Copper (雲南銅業), Yunnan Metallurgical Corporation (雲南冶金集團總公司) and Yunnan Gold Star Chemical Works (雲南金星化工公司).[30] After the IPO of Sanhuan Chemical, more and more state-owned enterprises and resources enterprises are likely to follow suit.

26 "Yunnansheng yunyao, yunhua, shengwuhuagong sange chanye nianjun zengzhang chaoguo 20%", Yunnan Daily, 4th May 2006.

27 "2004 nian yunnan huanong zeng shou da 1.5 yiRMB", People's Daily, 12th February 2006; "2001 nian zhi 2005 nian yunnan huahui nian pingjun zengzhang da 25.4%", Zhongguo lvse shibao, 14th February 2006.

28 "Yunnan gongye jingji zengzhang jiakwai", Yunnan Daily, 13th May 2006.

29 "Yunnan jihua wuniannei rongzi 500 yiRMB touru lvyou kaifa jianshe", Yunnan Economic Daily, 18th May 2006.

30 "2006 nian yunnan sanhuan huagong you wang fu gang shangshi", Shanghai Securities, 16th May 2006.

There is little similarity between Yunnan's and Hong Kong's economy. They are separated in terms of geography and poorly connected in terms of transportation, and there is little scope for economic cooperation between the two. Nevertheless, Hong Kong might consider the following suggestions:

1. The flower industry caters for up-market consumers in developed countries, and generates high revenue and growth rates. Medium-size and small businesses, even individuals, can enter the flower industry easily, testing their flexibility and preferences to the full. Hong Kong might consider establishing an international flower sales network, importing and improving new species of flowers, as a way of cooperating with Yunnan. Hong Kong's expertise in commerce and trade, logistics, and international market networks may serve Yunnan well in tapping the markets in Japan, South Korea and even the US. By cooperating with Yunnan, Hong Kong could become another Amsterdam, i.e. another international flower hub.

2. Yunnan, with its dominance of state-owned enterprises and natural resource enterprises, differs sharply from Hong Kong. Nevertheless, Hong Kong could play a very important role in enhancing the international IPO of Yunnan enterprises, or conversely, in enhancing foreign investment in these enterprises. The IPO of Sanhuan Chemical is a good example.

3. Hong Kong could play a crucial role in connecting Yunnan with the international flight network, and assist the expansion of its tourist industry. Hong Kong could become the air transfer point between Yunnan and the world. Moreover, as Yunnan badly needs high-quality hotels to accommodate tourists, Hong Kong's expertise in hotel management and hotel staff training would serve Yunnan well. While Yunnan's tourism is characterised by "eco-tourism" and "ethnic-tourism", tourism in Hong Kong and the Pearl River Delta is characterised by a stronger commercial atmosphere and "theme park tourism". The two types of tourism would complement, rather than compete with, each other.

## 3.5. Trend and Updates on Guizhou

### 3.5.1. Economic Performance of Guizhou

Guizhou more than fulfilled the goals set by the 10th Five-Year Plan as it benefited from the Central Government's policy of "Developing the Western Region", and mineral and resource price rises. The boom has continued into the first quarter of 2006, and shows no sign of slowing down. According to Table 3.9, fixed asset investments continue to grow, and infrastructure investment, in particular, rose by 21.1%.[31] This shows that the Guizhou government is determined to develop its backward infrastructure which is currently its major economic bottleneck.

Both Guizhou's secondary and tertiary industries saw growth higher than 10%. However, in terms of growth rates, when compared with the same period last year, the secondary industry expanded by an additional 2.2% while the tertiary one was 1.5% lower.[32] The secondary industry also benefited from growth in electricity, ferrous metal, chemical work and metallurgy. These industries are the main pillar in Guizhou's economy. Their contribution accounted for 77.1% of industrial growth.[33]

**Table 3.9: Major Economic Indicators for Guizhou in the First Quarter of 2006**

| | Total value | Growth (%) |
|---|---|---|
| Guizhou GDP (RMB 100 million) | 389 | 11.8 |
| - value-added of primary industry | 63 | 6.5 |
| - value-added of secondary industry | 189 | 14.3 |
| - value-added of tertiary industry | 139 | 11.3 |
| Investment in infrastructure | 107 | 35.4 |
| Investment in manufacturing industry | 20 | 23.4 |
| Budgetary government revenue | 111 | 23.6 |
| Budgetary government expenditure | 88 | 26.0 |
| Urban income per capita (RMB) | 2,506 | 10.5 |
| Rural cash income per capita (RMB) | 469 | 8.2 |

Source: Guizhou Information Centre http://www.guz.cei.gov.cn/zhjj/hgsnnr.asp?ID=46

31 Guizhou Comprehensive Information Net, http://www.guz.cei.gov.cn/zhjj/hgsnnr.asp?ID=46

32 Ibid.

33 Ibid.

Notwithstanding such a good performance, some problems keep troubling Guizhou:

1. While the heavy industry is growing fast, growth in the light industry is slowing down. Manufacturers of drinks and cigarettes, the two major products of Guizhou's light industry, face serious market competition and are required to cooperate with the tertiary industry. However, in the first quarter of 2006, Guizhou's investment in fixed assets in the tertiary industry lagged far behind that in the primary and secondary ones.

2. While electricity supplies are catching up, demand is slowing down. For instance, in the first quarter of 2006, Guizhou's electricity supply increased to 16.36 billion kilowatts, or 37% from the previous year.[34] However, since the demand for electricity within Guizhou has not correspondingly increased, the result has been large scale economic inefficiencies.

### 3.5.2. Updates on Guizhou

Guizhou is the most backward of the four provinces/region. Its economic edge lies in its abundant natural resources, but its mountainous geography severely hampers its development.

Fully aware of its transport constraints, the Guizhou government is determined to improve infrastructure. It is planning to spend RMB 82 billion on transportation during the 11th Five-Year Plan, a staggering 71% increase compared to the 10th Five-Year Plan period.[35]

Just like Yunnan, Guizhou also views tourism as an important "cash cow". Natural scenery, ethnic culture, historical heritage, and Communist revolutionary heritage are the four main components of Guizhou's tourism. In recent years, Guizhou's tourism recorded an average annual growth of 32.5%. In 2005, revenue from domestic tourism reached RMB 25.11 billion, that was 49.85% more than 2004. In the first quarter of 2006, the number of tourists rose by 40.07%, and revenue from tourism increased by 55.22% to RMB 4.71 billion.[36]

34 Ibid.

35 Guideline of national economic and social development in the Eleventh FYP for Guizhou.

36 "Guizhou quyu hezuo zhutui lvyouye fazhan", 23rd May 2006.

Lafarge-Shui On Cement, a joint-venture by Lafarge in France and Shui On in Hong Kong, has set up a branch company in Guizhou. The company specialises in manufacturing quality cement for tall buildings and expressways. In April 2005, it acquired three local cement plants. It intends to supply cement for the expressway connecting Yunnan and Guizhou, which is now under construction. Lafarge's investment in southwest China will concentrate mainly on Guizhou.[37]

Guizhou has had little international exposure, with little foreign trade or foreign investment. Hong Kong's expertise in international finance, commerce and trade, and logistics can hardly be relevant to Guizhou. Nonetheless, Hong Kong could exploit the following opportunities:

1. Just as in the case of Yunnan, Hong Kong has an edge in hotel management, hotel staff training, and international flight networking. Hong Kong could become the bridge connecting air traffic between Guizhou and the world as far as tourism is concerned.

