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Executive Summary

1. Study on China's Peasant Workers from the Experience of the Three Southwestern Provinces

1.1. Resolving mass village unemployment is a crucial issue for China's economic development. The efficiency of China's agricultural sector cannot be improved until China successfully tackles its rural labour surplus. The issue of peasant workers is indeed a crucial one and contributes to the "Three Rural Problems" in relation to agriculture, countryside and peasants.

1.2. Sichuan is best known for exporting labour services. In 2005, it exported 16.37 million rural labourers, of which 8.14 million were exported to the other provinces, and earned RMB 72.2 billion from the labour services. By 2010, Sichuan plans to export 20 million labourers, earn RMB 100 billion from the labour services, and train up cumulatively 20 million peasant workers. In 2005, Guizhou exported 860,000 labourers, and the service income of the rural labourers reached RMB 5 billion. The "economy of hiring-out for work" accounted for one-third of the province's rural net income.

1.3. The "peasant worker shortage" emerged as an issue in 2004. By 2005, the Pearl River Delta (PRD) region had a shortage of 1.01 million peasant workers, and more than 70% of the enterprises from Hong Kong, Macao and Taiwan encountered difficulties in recruitment. The municipalities of Dongguan, Shenzhen and Guangzhou together accounted for almost half of the shortfall in the PRD region. Skills mismatching was another issue and the region lacked technical workers whilst there was a surplus of applicants for general positions.

1.4. Presently, there are approximately 180 million peasant workers in China. Peasant workers are the main source of cheap labour. They are often overworked and required to work overtime, yet their basic rights and legitimate benefits are not adequately protected. The main reasons for the "peasant worker shortage" are low income and poor social security. Most Mainland provincial governments raised the minimum wage in their regions in the second half of 2006.

1.5. In the past, peasant workers were much regarded as a "blind influx of migrants" and institutionalised arrangements for the export of labour were set up to partly solve the problem. The Qian'nan Autonomous Prefecture of Guizhou has set up a labour office in Shanghai, which has systematically and proactively exported more than 10,000 Guizhou labourers to the Yangtze River Delta. Sichuan plans to transform the government-propelled labour exporting service into one driven by market forces, and encourage the set up of local labour service export agencies/institutions.

1.6. The key for Hong Kong enterprises to sustain their successes, in the Mainland and the PRD region, is to pay local staff well and strengthen the internal management. Small and medium-sized Hong Kong enterprises can seek organised support from their respective trade associations for a dialogue with local labour agencies on human resources demand and supply information. The trade associations can participate in vocational training, by developing course content and forecasting the industry's future demand for various types of workers based on changes likely to take place in the market. They can also proactively cooperate with the local governments of other provinces on peasant worker training, and recruit the program graduates to work in the Hong Kong invested enterprises.

2. Trends and Updates on the Four Provinces/ Region

2.1. Sichuan

2.1.1. In May 2006, the Sichuan Provincial Government promulgated the "*Decision on Implementing the Strategy of Strong Industrial Province*", which outlined Sichuan's plans to develop itself into a resources development base and a strong, modernised industrial province. The goal is to turn Sichuan into one of the Top-10 Industrial Provinces by 2010, with industrial value-added accounting for 41.6% of the provincial GDP, and growing by more 15% a year. The Sichuan Government undertakes this policy direction as a result of the emergence of a new development ideology. This new ideology claims that the industrial sector should support the agricultural sector, and urban regions should support rural development. Sichuan will pay special attention to the industrial development of its county economies, the fundamental objectives of which

are to increase the income of residents and resolve the domestic unemployment issue.

2.1.2. In 2006, Sichuan began devising a series of industrial policies to promote capitalisation of resources, nurture superior industries, and assist big enterprises and industrial clusters. The four industries chosen for special attention in the coming future are: High and New Technologies, Superior Resources, Equipment Manufacturing, and Agricultural Products Processing. Sichuan has also put forward some ambitious industrial programmes, such as the "10 billion enterprises", the "10 billion industrial districts" and the "100 x 100 million investment projects". It plans to develop the Chengdu-Deyang-Mianyang New and High Technological Base, a cluster of manufacturing cities in southern Sichuan, and the Panxi Resource Development Base. Sichuan will also build a number of national/provincial-level industrial districts, and form industrial clusters featuring their own distinct county economy characteristics.

2.1.3. In the past, Hong Kong's investment in the PRD region was largely small- and medium-sized enterprises engaged in high energy consuming and polluting industries. The business models of these enterprises were prominently processing and export-oriented. These investment models may not fit well into Sichuan's plans for industrial development. Hong Kong enterprises may find it difficult to relocate their factories into Sichuan, and may not even be welcome. Hong Kong's leading edge in finance, logistics and business services will gradually be undermined by the continuous liberalisation of China's economy. Hong Kong should move swiftly to a new socio-economic development model and develop business strategies to cope with these changes.

2.2. Guangxi Zhuang Autonomous Region

2.2.1. In June 2006, the Office of the Western Region Development Leading Group of the State Council and five other State bureaus put forward a new plan entitled "*Fostering the Development of Superior Featured Industries in the Western Region*". Guangxi's advanced industries, namely energy and chemicals, minerals exploration and processing, featured agricultural products, heavy and large equipment manufacturing, and tourism, are on the national development plan list.

2.2.2. In June 2006, the Guangxi Government put forward the *"Guideline for Guangxi's Science and Technological Development in the Medium to Long Term"*, which outlined the direction of its scientific and technological development for the next 15 years. By 2020, Guangxi will devote 2% of the region's GDP to research and development activities, and the ratio of contribution of scientific developments to GDP should exceed 50%.

2.2.3. In the foreseeable future, instead of accepting industry transfer from the more developed regions in the east, Guangxi will strive to develop its own chemicals, heavy machinery, resources and agricultural products processing industries. In this regard, there will be less economic reciprocity between Hong Kong and Guangxi. In view of the fact that the objective of the Central Government's plan of "Developing the Western Region" is to strengthen the local economy, other southwestern provinces will likely follow Guangxi's example. Industrial reciprocity between Hong Kong and the four southwestern provinces might therefore undergo transformation in both "context" and "quantity". Hong Kong should promptly and comprehensively study the direction of China's industrial and scientific development. It should also promote industrial transformation, assist Hong Kong enterprises in manufacturing products and providing services that are catered to the Mainland market, and revise the focus of its technology policies and research projects to cope with the Mainland's industrial development.

2.3. Yunnan

2.3.1. In the second half year of 2006, China intends to revise its export rebate policy on "highly polluting, highly energy consuming, resource-oriented products". This may make negative impacts on exports of resource products from Yunnan.

2.3.2. Hong Kong enterprises engaged in the resources business should upgrade their processing technologies, while pay attention to industries involved in environmental protection, and actively develop and expand their foothold in the "Green Economy".

2.3.3. The export rebate policy on "Highly Polluting, Highly Energy Consuming, Resource-oriented Products" will likely affect small- and medium-sized Hong Kong manufacturers the most, as the trading enterprises might transfer their orders to other countries in response to price rises, hence affecting the re-export volume of Hong Kong. The trade associations should cooperate with the Hong Kong Trade Development Council in order to assist the industrial upgrading of Hong Kong enterprises, change the existing trade structure that is dominated by light and processing industries, and ultimately transform Hong Kong's industrial structure and trade pattern.

2.4. Guizhou

2.4.1. In July 2006, Guizhou achieved a record in daily electricity transfers. The energy industry, comprising mainly electricity and coal production, is now the top industry in Guizhou. In early July, the National Development and Reform Commission increased the selling and uploading electricity prices for all regions. This decision has temporarily mitigated the cost pressures, caused by surging prices of coal and other raw materials, on Guizhou.

2.4.2. The International Energy Agency (IEA) predicted that there would be an excess of electricity supply in China by 2007. Hong Kong should take this opportunity to sign long term electricity contracts at competitive prices, and reduce air pollution generated by the burning of fossil fuels to generate electricity.

3. Regional Cooperation

3.1. In July 2006, the 5th Joint Conference for Employment Service Cooperation in the Nine Provinces and Autonomous Region of the Pan-PRD Region took place in Nanning, Guangxi. This conference activated the Joint Employment Network of the nine provinces/region across the Pan-PRD region. A Pan-PRD Job Fair was organised featuring jobs in property development, construction, IT and chemicals industries. Middle and high level professional jobs were the best jobs on offer. Approximately 50,000 local applicants attended this fair, many of who hoped to improve their professional skills and competitiveness through education and training.

3.2. The local public institutes and private training consultants could cooperate with the educational system in the four provinces/ region, establish a coordinated regional training framework, and improve educational links between Hong Kong and the Pan-PRD region. Hong Kong should strive to become the Pan-PRD regional education and training centre.

1. Study on China's Peasant Workers from the Experience of the Three Southwestern Provinces

For a long time, employment particularly that of the massive rural labour force, has been an important issue for China's economic development. The traditional small-scale peasant economy is far from being able to provide full employment to the massive rural labour force. In fact, some scholars suggest that the 'Three Rural Problems' in relation to agriculture, countryside and peasants in China have in fact become 'four problems' involving agriculture, countryside, peasants, and peasant workers.

At present, in Chinese villages, family households earn income by farming land which they contract. There are 1.84 billion acres of farmland and 249 million peasant households who have access to around 5.8 pieces of farmland per household. This averages out at 1.41 acres per peasant or 7.3 acres per household. It is very difficult to increase productivity in agriculture, increase peasant incomes, and create prosperity in rural areas under the traditional small-scale peasant economy. It is natural for the peasants to seek employment in urban areas, or they will remain poor in the rural villages.

Peasant workers represent a crucial 'bottleneck' in agricultural development. It is because only by reducing the peasant population will the "Three Rural Problems" be resolved. The most effective way to reduce the peasant population, undoubtedly, is to encourage the peasants to seek work outside their rural villages and change their status from peasants to workers. At present, there are 490 million rural labour force in China, of which 150 million could become migrant workers[1].

Peasant workers have their own peculiar social identity, and a unique place in history. Transforming peasants into workers will bring them out of poverty and improve the economy of the province within which they work or spend their wages. It will also assist in the modernisation and urbanisation of the nation as a whole, as after the peasant workers have moved to the urban areas, their mentality and behaviour will eventually change from rural to urban. The

[1] Liu Weijia: "Survey on issues affecting Chinese peasant workers –with Sichuan and Zhejiang used as examples"(劉維佳："中國農民工問題調查—以四川、浙江爲例"), China Population Information Net, http://www.cpirc.org.cn/yjwx/yjwx_detail.asp?id=6249.

following chapter is an exposition of the facts and figures of how Chinese peasant workers change, as has happened in the provinces of Sichuan, Guizhou and Yunnan.

1.1 Labour force transfer conditions in the three southwestern provinces

1.1.1 Sichuan

In 2004, nearly 15 million labourers from Sichuan were transferred from the province to work elsewhere, an increase of more than 1.2 million people compared with the previous year. The revenue generated from the labour services amounted to RMB 57.6 billion, an increase of RMB 10.2 billion compared with the previous year[2]. In 2005, the transfer of labour increased to 16.37 million people, of whom 8.14 million were exported to other provinces, and the revenue from the labour services amounted to RMB 72.2 billion, an increase of 25.3% compared with the previous year[3].

In 2006, the target figure for the transfer and export of rural labour is 17 million; the labour services revenue target is RMB 75 billion, and labour skills training is to be offered to 2 million people[4]. For the 11th Five-Year Plan period, Sichuan plans to increase the transfer and export of labour by 700,000 people every year, and increase the revenue from the labour services by more than RMB 5 billion each year. By 2010, Sichuan will have transferred and exported no less than 20 million people, earning RMB 100 billion in revenue. The total number of

[2] Hou Dawei: "Peasant worker shortages: dialogue between exporting and importing regions" (侯大偉：“民工荒：輸入地與輸出地的對話”), websites of Economic Reference Post, 29th July 2006, http://202.84.17.25/www/Article/2005729103558-1.shtml.

[3] "Speech by Guo Yongxiang delivered at the 2006 Provincial Rural Working Conference (郭永祥在 2006 年省委農村工作會議上的講話) ", Sichuan Databank Resource Net, 26th February 2006, http://www.scsdaj.gov.cn/special/xnc/303.htm.

[4] Liu Yunan: "The gradual transformation of Sichuan's labour exports, and government withdrawal in favour of intermediary organisations"(劉宇男：“四川勞務輸出將逐步轉型，政府退後讓仲介說話”), Pan-PRD Cooperation Information Net, 1st June 2006, http://www.pprd.org.cn/news/province/200606010007.htm.

peasant workers enrolled in training courses is expected to be 20 million, with 10 million people expected to obtain government training certificates[5].

Sichuan is a big province with a huge population and abundant labour resources. It is a typical labour-exporting province not just in the western region, but also across the whole nation. Sichuan peasant workers, commonly known as the 'Chuan army', are well-known all over China for their hard-working and endurance in unpleasant conditions.

1.1.2 Yunnan

In 2004, 4.15 million rural workers were transferred from the Yunnan province, an increase of 630,000 compared with the previous year, representing 20% of the rural labour force and 55% of the surplus labour force respectively. Assuming that the income of the transferred surplus labour force is RMB 600 a month, per capita annual income will not be less than RMB 7,200, and the annual labour services revenue for the province will be RMB 29.88 billion, equivalent to 10% of Yunnan's GDP. The labour economy is therefore very important to the province[6].

During the 10th Five-Year Plan period, 4.76 million rural peasants in the province became urban workers, an increase of 2.17 million compared with the 9th Five-Year Plan period. The average annual transfer of rural peasants to urban workers was 0.95 million, and the revenue from exporting labour services amounted to RMB 26 billion[7]. In 2005, 1.6 million people were transformed from the rural workforce, an increase of 11.48% over the previous year, and the province achieved 320% of their target (originally 0.5 million workers), generating

[5] Liu Tingyuan: "Sichuan Conference on Developing Labour Services and Peasant Worker Deployment" (劉廷遠："四川召開勞務開發暨農民工工作大會部署工作"), Xinhua Net Sichuan Government Online, 8th June 2006, http://www.sc.xinhua.org/service/zw/2006-06/08/content_7206884.htm.

[6] Luo Chengwu: "Research on the development of Yunnan's labour service economy"(羅成武："雲南勞務經濟發展問題研究"), Nanrun Promotion Net, 28th March 2006, http://www.njtiaocai.com/html/xianwu/lilun/lilunu/20060328063281108288692 9.htm.

[7] Zhu Yongmei: "Yunnan peasant worker income almost reaches RMB 3 billion" (朱詠梅："2005 年雲南省農民打工收入近 30 億"), Yunnan Information Net, 5th April 2006, http://news.yninfo.com/yunnan/jingji/2006/4/1144228464_3/index.html.

a revenue of RMB 2.8 billion. In 2006, Yunnan set a target of 0.5 million workers to be transferred from the rural labour force[8].

In Shenzhen, there are about 200,000 business enterprises, which require a workforce of about 5 million. However at present, the Yunnan labour force in Shenzhen is only about 100,000, accounting for just a mere 2% of the total demand, and is far smaller than the labour force coming from Henan, Sichuan, Hunan, Anhui, Chongqing, Jiangxi and Guangxi. Besides, Yunnan is not only the smallest, but also the latest to export labour services to Shenzhen; it only began exporting labour to Shenzhen in 2002. Shenzhen enterprises demand a large number of workers aged 18-35, especially skilled female workers, and the number of new enterprises keeps increasing every year. This represents an excellent opportunity for the exportation of peasant labour from the poorer regions of Yunnan[9].

