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**COVERING GUANGXI, YUNNAN, GUIZHOU AND**

**SICHUAN**

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## Executive Summary

1. Energy Saving and Conservation in the Four Southwestern Provinces/Region
  - 1.1. The Central Government specified, in its 11<sup>th</sup> Five Year Plan, that a 20% reduction on per unit GDP energy consumption should be achieved during the 11<sup>th</sup> Five Year Plan period. On 30<sup>th</sup> June 2006, China released its first national report on energy consumption. All four Southwestern provinces/region recorded a per unit GDP energy consumption higher than the national average, whilst the energy conservation champions were Guangdong, Beijing and Shanghai.
  - 1.2. The industrial sector accounted for more than 70% of the national energy consumption, and the proportion of energy-intensive industries largely determined the provincial ranking in this energy assessment. The four Southwestern provinces/region had a large share of energy-intensive industries. The ratio of energy-intensive industries in Guizhou amounted to 48.1% of the total provincial industrial output, and therefore made Guizhou the highest energy consumer among the four Southwestern provinces/region, and the second highest in China. Guangdong's energy-intensive industries only contributed 5.2% of the provincial industrial output, which made it the national champion with respect to energy conservation.
  - 1.3. The western region faced great difficulty selling energy in the 1990s. They therefore extensively developed energy-intensive industries, and this decision has resulted in making them "high in energy consumption, yet low in industrial output and value-added".
  - 1.4. The policy of using per unit GDP energy consumption as a major performance measurement for provincial officials has shifted their working emphasis from GDP growth to energy conservation. The National Development and Reform Commission conducted pricing reform in the energy sector, so that industrial enterprises were prompted by cost pressures to upgrade their managerial and technical skills to reduce energy consumption, and the development of renewable economy was encouraged. This will, ultimately, accelerate the transformation of the national economic development model from an extensive mode to an intensive type.

1.5. The four Southwestern provinces/region have adopted three measures to enhance energy conservation, namely, using administrative measures to shut down small enterprises that are highly energy consuming and to encourage the discard of obsolete industrial equipment; signing pledges with major local energy-consuming enterprises, which make them liable for punishment should they fail to achieve the mission of energy reduction; and imposition of differential electricity pricing on high energy consuming enterprises.

1.6. The Hong Kong SMEs which are highly energy consuming should increase their input in research and development, and change their business orientation and operational models. Otherwise, they might face local government pressure to close or even leave. Hong Kong enterprises could also utilise their overseas connections, and enter the energy conservation market sector by importing overseas technologies and expertise.

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

### 2.1. Sichuan

2.1.1. Sichuan recently suffered from the most severe record breaking drought for 60 years. The drought led to a direct economic loss of RMB 8.3 billion. It not only affected the agricultural sector, but also tightened water and electricity supplies and might impede industrial development as well.

2.1.2. Chengdu plans to recruit 1,848 fresh university graduates to volunteer to work in the rural region this year. Its target is to have at least one graduate in every village/rural society by 2007. In recent years, many Mainland provinces have also launched the “a university graduate for each village (community)” scheme, and some have referred to this campaign as the “new rustication movement”. Many graduates have decided to work in the rural region largely due to unemployment pressures. The rapid increase in enrolment of universities in the past five years has resulted in a surplus of 2.5 million bachelor graduates in the labour market. The official rural programme provides a certain amount of living subsidies and favourable policy incentives, and this package has attracted some

outstanding bachelor graduates. It is believed that the scheme will promote rural development, improve the quality of rural human resources, and accelerate the transformation of the rural ways of thinking.

2.1.3. Hong Kong graduates are also facing a similar employment challenge, and their starting salary is on a downward trend. The academic institutions should provide graduates with more vocational counselling, assist them to keep abreast of job market developments, and adjust their job and salary expectations.

2.1.4. Hong Kong can learn from the experience of volunteer schemes in European and American societies, and encourage Hong Kong graduates and youngsters to participate in poverty reduction programmes in the impoverished Mainland region. The scheme could help youngsters develop their endurance, improve their personal qualities, and in return they will make a greater contribution to Hong Kong society in the long run.

## 2.2. Guangxi

2.2.1. In 2001, Guangxi launched the scheme for “attracting a hundred private enterprises to invest in Guangxi”. Given Guangxi’s abundant resources, attractive China-ASEAN trade factors and favourable investment policies, many reputable and sizeable Mainland enterprises have actively invested in Guangxi. The total investment was RMB 30 billion in 2004, RMB 55 billion in 2005, and RMB 52.9 billion for the first half of 2006. This investment accounted for one third of total investment in Guangxi, and raised the GDP share contributed by private enterprises to 50%.

## 2.3. Yunnan

2.3.1. With its unique geography and climate, Yunnan has earned itself the reputation as the “Wild Mushroom Kingdom”, and one fourth of the world’s species of mushrooms are found in this region. In 2005, the wild mushroom output for Yunnan amounted to RMB 2 billion, and more than 2,000 tons of mushrooms were exported to over 40 countries. The export value was more than USD 70 million and

accounted for about 70% of the total national export. About five million jobs have been created in this segment.

- 2.3.2. Modern urban citizens increasingly place a heavy emphasis on healthy food, and this provides an enormous business opportunity for the wild mushroom segment. Hong Kong could create an international business platform for wild mushrooms, and provide support on further food processing and trade services. The local catering industry might consider adopting wild mushrooms as a new ingredient, dedicate more research and promotional resources to them, and develop a new range of “healthy delicious foods” for the global market.