2. Hong Kong entrepreneurs are not good at long-term and capital-intensive investment in infrastructure. However, Shui On's joint-venture with Lafarge is an exception, and a very successful and encouraging one. The Shui On business model can show Hong Kong entrepreneurs how to tap the Mainland market through their international networks and capital management expertise.

37 "Faguo lafaji ruian shougou guizhou sanjia shuinichang", China Mining Daily, 27th April 2006.

# 4. Regional Cooperation

## 4.1. Cooperation within the Pan-Pearl River Delta (Pan-PRD) Region

On 3rd June 2004, officials from the nine provinces and two special administrative zones (together referred to as 9+2) signed the "Pan-Pearl River Delta (Pan-PRD) Regional Cooperation Framework Agreement". This agreement was signed in light of growing economic globalisation and regional economic integration, and signaled the green light for Pan-PRD Cooperation. In March 2006, officials from the "9+2" regions produced the *Guidelines for Pan-PRD Regional Cooperation and Development (2006-2020).*[38] These guidelines provided further details about the agreement including guiding principles, goals, policies and the cooperation area. In brief, Pan-PRD Regional cooperation will be implemented in two phases:

(1) Phase I (2005-2010): Economic cooperation will be extended to ten areas mainly covering infrastructure. The first aim is to create a solid foundation in the regional infrastructure network, so that a well-organised institutional mechanism for resource allocation and commodity markets for the region can be formed. This regional infrastructure network will also become a vital platform for economic cooperation between China and the Association of South East Asian Nations (ASEAN) and will help tap the region's unique locational advantages.

(2) Phase II (2011-2020): Once an extensive infrastructure network is established, open markets for consumer goods and producers will be formed. Regional economic power including competitive advantages will also be strengthened, and communication and cooperation with ASEAN enhanced.

The *Guidelines* pinpoint what Hong Kong should include in its regional cooperation and related policies:

(1) Major Sector and Mission: Hong Kong should become a bridgehead between Mainland China and international markets. The "Closer Economic Partnership Arrangement between Hong Kong and the Chinese Mainland" (CEPA) agreement is intended to encourage Pan-PRD cooperation and foster the further development of Hong Kong.

38 Pan-Peal River Delta (PRD) Cooperation Website, 3rd March 2006, http://61.144.25.119/gate/big5/www.pprd.org.cn/zhuanti/115/200603060020.htm

- Infrastructure: Hong Kong should take part in, or coordinate with other member regions, to establish an inter-regional rail and air traffic network. An increasing number of air flight routes connecting member regions are expected to be opened, and immigration controls should be adjusted to facilitate communication amongst member regions.

- Commerce and Trade: Hong Kong and other member regions should improve cooperation in the commodities and service markets, and cut investment administrative procedures. A joint effort should be made to fully implement CEPA.

- Science, Education and Culture: Hong Kong and Macao should be given priority in recruiting university students within member regions. Scientific research, training and academic exchanges between Hong Kong and member regions should be strengthened.

(2) Major Policy: eliminating regional barriers and promoting open markets

- CEPA: Service sector and commercial industries are to be liberalised amongst member regions, as specified by CEPA.

- Opening Markets: To facilitate commodity flows and the movement of people in the region, Hong Kong and Macao should strengthen cooperation between different customs authorities by introducing faster customs clearance, and streamlining customs administration and immigration control. Customs in Hong Kong and Macao should work more closely with those in the Mainland to order to improve cooperation and efficiency.

- Globalisation: Hong Kong and Macao should make full use of their international connections, and their expertise in international finance and service industries. They could be of tremendous help in taking Mainland enterprises to the international market and investing abroad.

For Hong Kong, the *Guidelines* have the following implications:

1. CEPA is essentially the framework through which Hong Kong enters into the Pan-PRD economic circle.

2. The crucial stage for Pan-PRD economic integration will be 2006 to 2010, whilst the China-ASEAN Free Trade Area will start in 2010. The Pan-PRD Region and the China-ASEAN Free Trade Area border each other, and this will further facilitate international economic integration. The four south-western provinces/region are not only members of Pan-PRD, but also central to China-ASEAN economic cooperation. They therefore have a vital role to play in connecting the Pan-PRD Region and the China-ASEAN Free Trade Area.

3. Between 2006 and 2010, members of Pan-PRD will have to improve their infrastructure and liberalise the flow of resources so as to create an open regional market. Through a series of competition, conflict and negotiation challenges member regions will work out how they should cooperate and integrate with each other in logistics, information technology, human resources and capital investment. For example, finding their respective positions within the regional division of labour will not be easy. But once this position is set, it will have tremendous impact on each member's economic prospects.

4. Hong Kong's successful participation in the Pan-PRD economic and industrial network will largely depend on how successfully it manages to integrate with the four south-western provinces between 2006 and 2010.

Therefore, the period 2006 to 2010 is doubly important for Hong Kong. Within this period, Hong Kong will have to succeed in integrating itself with the four south-western provinces/region and also with other member regions in the Pan-Pearl River Region. Within this period, too, Hong Kong will have to integrate with the other ASEAN countries. If Hong Kong fails to do this, it will become marginalised, and will be deprived of the benefits that an open regional market economy can bring.

## 4.2. Pan-Asia Economic Cooperation

The four south-western provinces/region are economically backward, less open and geographically isolated from the coastal and central regions. Guangxi and Yunnan are economically closer to the ASEAN countries because they border Vietnam, Laos and Myanmar. Trade relations between Guangxi and Yunnan, and South and South-eastern Asia, are well established and have a long history. However, the construction of the Pan-Asian Railway connecting Yunnan, Singapore, Myanmar and South Asia, the opening of a navigable route along the Mekong River, and the signing of the bilateral free trade agreement between China and the ASEAN countries in 2010s, will improve the economic prospects of the four provinces/region. The following sections will study the prospects of Guangxi and Yunnan from the perspective of Pan-Asia cooperation.

### 4.2.1. China-ASEAN Free Trade Area: the World's Largest Single Market and Free Trade Area

On 29th November 2004, China and ASEAN signed the "Framework Agreement on Comprehensive Economic Cooperation Between the Association of South East Asian Nations and the People's Republic of China ". This agreement provided for the establishment of a free trade area by 2010. Together, China and ASEAN have a total population of two billion and an economy worth USD 2,400 billion, and will become the world's largest free-trade zone. At the ASEAN summit in December 2004, China proposed the establishment of an East Asia free trade area. Meanwhile tariffs will be cut between China and ASEAN from 2005 onwards. By 2010, tariffs for commodities within member countries will be cut to 0%-5%.