1.1.3 Guizhou

In 2005, the province of Guizhou exported 855,700 workers, of which 75% was hired out to other provinces, and the annual revenue from the labour exports exceeded RMB 5 billion. The 'economy of hiring out for work' contributed nearly one third of the average annual income of the province's peasants. Compared with other areas in the central and western regions of China, labour service exports in Guizhou remain low. The total number of workers needed to be transferred is about 10 million, but only 3.8 million of these have already been transferred to a steady job. There are more than 6 million people still waiting for a job, and several hundred thousand people join the labour force every year. Thus, in Guizhou, the percentage of surplus rural labour transferred to urban employment is still very low, compared with other provinces in China. Even among the 3.8 million already transferred, nearly half of them do not stay in long-term steady jobs but move back and forth between urban and rural areas.

[8] Ye Xinwei: "The largest labour exporter in our province"(葉心瑋："我省規模最大的一次勞務輸出"), Yunnan Information Net, 20th April 2006, http://news.yninfo.com/yunnan/jingji/2006/4/1145510600_3/index.html.

[9] Zhu Yongmei: "Shenzhen requires an annual workforce of 5 million, of which 1 in 50 come from Yunnan"(朱詠梅："梅深圳年需勞務工 500 萬人，雲南工在深僅佔 1/50"), Yunnan Information Net, 30th April 2006, http://news.yninfo.com/yunnan/jingji/2006/4/1146372191_3/index.html.

On the whole, in Guizhou, the rural labour force is of poor quality, lacking relevant skills, poorly organised in transfer arrangements, and the peasant workers lack commitment, moving impulsively and blindly without a steady employment. In areas like the PRD region and the Yangtze River Delta which employ many rural workers, Guizhou peasant workers are neither competitive nor significant in the job market. Guizhou's workers do not compare favourably with labourers from other places, such as Chongqing's construction workers, Sichuan's construction site sub-contractors, Hunan's taxi-drivers, Jiangxi's lorry drivers, Anhui's domestic helpers, or Jilin's *dajie* (domestic helpers) who have earned an excellent reputation. In fact most Guizhou peasant workers are still employed as low skilled, heavy manual labourers marked by poor health and work safety and low income. In other words, Guizhou workers have not developed their niche role in the labour market[10].

1.2 Labour shortage in the Pearl River Delta (PRD) region

Starting in 2004, the southeast coastal provinces witnessed a serious supply shortage of peasant workers. On 9th September 2004, the Ministry of Labour and Social Security announced that the PRD region was lacking 2 million workers. Shenzhen lacked more than 400,000 workers, and in Dongguan, a survey of 17% of enterprises revealed a shortage of 270,000 workers[11].

A research study showed that in 2005, in the PRD region, employment in business enterprises had the following features:

1. Peasant workers were still the main source of labour supply to business enterprises, with an estimated shortage of 1.01 million workers in 2005.

2. More than 70% of business enterprises experienced difficulties in recruiting workers. Enterprises from Hong Kong, Macao and

[10] "The Guizhou Daily's Special Comment: More effort required to effectively implement labour exports"("貴州日報特約評論員：努力做好勞務輸出這篇大文章"), Jin Qian Online, 26th June 2006, http://www.gog.com.cn/jq/j0603/ca989014.htm.

[11] "Serious peasant worker shortages in the southeastern coastal region, but Sichuan workers refuse to leave their home province (東南沿海嚴重民工荒，四川民工卻不出省) ", South China Net, 17th September 2004, http://www.southcn.com/finance/financenews/guoneicaijing/200409170705.htm.

Taiwan had the most difficulties, at 70.0%, 79.4% and 69.0% respectively, higher than that of private and foreign enterprises. Among the cities, Shenzhen, Huizhou and Dongguan had the highest figures, being 90.0%, 90.0% and 82.0% respectively.

3. Total shortage in Dongguan, Shenzhen and Guangzhou represented half the shortage figure for the PRD region, accounting for 12.4%, 16.5% and 15.0% of the total shortage respectively. The three figures added up to 43.9%[12].

Table 1.1: Number of workers need to be recruited by the surveyed PRD enterprises

Item	Percentage	Item	Percentage
Total	**100%**	Foshan	6.1%
By Type of Enterprise		Jiangmen	11.7%
Private	26.1%	Zhaoqing	8.4%
Hong Kong, Macao & Taiwan	41.5%	Huizhou	8.4%
Foreign	32.4%	Dongguan	12.4%
By District		Zhongshan	10.3%
Guangzhou	15.0%	**By Industry**	
Shenzhen	16.5%	Manufacturing	89.3%
Zhuhai	4.9%	Other Industries	10.7%

Source: Peng Qipeng, Liu Jianmin: "Improving workforce supply and demand mechanisms, and maintaining steady social and economic development – Survey on PRD enterprise recruitment (彭啓鵬、劉建民："完善勞動力供求機制，保持經濟社會平穩發展─珠江三角洲地區企業用工調查報告")", 2005 Guangdong Statistical Yearbook, Page 33.

[12] Peng Qipeng, Liu Jianmin: "Improving workforce supply and demand mechanisms, and maintaining steady social and economic development – Survey on PRD enterprise recruitment"(彭啓鵬、劉建民："完善勞動力供求機制，保持經濟社會平穩發展──珠江三角洲地區企業用工調查報告"), Guangdong Statistical Yearbook 2005, Page 33.

1.3 Peasant workers, their characteristics and sociological implications

1.3.1 The creation of a large new social class

How many peasant workers are there in China? At present, reliable figures are not available, and there is not even an official definition for the term 'peasant worker', but two figures may be useful for reference purposes. One is for those workers that "leave the field but remain in the countryside" and work for a rural enterprise, the other is the rural labour force which "leave the field and the countryside" and now work in the town. According to recent statistics, there were 138 million of the former in 2004, and 102 million of the latter, adding up to 240 million all together. Other figures also illustrate the huge number of peasant workers.

For instance, in 2004, transport passenger flows during the national spring festival reached 1,890 million people, an increase of 670 million people compared with ten years ago. Peasant workers accounted for over 60% of these spring festival passenger flows. Putting these figures together, even conservative calculations would put the present number of Chinese peasant workers at more than 180 million. As a result of administrative barriers separating urban and rural societies, peasant workers are considered to be peasants and are firmly tied to rural villages and the peasant population, but they are quitting rapidly the peasant social stratum.

In 2004, Document No.1 of the Central Government pointed out that, "having entered a city the employed peasant worker is already an important constituent of the industrial working population". This is a watershed policy ruling. At present, peasant workers account for 57.6% of the labour force in China's secondary industry, accounting for 68% in the processing and manufacturing industry and 80% in the construction industry. In the tertiary industry sector, peasant workers now account for 52% of the workforce. In fact, in the urban construction, environmental protection, household domestic services, and restaurant industries, 90% of the workers are peasant workers[13].

[13] Liu Weijia: "Survey on issues affecting Chinese peasant workers –with Sichuan and Zhejiang used as examples" (劉維佳："中國農民工問題調查—以四川、浙江爲例"), China Population Information Net, http://www.cpirc.org.cn/yjwx/yjwx_detail.asp?id=6249.

As shown by the above statistical figures, peasant workers are integrating into the industrial worker social stratum rapidly and forcefully, and becoming the main body of industrial workers. Since the urban-rural division will not disappear immediately, peasant worker's "blood relationship" with peasants will continue, and this process of leaving rural society and integrating into urban society will take a long time. In the longer term, peasant workers will form a new social class, and their unique economic and political demands will need to be addressed. Although peasant workers will still have their "roots" in the countryside, the movement of peasant workers is no longer just a 'blind flow'; they have transformed into an emerging social stratum whose special needs and identity should be recognised.

1.3.2 The survival of peasant workers

Peasant workers have been living and working in marginalised communities, their basic and legitimate rights have not been effectively protected, and many peasant workers are forced to survive in a miserable subsistence state. In a sense, they are the beneficiaries of the country's reform and liberalisation, but at the same time they are marginalised by their identity and status. Their vulnerable status is the result of the following problems:

1. Peasant workers are a cheap labour force, their wage levels are low, and wages are often paid in arrears. Employers believe that peasant workers are cheap labour. According to official statistics, in 2004 the average annual income of a peasant worker was about RMB 8,000, but that of urban workers was RMB 15,000, a difference of nearly 100%.

2. Peasant workers are often required to work overtime and take up excessive workloads in poor and unpleasant conditions. They are not in a position to bargain but are forced to accept the unfair rules of the game, namely earning piece-rate wages and working overtime. For instance, in Zhejiang 79.7% of the peasant workers have an average monthly wage of about RMB 800, seemingly not too bad, but in fact they have to work more than 5 days a week and more than 8 hours a day. In a large-scale private enterprise in Zhejiang with more than 5,000 peasant workers, the workers

have only one day of rest in a month and every day they work for 10 hours. Under the piece-rate wage system, peasant workers must work for longer hours in order to make more money. If they stick to stipulated working hours in accordance with "Labour Laws", they would not earn enough to pay for food and shelter.

3. Peasant workers carry out high-risk jobs, lack social security protections and experience frequent industrial accidents. Most peasant workers are engaged in difficult and dangerous work without adequate safety measures and security protection, and often without insurance to cover industrial injuries, medical expenses, periods of unemployment and pensions. Peasant workers are vulnerable to occupational disease and serious industrial accidents but it is difficult for them to obtain reasonable compensation. Instead the physically disabled and diseased return to their native villages and transfer the social problems of the city to the countryside[14].

1.4 Reasons for peasant worker shortage

1.4.1 Unreasonable reward

The main reason for the shortage of peasant workers is the poor remuneration mechanism, as the wages are low, and there is inadequate protection from abuse. According to a news release from the Ministry of Labour and Social Security, enterprises outside Sichuan offering monthly salaries below RMB 700 encountered difficulties in recruiting workers, and the shortages were particularly serious in the PRD region and the Jiangsu-Zhejiang areas. Statistics indicate that over the past 12 years, monthly wages of workers in the PRD area increased by only RMB 68; overtime is frequent and working conditions are poor so it is no wonder that these factories find it very difficult to recruit workers[15].

[14] Ibid, the article provided more statistical details describing the living state of peasant workers.

[15] "Serious peasant worker shortages in the southeastern coastal region, but Sichuan workers refuse to leave their home province (東南沿海嚴重民工荒，四川民工卻不出省) ", South China Net, 17th September 2004, http://www.southcn.com/finance/financenews/guoneicaijing/200409170705.htm.

Another study indicated that the average wage of peasant workers in the PRD area was relatively low. The monthly salary including overtime pay for general (that is, non-management) staff in the surveyed enterprises was RMB 964.8, which was only 57.9% of the average monthly salary of city workers in the entire Guangdong Province in 2003 (see table 1.2). Excluding the three cities with the highest wage levels (Guangzhou, Shenzhen, and Zhuhai) the average monthly wage of a peasant worker in the other six cities was RMB 819.7, only 49.2% of the average monthly wage of city workers of Guangdong Province. The figure for Dongguan is the lowest at only 37.1% of that of the city workers.

Wage levels for many peasant workers have remained unchanged for nearly ten years. In addition, among the enterprises surveyed, only 76 or 23.1% of them participated in social security programmes for their workers. Meanwhile, 206 enterprises participated in social security programmes for their management personnel, representing 62.6% of the sample. A total of 55,239 staff of the enterprises surveyed were covered by pension schemes, which was only 52.4% of the total number of staff. This means that nearly half of the workers were left out[16].

Table 1.2: Wage levels of ordinary workers in enterprises surveyed in the PRD region

Item	Average Monthly Wage	Percentage ratio against average monthly wages of city workers in previous year	Item	Average Monthly Wage	Percentage ratio against average monthly wages of city workers in previous year
TOTAL	**964.8**	**57.9%**	Foshan	932.5	63.4%
BY TYPES OF ENTERPRISE			Jiangmen	911.7	88.1%
Private	1067.6	64.1%	Zhaoqing	793.8	72.8%
Hong Kong, Macao & Taiwan	841.5	50.5%	Huizhou	822.8	74.4%
Foreign	1028.5	61.7%	Dongguan	698.2	37.1%
By District			Zhongshan	878.7	50.1%
Guangzhou	1313.9	54.7%	**By Industry**		
Shenzhen	979.9	38.4%	Manufacturing	898.2	68.4%
Zhuhai	1175.7	73.4%	Other industries	1408.1	81.3%

Source: Peng Qipeng, Liu Jianmin: "Improving workforce supply and demand mechanisms, and maintaining steady social and economic development – Survey on PRD enterprise

[16] Peng Qipeng, Liu Jianmin: ibid.

recruitment"(彭啓鵬、劉建民："完善勞動力供求機制，保持經濟社會平穩發展─珠江三角洲地區企業用工調查報告"), 2005 Guangdong Statistical Yearbook, Page 33.

As for the situation across China, according to Mr. Li Yonghai, Research Office Director of All-China Federation of Trade Unions, the percentages of Chinese peasant workers having joined social security insurance programmes that cover pensions, unemployment, medical bills, industrial injuries, and female workers' birth delivery are 33.7%, 10.3%, 21.6%, 31.8% and 5.5% respectively. The percentages of peasant workers participating in supplementary insurance programmes, staff co-operative insurance programmes, and other commercial insurance programmes are even lower, at just 2.9%, 3.1% and 5.6% respectively[17].

In fact, Mainland China has a minimum wage system (see Table 1.3), but some peasant workers are not even paid this. According to a survey in Zhejiang, 7.5% of peasant workers have monthly salaries below RMB 600, which do not meet the minimum wage standard[18]. The reason is that many enterprises in China do not have competitive strength in technology and management. Keeping the wages of peasant workers low is the main strategy of minimizing production cost and maximizing profit. Many managers believe that raising peasant workers' wages will wipe out the competitive edge of cheap labour in China. Even with the present low wages, these enterprises still use every means possible to delay the payment of wages.

Table 1.3: Minimum monthly wage standards in all provinces, autonomous regions and municipalities in 2005

Province/City	Standard Implementation Date	Minimum Monthly Wage Standard (RMB per month)
Beijing	1/7/2005	580
Tianjin	1/7/2005	590 570
Hebei	1/7/2004	520 470 420
Shanxi	1/7/2004	520 480 440 400
Inner Mongolia	1/7/2004	420 400 380
Liaoning	11/11/2004	450 400 350
Dalian	1/2005	500 450 380
Jilin	1/9/2003	360 330 300
Heilongjiang	2003	390 360 325 305 280 250 235
Shanghai	1/7/2005	690
Jiangsu	1/11/2005	690 550 480 400
Zhejiang	1/12/2005	670 610 560 490

[17] Hou Dawei: ibid.
[18] Liu Weijia: ibid.