## 2.4. Guizhou

- 2.4.1. Recently, Guizhou’s calligraphy and painting auctions have experienced an exceptional boom, as auction bids have repeatedly reached record highs. Guizhou and Mainland citizens are showing a greater willingness to spend money in calligraphy and painting. This is a reflection of deepening cultural appreciation on the Mainland as a whole, and is also an indication that China is becoming a more well-off society with a sophisticated culture.

- 2.4.2. By targeting the growing antiques market on the Mainland, Hong Kong could become an intermediary market channelling Chinese antiques back from overseas to China. Hong Kong could develop its cultural industry by, for instance, developing a cyber museum and providing digital cultural content.

## 3. Regional Cooperation

- 3.1. In mid-2006, five bordering provinces and cities of Yunnan and Vietnam conducted an in-depth discussion on their joint project - the Kunming (昆明) –Hanoi (河内) Economic Corridor.

- 3.1.1. This cooperation initiative included the development of a cross-border trading zone between Beishan (北山) in Yunnan and Kim Thanh (金城) in Vietnam. The Vietnamese Government has provided additional incentives to the Yunnan investors, and plans to

construct an express railway to improve the transportation efficiency of the Kunming-Hanoi Economic Corridor. Through this initiative, both parties will expand their economic hinterland, and capture synergy benefits from joint industrial clusters.

- 3.2. In July 2006, Guangxi's party chief proposed a new regional development strategy - the "M Strategy".
  - 3.2.1. This strategy includes Marine economic cooperation (Pan-Beibu Gulf Economic Cooperation Zone), Mainland economic cooperation (Nanning-Singapore Corridor), and Mekong Sub-Region cooperation. Under this strategy, Guangxi will expedite railway and road construction connecting Nanning (南寧) – Hanoi (河內) - Phnom Penh (金邊) – Bangkok (曼谷) - Kuala Lumpur (吉隆坡) – Singapore (新加坡). This will establish the Nanning-Singapore Economic Corridor which will run through the heart of Indochina. The decision taken by Guangxi to select Singapore as a foreign partner in its regional cooperation programme might alter the regional integration and competitiveness of Singapore and Hong Kong in the Southwestern region.

# 1. Energy Saving and Conservation in the Four Southwestern Provinces/Region

## 1.1 Energy consumption index for the whole nation, 2005

At the beginning of this year, the Central Government clearly stipulated, in the 11<sup>th</sup> National Five Year Plan, the objective of a 20% reduction in the per unit GDP energy consumption by the year 2010. On 30<sup>th</sup> June, for the first time the Central Government publicised the Per Unit GDP Energy Consumption Index (see table 1-1) for all provinces, autonomous regions and municipalities in the nation, to serve as the working basis for assessing energy conservation and the reduction of energy consumption work by local governments during the 11<sup>th</sup> Five Year Plan period.

**Table 1-1: Per Unit GDP Energy Consumption Indices of all provinces, autonomous regions and municipalities in China, 2005 (abstract)**

Ranked by Per Unit GDP Energy Consumption	Territories	Per Unit GDP Energy Consumption ( tons of Standard Coal Equivalent / RMB 10,000 )	Per Unit GDP Electricity Consumption ( kwh/RMB 10,000 )	Per Unit Industrial Value Added Energy Consumption ( tons of Standard Coal Equivalent / RMB 10,000 )
	<b>Total</b>	<b>1.22</b>	<b>1,358.5</b>	<b>2.59</b>
1	Ningxia	4.14	4,997.7	9.03
2	Guizhou	3.25	2,460.6	5.38
3	Qinghai	3.07	3,801.8	3.44
4	Shanxi	2.95	2,264.2	6.57
5	Inner Mongolia	2.48	1,714.1	5.67
6	Gansu	2.26	2,531.0	4.99
7	Xinjiang	2.11	1,190.9	3.00
8	Hebei	1.96	1,487.6	4.41
9	Liaoning	1.83	1,386.6	3.11
10	Yunnan	1.73	1,604.6	3.55
12	Sichuan	1.53	1,276.3	3.52
20	Guangxi	1.22	1,251.7	3.19
22	Tianjin	1.11	1,040.8	1.45
28	Shanghai	0.88	1,007.2	1.18
29	Beijing	0.80	828.5	1.50
30	Guangdong	0.79	1,195.3	1.08

Source: *Per Unit GDP Energy Consumption Indices of All Provinces, Autonomous Regions and Municipalities in China, 2005*, National Bureau of Statistics of China and

National Development and Reform Commission National Energy Leading Group Office, 30<sup>th</sup> June 2006.

The energy consumption trend of regions from east to west shows as a slowly increasing line, and the more developed areas have lower per unit GDP energy consumption. In 2005, the first three areas with the lowest per unit GDP energy consumption were Guangdong, Beijing and Shanghai, and the highest three areas were Ningxia, Guizhou and Qinghai in the west, while provinces in central and northeast China had mid-level per unit GDP energy consumption. Two factors determine the energy consumption pattern of an area, the main one is economic structure and the other is the level of urbanisation. Beijing and Shanghai are the leading cities in China with service industries dominating the economy, therefore per unit GDP energy consumption is lower than economies dominated by secondary industries.

The western region, with abundant energy resources, is strengthening the development of traditional heavy industries thereby increasing the importance of intensive energy consumption and raw material consumption. In the eastern provinces, light industries dominate the economy. In the four Southwestern provinces/region, per unit GDP energy consumption for Guizhou, Yunnan and Sichuan is higher than the national figure, Guangxi is about the same as the national figure, while the per unit industrial value-added energy consumption for the four Southwestern provinces is higher than the national figure.