China introduced its “Early Harvest” policy to expedite the development of the China-ASEAN free trade area, and from 1st January 2005 took the lead in reducing tariffs on a number of ASEAN imports, mainly agricultural products. On 20th July 2005, China revised tariffs on 3,408 imported items from Brunei, Indonesia, Malaysia, Myanmar, Singapore and Thailand. Imports through fifteen customs channels within the Pan-PRD Region, under the China-ASEAN favourable agreement, amounted to USD 516 million in 2005, and tariff cuts amounted to RMB 486 million. ASEAN imports accounted for 40% of imports under this agreement.[39]

39 "Zhongguo-dongmeng zimaoqu jianshe fanzhusanjiao quyu shouhui duo", ChinaINFOBANK, 21st January 2006.

Shenzhen customs alone has received the largest amount of imports from ASEAN, with import values reaching US$176 million, or 13% of the national total. This represented the third highest in China, whilst tariff cuts at RMB 236 million were actually the highest across the country. Under the “Early Harvest” scheme, imports worth US$169 million, passed through Shenzhen customs. These imports mainly consisted of fruit, and accounted for more than half of ASEAN's fruit exports to China under the agreement.

Since Hong Kong has not paid sufficient attention to, or actively involved itself in China-ASEAN regional cooperation developments, it did not play a role in the "Early Harvest" initiative. However, since the Philippines has accepted the terms of the “Early Harvest” scheme, Hong Kong may now take part in the entrepot ASEAN fruit trade due to it highly efficient customs clearance systems.

### 4.2.2. The China-ASEAN Land Transportation Network – Guangxi’s Pivotal Role

Transportation between China and ASEAN via expressways, railways, rivers and air are to be greatly enhanced. Within the next five to ten years, the Pan-Asian Railway, a navigable route along the River Lancang and the Mekong River, and ports such as those along the Tonkin Gulf Rim, will be under construction or even already operational. Expressways, in particular, have been given a high priority thanks to their efficiency.

Guangxi is poised to become the bridge connecting China and ASEAN as it is more economically developed than Yunnan and borders Vietnam. The Guangxi government has invested large amounts of capital in improving transport links, and has been in negotiations with Vietnam.

At the end of 2005, the first expressway to connect Nanning (南寧) and Youyiguan (友誼關) was opened. The 179-kilometre-long expressway has cut traffic times between Nanning to Youyiguan by 50%, to only two hours, and is the closest expressway to Indochina from China. Another expressway connecting Kunming and Bangkok is also under construction. However, since the distance between Kunming and the China-Thai border is 700 kilometres, the Nanning-Youyiguan expressway is likely to be more cost and time efficient.

Meanwhile, an expressway connecting Chongqing (重慶) and Zhanjiang (湛江) has also been opened. Both the Chongqing-Zhanjiang expressway and the Nanning-Youyiguan expressway converge in Nanning, and the city has been transformed into a regional transport hub which connects south-western China, the Pan-PRD Region, and ASEAN in a "one circle six routes" (一環六射) transport network. Furthermore, a proposal has been put forward to build an international expressway between Nanning, Hanoi, Bangkok and even as far as Singapore. Should the proposal be realised, this international expressway, with the Nanning-Youyiguan expressway at one end, would become the economic artery of the China-ASEAN free-trade zone.[40]

Apart from the expressway, the Pan-Asian Railway, now under construction, is also another highlight. Proposed and agreed during the fifth ASEAN summit in 1995, the railway will connect Singapore, Malaysia, Thailand, Vietnam, Myanmar, Cambodia and Kunming. It will stretch for 5,500 kilometres, cost US$2 billion and take a decade to construct. China's investment in the project will amount to RMB 12.8 billion.[41] It is hoped that, after the construction of the Pan-Asian Railway, a Euro-Asia corridor might be built between ASEAN, China, Outer Mongolia and Russia. Originally there were three proposed routes for the construction of the Pan-Asian Railway:

<u>The eastern line proposal</u>
Kunming-Hanoi-Hu Chi Minh-Phnom Penh-Bangkok-Kuala Lumpur-Singapore

<u>The central line proposal</u>
Kunming-Xiangyun or Yuxi-Shangyong-Vientiane-Bangkok-Kuala Lumpur-Singapore

<u>The western line proposal</u>
Kunming-Ruili-Rangoon-Bangkok-Kuala Lumpur-Singapore

After detailed study, China and ASEAN agreed upon the eastern line proposal. On 2nd September 2005 construction began on the 147-kilometre-long Yuxi-Mengzi (雲南玉溪-蒙自) railway.[42] The eastern line proposal was accepted because it poses less technical challenges than the other two. Again, Yunnan will play a pivotal role in the Pan-Asian Railway, and eventually within the entire land transportation network between China and ASEAN.

40"Nanning chengwei zhongguo-dingmeng lulu jiaotong shuniu", International Commerial Daily, 17th January 2006, quoted from ChinaINFOBANK.

41"Zongguo touzi fanya tielu 128 yiyuan", Beijing Modern Commercial Daily, 17th August 2005, quoted from ChinaINFOBANK.

42 "Fanya tielu yunnan yuxi zhi mengzi tielu donggong xingjian", Economic Daily, 2nd September 2005.

During a meeting between Vietnam's Ministry of Investment and the Guangxi government in April 2006, an agreement was reached on the construction of a second bridge across the River Beilun (北侖河**)**. The cost of the project will be shared equally between China and Vietnam. Guangxi's Party Chief expressed how highly Guangxi valued cooperation with Vietnam in transport, energy, trade and tourism. The coastal cities of Guangdong, Guangxi and Vietnam will be much better connected following the construction of a second bridge across the River Beilun, and the "Two Corridors and One Ring" (兩廊一圈) plan will be enhanced. [43]

As a result of the massive infrastructure construction projects mentioned above, Guangxi is destined to become the transport hub of the China-ASEAN Free Trade Area. Hong Kong should strengthen its ties with Guangxi with regards to financial investment, professional services and transportation. Hong Kong could exploit Guangxi's access to the ASEAN market, and in return Guangxi could use Hong Kong for foreign investment. Hong Kong must outmanoeuvre Singapore in this important region.

The most crucial task for Hong Kong is to build a railway, in cooperation with Guangdong, connecting Guangzhou or Hong Kong to Nanning or cities along the southern border of Guangxi. This railway would connect Hong Kong and other eastern provinces in the Pan-PRD Region with Guangxi and Vietnam. More importantly, it would prevent Hong Kong from becoming marginalised in the future over China-ASEAN economic cooperation. As can be seen from above, the Pan-Asian Railway has little, if anything, to do with Hong Kong. Building a railway connecting Hong Kong and Guangxi might be costly, but without such a railway Hong Kong will pay an even heavier price – exclusion from the China-ASEAN integration.

### 4.2.3. Yunnan, Guangxi and ASEAN in the Electricity Industry

Yunnan and Guangxi have taken advantage of the regional imbalance in electricity in China, Cambodia, Laos, Myanmar, Thailand and Vietnam, and begun trading in electricity. As a result of the Greater Mekong Subregion Economic

43 "Two corridors" refer to one connecting Kunming, Lao Cai, Hanoi, Hai Phong and Quang Ninh; and one connecting Nanning, Lang Son, Hanoi, Hai Phang, and Quang Ninh. "One circle" refers to the Tonkin Gulf "Zhongyue jiang lianshou zai beilunhe shang xiujian di er zuo daqiao", China News Agency, 18 April 2006, http://yunnan.mofcom.gov.cn/aarticle/sjshangwudt/200604/20060401942732.html

Cooperation, the two provinces can now offer this valuable commodity to the ASEAN countries.