Province/City	Standard Implementation Date	Minimum Monthly Wage Standard (RMB per month)
Ningbo	1/9/2003	520 480
Anhui	1/10/2004	410 390 370 360 350 340 330 320 310 290
Fujian	1/7/2005	470 430 400 350 320
Xiamen	1/7/2005	600 550 480
Jiangxi	1/9/2004	360 330 300 270
Shandong	1/1/2005	530 470 420 380 350
Qingdao	1/10/2002	410 380
Henan	1/10/2005	480 400 320
Hubei	1/3/2005	460 400 360 320 280
Hu'nan	1/7/2005	480 440 420 400 380 350
Guangdong	1/12/2004	684 574 494 446 410 377 352
Shenzhen	1/7/2005	690 580
Guangxi	25/10/2004	460 400 360 320
Hainan	1/7/2004	500 400 350
Chongqing	2004.5.1	400 380 350 330
Sichuan	2004	450 400 340 280
Guizhou	1/10/2004	400 360 320
Yunnan	1/10/2004	470 405 350
Xizang	1/11/2004	495 470 445
Shaan'xi	1/7/2005	490 460 430 400
Gansu	1/1/2004	340 320 300
Qinghai	1/10/2004	370 360 340 330
Ningxia	1/2/2004	380 350 320
Xinjiang	1/5/2004	480 440 380 370 360 350 330 320 300

Note: According to the various circumstances in provinces, Minimum Wage Standards are generally classified in several different categories.
Source: Ministry of Labour and Social Security. Quote Huang Lezhen, Yang Tianbo: "Survey reveals that minimum wages for all provinces and municipals were lower than the national standard (黃樂楨、楊天波："調查顯示：各省市最低工資均低於國家標準")", China Net, 8th May 2006, http://big5.china.com.cn/chinese/diaocha/1202214.htm.

These minimum wages, excluding overtime pay, are still on the low side for peasant workers. On 24th April 2005, Mr. Su Hainan, Research Director of the Institute of Labour Wages, National Ministry of Labour and Social Security, commented that, "if we set the minimum wages according to the 'rule of average wage in society', an internationally adopted practice stipulating that the monthly minimum wage should amount to 40-60% of monthly average wage, not one province in China would meet this requirement". Besides, labour and social security departments at the provincial level also consider the present minimum wage to be too low. Therefore, starting from the second half of the year 2006, all Mainland provinces began to raise the minimum wage standard[19]. For instance, the

[19] Huang Lezhen, Yang Tianbo: "Survey reveals that minimum wages for all provinces and municipals were lower than the national standard"(黃樂楨、楊天波："調查顯示：各省市最低工資均低於國家標準"), China Net, 8th May 2006, http://big5.china.com.cn/chinese/diaocha/1202214.htm.

Yunnan authority revised their minimum wage standard in early July, as detailed below:

Table 1.4: Revision of minimum wage standards in Yunnan province as of early July, 2006

Districts of	Minimum Monthly Wage (RMB)	Increase (RMB)	Growth Rate (Compared with 2004)	Minimum Hourly Wage (RMB)	Growth Rate (Compared with 2004)
1st category	540	70	14.89%	5.0	13.64%
2nd category	480	75	18.52%	4.4	15.79%
3rd category	420	70	20.00%	3.9	18.18%

Source: Zhu Yongmei: "Analysis of the Minimum Wages System"(朱詠梅："最低工資標準系測算得出"), Yun Net, 8th July 2006, http://yunnan.yunnan.cn/4453/2006/07/08/290@391984.htm.

Yunnan also adjusted the unemployment insurance premium standard by 12%. The first category saw an increase of RMB 39, the second by RMB 34, and the third by RMB 29[20].

In Guangdong the labour market has seen several remarkable changes. The wage level has generally increased, and ordinary jobs paying RMB 600-700 a month now pay around RMB 1,000. There are fewer instances of delayed wages and most enterprises now sign employment contracts stating the inclusion of various appropriate insurance policies. This is a significant change from the evasive practices of the past[21].

1.4.2 The mismatch of workers and jobs

The shortage of peasant workers is caused by another problem aside from that of low pay and abuse. Employers are finding it difficult to fill vacancies for jobs requiring skilled workers although there are usually plenty of unskilled

[20] Xu Xiaomei, Ma Yulong, Li Jiao: "Yunnan revises its minimum wage and unemployment insurance system to improve coordination and reduce problems"(徐曉梅、馬玉龍、李皎："雲南調整最低工資及失業保險標準統籌解決問題"), Yunnan Information Net, 20th July 2006, http://news.yninfo.com/yunnan/yaowen/2006/7/1153363623_20/index.html.

[21] "Flows of Sichuan peasant workers after spring festival: growth explodes in the YRD and recovers in PRD (春節過後四川民工流向：長三角火爆珠三角回升) ", Wenzhou Finance Net, 8th February 2006, http://finance.66wz.com/system/2006/02/08/100065850.shtml.

workers applying for general posts. In 2004 and 2005, the peasant worker shortage was widespread in the PRD region, but the number of Sichuan workers exported to the area dropped by 5% per annum.

The head of Sichuan's Office of Labour Placement in Guangdong, Mr. Zheng Qiang, believed that in 2006 workers are returning to Guangdong and staying in the region. Guangdong Labour Department officials estimated that in 2006 Guangdong lacks more than 1.5 million skilled labourers. There are abundant job vacancies, but it is difficult to find workers with the right skills[22]. In fact, all over the southeastern coastal provinces, there are many good jobs, but all required high technical skills that most workers lack.

1.5 Institutionalised arrangements for exporting labour services

Intermediary organisations communicating supply and demand

In the past, 'peasant workers' were much regarded as a "blind influx of migrants", and there was the perception that they caused all sorts of social problems. The uncontrolled flow of labour resulted in the abuse of peasant workers, and made it difficult for enterprises to feedback information on labour migration to the governments of their hometowns. Illegal employment agencies cheated peasant workers, and young peasant workers lacking proper supervision often resulted in industrial accidents. These are problems which exporting labour agencies should be concerned about. Properly organised arrangements can prevent many of these problems from occurring. The following example from the Qian'nan Autonomous Prefecture of Guizhou Province shows the criteria for success.

In 1988, the Shanghai Port Authority (Now called Shanghai International Port (Group) Company Limited) started to reform the front line labour employment system and planned to set up labour agencies all over the country. The representative office of Qian'nan Autonomous Prefecture in Shanghai contacted the Shanghai Port Authority. They sent to them 20 young workers from the province of Guizhou, as the first step of formal government approved labour exports from the province to Shanghai. The Qian'nan

[22] ibid.

representative office set up the Shanghai Labour Service Company in order to sign contracts with the employers. For more than ten years, this company organised the migration of more than 10,000 workers from Guizhou to Shanghai.

The company worked with the labour department and built up a good working relationship with technical and vocational training schools in Guizhou. The company also collected and supplied job market information to Guizhou workers and sometimes took the employers to Guizhou to hire workers directly. Through years of cooperation, Shanghai employers have built up trust with this government-backed labour service company. The Shanghai Port Authority contracted out a substantial amount of loading and unloading work to a team from Guizhou. Hereafter, the company has also arranged a number of stable labour sources for some foreign-capital joint ventures[23].

However, this model is characterised by government intervention, support and participation. It is not an example of market forces, and therefore cannot serve as a long-term operative model. In fact, Sichuan has requested the labour exporting authority be changed from a government-driven to a market-oriented operation, in order to increase the amount of labour exports. According to the head of Sichuan's Labour and Social Security Office, Mr Zhang Chengming, the defects of the system are obvious, and the government administrative costs are huge. The only way out is to develop intermediary organisations, and let the market rather than the government determine the labour movement. From now on, Sichuan will gradually enforce a 'three-in-one' working model which offers training to exported labour, job placement and labour rights protection. It will set up more labour agencies to provide a comprehensive one-stop service catered to the needs of peasant workers. These include identifying job opportunities, providing job training for those seeking employment, organising worker transfers and protecting the rights of peasant workers after they have been employed.

Thus, intermediary labour export agencies will take up the responsibility of transferring surplus rural workers to the cities. At the same time, efforts should be made to monitor and supervise the intermediary job placement agencies, open more service centres to provide consultation, counselling and job placement services, record statistics on surplus rural workers, register peasant workers who

[23] Zhao Guoliang, Li Ying, Yang Jing: "Southern Guizhou's Labur Export Model – a survey from Shanghai"(趙國梁、李纓、楊靜："勞務輸出'黔南模式'－來自上海的調查"), Jin Qian Online, 3rd July 2006, http://www.gog.com.cn/jq/j0603/ca991517.htm.

wish to move to the cities, and lastly, keep abreast of changes in the labour market[24].

As a result of current labour shortages, intermediary labour service agencies can derive profits from business enterprises requesting labour. At present, enterprises in PRD and the Yangtze River Delta region are most worried about the unstable supply of peasant workers. As a result of the rapid economic development and the one child policy, young people especially those in the wealthier coastal areas are usually unwilling to do frontline production jobs. Competition for labour resources is therefore keen, and the labour market has changed from a buyers market to a sellers market. In the past, labour suppliers were keen to arrange for the transference of their labour resources. They were at the mercy of the employers. Now, the situation has changed and big enterprises are trying to set up their own labour agencies in order to secure a steady supply of peasant workers. The enterprises are at the mercy of the peasant workers. This change in the supply-demand relationship makes it possible for labour agencies to charge fees from employers.

1.6 Implications for Hong Kong

1.6.1 Suppressing wages is not the solution

Investment from Hong Kong to the Mainland has increased since China began its economic reforms open-door policy, and by the end of May 2006 actual investment from Hong Kong to Mainland China stood at USD 266.4 billion. This makes Hong Kong the world's biggest investor in China. Just in the PRD region, Hong Kong has invested more than USD100 billion. This represents more than two-thirds of foreign investment in Guangdong. Furthermore, Hong Kong enterprises employ more than 10 million people in this region[25], and make good profits from their investment. Most Hong Kong investors in the Mainland are

[24]Liu Yunan: "The gradual transformation of Sichuan's labour exports, and government withdrawal in favour of intermediary organisations"(劉宇男："四川勞務輸出將逐步轉型，政府退後讓中介說話"), Pan-PRD Cooperation Net, 1st June 2006, http://www.pprd.org.cn/news/province/200606010007.htm.

[25] "Record of Hong Kong (香港之最) ", Liaison Office of the Central People's Government in Hong Kong SAR, 8th August 2006, http://big5.mofcom.gov.cn/gate/big5/hk.mofcom.gov.cn/aarticle/ddgk/zwfengsu/200608/20060802829567.html.

small- and medium-sized enterprises, engaged in the processing of manufactured products. However, most of them were originally trading firms rather than manufacturing firms.

These businesses operate by cheap costs. Apart from land cost and taxation, the major item of production cost is labour cost. As described in the above paragraphs, peasant workers in the PRD region are paid extremely poor wages, overworked in hazardous conditions and forced to work overtime. Employers sometimes even break the law in delaying wage payments and denying workers their legitimate rights. These abuses occur in some of the Hong Kong factories operating in the PRD region. The situation is so bad that "Hong Kong enterprises in the PRD" are probably considered a derogatory term now. In fact, according to the Labour Bureau of Zhongjiang County, Sichuan, when Hong Kong enterprises in Fujian, Dongguan and Hainan came to Zhongjiang to recruit peasant workers in 2004, no one applied for the jobs because of the notorious reputation of Hong Kong employers. Instead, many of the peasant workers responded to a recruitment call for construction workers from Beijing where the wage levels were relatively higher[26].

Competition between business enterprises intensifies every day as economic globalisation accelerates. The hard truth is that if Hong Kong entrepreneurs want to survive and expand on the Mainland and especially in the PRD region they must upgrade their businesses. This means they have to invest in research and development, upgrade their technology, improve their style of management and well treat their labour. Suppressing wages is not the way out and would only harm the enterprise in the long run.

Even if these Hong Kong enterprises were to move to the northern mountainous areas of Guangdong, or further away to Jiangxi and Hunan, the outlook is no more promising. The rural labour force in these areas is not abundant but remains affected by the nation's labour market. Local governments are still constrained by national legislation and the Central Government's policies on minimum wages, environmental protection, energy consumption and land sales, and cannot follow the development model of the PRD region 10 to 20 years ago. Hong Kong enterprises can no longer follow the previous business model or strategy, and upgrading is the only way out.

[26] "Serious peasant worker shortages in the southeastern coastal region, but Sichuan workers refuse to leave their home province (東南沿海嚴重民工荒，四川民工卻不出省) ", South China Net, 17th September 2004, http://www.southcn.com/finance/financenews/guoneicaijing/200409170705.htm.

1.6.2 Functions of the Trade Associations

Most Hong Kong investors in the PRD region are small- and medium-size enterprises. They only have limited resources and capabilities, and must therefore rely on the professional organisations and their respective trade associations. These organisations can help collect relevant statistical data on human resources requirements, such as the total number of workers needed by jobs and skills, wages offered, etc. The information can then be conveyed to the local labour suppliers, and used to exchange for information on labour supply.

Moreover, the trade associations can participate in labour force training by developing training course content, pooling teaching resources and forecasting future demand for various types of labour based on changes likely to take place in the market. Some local enterprises in the PRD region have entered into agreements with labour supplier provinces to have peasant workers trained by their local governments. The local governments select the workers and send them to vocational training schools in their districts. Upon completion of training, the workers report directly to the enterprises that placed the 'order'.

2. Trends and Updates in the Four Provinces/ Region

2.1 Economic Performance of the Four Provinces/ Region

In the first half of 2006, the economic performance of Sichuan was quite remarkable, especially in terms of industrial growth, urban investment in fixed assets, retail sales of consumer goods, and import and export trade statistics. Sichuan not only outperformed the other three provinces in the region, many figures were also higher than the national average. Among all, the investment and external trade figures were the most outstanding, increasing by as much as 40%. However, Sichuan's economy is facing some typical problems as the whole nation. They include the following:

1. Decline in the sales of manufactured products, resulting in an increase in inventory.

2. Weak rural consumption. During the first half of the year, retail sales of consumer goods in the rural markets contributed to less than one third of the total sales, with a growth rate 2.6 percent lower than in the urban areas.

3. The negative impact of "price scissors" on industrial development. In the first half of 2006, increases in the prices of raw materials left little room for profit-making, and negatively affected the industrial development.

4. The arduous task of reducing energy consumption during production. In 2005, the energy consumption per unit GDP of Sichuan was 25.4% higher than the national average. Therefore, it may be very difficult for the province to reach the target set in the 11th Five-Year Plan to lower energy consumption by 20% per unit GDP[27].

[27] "Economic development picks up, but acute problems still remain – an analysis of Sichuan's economic performance in the first half year of the year (經濟加快發展，矛盾依舊突出－上半年四川經濟發展情

The performance of Guangxi's industry was fairly good, but its manufactured products sales were even poorer than Sichuan, dropping by nearly 4%, and there was a risk of oversupply. Guangxi also suffered from some major economic problems. Firstly, production costs increased, and the prices of grain, hogs and chicken fell much to the detriment of peasants and the further development of agriculture. Secondly, price pressures squeezed profits in the heavy industries. Thirdly, the growth of rural investments in fixed assets slowed down and, finally, the growth rate of county economy also slowed down[28].