According to the national energy consumption figures for the first half of the year, the rate of increase for national energy consumption surpassed the rate of increase of GDP over the same period<sup>1</sup>. Per unit GDP energy consumption increased by 0.8% instead of decreased over the same period last year. The Central Government had no option but to take strong measures to deal with the situation. On 16<sup>th</sup> August 2006, Premier Wen Jiabao (溫家寶) made a criticism at a State Council general meeting that Inner Mongolia topped the list for high rate of increase of investment and per unit GDP energy consumption in China. He condemned the high energy-consumption and high pollutant rule-breaking projects of the Xin Feng Electrical Plant and demanded a written self-reviewing report from the Chairman of the People's Government of Inner Mongolia Autonomous Region, Mr. Yang Jing (楊晶). This kind of harsh attitude towards a provincial head of government is rare, and is therefore a warning signal to provincial governments, telling them that the Central Government will not tolerate a lack of prompt action on energy conservation

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<sup>1</sup> "Special planning: Unit GDP consumption is rising instead of falling. Development should not be concerned only with money", Tom.com, 7<sup>th</sup> August 2006. <http://news.tom.com/2006-08-07/000N/71212351.html>

and intensive energy consumption, but will be more forceful in implementing the energy policies concerning the reduction of per unit GDP energy consumption.

Intensive energy consumption in China is due to deep-rooted reasons including a too rapid increase in investment and inappropriate economic structure. Constraining intensive energy consumption is not an easy task. The increase in per unit GDP energy consumption, instead of an expected decrease, in the first half of this year, is an illustration of this difficult situation. There were, however, provinces and municipalities who have performed excellently. Guangdong, Beijing and Shanghai witnessed a decrease of per unit (RMB10,000 of) GDP energy consumption of 2.7%, 7% and 4.7% in the first half of this year<sup>2</sup>. Shandong, though enjoying very high industrial growth rates, announced a per unit GDP energy consumption decrease of 1.5% in the first half this year, quite unexpectedly, through the official web site of its Statistics Bureau<sup>3</sup>.

In the Southwestern provinces, the situation is unfortunately not so optimistic. Although Guangxi and Sichuan achieved GDP growth rates of 13.6% and 13.3% respectively, they had a decrease in per unit GDP energy consumption of 2.44% and 0.86% respectively<sup>4</sup>. Guizhou and Yunnan have to date not disclosed their energy consumption figures, and how well they did in energy conservation remains a puzzle.

## 1.2 Energy consumption in the four Southwestern provinces/region

At the world level, industrial energy consumption is about one third of total world consumption. But in China, industrial energy consumption is

<sup>2</sup> “Guangdong vs Shanghai: ‘How are energy conservation champions made?’”, Sohu.com, 18<sup>th</sup> August 2006. <http://news.sohu.com/20060818/n244861971.shtml>

“City Statistics Bureau announces that energy consumption in Beijing dropped by 7% compared with last year”, Beijing News Net, 20<sup>th</sup> August 2006. <http://beijing.qianlong.com/3825/2006/08/20/134@3376121.htm>

<sup>3</sup> “Per unit GDP energy consumption indices of Shandong cities, for 2005 and first half of 2006”, Shandong Statistical Information Net, 3<sup>rd</sup> August 2006. [http://www.stats-sd.gov.cn/disp/tjfx/tjzldisp\\_new.asp?id=0101012006011](http://www.stats-sd.gov.cn/disp/tjfx/tjzldisp_new.asp?id=0101012006011)

<sup>4</sup> “A good picture for industrial energy conservation during the first half of this year in Guangxi. Energy consumption per RMB10,000 of GDP dropped by nearly 3%”, Guangxi News Net, 14<sup>th</sup> August 2006. <http://www.newgx.com.cn/staticpages/20060814/newgx44df6042-675990.html>

“Economic observation: greening and lightening of GDP and innovative reforms of the economic mechanism or system”, Chengdu Information Net, 17<sup>th</sup> August 2006. <http://www.cticd.com.cn/neirong/list.asp?id=2331>

more than 70% of total national energy consumption<sup>5</sup>, in 1990 it was 66.5% and in 2004 it was 70.4%. Transportation, cargo storage and postal services, have become big energy consumers due to automobile development. From 1990 to 2004, industrial energy consumption increased from 4.6% to 7.4%, but domestic household energy consumption decreased from 16% to 10.5% in 2004 (see table 1-2)<sup>6</sup>. Thus it is clear that pressure from the Central Government on energy conservation mainly affects the structure of industries.