Between 2000 and 2004, Yunnan's supply of electricity to Myanmar increased by 52 times! In the first ten months of 2005, supply doubled again. The Yunnan-Thailand joint electricity plant in Jinghong (景洪) is also under preliminary construction. In September 2004, the Yunnan Electricity Network Co. and Vietnam's First Electricity Co. started supplying electricity to Hekou. In June 2005, the second electricity supply line for the Ha Giang province was completed. In the same month, too, the construction of a 110 kilowatt transformer station in Shenkou-Mangjie (深溝-芒街) began. This transformer station connects electricity networks in Guangxi and Vietnam. With this transformer station, Guangxi is also capable of supplying electricity to Vietnam.

In recent years, Yunnan and Guangxi have supplied more and more electricity to Vietnam. In the fourth quarter of 2004, the amount of electricity supplied from Yunnan to Vietnam increased to more than 28 million kilowatts. In the first ten months of 2005, Yunnan supplied 220 million kilowatts of electricity to Vietnam, or 7.8 times that to Myanmar. During the same period, Guangxi also supplied more than 44 million kilowatts of electricity to Vietnam.

At the second Greater Mekong Subregion Economic Cooperation conference, Premier Wen Jiabao, said that Chinese enterprises were encouraged to take part in the hydro-electricity industry in Laos, Cambodia and Myanmar. Chinese hydro-electricity plants are generally more advanced by international standards, and are efficient and cost effective, while there is great demand for electricity in Laos, Cambodia and Myanmar. Consequently, there will be tremendous opportunities for electricity suppliers in the Pan-PRD Region due to demand in Myanmar, Laos, Thailand and Vietnam.[44]

Guizhou and Yunnan also supply electricity to Guangdong. During the 10th Five-Year Plan period, electricity from Guizhou and Yunnan to Guangdong amounted to 29.5 and 21.6 billion kilowatt-hours, respectively.[45] Disputes, however, exists between the two provinces and Guangdong over electricity prices. Once the international electricity supply network is formed, and with support from

44 "Zhongguo neidi fan zhusanjiao quyu yu dongmeng dianli hezuo qianjing guangkuo", International Commercial Daily, 22nd November 2005, quoted from ChinaINFOBANK.

45 "Quyu nenghyuan hezuo xin chengduo shiyiwu qiandian yundian song yue fan liu bei", The South Net, 31st August 2005, http://61.144.25.119/gate/big5/guizhou.pprd.org.cn/areacooperation/0200508310001.htm

Central Government, Guizhou, Yunnan and Guangxi will have greater bargaining power over Guangdong as far as electricity prices are concerned.

Hydro-electric projects require large amounts of capital. Hong Kong may encourage its enterprises to invest in these projects, or assist Mainland enterprises in their Initial Public Offerings (IPO) in Hong Kong, or help pool capital. Hong Kong should also expand its coverage as far as the capital markets are concerned. In this way, Hong Kong could maintain its position as an international financial centre.

Currently, Hong Kong is planning to liberalise its local electricity market. As international oil prices are still on the upward trend, Hong Kong may consider purchasing electricity supplies from Guangxi's hydro-electric complex. In so doing, local electricity prices could be cut, and economic efficiency enhanced.

## *Appendix 1：*
## *The Pan-Pearl River Delta (PRD) Cooperation Milestones*

| Date | Event |
|---|---|
| **2003** | |
| August 3, 2003 | Chairpersons from the Provincial Development Planning Commission of the nine provinces autonomous region, met in Guangzhou. |
| November 3, 2003 | Zhang Dejiang, a member of the Political Bureau of the CPC Central Committee and Secretary of the Guangdong Provincial Party Committee, put forward the concept of the "Pan-Pearl River Delta Economic Zone" at the 2003 International Consultative Conference on the Future Economic Development of Guangdong. |
| November 11, 2003 | The Second Pan-PRD Innovation Cooperation Conference was held in Guangzhou. |
| November 28, 2003 | Pan-PRD Transportation Development Seminar took place in Guangzhou. |
| **2004** | |
| March, 2004 | The provincial and municipal governments signed the "Agreement on Developing Integrated Transportation Networks in the Pan-PRD Economic Circle and Chongqing". |
| April 8, 2004 | Preparatory Meeting for the Pan-PRD Regional Cooperation and Development Forum was held in Guangzhou. |
| April 13, 2004 | Delegations from the Guangdong party and government conducted a site survey in Guangxi. The Guangdong-Guangxi Economic Cooperation Conference took place in Guangxi, and symbolised the start of comprehensive Pan-PRD cooperation. The Guangdong delegation also made a 5-day visit to Hunan. |
| June 1-3, 2004 | The first Pan-PRD Regional Cooperation and Development Forums were held in Hong Kong, Macao and Guangzhou. The theme of the forums was "Prosperity Through Partnership". |
| June 3, 2004 | The Pan-PRD Regional Cooperation Framework Agreement was signed by nine provincial and Special Administrative Region (SAR) governments. |
| July 14-17, 2004 | The First Pan-PRD Regional Economic and Trade Cooperation Fair took place in Guangzhou, and |

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| | approximately 16,000 people, including entrepreneurs and government officials from the Mainland, Hong Kong and Macao, were in attendance. The fair concluded with the signing of 847 projects, worth RMB 292.6 billion. |
| **2005** | |
| June-July, 2005 | Pan-PRD Customs launched the new "Cross Region Customs Declaration, Airport Clearance Inspection" scheme.<br><br>On 14th July, Guangzhou and Chengdu customs launched their version of the scheme. Trial runs of the scheme in the Pan-PRD Region resulted in improved logistic flows and international trade for members. |
| July 25, 2005 | The second Pan-PRD Regional Cooperation and Development Forum was held in Chengdu, Sichuan. The forum theme was again "Prosperity Through Partnership". Top "9+2" officials signed the "Memorandum of Pan-PRD Chief Executive Joint Conference".<br><br>The First Pan-PRD Chief Executive Joint Conference was held in Chengdu, where it was decided to establish a Secretariat. This new body was made responsible for putting regional cooperation resolutions into effect.<br><br>The website of the "Pan-PRD Cooperation" (www.pprd.org.cn) was also formally launched. It is a dedicated official portal responsible for disseminating information on cooperation and development in the Pan-PRD Region. |
| July 26-28, 2005 | The Second Pan-PRD Regional Economic and Trade Cooperation Fair met in Chengdu. A total of 11 delegations, comprising of 7,000 people, attended this fair including entrepreneurs and government officials from the Mainland, Hong Kong and Macao. The fair concluded with the signing of 4,473 projects, worth RMB 453.5 billion. |
| December 8, 2005 | The First Pan-PRD Software Cooperation and Transaction Forum took place in Zhuhai, Guangdong. |
| December 18, 2005 | Construction began on the three Guangdong railway lines, namely the Guangdong Section of the Guangzhou—Shenzhen—Hong Kong Passenger Line, Guanghou—Zhuhai Line and the Cenxi—Maoming line. This signified Guangzhou's determination to speed up the construction of |