The province of Yunnan performed best in terms of sales in the consumer markets. The first half of the year saw a steady growth in Yunnan's sales in the consumer markets, with total retail sales of consumer goods reaching RMB 52.78 billion, 14.7% higher than the same period last year. What is more striking is the simultaneous growth in both urban and rural areas, with urban retail sales of consumer goods totalling RMB 28.32 billion, an increase of 15.9% compared with the same period last year, and rural retail sales of consumer goods reached RMB 24.46 billion, an increase of 13.4%[29].

Compared with the other three provinces, investment in Guizhou lagged behind. Despite modest improvements in the industries, it remains highly reliant on the five major industries of tobacco manufacturing, power generation, chemicals, and non-ferrous and ferrous metallurgy. These industries are susceptible to price changes and are especially vulnerable to wild fluctuations. Nonetheless, tourism in Guizhou is flourishing, and the province is attracting both foreign and domestic tourists with revenues increasing as a result.

況分析) ", Sichuan Statistics and Information Net, 24th July 2006, http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200607240083.htm.

[28] "Guangxi's economy grows by 13.6% in the first half of the year (上半年廣西經濟增長 13.6%)", Guangxi Statistics and Information Net, http://www.gxtj.gov.cn/report/news_display.asp?sendid=10936.

[29] "Yunnan's consumer market heats up, with total provincial retails sales amounting to 52.7 billion ("雲南消費品市場趨旺，全省零售總額達 527 億") ", Xinhua NetYunnan Channel, 28th July, 2006, http://www.yn.xinhuanet.com/newscenter/2006-07/28/content_7637031.htm.

Table 2.1: Economic Performance of the Four Provinces/ Region, January to June 2006

Province/ Region	Total Retail Sales of Consumer Goods (RMB 100 Million)		Value-Added of Industry (RMB 100 Million)		Sales of Industrial Products		Urban Investment (RMB100 Million)		External Trade (USD 100 Million)		Urban disposable income per capita in May (RMB)
	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 (% Points)	Total	Compared with the Same Period of Preceding Year	Total	Compared with the Same Period of Preceding Year	
Nationwide	36,448	13.3%	39,680	17.7%	97.47%	-0.12	36,368	31.3%	7,958	23.4%	903
Guangdong	4,434	15.6%	4,868	18.5%	96.92%	-0.88	2,585	18.5%	2,329	24.5%	1,188
Sichuan	1,590	14.5%	1,250	24.1%	96.61%	-1.07	1,736	38.8%	48	39.2%	711
Guangxi	775	13.8%	512	22.8%	92.91%	-3.85	737	38.2%	29	20.5%	813
Yunnan	528	14.7%	559	14.9%	97.20%	-1.02	732	28.9%	28	23.4%	789
Guizhou	528	14.7%	317	17.6%	95.27%	-0.51	419	21.0%	7	8.4%	730

Note: Statistics from each province are preliminary data, which may be subject to changes, and may vary from those published by the National Bureau of Statistics later on.

Sources:

1. Website of National Bureau of Statistics, http://www.stats.gov.cn/tjsj.
2. "Economic development picks up, but acute problems still remain – an analysis of Sichuan's economic performance in the first half year of the year (經濟加快發展，矛盾依舊突出－上半年四川經濟發展情況分析)", Sichuan Statistics and Information Net, 24th July 2006, http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200607240083.htm.
3. Guangxi Statistics and Information Website, http://www.gxtj.gov.cn/.
4. "Yunnan's consumer market heats up, with total provincial retails sales amounting to 52.7 billion (雲南消費品市場趨旺 全省零售總額達 527 億)", Xinhua Net Yunnan Channel, 28th July 2006, http://www.yn.xinhuanet.com/newscenter/200607/28/content_7637031.htm.
5. "In the first half of the year, Guizhou's GDP grew by 11.8%, and total tourism revenue amounted to 12.2 billion (上半年貴州 GDP 增長 11.8% 旅遊總收入 122 億)", Xinhua Net Guizhou Channel, 18th July 2006, http://www.gz.xinhuanet.com/xwpd/2006-07/18/content_7546890.htm.
6. "Table of import and export value of provinces and major cities, January to June 2006", Website of Finance Division of Ministry of Commerce, 28th July 2006, http://gcs.mofcom.gov.cn/aarticle/Nocategory/200607/20060702745498.html.

2.2 Trends and Updates on Sichuan

2.2.1 Economic Performance of Sichuan

In the first half of 2006, the economy of Sichuan was characterised by the following features:

1. Industrial development picked up speed as a result of the implementation of the "Strong Industrial Province" strategy, and the number of newly established enterprises kept increasing. The first half of the year saw total industrial value-added reach RMB 142.7 billon, an increase of 20.8%, and this drove up GDP by 7.4%, with a contribution rate as high as 56.0%. Meanwhile, the value-added of the whole secondary industry reached RMB 171.0 billion, a rise of 19.4%, increasing economic growth by 8.41%.

2. General demand was still vigorous. In the first half of the year, investment in the whole province underwent strong growth, and consumption saw a steady increase, while internal and external trade developed in a balanced way. The economy developed rapidly, thanks to the ample power driven by the so-called "Three Wagons".

The first half of the year saw investment demand in the whole province increase steadily, which continued to be the main force pushing forward the economic development. Total investment kept growing, and stood at 198.0 billion, 37.7% higher than the same period of the preceding year, 7.9% higher in growth rate, and 7.9% higher than the national average. Of this, investment in primary, secondary and tertiary industries increased by 37.6%, 43.1%, and 34.3% respectively, representing a more balanced industrial growth. All in all, total investment for the first half of the year contributed 55.8% to economic growth, and drove up GDP by 7.4%.

Consumption demand continued to expand steadily as in previous years. In the first half of the year, total retail sales of consumer goods was RMB 159.0

billion, 14.5% higher than the same period of the preceding year, and 0.7% higher in growth rate than the first quarter. Total consumption in the first half of the year increased economic development by 5.8%.

External trade also expanded. In the first half of the year, the total volume of Sichuan's external trade reached USD 4.79 billion, 39.2% higher than the same period last year, and the highest in the western region. Exports were USD 2.75 billion, 30.8% higher than the same period last year and imports were USD 2.04 billion, 52.3% higher than the same period last year. One particular feature was the high number of foreign-funded enterprises coming to invest in Sichuan. 116 of the World's Top 500 enterprises have settled in Sichuan, of which 41 directly invested in the province[30].

Table 2.2: Major Economic Indicators for Sichuan, January to June 2006

Item	January to June (RMB 100 Million)	Compared with the Same Period of Preceding Year
GDP	3,727	13.3%
- Primary industry	545	5.0%
- Secondary industry	1,710	19.4%
- Tertiary industry	1,471	10.1%
Budgetary Government Revenue	295	27.3%
Industrial Value-added	1,427	20.8%
Total investment in fixed assets	1,980	37.7%
Total retail sales of consumer goods	1,590	14.5%
Total value of external trade (USD 100 million)	48	39.2%
Urban disposable income per capita (RMB)	4,757	9.8%

Source: "Economic development picks up, but acute problems still remain – an analysis of Sichuan's economic performance in the first half year of the year (經濟加快發展，矛盾依舊突出－上半年四川經濟發展情況分析) ", Sichuan Statistics and Information Net, 24th July 2006, http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200607240083.htm.

[30] Same as footnote 27..

2.2.2 Updates on Sichuan

Sichuan's Development Strategy

In the first half of 2006, the industrial value added of Sichuan amounted to RMB 142.7 billion, an increase of 20.8%, and its industrial enterprises achieved net profits of RMB 20.45 billion, an increase of 32.8%. Industrial investments reached RMB77.49 billion, an increase of 42.6% compared with the same period in the previous year, and industrial construction accounted for more than 50% of the total construction works to commence[31]. These encouraging figures are the results of Sichuan's strategy to become a 'strong industrial province'.

In May 2006, the provincial government of Sichuan formally released a policy document entitled *"Decision on Implementing the Strategy of Strong Industrial Province"*. The document put forward the concept of a 'strong industrial province' as its essential development strategy, which outlined Sichuan's plans to develop itself into a resources development base and a strong, modernised industrial province. The document claims that weak industries have become the main factor constraining economic development. Therefore, Sichuan needs to develop large and robust industries in order to propel development[32]. The overall targets for the province in the next Leap Forward are as follows: 1) ensure that the province's industrial production ranking will go up from 12 to at least 10 by 2010； 2) raise the ratio of industrial value added to GDP from 34% in 2005 to 41.6%[33], amounting to over RMB 500 billion, with an average annual rate of increase exceeding 15%.

Sichuan's industrial development strategy is different from that of the eastern coastal provinces. Sichuan is responding to industrial changes taking place in China whereby industries are asked to support agriculture, and cities asked to support the rural countryside, instead of the other way round.

[31] "Analysis of Sichuan's economic performance for the first half of the year, and forecasts for the third quarter (四川省 2006 年上半年經濟運行分析及三季度預測) ", China Finance Net, 2nd August 2006.
[32] Tan Jiangqi: "Sichuan releases its 'Decision on Implementing the Strategy for a Strong Industrial Province'"(譚江琦："四川實施工業強省戰略《決定》日前正式出台"), Sichuan Daily, 11th May 2006.
[33] Tan Jiangqi: "Sichuan will be in the Top-10 Chinese Industrial Provinces by 2010"(譚江琦："2010 年四川躋身全國工業十強"), Sichuan Daily, 13th May 2006.

Sichuan is a big province characterised by a huge population and a big agricultural sector. However, only large and strong industries can provide the necessary material foundation and financial guarantees for developing the countryside[34]. Sichuan is putting a lot of emphasis on the development of its industrial economy at the county level. In the hilly areas of Sichuan, the agricultural products processing industries, mainly food and textile processing, contribute more than 70% of the industrial output[35].

The county economy determines the employment conditions of most of the rural population. Therefore the primary objective of the county economy in Sichuan is to make peasants richer, provide employment and help solve the "three rural problems". In 2005, industries increased their value added by more than RMB200 billion, and Sichuan was the eleventh most prosperous province in the nation, and the most prosperous in the western region. Subsequently, it can be said that the authorities have formulated the prerequisite base for turning Sichuan into a strong industrial province[36].

Since 2006, Sichuan has put forward a series of industrial policies to further strengthen its industrial activities. These include:

1. Promoting capitalization of natural resources and improving the performance of superior industries.

2. Developing large enterprises and industrial clusters.

3. Strengthening innovation through self-reliance and changes in the model of industrial growth.

4. Strengthening the state-owned economy and develop the private-owned economy.

[34] Zhang Zhongwei: "Speech delivered at the Provincial Conference for Implementing a Strong Industrial Province"(張中偉："在全省工業強省工作會議上的講話"), Sichuan Daily, 5th April 2006.
[35] "Efforts to speed up the progress of industrialisation – developing a strong industrial county strategy (1) (主導力量是加快工業化進程－推進工業強省戰略在縣域（一）) ", Sichuan Daily, 24th July 2006.
[36] "Sichuan's industries are improving (四川工業進入上升通道)", Sichuan Daily, 23rd March 2006.

5. Further liberalising policies governing internal and external investors in order to attract more investment[37].

In order to achieve this, the following measures and targets will be introduced:

1. The nurture of superior industries

- This emphasises the nurture of four superior industries including high and new technologies, superior resources, equipment manufacturing, and agricultural products processing. These four industries represent 71.8% of the total industrial value in the province, which is expected to increase to 80% in 2010.

- High and new technologies industries mainly include electronic data-processing and Chinese medicine.

- The manufacturing of products (both new and standard products) in the superior resources industry will need to adhere to strict international standards. This should have the effect of decreasing energy consumption by 20%.

- Equipment manufacturing industries will need to develop cleaner and more efficient electricity generating equipment and parts, heavy machinery, high-speed heavy duty train locomotives, and to expand the automotive industry.

- The ratio of the value of processed agricultural products to that of agricultural products should reach 1.5 to 1. The target ratio of product change after processing is 50%[38].

[37] "Sichuan's Conference on Developing a Strong Industrial Province was closed in Chengdu (四川省工業強省工作會議在成都閉幕)", Chengdu Daily, 1st April 2006.
[38] "How the future of Sichuan's industries was shaped (它們決定四川工業的未來)", Sichuan Daily, 26th July 2006.

2. The development of large enterprises and industrial clusters

- Between 2006 and 2010, Sichuan intends to develop a number of important enterprises with an annual sales exceeding RMB10 billion. The "10 billion industrial parks" project also seeks to develop during 2006-2010 industrial parks with an annual added value of over RMB 10 billion, whilst the "100 x 100 million investment projects" will support in each year the implementation of 100 large industrial projects with an investment amount of more than RMB 100 million.

- The development of technology and manufacturing bases in the following areas: Chengdu-Deyang-Mianyang New and High Technological Base, a cluster of manufacturing cities in southern Sichuan, and the Panxi Resource Development Base, the Chengdu-Chongqing economic corridor; the Qin-Ba mountainous green economic corridor; the western Sichuan economic belt; the Chengdu technology area; the Chengdu economic development zone; the Mianyang science and technology industrial park area; and the construction of 44 provincial industrial parks, and formulated a batch of county featured industrial clusters[39].

Each Chinese province has its own unique characteristics and is equivalent in size and population to many small countries around the world. Subsequently, the developmental strategies of provinces are similar in scale to many national strategies. Sichuan has developed an industrial development strategy based on its comparative advantages. It intends to continue developing the electronic information industries but will also concentrate on its county economy. The county economy plays an important role in the domestic economy of Sichuan. Its level of industrial development has direct and significant influence on the advancement of industrialization of the whole province.

In 2005, Sichuan's GDP exceeded RMB 700 billion, representing a total 5-year growth rate of 69.8%. During the same period, the industrial value-added

[39] "Sichuan integrates its four superior industries (四川整合發展四大工業優勢產業)", China Industrial Post, 13th March 2006.

doubled the increase in GDP. In 2005, Guangdong GDP exceeded RMB 2,000 billion, and was one-tenth of the national GDP and three times as large as that of Sichuan. This disparity was the result of a disparity in industrial production. The industrial value added of Guangdong was four times greater than that of Sichuan. However "the biggest disparity", was found at county level[40]. The economic strategy of Sichuan's county territories is based on local resources, pursuing local employment and continued economic growth, and is very different from the Guangdong model of foreign enterprises engaged in 'enclave production'.

In fact, the economic development model of the eastern coastal provinces is not applicable to the whole nation, and behind the scenes it exacts a high cost. These costs include super-national treatment to foreign investors, low local wages, resources exploitation and environmental pollution. The regulations introduced by the 11th Five–Year Plan are intended to reverse this situation.

Many Hong Kong investment in the PRD region are small- and medium-sized enterprises involved in processing trade. However, these businesses have been characterised as high energy consuming and polluting and are also tainted with smuggling and tax evasion. These businesses do not take into consideration the need for coordination with the local or national economy.

China and Hong Kong often emphasise the importance of complementary development models but Sichuan's investment model does not have a role for Hong Kong entrepreneurs if all they can offer is the role they played in the development of the PRD region. The Hong Kong business enterprise is not easy to move to Sichuan inland, even not welcome in the future.