**Table 1-2: Total Energy consumption in China, 1990-2004**

	1990	1995	2000	2002	2003	2004
<b>Total Energy Consumption (10, 000 Tons of SCE)</b>	<b>98,703</b>	<b>131,176</b>	<b>130,297</b>	<b>148,222</b>	<b>170,943</b>	<b>203,344</b>
Composition of Energy Consumption (%)						
<b>Primary Industry</b>	<b>4.9%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>3.9%</b>	<b>3.8%</b>
<b>Secondary Industry</b>	<b>69.7%</b>	<b>74.3%</b>	<b>69.9%</b>	<b>70.0%</b>	<b>71.0%</b>	<b>72.1%</b>
- Industry	68.5%	73.3%	68.8%	68.9%	70.0%	70.4%
- Construction	1.2%	1.0%	1.1%	1.1%	1.0%	1.7%
<b>Tertiary Industry</b>	<b>9.4%</b>	<b>9.5%</b>	<b>14.2%</b>	<b>14.1%</b>	<b>13.8%</b>	<b>9.8%</b>
- Transport, Storage and Postal Services	4.6%	4.5%	7.6%	7.5%	7.5%	7.4%
- Wholesale and Retail Trades, Hotels and Catering Services	1.3%	1.5%	2.2%	2.3%	2.4%	2.4%
- Others	3.5%	3.4%	4.4%	4.3%	4.0%	3.9%
<b>Non-Production Consumption</b>	<b>16.0%</b>	<b>12.0%</b>	<b>11.4%</b>	<b>11.5%</b>	<b>11.3%</b>	<b>10.5%</b>

Source: *China Statistical Abstract 2006*

The level of energy consumption is greatly connected with the nature of industries. Smelting and pressing of ferrous metals, petroleum, raw chemical materials and chemical products, and production of electricity, are traditionally intensive energy consuming industries. They nearly determine the per unit GDP energy consumption level of an economy. Light industries, textiles, processing, and modern manufacturing industries generally have a lower level of per unit GDP energy consumption. The scale of production and technology level does to some extent affect per unit GDP energy consumption, the 2003

<sup>5</sup> “70% of China’s industries are high energy consumers. Urgent need to solve the problem of high energy consumption”, Sichuan Statistical Information Net.  
<http://www.sc.cei.gov.cn/content.aspx?TOP=%E4%B8%AD%E7%BB%8F%E4%BF%A1%E6%81%AF%E6%91%98%E8%A6%81z&RID=55747>

<sup>6</sup> Due to a lack of local industrial data, some of which has a 1-2 year time lag, this report will use data from 2003 and 2004 to analyse industrial energy consumption across the four Southwestern provinces/region. Despite the rigidity of industry, the four Southwestern provinces/region experienced rather steady development, hence it is deduced that analytical results can be used to depict the current energy consumption pattern.

list of ten intensive and non-intensive energy consumption industries basically reflects the relationship between industries and energy conservation (see table 1-3).

**Table 1-3: Ten most intensive and non-intensive energy consuming industries in China, 2003. (Per unit industrial value-added energy consumption: tons of SCE / RMB 10, 000) <sup>7</sup>**

	Top 10 Energy-intensive Industries	Per Unit Industrial Value-added Energy Consumption	Top 10 Non-energy-intensive Industries	Per Unit Industrial Value-added Energy Consumption
1	Smelting and Pressing of Ferrous Metals	8.523	Manufacture of Tobacco, Other Electronic Equipment	0.168
2	Manufacture of Chemical Fibres	7.451	Manufacture of Communication Equipment, Computers	0.300
3	Manufacture of Non-metallic Mineral Products	7.236	Manufacture of Leather, Fur, Feather and Related Products	0.411
4	Processing of Petroleum, Coking, Processing of Nuclear Fuel	6.984	Manufacture of Textile Wearing Apparel, Footwear and Caps	0.436
5	Manufacture of Raw Chemical Materials and Chemical Products	6.941	Manufacture of Electrical Machinery and Equipment	0.440
6	Smelting and Pressing of Non-ferrous Metals	5.996	Manufacture of Measuring Instruments and Machinery for Cultural Activity and Office Work	0.448
7	Mining and Washing of Coal	4.684	Manufacture of Transport Equipment	0.571
8	Production and Distribution of Electric Power and Heat Power	3.682	Manufacture of Beverages	0.883
9	Manufacture of Artwork and Other Manufacturing	3.660	Manufacture of Special Purpose Machinery	0.917
10	Manufacture of Paper and Paper Products	3.480	Manufacture of General Purpose Machinery	0.958
	<b>National Average :</b>	<b>2.844</b>		

Source: Data taken from *China Statistical Yearbook, 2004* and *China Statistical Yearbook, 2005*. This study calculated the concerned index.

Table 1-4 listed the industrial output and value-added of the top five industries in the four Southwestern provinces/region, Shanghai and Guangdong. The industrial structure and per unit GDP energy consumption is directly related. The ratio of local intensive energy consumption industries to total industrial output of the six provinces and municipalities are consistent with the national figure.

<sup>7</sup> In this table, energy consumption is a figure for the entire industry, industrial value-added is that of stated-owned and non-state owned enterprises above the designated scale. Therefore the unit industrial value-added energy consumption figure is not equivalent to that in table 1-1. This table also selected the industry with output in excess of RMB 100 billion to demonstrate industrial significance. Hence, the concerned data can only represent the distribution of national intensive energy consuming /non-intensive consuming industries, and its relative energy consumption ratio.