| | |
|---|---|
| | its inter-provincial railway, which will facilitate development in Hong Kong, Macao and across the Pan-PRD region. |
| **2006** | |
| February 24, 2006 | The nine provinces/region, plus Hong Kong and Macao, reached an agreement on the joint development of the "Hengqin Development Zone", and the project was officially submitted to the State Council. |
| March 23, 2006 | Hong Kong hosted the "Pan-PRD Financial Service Forum". |
| April 4, 2006 | The Office of the Pan-PRD Cooperation organised a meeting in Kunming, Yunnan. This meeting discussed progress made towards the Third Pan-PRD Regional Cooperation and Development Forum, and member support. In particular, the meeting discussed the "Structure of the Pan-PRD Cooperation Liaison Committee", the "Working Plan of the Pan-PRD Secretariat, 2006", the "Pan-PRD Cooperation Milestones", the draft "Summary of the Second Pan-PRD Cooperation Chief Executive Joint Conference" and songs for the forum's opening ceremony. The Secretariat also introduced PPRD-RTX operational mechanisms. |
| June 5, 2006 | The Third Pan-PRD Regional Cooperation and Development Forum was held in Qujing in the Province of Yunnan, at the head of the Pearl River. |
| June 5, 2006 | The Second Pan-PRD Intellectual Property Forum was held in Kunming. |

## *Appendix II:*
## *The Pan-Pearl River Delta (Pan-PRD) Regional Cooperation and Development Agreement*

| Date | The Pan-PRD Regional Cooperation and Development Agreement |
|---|---|
| 2004 | |
| June 3, 2004 | Pan-PRD Regional Cooperation Framework Agreement |
| June 23, 2004 | Agreement on Information Exchange Among Commercial Chambers in the Pan-PRD Region |
| July 14, 2004 | Framework Agreement on Strengthening Education, Cooperation and Communication in the Pan-PRD Region |
| July 23, 2004 | Cooperation Agreement on Professional Services in the Pan-PRD Region |
| August 11, 2004 | Memorandum on Foreign Economic and Trade Cooperation in the Pan-PRD Region |
| September 2, 2004 | Framework Agreement covering Cooperation on Regional Quality and Technical Surveillance in the Pan-PRD Region |
| September 7, 2004 | Cooperation and Communication Agreement on Regional Commodity Price Bureaus among the Nine Provinces in the Pan-PRD Region |
| September 15, 2004 | Agreement on Administration for Industrial and Commercial Cooperation in the Pan-PRD Region |
| September 18, 2004 | Cooperation Agreement among Pan-PRD Capital Cities |
| October 31, 2004 | Framework Agreement on TV Media Cooperation in the Pan-PRD Region |
| November 18, 2004 | Cooperation Agreement on the Regional Environmental Protection Industry in the Pan-PRD Region |
| December 8, 2004 | Framework Agreement on Food and Pharmacy Surveillance Cooperation among Nine Provinces in the Pan-PRD Region<br><br>Cooperation Agreement on Pharmacy Inspection among Nine Provinces in the Pan-PRD Region<br><br>Cooperation Agreement on Pharmacy Surveillance and Inspection among Nine Provinces in the Pan-PRD Region |
| December 9, 2004 | Framework Agreement on Publication Cooperation in the Pan-PRD Region |
| December 9, 2004 | Cooperation Agreement on Local Taxation in the Pan-PRD Region |

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| December 14, 2004 | Letter of Intent on Regional CA Communication Cooperation in the Pan-PRD Region<br><br>Framework Summary on Regional Electronic Business Cooperation and Development in the Pan-PRD Region<br><br>Cooperation Proposal on Regional Software Association in the Pan-PRD Region |
| December 29, 2004 | Cooperation Agreement on Regional Intellectual Property in the Pan-PRD Region |
| 2005 | |
| January 25, 2005 | Agreement on Regional Cooperation on Environmental Protection in the Pan-PRD Region |
| April 27, 2005 | Agreement on Regional Cooperation on Labour Services in the Pan-PRD Region |
| May 23, 2005 | Framework Agreement on Regional Technological Innovation in the Pan-PRD Region<br><br>Cooperative Working Proposal on Overseas Chinese' Union (Association) in the Pan-PRD Region |
| May 26, 2005 | Agreement on Regional Agricultural Cooperation in the Pan-PRD Region |
| June 15, 2005 | Framework Agreement on Information Hub Cooperation in the Pan-PRD Region |
| June 29, 2005 | Cooperation Agreement on Regional Anti-Smuggling in the Pan-PRD Region |
| July 20, 2005 | Memorandum of Regional Estate Cooperation in the Pan-PRD Region |
| July 26, 2005 | Agreement on Regional Intellectual Property Rights Cooperation in the Pan-PRD<br><br>Cooperation Agreement on Modern Logistical Development in the Pan-PRD Region |
| August 15, 2005 | Guidelines for Digitalisation Cooperation in the Pan-PRD Region<br><br>Guidelines for Technological Cooperation in the Pan-PRD Region<br><br>Guideline for Utilities Cooperation in the Pan-PRD Region during the "11th Five-Year" period |

| | |
|---|---|
| | Cooperation Guidelines for an Integrated Transportation System in the Pan-PRD Region<br><br>Cooperation Guidelines for Regional Environmental Protection in the Pan-PRD Region |
| November, 2005 | Cooperation Agreement on Digitalisation of Food Pharmacy Surveillance Among Nine Provinces in the Pan-PRD Region |
| November 11, 2005 | Framework Agreement on Regional Fisheries Economic Cooperation in the Pan-PRD Region |
| November 18, 2005 | Regional Quality and Technical Surveillance Cooperation Scheme in the Nine Provinces of the Pan-PRD Region |
| December 9, 2005 | Cooperation Agreement on the Municipal Technological Consultancy in the Pan-PRD Region |
| 2006 | |
| March 3, 2006 | Guidelines for the Pan-PRD Regional Cooperation and Development (2006-2020)<br><br>Guidelines for Cooperation on Regional Road, Riverway and Transportation Infrastructure in the Pan-PRD Region<br><br>Guidelines for Cooperation on Regional Environmental Protection in the Pan-PRD (2005-2010)<br><br>Guidelines for Cooperation on Regional Digitalisation in the Pan-PRD (2006-2010)<br><br>Guidelines for Cooperation on Regional Technological Innovation in the Pan-PRD during the “11th Five-Year” period |

Note: Dates refer to when agreements were signed or news of the agreement was released on the Pan-PRD Cooperation Website.