According to Sichuan's economic fundamentals and the trend of industrial development, Sichuan will not refuse export-oriented and processing trade sorts of production. However, this does not mean that Hong Kong businesses can take this role. The areas active in international trade basically are the coastal areas or areas convenient in transportation, because of low transportation cost and short shipping cycle. Sichuan is located in China's southwest or middle area. It is not near the coast, and its land transportation is not convenient. Highway transportation to Hong Kong and the PRD region takes three to four days and is expensive. Therefore, Sichuan must develop export industries that can produce small, high value added products suitable for air shipment such as high-tech

[40] Same as footnote 35.

electronic products, but this is not an area in which Hong Kong entrepreneurs excel. Moreover the logistics needs of Sichuan's heavy chemical and equipment industries are different from the types of industries that Hong Kong logistics companies usually caters for.

Sichuan is a big province with huge population, and the processing trade industries can solve the employment problem. But transportation in Sichuan is quite inconvenient, and the "big import, big export, both ends facing outward" model of processing imported materials is not quite suitable for Sichuan. In particular, considering the need for quick response in export trade, Sichuan and Hong Kong are too far away to do well. For the benefit of the local economy, Sichuan is more inclined to develop processing industries that utilize local resources, such as intensive processing of non-staple agricultural products and natural resource products. But these kinds of processing are not the strengths of Hong Kong business people. Indeed, Sichuan's strategy of developing itself into a strong industrial province does not include the item of processing trade industry, there is no government policy supporting this industry.

Sichuan's huge population forms a sizeable market and as long as Sichuan sticks to its local market, and retains its position in China's national market, this will stimulate economic growth. Sichuan is willing to participate in international markets with its electronics information industry based on new and high-technologies, but this is not what Hong Kong entrepreneurs excel at.

2.3 Trends and Updates on Guangxi's Autonomous Region

2.3.1 The Economic Performance of Guangxi

In the first half of 2006, the economy of Guangxi was characterised by the following features:

1. The manufacturing industry developed rapidly, and became the engine of GDP growth. The total industrial value-added rose by 18.9%. The secondary industry contributed to 55.1% of the GDP growth, of which the manufacturing industry accounted for 50.3%, far exceeding the 5.9% contribution of the primary industry and the 39.0% contribution of the tertiary industry[41].

2. Border trade performed remarkably well, especially imports. During the first half of the year, Guangxi's small-scale border trade (which is termed "border trade" for short) amounted to USD 460 million, 63.2% higher than the same period last year. Of this, imports accounted for USD 270 million, doubling that of last year, and exports accounted for USD 190 million, growing by 27.3%. Compared with 2003 before the launch of the China—ASEAN "Early Harvest Program", imports increased significantly by 1.2 times. Meanwhile, the volume of border trade accounted for 15.9% of Guangxi's total external trade, 4.2% higher than the same period last year. Of Guangxi's imports and exports, border trade accounted for 20.2% and 12% respectively. Border trade grew by 42.6% in total, with imports and exports 76.5% and 10.5% respectively higher than that of last year[42]. The extremely high border trade growth rate has come about because of a 50% cut in tariffs.

3. Rural consumption increased, narrowing the gap between the growth rates of urban and rural areas. Rural consumption grew as

[41] Same as footnote 28.
[42] "In the first half of the year, Guangxi doubled its small-scale border trade, but the rate of increase in exports slowed (上半年廣西邊境小額貿易進口倍增，出口速度放緩)", Website of the National Bureau of Statistics of China, http://www.stats.gov.cn/tjfx/dfxx/t20060724_402339627.htm.

a result of the introduction of supportive preferential polices at the beginning of this year. These polices had a beneficial effect on agriculture and peasants in Guangxi saw their incomes steadily rise. During the first half of the year, retail sales of consumer goods at or below the county level reached RMB 31.47 billion, 13.4% higher than the same period last year. The steady increase in urban incomes kept urban consumption growing rapidly, with retail sales of consumer goods standing at RMB 46.06 billion, 14.0% higher than the same period last year. The gap between growth rates in rural and urban consumption narrowed to 0.6%, which is 1.0% lower than the same period of the previous year[43].

Table 2.3: Major Economic Indicators for Guangxi, January to June 2006

Item	January to June (RMB 100 Million)	Compared with the Same Period of Preceding Year
GDP	2,012	13.6%
Primary Industry	247	6.1%
Secondary Industry	904	18.1%
Tertiary Industry	862	11.7%
Budgetary Government Revenue	276	22.2%
Industrial Value-Added	512	21.8%
Total Investment in Fixed Assets	766	41.7%
Total Retail Sales of Consumer Goods	775	13.8%
Total Value of External Trade (USD 100 million)	29	20.5%
Consumer Price Index (%)	101	0.7%

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

2.3.2 Updates on Guangxi

2.3.2.1 Developing Guangxi's Superior Featured Industries

At the end of June 2006, the Office of the Western Region Development Leading Group of the State Council, National Development and Planning Commission, together with five other state bureaux, released the policy initiative

[43] "In the first half of the year, Guangxi experienced steady growth in its consumer market (上半年廣西消費品市場平穩增長)", Guangxi Statistics and Information Net, http://www.gxtj.gov.cn/report/news_display.asp?sendid=10929.

on *"Fostering the Development of Superior Featured Industries in the Western Region"*.

The main idea is to spur the Western Region to change from a resource-based to an industry-based economy, to strengthen its capability of self-development and to develop its economic strength. Guangxi's key national development projects are: the construction of an oil refinery and related industrial base along the coast; the enlargement of the bauxite extraction industry and the development of an aluminium processing base; the development of vertically integrated lumber and paper industries; the development of a sugar industry production base; the development of Liuzhou into an equipment industry and a national research and production base; the development of the PRD – Guangxi East- Guangxi North golden tourist area and the promotion of cultural tourism.

These industrial initiatives will have central policy support, and will enjoy the benefits of preferential investment, including support from the central budget fund, the long-term construction national debt fund, and preferential financial services, etc[44].

The Central Government has changed its thinking with regard to the development of the Western Region. Previous development polices emphasised industrial transference from the eastern region to the west, to leverage on the abundant cheap labour of the west. The Central Government is now focusing on the abundant sources of natural resources of the western region and is asking the local officials to develop new industries based on local characteristics or to make improvements in the industry value chain.

Under the direction of this favourable policy, Guangxi is set to prioritise the development of the following six advanced industries: energy and chemicals, minerals exploration and processing, featured agricultural products, heavy and large equipment manufacturing, and tourism. Compared with previous development models which have emphasised labour intensive industries or the industrialisation of the eastern coastal areas, this is a brand new model of regional development which has been adjusted to reflect the latest globalised market situation.

[44] Pang Geping, Lu Yaodong, " Six Guangxi industries receive national support, and entitlements to seven policy incentives" (龐革平、陸耀東： "廣西六大產業獲國家支持，享受七項政策鼓勵"), People Daily, 11th July 2006, http://www.wenweipogx.com/show.aspx?id=4406&cid=9.

2.3.2.2 Science and Technology of Guangxi and Its Industrial Development

On 14th April 2006, the Guangxi Provincial Government put forward *"Guideline for Guangxi's Science and Technological Development in the Medium to Long Term (2006-2020)"*, which outlined the direction of science and technology over the next 15 years[45]. By 2020, Guangxi will devote 2% of the region's GDP to research and development, and the ratio of scientific developments to GDP should exceed 50%. The details are as follows:

Table 2.4: Priorities for Advanced Technological Research and Development, as outlined in the "Guidelines"

Prioritised Domains (8 Items)	Major Items and Technologies (11 Items)	Advanced Technological Research and Development (4 Items)
Resource-oriented Industry	Production Technologies of New Materials and Products	New Materials and Technologies for Non-ferrous Metals
Modern Agriculture	Digitalisation of Manufacturing Industry and Advanced Manufacturing Technologies of Mechanical Products	Technologies for Bio-based Materials
Energy Conservation and New Energy Sources	New-generation of Electronic Information Products	Platform Technologies for Genetic Improvement in animals
Information Industry	Species Quality Innovation, Processing, Storage and Transportation of Sub-tropical Major Agricultural Products	Genetic Technologies for Major Farm Crops
Advanced Manufacturing Industries	Sustainable Efficient Utilisation of Marine Biology Resources	
Urbanisation and City Development	Further Processing of Forest Products	
Environment and Water Resources	Creation of New Chinese Medicine	
Public Health and Security	Improvement and Healthy Cultivation of Major Livestock, Poultry and Aquatic Products	
	Key Technologies for Biomass Industry	
	Functional Recovery of Fragile Ecosystem and Environmental Governance	
	Construction of Platform for Science and Technology System	

[45] Guangxi Science and Technology Bureau: "Guangxi releases its 'Guidelines on Guangxi's Science and Technological Development in the Medium and Long Term (2006-2020)' " (廣西科技廳："廣西印發中長期科學和技術發展規劃綱要（2006-2020 年）"), http://www.most.gov/cn/dfkjgznew/t20060428_32761.htm.

Guangxi's technology development plans echo those of the Central Government in relation to selected industries, and closely follows the content of the 11th Five-Year Plan including its emphasis on "resource-conservation, environment-friendly society" and "the modern countryside". The Guangxi Government has formulated thoughtful and comprehensive development policies covering the economy, society and science and technology.

2.3.2.3 Implications for Hong Kong

It is apparent that, from the series of policy changes that the Guangxi and Central Governments have made in recent months, the strategies for developing industry as well as science and technology have changed significantly. Guangxi intends to concentrate on the six advanced industries mentioned above and it will not be taking on labour intensive industries transferred from the east. For Hong Kong, these policy changes may weaken the economic and industrial reciprocity between Guangxi and Hong Kong, resulting in the following consequences:

- Hong Kong is an international export-oriented economy, with international finance, logistics, and manufacturing-trading services as its core industries. Hong Kong provides a bridge between China and the rest of the world. However, when Guangxi shifts its development orientation towards a domestic and continental model, Guangxi residents or enterprises will be able to develop a local economy on their own, and will not need to rely on resources or services from outside the region. Even though Guangxi finds it difficult to provide certain professional services or support research activities, especially for those related to international financing due to lack of local talent and experience, Guangxi could hire international professionals or attract foreign investors to the region. By integrating local manufacturing sectors with international support, Guangxi could develop local service industries instead of relying on cross-border services from outside the region.

- In the future, Guangxi intends to focus on the development of resource based industries, agriculture, energy conservation, new energy technologies, information services, advanced

manufacturing, new non-ferrous metals, bio-technology, genetic engineering and related research. The present R&D direction in Hong Kong is very different from that of Guangxi, and will therefore reduce the complementary nature of industrial development between Hong Kong and Guangxi.

- The policy promulgated by the Central Government on selected industries in the western region is intended to help the local economy, rather than developing links with the export-oriented economy such as Hong Kong. The four southwestern provinces/ region are governed by the economic strategy of the western region, and what happens in Guangxi will probably occur in the other provinces of the western region. In other words, there will be changes in the 'quality and quantity' of the economic relationship between Hong Kong and the four southwestern provinces/region.

- The fact is that China's 11th Five-Year Plan emphasises the development of local economies. Developments in science and technology will change industrial structures, and local economies can utilise their own local resources to develop their economies. In other words, Hong Kong must carefully study the direction of industrial policy and scientific research in China and make prompt adjustments to actively transform the industrial structure of Hong Kong. Enterprises in Hong Kong must pay more attention to China's domestic market and orientate their business away from the international markets to the Mainland market. The Hong Kong Trade Development Council should urge their Mainland offices to increase activities and the scope of market information, so as to support Hong Kong enterprises entering the Mainland market and developing localised manufacturing, service industries and research capability.

- Scientific R&D investment in Hong Kong is very low, and stands at less than 1% of GDP. Meanwhile every province of the Mainland has increased its investment in R&D and stresses the importance of scientific findings for the local economy. Even Guangxi, a relatively backward region, plans to increase the ratio of scientific research investment to more than 2% of GDP by the year 2020. If Hong Kong continues to invest only small amounts

in R&D, it is highly possible that Hong Kong's technological level will fall below the Mainland provinces. This will reduce Hong Kong's international competitiveness and affect links with the Mainland economies. Therefore there is an urgent need for Hong Kong to adjust its science and technology policies.

2.4 Trends and Updates on Yunnan

2.4.1 The Economic Performance of Yunnan

In the first half of 2006, the economy of Yunnan was characterised by the following features:

1. The growth rate of agricultural production was remarkably higher than in the previous years. Statistics show that total production of farming, forestry, animal husbandry and fishery was RMB 37.28 billion in the first half of the year, 8.2% higher than the same period last year and the agricultural value-added was RMB 20.06 billion, 6.5% higher than the same period last year. In fact, the growth rates for total production and value-added hit a ten year record high[46].

2. Yunnan's industrial production grew modestly. The growth rate was lower than the national average and the lowest in the four provinces/ region. However it was still better than the 12.0% growth rate during the first five months. The impact of high prices for industrial raw materials was not confined to Yunnan alone. Of the 38 industrial sectors of the province, five made profits over RMB 500 million. These five were the Tobacco Manufacturing Industry (RMB 4,896 million), Non-Ferrous Metallurgical Smelting and Rolling Processing Industry (RMB 1,062 million), Raw Chemicals and Chemical Products (RMB 812 million), Mining and Dressing of Non-Ferrous Metal Ore (RMB 773 million), Production and Supply of Electric Power and Heat Power (RMB 716 million).

   The profits of Mining and Dressing of Non-Ferrous Metal Ore and Non-Ferrous Metallurgical Smelting and Rolling Processing

[46] "Yunnan's economic growth is fast and strong, and agricultural processing shows promise (雲南省經濟運行又快又好，農業生產形勢喜人)", Xinhua Net Yunnan Channel, 24th July 2006, http://www.yn.xinhuanet.com/newscenter/2006-07/24/content_7594891.htm.

Industry rose by 2.53 and 2.18 times respectively, due to the sharp rise in the prices of non-ferrous metal products. Revenues, total pre-tax profits and total profits for the aforementioned five sectors accounted for 64.3%, 78.7% and 84.2% respectively of the whole industry of the province. This helped play a crucial role in improving the overall performance of Yunnan's industry[47]. Despite this progress, the development of Yunnan's industry may not be as steady as it seems, since the prices of non-ferrous metals are susceptible to cyclical changes, and may fluctuate wildly due to speculation and changing international supply and demand.

3. With regard to foreign capital, a total of 89 new foreign capital projects were approved in the first half of the year, 32.8% higher than the same period last year. Utilisation of foreign capital through signed contracts reached USD 448.81 million, 239.5% higher than the same period last year. The amount of foreign capital used stood at USD 119.14 million, a record high in recent years[48].

Table 2.5: Major Economic Indicators for Yunnan, January to June 2006

Item	January to June (RMB 100 Million)	Compared with the Same Period of the Preceding Year
GDP	1,670	10.6%
Primary Industry	197	6.2%
Secondary Industry	808	13.7%
Tertiary Industry	666	8.5%
Budgetary Government Revenue	184	28.1%
Industrial Value-Added	706	13.5%
Urban Investment in Fixed Assets	746	31.3%
Total Retail Sales of Consumer Goods	528	14.7%
Total Value of External Trade (USD 100 million)	28	23.4%

Sources:

1. "In the first half of the year, Yunnan's GDP amounted to RMB 167.01 billion (上半年雲南省 GDP 達到 1670.12 億元)", Xinhua Net Yunnan Channel, 27th July 2006, http://www.yn.xinhuanet.com/newscenter/2006-07/27/content_7625048.htm.