**Table 1-4: Ratio of the top five industries (in terms of total output) and energy consumption of industry in the four Southwestern provinces, Shanghai and Guangdong.**

National Ranking	Province / Region	Top Five Industries by Gross Industrial Output Value (*indicates energy-intensive industries, **indicates non-energy-intensive industries)	Proportion to Gross Industrial Output Value	Proportion to Value-added Industry	Energy-intensive Industries		Non-energy-intensive Industries	
					Proportion to Gross Industrial Output Value	Proportion to Value-added to Industry	Proportion to Gross Industrial Output Value	Proportion to Value-added to Industry
2	Guizhou	Production and Distribution of Electric Power and Heat Power*	14.2%	19.2%	48.1%	46.3%	9.9%	14.9%
		Smelting and Pressing of Ferrous Metals*	12.9%	10.1%				
		Manufacture of Raw Chemical Materials and Chemical Products*	11.7%	8.9%				
		Manufacture of Tobacco**	9.9%	14.9%				
		Smelting and Pressing of Non-ferrous Metals*	9.3%	8.1%				
10	Yunnan	Manufacture of Tobacco**	26.4%	47.2%	44.5%	30.5%	26.4%	47.2%
		Smelting and Pressing of Non-ferrous Metals*	12.8%	6.4%				
		Production and Distribution of Electric Power and Heat Power*	11.6%	11.7%				
		Smelting and Pressing of Ferrous Metals *	10.4%	6.6%				
		Manufacture of Raw Chemical Materials and Chemical Products *	9.7%	5.8%				
12	Sichuan	Smelting and Pressing of Ferrous Metals *	11.7%	10.1%	26.9%	30.6%	6.8%	8.3%
		Manufacture of Raw Chemical Materials and Chemical Products*	8.0%	7.4%				
		Processing of Food from Agricultural Products	7.6%	5.9%				
		Production and Distribution of Electric Power and Heat Power *	7.2%	13.1%				
		Manufacture of Beverages **	6.8%	8.3%				
20	Guangxi	Manufacture of Transport Equipment**	16.1%	10.8%	25.40%	25.30%	16.1%	10.8%
		Processing of Food from Agricultural Products	15.5%	12.2%				
		Smelting and Pressing of Ferrous Metals *	11.2%	10.6%				
		Smelting and Pressing of Non-ferrous Metals *	7.3%	8.3%				
		Manufacture of Raw Chemical Materials and Chemical Products *	6.9%	6.4%				

28	Shanghai	Manufacture of Communication Equipment, Computers and Other Electronic Equipment**	21.8%	—	8.20%	—	47.4%	—
		Manufacture of Transport Equipment **	12.1%	—				
		Smelting and Pressing of Ferrous Metals *	8.2%	—				
		Manufacture of General Purpose Machinery **	7.2%	—				
		Manufacture of Electrical Machinery and Equipment**	6.3%	—				
30	Guangdong	Manufacture of Communication Equipment, Computers and Other Electronic Equipment **	27.9%	20.9%	5.2%	7.1%	42.5%	34.9%
		Manufacture of Electrical Machinery and Equipment **	10.1%	9.7%				
		Manufacture of Raw Chemical Materials and Chemical Products*	5.2%	7.1%				
		Manufacture of Transport Equipment **	4.5%	4.3%				
		Manufacture of Metal Products	4.3%	4.2%				

Source: Data taken from *Guizhou Statistical Yearbook, 2005*, *Yunnan Statistical Yearbook, 2005*, *Sichuan Statistical Yearbook, 2005*, *Guangxi Statistical Yearbook, 2005*, *Shanghai Statistical Yearbook, 2005* and *Guangdong Statistical Yearbook 2005*. This study calculated the concerned index.

Guizhou is the most intensive energy consuming province, because it has a high proportion of intensive energy consuming industries, and its biggest industry, the thermal electricity industry, accounts for 45% of total industrial production<sup>8</sup>.

Intensive energy consuming industries in Yunnan are quite similar to Guizhou but per unit GDP energy consumption and per unit industrial value-added energy consumption are just 53.2% and 66.0% respectively for Yunnan. There are two reasons for this. Firstly, the tobacco industry contributes 47.2% of industrial value-added, and the tobacco industry heads the national list for non-intensive energy consuming industries. Secondly, hydroelectricity is the main power source in Yunnan. In 2005, 64.7% of electricity was produced by hydropower generators. Yunnan has the second largest hydropower resources in China. The renewable nature of hydropower keeps per unit GDP energy

<sup>8</sup> “Opportunities and challenges posed by the project to transmit western electricity to Guiyang city”, China Statistical Information Net, 4<sup>th</sup> November 2003.  
<http://www.mei.gov.cn/page/news/news.asp?CD=101898>

consumption low<sup>9</sup>, thus Yunnan ranks 10<sup>th</sup> in China for per unit GDP energy consumption.

The ratio of industrial value-added for Sichuan and Yunnan are quite similar. However in Sichuan, the industrial structure is more diversified, with non-intensive energy consuming industries like agricultural products processing and electronic information processing, and this keeps per unit GDP energy consumption low.

Per unit GDP energy consumption figures for Guangxi are the lowest among the four Southwestern provinces/region, and are roughly the same as the national figure. The reason for this is that the automobile manufacturing industry dominates the Guangxi economy, with high industrial output but low value-added. This pulls down the per unit GDP energy consumption figure, but returns a high per unit industrial value-added energy consumption figure. This gives rise to the present unique outcome as a result of an inability to resolve the deep-rooted value-added problem.

Shanghai and Guangdong are models of energy conservation in China. Their common characteristic is that more than 40% of industrial output comes from non-intensive energy consuming industries which were mostly started by foreign investors who have expertise in energy conservation. As Guangdong is promoting the development of the automobile industry, the low energy consuming and high output value nature of the assembly process has very much helped to keep the energy conservation figure as low as 2.7%. But in the long run, whether Guangdong will reproduce the low per unit GDP but high per unit industrial value-added energy consumption situation of Guangxi, remains to be seen.