## *Appendix III：Statistical Data of the Pan-PRD Provinces/Region*

### Major Economic Indicators of Guangdong and the Four South-Western Provinces/Region

Table 1：Economic Performance of the Four South-Western Provinces/Region in the 1st Quarter of 2006 (1)

| Province/ Region | GDP (Current Price) (RMB 100 million) | | Value-Added of Industry (Current Price) (RMB 100 million) | | Investment in Fixed Assets (RMB 100 million) | | Government Revenue (Funds Excluded) (RMB 100 million) | | Government Expenditure (Funds Excluded) (RMB 100 million) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Compared with the Same Period of Preceding Year | Total | Compared with the Same Period of Preceding Year | Total | Compared with the Same Period of Preceding Year | Total | Compared with the Same Period of Preceding Year | Total | Compared with the Same Period of Preceding Year |
| Sichuan | 1,731 | 13.0% | 570 | 23.9% | 726 | 31.8% | 137 | 28.2% | 207 | 30.1% |
| Guangxi | 964 | 13.2% | 256 | 19.7% | 261 | 37.9% | 74 | 25.2% | 134 | 22.1% |
| Yunnan | 766 | 9.2% | 273 | 8.7% | 299 | 30.9% | 85 | 19.1% | 124 | 8.4% |
| Guizhou | 389 | 11.8% | 142 | 17.0% | 164 | 25.7% | 55 | 30.3% | 88 | 26.0% |

Source：National Bureau of Statistics of China, http://www.stats.gov.cn/tjsj/.

Table 2：Economic Performance of the Four South-Western Provinces/Region in the 1st Quarter of 2006 (2)

| Province/ Region | Total Retail Sales of Consumer Goods (RMB 100 million) | | Foreign Trade (Total Value of Imports and Exports, Customs Statistics) (USD 100 million) | | Per Capita Annual Disposable Income of Urban Households (RMB) | | Per Capita Annual Cash Income of Rural Households (RMB) | | Consumer Price Index |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Compared with the Same Period of Preceding Year | Total | Compared with the Same Period of Preceding Year | Total | Compared with the Same Period of Preceding Year | Total | Compared with the Same Period of Preceding Year | |
| Sichuan | 800 | 13.8% | 22 | 45.5% | 2,615 | 10.0% | 925 | 15.2% | 101.5 |
| Guangxi | 388 | 13.1% | 14 | 32.6% | 2,870 | 9.4% | 863 | 18.0% | 100.6 |
| Yunnan | 263 | 15.6% | 13 | 22.3% | 2,655 | 11.9% | 602 | 11.2% | 101.7 |
| Guizhou | 172 | 13.6% | 3 | 9.2% | 2,506 | 10.5% | 469 | 8.2% | 100.8 |

Source：National Bureau of Statistics of China, http://www.stats.gov.cn/tjsj/.

Table 3：Economic Performance of the Four South-Western Provinces/Region Between Jan –Apr 2006

| Province/Region | Value-Added of Industry (RMB 100 million) | | | | Sales Ratio of Manufactured Products % | | | | Investment (RMB 100 million) | | Per Capita Annual Disposable Income of Urban Households in April (RMB) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan - April | April | Growth Rate (Jan - April) | Growth Rate (April) | Jan to April | April | Growth Rate (Jan to April) | Growth Rate (April) | Jan - April | Growth Rate | |
| National Total | 24,611 | 6,820 | 16.7% | 16.6% | 97.4% | 98.0% | -0.1% | 0.2% | 18,006 | 29.6% | 887 |
| Guangdong | 3,036 | 841 | 17.6% | 19.0% | 97.2% | 98.2% | -0.9% | -0.2% | 1,485 | 21.0% | 1,200 |
| Sichuan | 780 | 210 | 23.4% | 21.7% | 96.6% | 97.7% | -1.8% | -0.3% | 911 | 35.6% | 701 |
| Guangxi | 335 | 79 | 20.8% | 23.0% | 89.2% | 98.3% | -4.5% | -3.8% | 353 | 27.5% | 726 |
| Yunnan | 374 | 100 | 9.6% | 12.5% | 94.6% | 97.2% | -0.6% | 0.9% | 427 | 31.6% | 779 |
| Guizhou | 200 | 56 | 16.6% | 15.9% | 96.7% | 95.7% | 0.1% | -2.5% | 232 | 20.9% | 709 |

Source：National Bureau of Statistics of China, http://www.stats.gov.cn/tjsj/.

## Major Economic Indicators of Guangdong and the Four South-Western Provinces/ Region (2005)

Table 4： GDP of Guangdong and the Four South-Western Provinces/Region in 2005

| Province/Region | GDP（RMB 100 million） | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Growth Rate | Per Capita (RMB) | Primary Industry | Share | Secondary Industry | Share | Tertiary Industry | Share |
| Guangdong | 21,701 | 12.5% | 23,674 | 1,375 | 6.3% | 10,747 | 49.6% | 9,579 | 44.1% |
| Sichuan | 7,385 | 12.6% | 9,020 | 1,496 | 20.3% | 3,053 | 41.3% | 2,837 | 38.4% |
| Guangxi | 4,063 | 12.7% | 8,746 | 903 | 22.2% | 1,505 | 37.0% | 1,656 | 40.8% |
| Yunnan | 3,472 | 9.0% | 7,826 | 656 | 18.9% | 1,450 | 41.8% | 1,366 | 39.3% |
| Guizhou | 1,942 | 11.5% | 5,222 | 359 | 18.5% | 823 | 42.4% | 760 | 39.1% |

Sources：

1. National Bureau of Statistics of China, http://www.stats.gov.cn/tjgb/index.htm
2. 2006 China Statistical Abstract

Table 5：Economic Performance of Guangdong and the Four South-Western Provinces/Region in 2005 (1)

| Province/Region (RMB 100 million) | Total Value-Added of Industry | Growth Rate | Investment in Fixed Assets | Growth Rate | Investment in Real Estate Development | Growth Rate | Total Retail Sales of Consumer Goods | Growth Rate |
|---|---|---|---|---|---|---|---|---|
| Guangdong | 9,891 | 15.8% | 6,957 | 16.3% | 1,498 | 10.5% | 7,883 | 15.0% |
| Sichuan | 2,513 | 19.9% | 3,462 | 30.7% | 699 | 37.1% | 2,981 | 14.0% |
| Guangxi | 1,263 | 18.0% | 1,776 | 40.5% | 287 | 35.6% | 1,397 | 14.3% |
| Yunnan | 1,200 | 7.7% | 1,743 | 31.0% | 234 | 43.3% | 1,034 | 13.0% |
| Guizhou | 712 | 14.8% | 1,015 | 17.8% | 153 | 26.0% | 607 | 13.4% |

Sources：

1. National Bureau of Statistics of China, http://www.stats.gov.cn/tjgb/index.htm
2. 2006 China Statistical Abstract

## Table 6：Economic Performance of Guangdong and the Four South-Western Provinces/Region in 2005 (2)

| Province/Region | Indicators in Tourism | | | | | | Indicators in Finance (RMB ’00 million) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Earnings (RMB 100 million) | Growth Rate | Domestic Earnings (RMB 100 million) | Growth Rate | Foreign Exchange Earnings (USD 100 million) | Growth Rate | Deposits | Growth Rate | Outstanding Loans | Growth Rate |
| Guangdong | 1,880 | 13.0% | 1,349 | 10.8% | 64.0 | 18.9% | 38,120 | 14.1% | 23,261 | 10.0% |
| Sichuan | 721 | 27.4% | 696 | 28.4% | 3.2 | 9.4% | 9,905 | 17.1% | 6,743 | 8.7% |
| Guangxi | 304 | 21.1% | 278 | 20.2% | 3.2 | 31.6% | 4,203 | 13.4% | 3,057 | 17.0% |
| Yunan | 430 | 16.5% | 386 | 15.6% | 5.3 | 25.0% | 5,141 | 15.3% | 3,988 | 19.7% |
| Guizhou | 251 | 49.9% | 251 | 49.9% | 1.0 | 26.5% | 2,778 | 17.7% | 2,304 | 17.0% |