[47] "Five industries boost Yunnan's industrial performance (五大行業支撐雲南工業經濟效益提高)", Xinhua Net Yunnan Channel, 25 July 2006, http://www.yn.xinhuanet.com/newscenter/2006-07/25/content_7608201.htm.

[48] "In June, Yunnan's foreign trade records a monthly historical high (雲南省 6 月份外貿總值創下單月歷史新高)", Xinhua Net Yunnan Channel, 26 July 2006, http://www.yn.gov.cn/yunnan,china/73466068433108992/20060716/1085387.html.

2. "Strong industrial performance in Yunnan (雲南省工業經濟運行良好)", China Yunnan E- Government Net, 19th July 2006, http://www.yn.gov.cn/yunnan,china/75436393270083584/20060719/1086088.html.
3. "Fixed asset investment in Yunnan grew rapidly, and 74.6 billion was realised in the first half of the year (雲南固定資產投資快速增長，上半年完成 746 億)", Xinhua Net Yunnan Channel, 28th July 2006, http://www.yn.xinhuanet.com/newscenter/2006-07/28/content_7636959.htm.
4. "Foreign trade in Yunnan recorded a monthly historic high in June (雲南省 6 月份外貿總值創下單月歷史新高)", China Yunnan E- Government Net, 26th July 2006, http://www.yn.gov.cn/yunnan,china/73466068433108992/20060716/1085387.html
5. "Yunnan consumer market heats up, and total provincial retail sales amounted to 52.7 billion (雲南消費品市場趨旺，全省零售總額達 527 億)", Xinhua Net Yunnan Channel, 28th July 2006, http://www.yn.xinhuanet.com/newscenter/200607/28/content_7637031.htm.
6. "Yunnan's economic growth is fast and strong, and agricultural processing shows promise (雲南省經濟運行又快又好，農業生產形勢喜人)", Xinhua Net Yunnan Channel, 24th July 2006, http://www.yn.xinhuanet.com/newscenter/2006-07/24/content_7594891.htm.

2.4.2 Updates on Yunnan

2.4.2.1 Export Tax Rebate on "Highly polluting, Highly energy consuming, Resource-oriented" Products

Between January and June 2006, Yunnan's import-export trade amounted to USD2.84 billion, an increase of 23.4% over the same period last year, about the same as the national rate. Exports amounted to USD1.47 billion, an increase of 15.4% over the same period last year, and the rate of increase of imports was far higher than the export growth, indicating that trade is being generated by imports. Export trading in Yunnan is facing a serious challenge.

Since last year, China has terminated its export tax rebates on 24 categories of mineral products. This has directly influenced Yunnan's exports, worth USD800 million, and undermined the competitive edge of its traditional industries and export products on the international market[49]. According to sources from the State Administration of Taxation, China will revise its export rebate policy again, and rebates are expected to fall for most items, with some even

[49] "Export controls on 'highly polluting, highly energy consuming, resource-oriented' products affects US$ 800 million of Yunnan's exports (調控兩高一資 雲南 8 億美元出口額受影響)", China West Net, 13th July 2006, http://www.chinawestnews.net/gb/westnews/root/xbkf/userobject1ai554310.html.

terminated. The aim of this revision is to curb the export of "highly polluting, highly energy consuming, resource-oriented" products. The revision is expected to cover light industry, textiles, metallurgy, iron and steel, and machinery, and the reduction of rebate rates will probably be around 2% on average[50].

The State Administration of Taxation has yet to publish any official papers about revising the export rebate policy, but all evidence points to the likelihood of a revision and several policies on petroleum and chemical products have already been drawn up[51]. The export of some of Yunnan's traditional industries will encounter further difficulties when these macro-control measures are introduced.

Since 1999 China's export rebate policy has undergone several changes. The Central Government raised the average export rebate from 6% to 15% in 1999 to reduce the negative impacts of the Asian Financial Crisis. In October 2003, the State Council decreased the average export rebate by 3%.

In recent years, China has a phenomenal increase in its trade surplus. Trade surplus amounted to USD 101.9 billion in 2005, and reached USD 61.4 billion in the first half of 2006. The figure for the whole year of 2006 is expected to reach USD 150 billion at least. In 2005, exports of hi-tech products from China stood at USD 218.3 billion and accounted for 28.6% of China's foreign trade. That proportion increased by a further 30% in the first five months of this year, which shows that the quality and value of China's exports are improving. Moreover, its shows that since the focus of international manufacturing shifted to China, its manufacturing industry has become more competitive.

Foreign trade has kept growing at an annual average rate of 30% for five consecutive years and trade surplus has continued to expand. China is starting to change its long held trade policy of focusing on the encouragement of exports in volume. The Minister of Commerce, Bo Xilai, summed up the foreign trade development strategy as follows: firstly, China needs to export quality products

[50] "Revised tax rebate policy restrains the exports of 'highly polluting, highly energy consuming, resource-oriented' products (退稅調整限制'兩高一資')", Shanghai Net, Quote in "News Morning Post", 6th June 2006, http://www.highai.com/gb/xwb/yaowen/newest/userobject1ai1277669.html.

[51] "Changes on the export tax rebate policy: the policy purpose is to restrain the export of 'highly polluting, highly energy consuming, resource-oriented' products and has seen the further removal of export protections (調整出口退稅：再去一層保護，調整目的是限制'兩高一資')", website of Water Treatment of China Nitrogen-Fertilizer, http://www.dfscl.com/new_view.asp?id=2213.

rather than rely on quantity to win over markets; secondly, the policy of "expanding exports by all means" should be amended to encourage the growth of some sectors while discouraging the expansion of the others; thirdly, China should strive for a balanced trade policy and not just focus on exports. The upgrading of China's industrial and economic structure should transform the nation from a big exporting country to a great trading power[52].

The changes to the export rebate policy on "highly polluting, highly energy consuming, resource-oriented" products derive from four considerations.

1. The strategic need to produce high value added, technologically advanced exports rather than the traditional low value added products.

2. The accumulation and protection of resources, aimed at easing the demand for over exploited resources.

3. Easing the pressure on local government's public finance expenditure, by curbing highly polluting industries that damage the environment.

4. Balancing foreign exchange in order to ease inflationary pressures.

Adjustments to the nation's policy on export tax rebates have indeed exerted considerable impact on Yunnan, which exports mainly resource-oriented products. The growth rate of Yunnan's exports in the first half of this year was mainly driven by the expansion of processing and hi-tech products, with the former being the main driver in the province. In the wake of the restrictions placed upon the export of resource-based products, the growth of Yunnan's foreign trade will depend largely on the improvement of its export structure, and on increasing the technology content of its products.

[52] "Economic overview of the first half of 2006: tackling a huge trade surplus requires wisdom (2006年上半年經濟述評：高順差需要大智慧) ", China Information, 2nd August 2006, http://210.72.32.6/cgi-bin/bigate.cgi/b/g/g/http@210.72.32.26/tjfx/ztfx/2005sbnjjsp/t20060802_402341947.htm.

2.4.2.2 Implications for Hong Kong

- The decision by China to revise its export policy means that as industrialisation deepens, China is focusing more on the protection and conservation of local resources, and the export of resource-based products is expected to drop dramatically. For Yunnan, industries such as non-ferrous/ferrous metallurgy and phosphorus chemicals have made a significant contribution to taxation, employment and trade. However, all of the above sectors fall into the category of "highly polluting, highly energy consuming, resource-oriented" products, and will be affected by adjustments in the nation's macro-policy. Therefore, the government of Yunnan is expected to lend more support to deep processing, extension of the industry chain, technological innovation and the like. Those Hong Kong entrepreneurs who are already involved in the production of resource-based products should take full advantage of this opportunity to speed up technological and industrial upgrading. This will put them in an advantageous position for China's next economic boom.

- The restrictions placed upon "highly polluting, highly energy consuming, resource-oriented" industries demonstrate the nation's awareness of environmental protection, which is also one of the major goals set in the 11th Five-Year Plan. The environmental conservation industry is destined to become a popular industry in China in 5 to 10 or even 20 years' time. However, this industry is currently only in its infant stage in China, and is in dire need of bringing new environmental conservation technologies from developed countries. Since environmental conservation in China is principally driven by the government, Hong Kong entrepreneurs could use their connections with local governments, their access to capital and experience in conducting businesses with developed countries, to promote this industry.

- Apart from mineral resources, Yunnan is also rich in bio-resources, and is variously known as the Animal Kingdom, the Plant Kingdom, the Spice Kingdom and the Flower Homeland. In the wake of policy revisions on the export of "highly polluting,

highly energy consuming, resource-oriented" products, Yunnan will strengthen its efforts to develop bio-resources, and place more emphasis on the development of a strong province with the green economy, and the acceleration of industrial restructuring. In Yunnan, there is plenty of space for the development of bio-resources, with which entrepreneurs from Hong Kong could become involved by providing logistics services and developing the market, or purely through the injection of capital.

- The "highly polluting, highly energy consuming, resource-oriented" products may cover sectors such as light industry, textiles and machinery. These are also the main areas of investment of Hong Kong entrepreneurs in the Mainland. For manufacturing enterprises, the pressing problem is an immediate fall in profits, which are already extremely low, with some even depending on export tax rebates to sustain their business, due to tough international competition. Under the new policy, some poorly performing small- and medium-sized enterprises may face bankruptcy. Furthermore, a rise in the prices of textiles and home appliances will result in international customers going to place orders elsewhere. This will undoubtedly result in a fall in Hong Kong's entrepot trade. The trade associations should cooperate with the Hong Kong Trade Development Council to diversify the products and industries that Hong Kong's entrepot trade relies on. This will ultimately achieve the dual transformation of industrial and trade structures.

2.5 Trends and Updates in Guizhou

2.5.1 The Economic Performance of Guizhou

In the first half of 2006, the economy of Guizhou was characterised by the following features:

1. The manufacturing industry continued to develop rapidly in Guizhou, with the industrial value-added of enterprises above a designated size amounted to RMB 31.73 billion, 17.6% higher than the same period last year. The first half of the year saw an increased growth rate in Guizhou's heavy industry, with value-added standing at RMB 21.78 billion, 18.7% higher than the same period last year, due to the improved supply of coal, electricity and capital. Tobacco manufacturing, power, chemicals, and non-ferrous / ferrous metallurgy industries contributed 66.7% to the growth of the manufacturing industry, increasing its value added by 11.74%. The profits of industrial enterprises and the economic performance of the whole industry improved. In the first half of the year, total net profits for industrial enterprises reached RMB 4.46 billion, an increase of 70.9% over the same period last year Non-ferrous metallurgy, beverages, tobacco manufacturing and power enjoyed the higher growth rates[53].

2. A steadily growing consumer market helped retail sales of consumer goods reach RMB 33.94 billion, 13.6% higher than the same period last year. Total retail sales of consumer goods in rural areas were 15.6% higher than the same period last year, representing a 4.5% higher growth rate. This revealed the emergence of a new trend which saw the growth rate in rural areas exceeding that in urban areas for the first time.

[53] "In the first half of the year, Guizhou's industries maintained speedy growth, with five industries making the largest contribution (上半年貴州省工業保持快速增長，五大行業貢獻最大)", Xinhua Net Guizhou Channel, 25th July 2006, http://qsw.gzsohu.com/html/gzjjbd/2006-7/25/12_57_50_746.html.

3. Guizhou's tourist industry performed outstandingly, and in the first half of the year, Guizhou received 23.91 million tourists from home and abroad and the revenue from tourism was RMB 12.26 billion. These represented growth of 84.1% and 102.6% respectively from the same period last year. In the latter half of the year, Guizhou will concentrate its efforts on developing key tourist sites, with Anshun, Libo and Licongrong in priority, launch its "Red Tourism Development Plan", and concentrate on the construction of the "Northern Guizhou Red Tourist Zone"[54].

Table 2.6: Major Economic Indicators for Guizhou, January to June 2006

Items	January to June (RMB 100 Million)	Compared with the Same Period of Preceding Year
GDP	---	11.8%
Primary Industry	---	---
Secondary Industry	---	14.5%
Tertiary Industry	---	---
Industrial Value-added of Enterprises above Designated Size	317	17.6%
Total Investment in Fixed Assets	478	24.3%
Urban Investment in Fixed Assets	419	21.0%
Total Retail Sales of Consumer Goods	399	13.6%
Total Value of External Trade (USD 100 million)	7	8.4%
Total Revenue from Tourism	123	102.6%

Sources:

1. "In the first half of the year, Guizhou's GDP grew by 11.8%, and total revenue from tourism amounted to 12.2 billion (上半年貴州 GDP 增長 11.8% 旅遊總收入 122 億)", Xinhua Net Guizhou Channel, 18th July 2006, http://www.gz.xinhuanet.com/xwpd/2006-07/18/content_7546890.htm.
2. "In the first half of the year, Guizhou realised 47.7 billion worth of fixed asset investment (盤點上半年貴州經濟：增長勢頭強勁各項指標向好)", Xinhua Net Guizhou Channel, 22nd July 2006, http://www.gz.xinhuanet.com/xwpd/2006-07/22/content_7583005.htm.
3. "In first half of the year, Guizhou's industries maintained speedy growth, with five industries making the largest contribution (2006 年上半年中國 23 個省份 GDP 排名)", Guizhou Business Net, 25th July 2006, http://qsw.gzsohu.com/html/gzjjbd/2006-7/25/12_57_50_746.html.
4. Website of Finance Division of Ministry of Commerce—Database—Table on the Total Value of Import and Export of Provinces and Major Cities, January to June 2006, 28th July 2006, http://gcs.mofcom.gov.cn/aarticle/Nocategory/200607/20060702745498.html.

[54] "In the first half of the year, Guizhou's GDP grew by 11.8%,and total revenue from tourism amounted to 12.2 billion (上半年貴州 GDP 增長 11.8%，旅遊總收入 122 億)", Xinhua Net GuizhouChannel, 18th July 2006, http://www.gz.xinhuanet.com/xwpd/2006-07/18/content_7546890.htm.

2.5.2 Updates on Guizhou

Daily Electricity Transmission Reached 100 Million Kilowatt Hours, Setting a New Record in Guizhou

On 8th July 2006, daily power generation from Guizhou's power grids reached 250 million kilowatt hours, setting a new record. This was 22.94 million kilowatt hours higher than the highest daily power generation in 2005. Power generation capacity also hit a new record, reaching 11.91 million kilowatts, 1.10 million higher than last year. Outward transmission capacity stood at 4.89 million kilowatts, and outward electricity transmission was 101 million kilowatt hours, 26.9% higher than the same period last year[55].

Table 2.7: Daily Power Generation of Guizhou's Power Grids on July 8, 2006

	Power Generation Capacity	Power Generation	Proportion of Daily Power Generation
	(Ten Thousand Kilowatts)	(Ten Thousand Kilowatt Hours)	
Aggregate	**1,191**	**25,000**	---
	(+110)*	**(+2,294)****	---
Intra-province	**702**	**14,900**	---
To Other Provinces	**489**	**10,100**	**100%**
		(28.86%)***	
Of which: West-to-East Electricity Transmission	431	8,821	87.3%
Of which: Transmitted to Guangdong	400	8,000	79.2%

Notes:

* Figures in the parentheses indicate the amount of growth compared with the biggest power generation capacity in the preceding year.