In sum, the level of energy conservation directly correlates with the industrial structure. The policy of energy conservation stipulated in the 11<sup>th</sup> Five Year Plan reflected the determination of the Central Government to upgrade the industrial structure and transform technological capability. The provincial governments will have to enforce this policy throughout their local industrial strategy, and it is time to see the elimination and transformation of intensive energy consuming industries, and to change the criteria for selecting industries when attracting foreign investment. A possible dilemma is that areas with intensive energy consuming industries may lower their per unit GDP energy consumption by changing the industry or improving efficiency in

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<sup>9</sup> “Make electricity the pillar industry – interview with Mr. Wang Liangyou, Chairman of the Electric Industries Association, Yunnan”, China Electricity News Net, 5<sup>th</sup> June 2006.  
[http://www.cpn.com.cn/cpnn\\_zt/dl\\_jjbt/yn/200606050093.htm](http://www.cpn.com.cn/cpnn_zt/dl_jjbt/yn/200606050093.htm)

energy utilisation; but currently in areas with good energy management results, it is not easy to reduce per unit GDP energy consumption by a similar magnitude. As the Central Government requires each province to attain a similar level of improvement in energy consumption, provinces and municipalities with good energy conservation results obviously will encounter greater pressure and difficulty.

### 1.3 The necessity for energy conservation

China is a country with insufficient energy resources, and the per capita possession of energy resources is far below the average international level. Coal, petroleum and natural gas have per capita extractable energy reserves which are merely a fraction of the average international figure, being 58.6%, 7.69% and 7.05% respectively<sup>10</sup>. Besides, the efficiency of energy utilisation is extremely low. In 2004, China's global consumption share of petroleum was 8%, electricity was 10% and coal 31%, but GDP that year was a mere 4% of the world figure. In terms of energy consumption, the per unit GDP energy consumption for China is seven times the figure of Japan, six times that of the USA, and 2.8 times that of India<sup>11</sup>. Indeed, the high growth rate of the Chinese economy comes at the expense of over consuming energy resources and sacrificing the environment. At present, the developed countries are trying to restrict intensive energy-consuming industries that burn away a large quantity of non-renewable resources and seriously pollute the ecological environment, and they set strict barriers to force these industries out of their community. Meanwhile, China is still opening a door of convenience, with little or no barriers, to these industries, enabling other countries to undergo a process of hidden plunder of China's resources and energy. China therefore must do its best to curb this unhealthy trend of resource wastage and 'plunder', by ensuring the success of the energy conservation campaign.

In the four Southwestern provinces/region, despite differences in industrial structure, there is a common problem of intensive energy consumption. The factors of peculiar geographical location, natural resources and industrial policies in the past, have formulated a strong inclination towards seriously intensive energy-consuming industries, over a long period of time. In the western region of China, the rise of intensive energy-consuming industries

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<sup>10</sup> Ma Kai: "Activate the guiding spirit of the State Council policy. Ensure the fulfilment of the Energy Conservation Objectives of the 11<sup>th</sup> Five Year Plan" – speech delivered at the national working meeting on energy conservation, 26<sup>th</sup> July 2006. [http://www.sdpc.gov.cn/ljdh/t20060731\\_78431.htm](http://www.sdpc.gov.cn/ljdh/t20060731_78431.htm)

<sup>11</sup> "An important objective in the 11<sup>th</sup> Five Year Plan: Unit GDP energy consumption to be reduced by 20%", Xinhua Net, 14<sup>th</sup> November 2005, abstract taken from *People's Daily*. [http://news3.xinhuanet.com/politics/2005-11/14/content\\_3777360.htm](http://news3.xinhuanet.com/politics/2005-11/14/content_3777360.htm)

is dependent on cheap coal and cheap electricity. The 1990s witnessed a time when energy was not marketable. The provincial governments therefore introduced policies to encourage enterprises to convert surplus energy into products produced by intensive consuming industries. But since 2002, demand for energy has increased, and those highly intensive energy-consuming industries on the east coast have naturally moved to the western region where energy costs are still very low, hence the current situation of intensive energy consuming industries, serious pollution, and damage to the ecological environment in the western region as a result. The prices of electricity and coal in the west are just one third or even less than that of the east<sup>12</sup>, highly intensive energy-consuming industries therefore enjoy the privilege of unfair competition. Moreover because provincial governments have mostly pursued GDP growth figures, intensive energy-consuming industries have been the favourites in the region. This has driven the model of economic development in the western region.

In 2004, the share of energy consumption of the top five intensive energy-consuming industries among all industries in Yunnan was as high as 80.8%, while that of industrial output and industrial value-added was only 54.2% and 36.3% respectively. However in Guangdong, which topped all provinces for energy conservation, the top five energy-consuming industries have an industrial value-added share of 34.7%, a little lower than the Yunnan figure, but the energy consumption figure was only 58.4% (see table 1-5). Moreover in Guangxi, the energy-consumption – industrial output—industrial value-added ratios are between those of Yunnan and Guangdong. It is further evident that economic growth in the western regions comes at the cost of extensive energy consumption.