Sources：

1. National Bureau of Statistics of China, http://www.stats.gov.cn/tjgb/index.htm
2. 2006 China Statistical Abstract

## Table 7：Households Income and Consumption of Guangdong and the Four South-Western Provinces/ Region in 2005

| Province/Region (RMB 100 million) | Per Capita - Urban Households (RMB) | | | | Per Capita - Rural Households (RMB) | | | | Consumer Price Index (preceding year = 100) |
|---|---|---|---|---|---|---|---|---|---|
| | Annual Disposable Income | Growth Rate | Annual Expenditure in Consumption | Growth Rate | Net Income | Growth Rate | Annual Expenditure in Consumption | Growth Rate | |
| Guangdong | 14,770 | 8.4% | —— | —— | 4,691 | 7.4% | —— | —— | 102.3 |
| Sichuan | 8,386 | 8.8% | 6,891 | 8.2% | 2,803 | 8.6% | 2,274 | 13.1% | 101.7 |
| Guangxi | 8,917 | 9.0% | 6,426 | 9.6% | 2,495 | 8.2% | —— | —— | 102.4 |
| Yunnan | 9,266 | 4.5% | 6,997 | 2.3% | 2,042 | 6.5% | 1,789 | 13.9% | 101.4 |
| Guizhou | 8,147 | 10.6% | 6,156 | 11.4% | 1,877 | 5.2% | 1,552 | 16.1% | 101.0 |

Sources：

1. National Bureau of Statistics of China, http://www.stats.gov.cn/tjgb/index.htm
2. 2006 China Statistical Abstract

Table 8：Foreign Economic Activities of Guangdong and the Four South-Western Provinces/Region in 2005

| Region (USD 100 million) | Foreign Trade | | | | | | Total Amount of Foreign Capital Actually Utilized | Growth Rate |
|---|---|---|---|---|---|---|---|---|
| | Total | Growth Rate | Export | Growth Rate | Import | Growth Rate | | |
| Guangdong | 4,279.8 | 19.8% | 2,381.6 | 24.3% | 1,898.2 | 14.7% | 123.6 | 23.5% |
| Sichuan | 79.0 | 15.1% | 47.0 | 18.1% | 32.0 | 11.0% | 11.0 | 11.0% |
| Guangxi | 51.8 | 20.9% | 28.8 | 20.1% | 23.1 | 21.8% | 3.8 | 28.0% |
| Yunnan | 47.4 | 26.6% | 26.4 | 18.0% | 21.0 | 39.4% | 1.9 | 34.1% |
| Guizhou | 14.0 | -7.3% | 8.6 | -0.9% | 5.5 | -15.8% | 1.1 | 64.8% |

Sources：

1. National Bureau of Statistics of China, http://www.stats.gov.cn/tjgb/index.htm
2. 2006 China Statistical Abstract

Table 9：The 10-Year Average Growth Rate of Major Economic Indicators of Guangdong and the Four South-Western Provinces/Region (1996-2005)

| Average Growth Rate of Major Economic Indicators | Guangdong | Sichuan | Guangxi | Yunnan | Guizhou | The Nine Provinces / Autonomous Region |
|---|---|---|---|---|---|---|
| Gross Regional Product[b] | 11.4% | 10.1% | 8.7% | 8.6% | 9.4% | 10.5% |
| Per Capita Gross Regional Product | 11.1% | 10.0% | 9.2% | 9.0% | 10.7% | 10.2% |
| Value-added of Industry [a,b] | 15.9% | 15.9% | 13.7% | 8.9% | 13.1% | -- |
| Investment in Fixed Assets | 12.7% | 13.4% | 15.7% | 16.1% | 20.2% | 14.7% |
| Total Retail Sales of Consumer Goods | 13.2% | 7.8% | 9.6% | 10.7% | 11.2% | 11.2% |
| Foreign Trade - Export | 16.7% | 11.6% | 9.5% | 10.9% | 178.3% | 73.0% |
| Foreign Trade - Import | 15.8% | 5.5% | 13.2% | 11.2% | 178.3% | 86.7% |
| Total Amount of Foreign Capital Actually Utilized | 0.6% | 10.7% | -6.0% | 12.5% | 178.3% | 96.5% |
| Per Capita Annual Disposable Income of Urban Households | 6.8% | 7.2% | 6.6% | 7.1% | 7.6% | 7.5% |
| Per Capita Annual Net Income of Rural Households | 4.4% | 7.6% | 4.3% | 5.8% | 4.4% | 5.8% |

Notes：a) The average growth rate of value-added of industry refers to the growth rate between 2001 and 2005.

b) The average growth rates of gross regional product and value-added of industry are calculated at constant prices.

Sources：

1. National Bureau of Statistics of China：http://www.stats.gov.cn/tjsj/ndsj/index.htm, http://www.stats.gov.cn/tjgb/index.htm
2. 2006 China Statistical Abstract
3. China Compendium of Statistics 1949-2004

# Social Indicators in Guangdong and the Four South-Western Provinces/Region (2004)

## Table 10：Social Indicators in Guangdong and the Four South-Western Provinces/Region in 2004 (1)

| | Guangdong | Sichuan | Guangxi | Yunnan | Guizhou |
|---|---|---|---|---|---|
| Area of Territory（10,000 sq. km） | 18.0 | 48.5 | 23.7 | 39.4 | 17.6 |
| Total Population at the Year-end（10,000 persons） | 8,304 | 8,725 | 4,889 | 4,415 | 3,904 |
| Natural Growth Rate of Population （per 1,000 persons） | 8.0 | 2.8 | 7.2 | 9.0 | 8.7 |
| Unemployment Rate | 2.7% | 4.4% | 4.1% | 4.3% | 4.1% |
| Ratio of People with College and Higher Levels | 6.5% | 4.2% | 6.1% | 4.5% | 5.5% |
| Illiterate and Semi- Illiterate Ratio | 6.9% | 11.5% | 8.1 | 16.4 | 17.0% |
| Life Expectancy in 2000（years old） | 73.3 | 71.2 | 71.3 | 65.5 | 66.0 |
| Per Capita Annual Disposable Income of Urban Households（RMB） | 13,628 | 7,710 | 8,690 | 8,871 | 7,322 |
| Per Capita Annual Net Income of Rural Households （RMB） | 4,366 | 2,519 | 2,305 | 1,864 | 1,722 |
| Consumer Price Indices（preceding year = 100） | 103.0 | 104.9 | 104.4 | 106.0 | 104.0 |
| Per Capita Living Expenditure of Urban Households （RMB） | 10,695 | 6,371 | 6,446 | 6,837 | 5,494 |
| Total Retail Sales of Consumer Goods（RMB 100 million） | 6,370 | 2,384 | 973 | 885 | 518 |
| Per Capita Floor Space of Residential Buildings（sq. m） | 26.27 | 26.87 | 26.74 | 26.54 | 18.26 |
| Investment for Real Estate Development（RMB 100 million） | 1,864 | 626 | 239 | 200 | 149 |
| Sales Value of Buildings（RMB 100 million） | 1,165 | 330 | 171 | 106 | 77 |
| Average Selling Price（RMB/sq. m） | 3,482 | 1,572 | 2,083 | 1,978 | 1,385 |
| Number of Patent Applications Examined（item） | 52,201 | 7,260 | 2,202 | 2,132 | 1,486 |
| Number of Patent Applications Granted（item） | 31,446 | 4,430 | 1,272 | 1,264 | 737 |