** Figures in the parentheses indicate the amount of growth compared with the highest daily power generation last year.

*** Figures in the parentheses indicate the growth rate compared with the same period last year.

Source: "Guizhou's power grid provides timely support when neighbouring provinces suffer electricity shortages: daily electricity transmission set another record and reached 100 million

[55] "Guizhou's power grid provided timely support when neighbouring provinces suffered electricity shortages: daily electricity transmission set another record and reached 100 million kilowatts (周邊省市遭遇電荒貴州電網送及時雨：日外送電量突破 1 億千瓦時再創歷史新高)", Jin Qian Online, 11th July 2006, http://www.gog.com.cn/jq/j0603/ca994752.htm.

kilowatt (周邊省市遭遇電荒貴州電網送及時雨：日外送電量突破 1 億千瓦時再創歷史新高)", Jin Qian Online, 11th July 2006, http://www.gog.com.cn/jq/j0603/ca994752.htm.

Since the launch of the "West-to-East Electricity Transmission" Project, Guizhou's energy industry has witnessed rapid development. After five years of construction, the installed power generation capacity across the province has reached 13.24 million kilowatts, 8.42 million kilowatts of which are newly-installed power generation capacities. Power generation capacity is now 1.7 times the aggregate of the previous 51 years since the establishment of the PRC. Accumulated power generation has reached 316.4 billion kilowatt hours, which is twice the amount of that in the 9th Five-Year Plan. Meanwhile, total output of raw coal jumped from 36.77 million tons in 2000 to 108.0 million tons in 2005[56].

The energy industry comprises mainly power and coal production, and has developed into Guizhou's top industry. In the process of developing the energy industry with the "West-to-East Electricity Transmission" Project, the entire nation's macro-economic environment has undergone a series of changes. Supply and demand relations between coal, electricity, oil and transportation have become strained and prices have risen, and this has put considerable pressure on the development of Guizhou's energy industry.

In early July 2006, the National Development and Reform Commission published a detailed adjustment plan for electricity pricing. According to this plan, electricity prices for southern China's power grids will undergo further changes. Uploading electricity prices for Guizhou's coal-fired generating units will increase by a standard rate of RMB 0.0206 per kilowatt hour, while the selling prices will increase on average by RMB 0.0303[57]. The rising price of electricity in Guizhou will temporarily ease the pressure caused by rising prices of coal and other raw materials.

[56] "Our province proactively resolves issues relating to the implementation of the "West-to-East Electricity Transmission" Project (我省積極解決實施西電東送工程遇到的實際問題)", Guizhou Business Net, 22nd June 2006, http://qsw.gzsohu.com/html/gzjjbd/2006-6/22/11_11_23_387.html.

[57] "Guizhou confirms the revised electricity price which has increased by RMB 0.303 per kilowatt (貴州銷售電價調整方案確定：一度電提高 3.03 分錢)", Guizhou Online, 4th July 2006, http://www.gog.com.cn/jq/j0603/ca991798.htm.

Table 2.8: Overview of Price Changes for Electricity Transmitted from Guizhou to Guangdong

	Price (RMB)	Ten Thousand Kilowatt Hours (day)	Annual Revenue (RMB million)
Before Price Rise	0.28	8,000	8,176
After Price Rise	0.30	8,000	8,760
Extra Revenue after Price Rise (annually)			**584**

Source: "The National Development and Reform Commission announces the China Southern Power Grid electricity price adjustment (國家發展改革委關於調整南方電網電價的通知)" , website of the National Development and Reform Commission, http://www.sdpc.gov.cn/zcfb/zcfbtz/tz2006/t20060630_75076.htm.

Table 2.7 shows that of the total output of power generation from Guizhou's power grids, 40.4% was transmitted outwards, of which 87.3% was for the "West-to-East Electricity Transmission" Project and 90.7% of this was transmitted to Guangdong. Hence we can calculate that about 32% of Guizhou's total power generation was transmitted to Guangdong, and played a crucial role in the development of Guangdong's economy. The actual amount of power transmitted from Guizhou to Guangdong is expected to increase sharply as a result of the operation of many newly installed generating units. From January to May this year, Guizhou-to-Guangdong Electricity Transmission reached 6.66 billion kilowatt hours, 1.8 times higher than the same period last year.

Guizhou plays an important role in China's "West-to-East Electricity Transmission" Project. Since this project began, eight projects known collectively as the "Four Hydropower and Four Thermal Power Project" have been completed and have added 5.38 million kilowatts of extra power capacity since these projects were fully put into production in June this year. A further twelve energy projects collectively called the "Four Hydropower and Eight Thermal Power Project" with a total power generation capacity of 16.84 million kilowatts have been partially completed. As of June 2006, installed power generation capacity for the entire province was 15.14 kilowatts, three times the amount before the launch of the "West-to-East Electricity Transmission" Project.

Guangdong is the locomotive of economic development for the five southern provinces/region of Guangdong, Guangxi, Yunnan, Guizhou and Hainan. Guangdong's GDP amounts to 65% of the total GDP of the five provinces/region, but its energy resources amount to only 3.5% of that of the five provinces/region. The "West-to-East Electricity Transmission" Project not only enables the optimal utilisation of the scarce electricity resources, it also enables the underdeveloped provinces of Guizhou and Yunnan to start developing. According to an agreement

between Guangdong and Guizhou, during the 11th Five-Year Plan period, Guizhou will increase the amount of electricity delivered to Guangdong by four to eight million kilowatts. Guizhou plans to continue building new electricity generating projects, including a new Guizhou-to-Guangdong Electricity Transmission line[58].

The early projects of "West-to-East Electricity Transmission" have been put into production, and there is great capacity for further development in the future. Hong Kong could technically be included into Guangdong's power grids. Just as Hong Kong's water is pumped from Guangdong's Dong Jiang River, Hong Kong could purchase Guangdong electricity, reducing its current dependence on the two power corporations. Hong Kong could sign a long-term contract, for ten years or more, and electricity prices could be kept at a low level, thereby reducing the pressure caused by high electricity prices. Current high prices are the result of the monopolistic situation.

A research report by the International Bureau of Energy issued on 12 July 2006, entitled 'Electricity reform in China – what is the next step?', predicted that by 2007, China will have an electricity supply surplus[59]. This is a good time for Hong Kong to sign up for long-term electricity supply contracts with China. Air pollution is now a problem which increasingly draws criticism from foreign investors and institutions, and electricity generation is one of the main polluting sources. Therefore, buying electricity from the "West-to-East Electricity Transmission" Project is a feasible solution and reduces the need to rely on thermal-power plants in Hong Kong.

[58] "Implementation of the "West-to-East Electricity Transmission" Project greatly increases electricity transmission from "Guizhou-to-Guangdong" (實施'西電東送'，'黔電送粵'大幅攀升)", Xinhua Net Guizhou Channel, 6th June 2006, http://big5.xinhuanet.com/gate/big5/www.gz.xinhuanet.com/xwpd/2006-07/06/content_7444350.htm.

[59] Quote, "21st Century Business Herald", 14th July, 2006, Page 20.

3. Major Personnel Changes in Governments (at or above municipal level) in the Four Southwestern Provinces/ Region

3.1 Senior Appointments in Sichuan Province since July 2006[60]

On 29th July, the 10th Standing Committee of Sichuan Provincial People's Congress approved the appointments of:

- Xie Hong (解洪) as Chairman of the Sichuan Provincial Development and Reform Commission.

- Shen Ji (沈驥) as Director of the Department of Health in the Sichuan Province

3.2 Senior Appointments in Yunnan Province since July 2006

- Li Jiheng (李紀恒) appointed as Deputy Secretary of CPC Committee of Yunnan Province.[61]

- Mao Wenguo (卯穩國) appointed as Secretary of CPC Committee of Diqing Prefecture.[62]

[60] "Appointment: : Xie Hong is appointed as Chairman of the Provincial Development and Reform Commission , Shen Ji is appointed as Director of the Department of Health (人事：解洪任省發改委主任 沈驥任省衛生廳廳長)", Xinhua Net Sichuan Channel, 3rd August 2006, http://www.sc.xinhuanet.com/content/2006-07/29/content_7640850.htm.

[61] "Li Jiheng is appointed to the Standing Committee and made Deputy Secretary of the CPC Committee for Yunnan Province (李紀恒任中共雲南省委委員、常委、副書記)", Xinhua Net Yunnan Channel, 1st August 2006, http://www.yn.xinhuanet.com/gov/2006-08/01/content_7661060.htm.

[62] "Mao Wenguo was selected as Secretary of the CPC Committee for Diqing Prefecture (卯穩國同志當選 爲中共迪慶州委書記) ", Xinhua Net Yunnan Channel, 2nd August 2006, http://www.yn.xinhuanet.com/gov/2006-08/02/content_7675376.htm.

- Gao Xusheng (高旭升) appointed as Secretary of CPC Committee of Simao City.[63]

- Liu Yiping (劉一平) appointed as Secretary of CPC Committee of Dehong Prefecture.[64]

- Luo Chongmin (羅崇敏) appointed as Secretary of CPC Committee of Honghe Prefecture.[65]

- Zhang Tianxin (張田欣) appointed as Secretary of CPC Committee of Wenshan Prefecture.[66]

3.3 Senior Appointments in Guizhou Province since July 2006

On 19th July, the 10th Standing Committee of Guizhou Provincial People's Congress approved the appointment of Lin Shusen (林樹森) as the Vice Governor of Guizhou province, who will also serve as the Acting Governor[67]. Lin Shusen, who is from Shantou of Guangdong, has served successively as Deputy General Secretary of Guangdong Provincial Government, Chairperson of Provincial Development Planning Commission of Guangdong, of which he was also the Secretary of the Party Leadership Group, and Mayor of Guangzhou City. Before he took office in Guizhou, he was a member of the Standing Committee of

[63] "Gao Xusheng was selected as Secretary of the CPC Committee for Simao City (高旭升同志當選思茅市委書記)", Xinhua Net Yunnan Channel, 1st August 2006, http://www.yn.xinhuanet.com/newscenter/2006-08/01/content_7664081.htm.

[64] "The Fifth CPC Committee of Dehong Prefecture organised the first plenary meeting (德宏第 5 屆委員會舉行第 1 次全體會議)", Xinhua Net Yunnan Channel, 31st July 2006, http://www.yn.xinhuanet.com/newscenter/2006-07/31/content_7654590.htm.

[65] "Luo Chongmin was elected as Secretary of the CPC Committee for Honghe Prefecture (羅崇敏當選爲中共紅河州委書記)", Xinhua Net Yunnan Channel, 24th July 2006, http://www.yn.xinhuanet.com/gov/2006-07/24/content_7593511.htm.

[66] "Zhang Tianxin was elected as Secretary of the CPC Committee for Wenshan Prefecture (張田欣當選爲中共文山州委書記)", Xinhua Net Yunnan Channel, 24th July 2006, http://www.yn.xinhuanet.com/gov/2006-07/24/content_7593528.htm.

[67] "Lin Shusen was appointed as Vice Governor and Acting Governor of Guizhou province (林樹森被任命爲貴州省副省長、代省長)", Xinhua Net Guizhou Channel, 20th July 2006, http://www.gz.xinhuanet.com/ztpd/2006-07/20/content_7560259.htm.

CPC in Guangdong Province, and also served as the Secretary of the CPC Committee of Guangzhou City[68].

[68] "The Central Government changes the appointment of Lin Shusen and Shi Xiushi (中共中央調整林樹森和石秀詩職務)", Xinhua Net Guizhou Channel, 30th June 2006, http://www.gz.xinhuanet.com/ztpd/2006-06/30/content_7393393.htm.

4. Regional Cooperation

On 15th July 2006, the 5th Joint Conference for Employment Service Cooperation Among the Nine Provinces and Autonomous Region in the Pan-PRD Region was held in Nanning, Guangxi. A coordination agency was set up on a consultative basis by the respective employment service agencies affiliated to the governments of the Nine Provinces and Autonomous Region. The Joint Conference has been held successively for four times since it officially began in July 2006.

This year the Joint Conference unveiled a Job Market Network System in the Pan-PRD region, which is the nation's first such system. Institutions and job-seekers can log onto this system, publish information in its databases and find regional employment information.[69] According to the organisers, the Online Job Fair for the Pan-PRD Region, which began on 15th July, will be extended for another twenty days, with about 7,000 institutions and agencies taking part. These organisations have published 53,100 pieces of employment information and provided up to 230,000 job vacancies[70].

During the concurrently held "Job Fair of the Nine Provinces and Autonomous Region in the Pan-PRD Region", a total of 50,000 job-seekers took part in all kinds of recruitment activities. More than 500 enterprises took part in the Job Fair, of which around twenty were from Guangdong, Fujian, Sichuan and Guizhou, with the rest being local enterprises in Guangxi. Together they provided more than 8,000 job vacancies, in industries as diverse as real estate, construction, computers and chemicals. Positions for middle and high-level personnel were also very popular.

[69] Liu Wanqiang :"Strengthening cooperation across the Pan-PRD by establishing an allocation platform for human resources" (劉萬強： "深化泛珠區域人才合作，共建人才資源配置平臺"), China News Agency, 4th July 2006, http://www.pprd.org.cn/news/dongtai/200607/t20060704_9583.htm.

[70] Liu Wanqiang :"Strengthening regional cooperation on employment services, making it possible for job seekers to search jobs across the nine provinces/region from home" (劉萬強： "泛珠人才服務合作加強，足不出戶可在九省區求職"), China News Agency, 17th July 2006, http://www.pprd.org.cn/news/dongtai/200607/t20060717_9778.htm.