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<sup>12</sup> “Be cautious that the West is a funnel for resources”, Western China Coal Net, 22<sup>nd</sup> February 2005. <http://www.cwestc.com/news/disp.asp?id=27245>

**Table 1-5: Energy consumption, and industrial output-to-total output, industrial value-added to total value-added ratios of the top five energy-consuming industries of some provinces and autonomous regions, in 2004.**

Provinces / Region	Top 5 Industries in Terms of Energy Consumption	Industry's Proportion to Total Energy Consumption	Industry's Proportion to Gross Industrial Output Value	Industry's Proportion to Value-added to Industry	The 5 Industries' Proportion to Total Energy Consumption	The 5 Industries' Proportion to Gross Industrial Output Value	The 5 Industries' Proportion to Value-added to Industry
Yunnan	Smelting and Pressing of Ferrous Metals	25.0%	10.4%	6.6%	80.8%	54.2%	36.3%
	Manufacture of Raw Chemical Materials and Chemical Products	23.7%	9.7%	5.8%			
	Manufacture of Non-metallic Mineral Products	12.3%	9.7%	5.8%			
	Smelting and Pressing of Non-ferrous Metals	11.7%	12.8%	6.4%			
	Production and Distribution of Electric Power and Heat Power	8.1%	11.6%	11.7%			
Guangxi	Smelting Industry	26.6%	18.5%	18.0%	69.2%	32.7%	38.8%
	Manufacture of Non-metallic Mineral Products	16.0%	5.2%	5.7%			
	Manufacture of Foods, Beverages and Tobacco	14.3%	5.1%	7.9%			
	Electric Power Industry	12.3%	3.9%	7.2%			
Guangdong	Electric Power, Gas and Water Production and Supply	18.6%	3.8%	7.6%	58.4%	40.0%	34.7%
	Manufacture of Non-metallic Mineral Products	18.3%	3.5%	3.0%			
	Processing of Petroleum, Coking, Processing of Nuclear Fuel	8.1%	3.0%	2.0%			
	Smelting and Pressing of Ferrous Metals	7.2%	1.8%	1.2%			
	Manufacture of Communication Equipment, Computers and Other Electronic Equipment	6.2%	27.9%	20.9%			

Source: Data taken from *Guizhou Statistical Yearbook, 2005*, *Yunnan Statistical Yearbook, 2005* and *Guangdong Statistical Yearbook, 2005*. This study calculated the concerned percentage.

In comparing the top five highly intensive energy-consuming industries of Yunnan and Guangdong (see table 1-6)<sup>13</sup>, it is clear that other than

<sup>13</sup> The Sichuan and Guizhou Statistical Yearbook did not provide data for industrial energy consumption. Guangxi's industrial categories are expressed in a larger group – metallurgical industry, whilst China and Yunnan use a smaller industrial category - ferrous metals and non-ferrous metals,

the item “Production and Distribution of Electric Power and Heat Power”, the other four intensive energy-consuming industries of Yunnan all have unit value-added energy consumption figures far higher than that of Guangdong. Two factors account for this phenomenon. Firstly, Guangdong has better technological capability, and is therefore able to achieve lower unit value-added energy consumption. Yunnan has the advantage of cheaper hydroelectric power as compared to the thermal or nuclear electric power of Guangdong, and therefore can achieve lower unit value-added energy consumption. In terms of industrial efficiency (industrial value-added and total output), the two provinces each show their own advantage and there is little significance around regional differences. Secondly, in Guangdong, the proportion of foreign investment enterprises is relatively high. They are equipped with advanced facilities and technology, and depend largely on imported materials for processing. As a result, most manufacturing industries in Guangdong use imported materials, in terms of energy consumption, and Guangdong is obviously using less energy when compared which Yunnan which mainly relies on its own natural resources and local manufacturing industries to provide raw and elementary materials.

**Table 1-6: A comparison of the five top highly intensive energy-consuming industries for Yunnan and Guangdong**

	Per Unit Industrial Value-added Energy Consumption (Tons of SCE/RMB 10,000)		Value-added of Industry / Gross Industrial Output Value (%)	
	Yunnan	Guangdong	Yunnan	Guangdong
Smelting and Pressing of Ferrous Metals	15.53	8.44	26.7%	17.8%
Manufacture of Raw Chemical Materials and Chemical Products	16.69	0.88	25.3%	36.1%
Manufacture of Non-metallic Mineral Products	21.85	7.24	33.3%	29.3%
Smelting and Pressing of Non-ferrous Metals	7.49	2.35	21.2%	23.0%
Production and Distribution of Electric Power and Heat Power	2.85	3.02	42.6%	52.6%

Source: Data taken from *Guizhou Statistical Yearbook, 2005* and *Guangdong Statistical Yearbook, 2005*. This study calculated the concerned index and percentage.

In 2005, although the 12 provinces and regions achieved GDP of RMB 3,300 billion, and growth rates of 12.7% (2.8% higher than the national figure) the average capital return ratio was lower than the national figure<sup>14</sup>.

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hence the data for Guangxi and Yunnan are not comparable in this regard. Therefore, this paper could only compare the industrial performance between Guangdong and Yunnan.

<sup>14</sup> Seven out of the nine provinces who recorded capital return ratios less than 35% of national average, were from the western region. Generally, capital ratios for the twelve western provinces/municipalities were less than that of the national average. Source: “High energy consumption but low energy efficiency. How far can high capital investment boost the Western economy in China?”, China Qiao

This illustrates the unhealthy ‘high investment, low return’ economic growth model of the western regions. The recent nationwide energy conservation-reduction action plan tries to tackle the excessive use of energy and problems relating to ecological and environmental damage, and tries to put pressure on the extensive economic growth model in some regions. Therefore, energy conservation provides a crucial point for deciding whether the west can succeed at upgrading its industries, optimising industrial structure and raising its economic status in the nation.