Source：2005 China Statistical Yearbook

Table 11：Social Indicators in Guangdong and the 4 South-Western Provinces/ Region in 2004 (2)

| | Guangdong | Sichuan | Guangxi | Yunnan | Guizhou |
|---|---|---|---|---|---|
| Number of Urban Welfare Facilities（unit） | 7,452 | 7,559 | 1,413 | 709 | 4,406 |
| Number of Social Service Units（unit） | 759 | 380 | 94 | 51 | 127 |
| Number of Urban Service Points for Civilian（unit） | 9,026 | 29,699 | 3,343 | 1,537 | 11,100 |
| Kinds of Publication of Video Products（kind） | 1,755 | 241 | 109 | 242 | 244 |
| Volume of Publication of Video Products（10,000 cassettes / pieces） | 5,598 | 198 | 312 | 100 | 178 |
| Kinds of Publication of Audio Products（kind） | 1,720 | 84 | 281 | 120 | 34 |
| Volume of Publication of Audio Products（10,000 cassettes / pieces） | 2,203 | 99 | 113 | 53 | 9 |
| Number of Health Institutions（unit） | 15,744 | 24,605 | 9,034 | 9,436 | 6,664 |
| Number of Beds in Health Institutions（unit） | 198,645 | 189,350 | 91,795 | 101,654 | 61,421 |
| Number of Employed Personnel in Health Institutions（person） | 348,203 | 281,847 | 154,384 | 136,697 | 90,174 |
| Number of Contributors of Unemployment Insurance（10,000 persons） | 1,006 | 399 | 226 | 173 | 130 |
| Number of Beneficiaries of Unemployment Insurance（10,000 persons） | 23 | 13 | 10 | 11 | 1 |
| Number of People Contributed to Pension Insurance at the Year-end（10,000 persons） | 1,589 | 668 | 279 | 255 | 175 |
| Number of Employees Contributed to Pension Insurance at the Year-end（10,000 persons） | 1,368 | 465 | 209 | 176 | 125 |
| Revenue of Pension Insurance（RMB 1 million） | 37,357 | 18,892 | 5,969 | 7,817 | 4,551 |
| Expenses of Pension Insurance（RMB 1 million） | 23,351 | 15,269 | 4,966 | 6,712 | 3,800 |

Notes：1、 “Illiterate and Semi- Illiterate Ratio” and “Ratio of College and Higher Level” refers to the related percentages of the population aged 15 or over

2、Life expectancy in 2000 by region is calculated by the death data of 2000’s Population Census, which modified by the mortality rates from the annual national sample surveys on population changes since 1990

Source：2005 China Statistical Yearbook

# Appendix IV：English-Chinese Glossary of Terms

| | |
|---|---|
| China-ASEAN Free Trade Area | 中國—東盟自由貿易區 |
| Comprehensive Economy | 全面型經濟 |
| Consumer Price Indices | 居民消費價格指數 |
| Deposits | 存款餘額 |
| Developing the Western Region | 西部大開發 |
| Domestic Earnings | 國內收入 |
| Domestic-Oriented Economy | 內向型經濟 |
| Expenses of Pension Insurance | 養老基金支出 |
| Export-Oriented Economy | 外向型經濟 |
| Extensive Economy | 粗放型經濟 |
| Foreign Exchange Earnings | 外匯收入 |
| Foreign Trade（Total Value of Imports and Exports, Customs Statistics） | 對外貿易（進出口總額，海關數字） |
| Free Trade Agreement | 自由貿易協議 |
| Gross Regional Product (GRP) | 地區生產總值 |
| Guidelines for the Pan-PRD Regional Cooperation and Development (2006-2020) | 泛珠 2006-2020 規劃綱要 |

| | |
|---|---|
| Guidelines of the Eleventh Five-Year Plan for National Economic and Social Development (the 11th Five-Year Plan) | 中華人民共和國國民經濟和社會發展十一五規劃綱要 (十一五規劃) |
| Illiterate and Semi- Illiterate Ratio | 文盲、半文盲比例 |
| Investment for Real Estate Development | 房地產業開發投資 |
| Investment in Fixed Assets | 固定資產投資 |
| Life Expectancy | 預期壽命 |
| Local Government’s General Budgetary Expenditure | 地方財政一般預算支出 |
| Local Government's General Budgetary Revenue | 地方財政一般預算收入 |
| Number of Beneficiaries of Unemployment Insurance | 領取失業保險金人數 |
| Number of Contributors of Unemployment Insurance | 失業保險參保人數 |
| Number of Employees Contributed to Pension Insurance at the Year-end | 年末參加養老保險職工人數 |
| Number of Health Institutions | 衛生機構數 |
| Number of Patent Applications Examined | 專利申請受理數 |
| Number of Patent Applications Granted | 授權數 |
| Number of People Contributed to Pension Insurance at the Year-end | 年末參加養老保險人數 |
| Number of Social Service Facilities for Urban Residents | 城鎮社區服務設施數 |

Residents

| | |
|---|---|
| Number of Social Service Units | 社區服務單位個數 |
| Outstanding Loans | 貸款餘額 |
| Pan-Asian Railway | 泛亞鐵路 |
| Per Capita Annual Cash Income of Rural Households | 農牧民人均現金收入 |
| Per Capita Annual Disposable Income of Urban Households | 城鎮居民人均可支配收入 |
| Per Capita Living Expenditure of Urban Households | 城鎮居民人均消費性支出 |
| Publication of Video Products | 錄影製品出版 |
| Ratio of People with College and Higher Levels | 大專以上程度比例 |
| Ratio of Sales of Manufactured Products | 工業產品銷售率 |
| Revenue of Pension Insurance | 養老基金收入 |
| Strong Industrial Province | 工業强省 |
| Tonkin Gulf Rim | 環北部灣 |
| Total Amount of Foreign Capital Actually Utilized | 實際利用外資額 |
| Total Retail Sales of Consumer Goods | 社會消費品零售總額 |
| Two Corridors and One Ring | 兩廊一圈 |

| | |
|---|---|
| Value Added of the Primary Industry | 第一產業增加值 |
| Value Added of the Secondary Industry | 第二產業增加值 |
| Value Added of the Tertiary Industry | 第三產業增加值 |
| Value-added of Industry | 工業增加值 |