The distribution of vacancies was as follows[71]:

Chart 4.1: Categorisation of Job Fair Positions

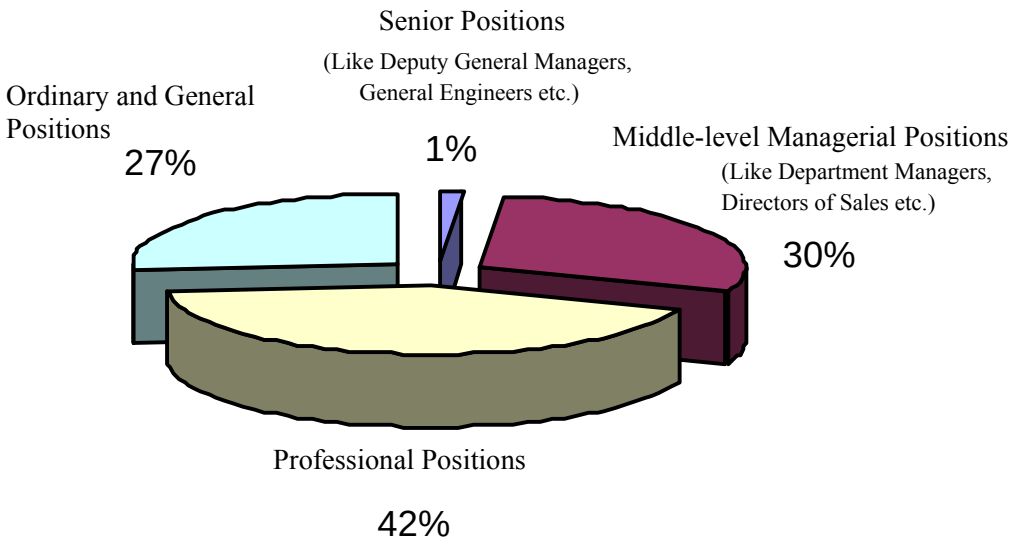
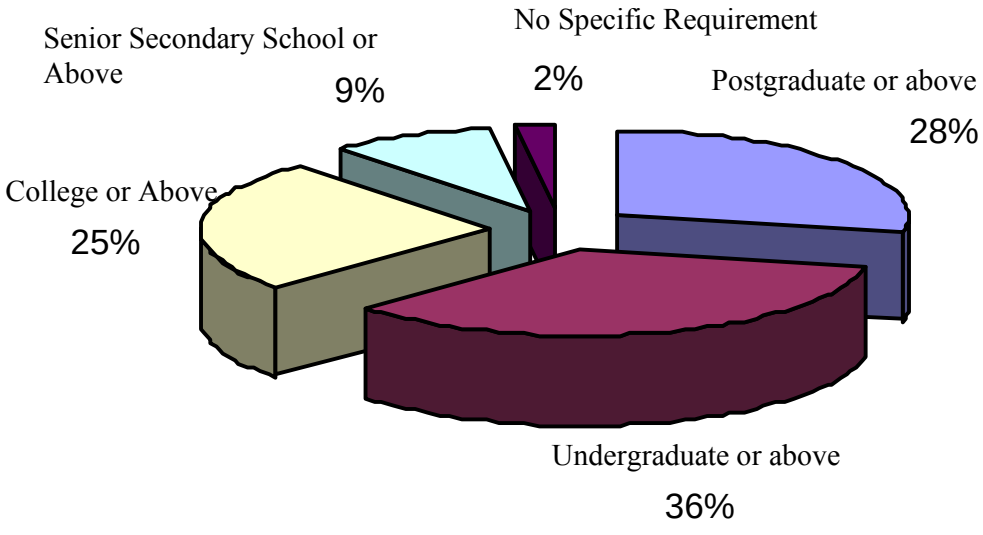


Chart 4.2: Educational Requirements for Job Fair Positions



[71] Tan Guanghua :"Recruitment by Pan-PRD enterprises, middle and high-level personnel were in high demand" (覃廣華："泛珠三角九省區企業招聘，中高級人才成爲需求熱點"), China News Agency, 17th July 2006, http://www.pprd.org.cn/news/dongtai/200607/t20060717_9779.htm.

One of the striking features of this Job Fair was the huge demand from real estate and IT industries, with more than 4,500 job vacancies waiting to be filled. In real estate, middle-level project managers, and professionals like surveyors, accountants and project managers were the most sought after, while demand for property consultants and salespersons was in decline. With respect to the IT industry, the demand for software engineers, internet specialists and salespersons was quite high and the demand for marketing talent is also growing. There were 876 vacancies in the special zone for technical and professional talents, mainly in sales and technology. The auto industry was most in need of salespersons, and sales jobs made up 30% of its total vacancies. In machinery manufacturing, technical engineers and technology developers accounted for 45% of the total demand. In fact, many enterprises in Guangxi were complaining that the growing demand for technical personnel in machinery manufacturing, processing and maintenance far exceeds supply[72].

However, this is not the whole picture, as one Hong Kong-based enterprise discovered at the Job Fair that, although this company offered a salary of up to RMB 1 million annually for a general manager from a foreign-owned shoe enterprise, none of the 50,000 job-seekers applied for the position. According to the company, the candidate was required to have at least a first degree, be proficient in foreign languages, and have previous experience of working in a position higher than vice-president in a multi-national cooperation. The company was particularly looking for people who had returned to China after finishing overseas studies, often referred to as "Hai Gui" [73].

In fact, there were some very attractive positions offered at the Job Fair, such the vacancy in an American shoe company which offered a salary between 150,000 and 200,000 per annum; or the vacancy for a business development manager for a Singapore group, with an annual pay of between 200,000 and 300,000. Another very famous heavy industry manufacturing company offered attractive conditions including an annual income of RMB 80,000 to 100,000, private car, apartment and insurance. Yet, they still found it difficult to fill their

[72] Yu Yuanyuan, Kuan Gyufeng : "The Job Fair in the Nine Provinces and Autonomous Region in the Pan-PRD Region recruits talent from Nanning" (喻媛媛、匡玉鳳： "泛珠三角九省區人才交流會南寧攬英才"), Guangxi News Net, 15th July 2006, http://pic.gxnews.com.cn/staticpages/20060715/newgx44b888a4-651525.shtml.

[73] Liu Wanqiang, Xu Lingxia: "Hong Kong enterprise offers a million dollar package for a managerial vacancy, yet no one from the Pan-PRD Job Fair applied" (劉萬強、徐菱霞："香港企業百萬年薪聘經理 "泛珠"人才會上無人接招"), China News Agency, 17th July 2006, http://www.pprd.org.cn/laowu/xinxi/200607/t20060717_9781.htm.

vacancies and few job-seekers applied for these lucrative positions. Shi Weiping, Director of the Office of the China Strait Job Market, stated that this was because middle and high-level managerial positions usually required not only a keen grasp of production procedures and technologies, but also extensive management experience and proficiency in English. However, he also said that a lack of such talent is a nationwide problem.

In recent years, private enterprises in China have constantly raised the threshold for access to senior positions. At the same time, however, the number of local professionals and suitably talented individuals is far from sufficient to meet the demand, and the knowledge structure of many job-seekers is not satisfactory. Many institutions seeking talent indicated that if local job-seekers want to be more competitive, they must improve their professional skills. Some job-seekers are already aware that their professional skills need improvement and many crowded into the "Educational Training Exhibition Zone" at the Job Fair, asking for information about job training programmes[74].

Judging from the Joint Conference and Job Fair, there is a huge demand for candidates with multiple skills and for educational training services in the Pan-PRD Region, and this is good news for Hong Kong.

- Thanks to its rich international business experience and international exposure, Hong Kong professionals had been the most popular choice for a long time in the Pan-PRD Region. However in recent years, many multi-national corporations have shifted their business centres and local headquarters northwards into the Yangtze River Delta Region, and many talented Hong Kong professionals with extensive international experience have been laid off. Foreign-owned enterprises have been successful at recruiting local talent, thus reducing the need for professionals from Hong Kong.

  With the emergence of private enterprises and a rise in local salaries, Mainland enterprises are now able to afford employing Hong Kong professionals. In fact, the quality of life index in

[74] Gong Wenying : " The Pan-PRD Job Fair was held in Nanning, but no one dared apply for a vacancy offering a million dollar package" (龔文穎："泛珠人才交流會在邕舉行，百萬年薪職位無人應聘"), Southland Morning Post, http://www.gxfzw.com.cn/news/news_show.asp?id=28246.

Mainland cities is comparatively favourable and people with an income of RMB 10,000 per month can live a comfortable middle-class life, even with few savings. People in Hong Kong on the same pay would struggle to make ends meet. Therefore, Hong Kong professionals could seek employment in the Pan-PRD Region. Although the nominal income may appear to be low, the quality of real life is much better than in Hong Kong.

Once these Hong Kong professionals have become accustomed to the local environment and established personal relationships, they could start undertakings of their own, and attract or assist more Hong Kong professionals to invest there. Generally speaking, Hong Kong entrepreneurs investing outside of Guangdong are very likely to make mistakes due to a lack of local knowledge. If some Hong Kong professionals moved into new areas as a result of job opportunities, they could serve as guides and models, thus promoting the expansion of Hong Kong investment and at the same time forging economic and personal connections between Hong Kong and the Mainland.

- An analysis of the demand patterns at the Job Fair has shown that there is most demand from the real estate and IT industries, including engineering and technical personnel. Hong Kong has a long established foothold in these two industries, and a huge stock of talent. Due to insufficient demand from its own industries, Hong Kong could consider exporting these professionals to local industries on the Mainland. Demand for candidates with a college degree or above is rather high in the four southwestern provinces/ region, indicating the development of a knowledge-based economy in the region, which tallies with Hong Kong's human resources development.

- In the CEPA agreement signed between Hong Kong and Mainland China, there were some provisions, such as mutual recognition of professionals' qualifications, which are conducive to people from Hong Kong seeking jobs on the Mainland. Historical experience tells us that regional economic and trade cooperation is brought about by trade, investment and the exchange of human resources. As for the remote southwestern region, the preconditions for the investment of Hong Kong

capital into this area are still inadequate at this time, but a small number of Hong Kong people could work here now, especially in the familiar real estate market, gradually laying a solid foundation for cooperation between Hong Kong and the four southwestern provinces/ region.

- The success of Hong Kong professionals is much dependent on the education and training system. Hong Kong's universities and vocational training systems, the quality of their teachers and courses, and the international exposure far surpass those on the Mainland, and is beyond comparison with the four southwestern provinces/ region. Currently, the main focus of Hong Kong's education system is the cultivation of its own talent, and only universities are allowed to enrol the most talented students from the Mainland through the Joint University Programmes Admissions System. Having said that, technical colleges or in-service training agencies should also be included in the Admissions System to expand the overall enrolment, and at the same time, respective colleges and universities should be encouraged to develop training on the Mainland.

Hong Kong is a versatile, trendy cosmopolitan city. It could consider meeting the demands of the international businesses by recruiting practical talent from around the world, setting up and teaching practical training courses geared to different purposes, instead of the traditional and academic way of education. The upgrading and transformation of Hong Kong's industries would also benefit a lot from these training courses, as local students or jobholders participating in these training courses will build up their professional knowledge and learn the latest business information. In the meantime, the public or private training institutions could cooperate with their counterparts in the four southwestern provinces/ region. Furthermore, an international metropolis or cosmopolitan city should also be an international and regional educational training centre. Therefore, Hong Kong should try to serve as the educational training centre for the Pan-PRD region.

Appendices:

Appendix I: Statistical Data for the Pan-PRD Provinces/ Region

Major Economic Indicators for Guangdong and the Four Southwestern Provinces/ Region

Table 1：Economic Performance of the Four Southwestern Provinces/ Region, June 2006

Province / Region	Industrial Value-added		Sales Ratio of Manufactured Products		Urban Investment in June (RMB 100 Million)	Per Capita Disposable Income of Urban Residents in May (RMB)
	June (RMB 100 Million)	Growth Rate over the same period in the preceding year	June (%)	Change over the same period in the preceding year (% Points)		
National Total	7,819	19.5%	97.58%	-0.38	10,925	903
Guangdong	943	20.4%	95.79%	-0.99	612	1,188
Sichuan	273	26.9%	96.14%	-1.07	242	711
Guangxi	90	28.3%	99.77%	-3.58	445	813
Yunnan	94	30.0%	101.63%	-5.32	106	789
Guizhou	61	19.4%	90.84%	0.35	161	730

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

Table 2：Fiscal Indicators of the Four Southwestern Provinces/ Region, January to May 2006
(Table 4 in the Chinese report)

Province / Region	Government Revenue (Funds Excluded)		Government Expenditure (Funds Excluded)	
	Jan – May Cumulative (RMB 100 Million)	Growth Rate over the same period in the preceding year	Jan – May Cumulative (RMB 100 Million)	Growth Rate over the same period in the preceding year
Sichuan	236	28.5%	354	27.3%
Guangxi	127	25.2%	224	18.6%
Yunnan	152	27.8%	223	9.5%
Guizhou	183	23.6%	150	16.5%

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

Table 3：Social and Personal Consumption in the Four Southwestern Provinces/ Region, January to May 2006
(Table 2 in the Chinese report)

Province / Region	Total Retail Sales of Consumer Goods in May (RMB 100 Million)	Per Capita Disposable Income of Urban Residents		Per Capita Consumption Expenditure of Urban Residents		Consumer Price Index Jan-May Cumulative
		Jan - May (RMB)	Growth Rate over the same period in the preceding year	Jan - May (RMB)	Growth Rate over the same period in the preceding year	
Sichuan	269	4,046	10.1%	3,058	8.7%	101.6%
Guangxi	133	4,361	9.4%	2,848	5.1%	100.6%
Yunnan	89	4,242	9.4%	3,165	9.6%	102.0%
Guizhou	58	3,941	11.5%	2,921	12.1%	101.1%

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

Table 4：Total Value of External Trade for the Four Southwestern Provinces/ Region, January to May 2006 (Table 3 in the Chinese report)

Province / Region	Total Value of External Trade				Total Value of External Trade by Foreign-Invested Enterprises	
	Jan – May (USD 100 million)	Growth Rate over the same period in the preceding year	Proportion to National Total	Trade Balance (USD 100 million)	Jan – May (USD 100 million)	Proportion to Regional Total
Sichuan	38.5	36.9%	0.6%	5.7	8.9	23.1%
Guangxi	23.6	17.9%	0.4%	1.8	7.5	31.7%
Yunnan	22.7	18.8%	0.4%	0.9	1.8	8.0%
Guizhou	5.9	7.6%	0.1%	1.1	0.9	15.3%

Source: China's Customs Statistics (Monthly Exports & Imports), Series No. 201, May 2006.

Appendix II: English-Chinese Glossary of Terms

Acting Governor	代省長
All-China Federation of Trade Unions	中華全國總工會
Blind Influx of Migrants	盲流
Chairperson of Provincial Development Planning Commission of Guangdong	廣東省計委主任
Developing the Western Region	西部大開發
"Decision on Implementing the Strategy of Strong Industrial Province"	"實施工業強省戰略的決定"
Economy of Hiring-Out for Work	打工經濟
"Four Hydropower and Four Thermal Power" Project	"四水四火"
"Guideline for Guangxi's Science and Technological Development in the Medium to Long Term (2006-2020)"	《廣西壯族自治區中長期科學和技術發展規劃綱要（2006-2020 年）》
Guizhou-to-Guangdong Electricity Transmission	"黔電送粵"
"Highly Polluting, Highly Energy Consuming, Resource-oriented Products" (Two High, One Resource Products)	"高污染、高能耗、資源型產品" (兩高一資產品)
Indo-China Peninsula	中南半島
International Energy Agency (IEA)	國際能源署
County Economy	縣域經濟
Job Fair of the Nine Provinces and Autonomous Region in Pan-PRD Region	泛珠三角區域九省區人才交流會
Kilowatt	千瓦
"Labour Law of the People's Republic of	《中華人民共和國勞動法》(簡稱《勞

China" (Short Form: "Labour Law")	動法》)
"Fostering the Development of Superior Featured Industries in the Western Region"	《促進西部地區特色優勢產業發展》
Peasant Workers	農民工
Qian'nan (Bouyei & Miao) Autonomous Prefecture	黔南 (布依族苗族) 自治州
Secretary of CPC Committee of Guangzhou City	廣州市委書記
Shanghai International Port (Group) Company Limited	上海港務集團
The 5th Joint Conference for Employment Services Cooperation of the Nine Provinces and Autonomous Region of the Pan-PRD Region	泛珠三角區域九省區人才服務合作第五次聯席會議
The 10th Standing Committee of Guizhou Provincial People's Congress	貴州省十屆人大常委會
Office of the Western Region Development Leading Group of the State Council	國務院西部地區開發領導小組辦公室
Vice Governor	副省長
"West-to-East Electricity Transmission" Project	"西電東送"工程
Yangtze River Delta	長三角