#### **1.4 The effects of energy conservation action in the four Southwestern provinces/region**

The uncontrolled development of highly intensive energy-consuming industries in the western region is due to the fact that local officials have to boost their governance credentials which can be best signified by GDP figures, and that the present energy market and price mechanisms are distorted by inappropriate government policies.

Local government officials are not unaware of the undesirable consequences of over-development of intensive energy-consuming industries. But as their promotion is based on their governance record which singles out GDP growth rate as the indicator of excellence and pays little attention to energy or the environment, local officials will naturally consider, for the sake of their performance and promotion, the profitable development of intensive energy-consuming industries. However, in recent months, central government officials have repeatedly disclosed to the media that in future, the assessment of local government officials will emphasise per unit GDP energy consumption figures instead of GDP indicators. Therefore, very soon officials in the western region will adjust their working priorities to energy conservation and the reduction of energy consumption, and they will not need to sacrifice natural resources and the ecological environment to satisfy GDP growth indicators.

In the first half of this year, the State Development Planning Commission speeded up reform of the pricing mechanism in the energy market, and allowed the price to find its place in the market. This is beneficial to the Southwestern provinces (other than Guangxi which is not rich in energy resources), as it restricts the expansion of highly intensive energy-consuming industries and helps the Southwestern provinces grab bigger profits through the west-to-east electricity transmission scheme. Slowly, the enterprises can use

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Net, 17<sup>th</sup> August 2006.

<http://61.135.142.227:82/gate/big5/www.chinaqw.com.cn/tzcy/zfdx/200608/17/41146.shtml>

their increased profit to upgrade managerial and technical abilities and lower energy consumption. The fact that Guangdong, Shanghai and Beijing rank as the top-three in energy conservation is because energy prices in these places are the highest in China. Guangxi has the highest energy price among the four Southwestern provinces/region, and energy conservation performance is the best in the region. Therefore, it is possible for local governments in these provinces and regions to put part of their profits from increased energy prices into technological research. This will upgrade product quality and technology, boost the renewable economy and lower unit value-added energy consumption in highly intensive energy-consuming industries. This will result in an extensive economic development model which can be transformed into an intensive one.

### **1.5 Energy conserving measures in the four Southwestern provinces/region**

In the past two years, the four Southwestern provinces/region have been enforcing a series of energy conserving measures, which may be categorised into three types:

1. Using administrative methods, the provinces/region have closed a number of highly intensive energy-consuming enterprises, and eliminated technologically backward industrial equipment. Sichuan, for example, issued in the first half of this year a document on 'Guidance on the closure of small thermal electricity generators in the Sichuan province', and stipulated that small thermal generators with a capacity below 50,000 kilowatts will be closed step by step in 2006, 2007, and 2008<sup>15</sup>. Zhigong city in Sichuan formally enforced the energy conservation supervision regulations and plans to eliminate more than 200 types of intensive energy-consuming equipment which are now prohibited by the state<sup>16</sup>.
2. In the first half of this year, the four Southwestern provinces/region signed up to a 'military oath' with big corporations and local key enterprises in the national list of 'a thousand enterprises to take energy conservation actions'.

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<sup>15</sup> "Sichuan shuts down small thermal power plants below 50,000 kilowatt", Zhonghua Construction Information Net. <http://www.zjzy.org.cn/hyxx1.asp?id=2903>

<sup>16</sup> "Zigong city of Sichuan has eliminated more than 200 high energy consuming big sharks in the past five years", Dongfang Construction Net. <http://www.df168.cn/news/newsnr.asp?id=74177>

Some provincial and municipal governments also signed up with other key enterprises agreements on energy conservation.

3. For some highly intensive energy consuming enterprises, the government has adopted discriminatory pricing measures, given monetary incentives to energy conserving technological research and utilisation, and encouraged the technical upgrading of intensive energy-consuming industries. Altogether this gave a clear message: lower energy consumption or leave. From 1<sup>st</sup> October 2004 to 31<sup>st</sup> May 2005, for example, Yunnan enforced discriminatory pricing on intensive energy consuming industries. This was in line with announcements made by the provincial economic planning commission in April 2006. Yunnan would impose discriminatory energy pricing on seven industries, namely, phosphorous, aluminum electrolysis, ferrous alloys, calcium carbide, alkaline, cement, and steel. In total, 176 enterprises feature on the first list for discriminatory pricing and shut down, with price penalties of RMB 0.05 added to the present electricity price; and 193 enterprises are to face restrictions, with RMB 0.02 added to the present electricity price<sup>17</sup>. The Yunnan Government does not intend to increase revenues through discriminatory pricing, but it does intend to exert pressure on the enterprises through pricing mechanisms to the effect that the enterprises are encouraged to speed up their technology upgrading process.

In a nutshell, the first two measures are strong administrative rules aimed at the immediate reduction of intensive energy-consuming enterprises, and lower energy consumption. The third measure makes use of price motivation and market elimination mechanisms with the intention of thoroughly transforming the industrial structure.

Energy conservation and the reduction of energy consumption present a comprehensive problem, requiring a plethora of technical, market, administrative and educational measures. In the Southwestern region, especially in the energy-rich provinces of Sichuan, Guizhou and Yunnan, giving up highly intensive energy-consuming industries is not absolutely necessary, a possible alternative action plan is to speed up the energy pricing reform under the direction of the central and local government and let the market find its price. Business enterprises will then adjust their energy use

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<sup>17</sup> “Yunnan: High energy consuming industries should pay higher electricity prices”, People’s Net, 13<sup>th</sup> April 2006. <http://finance.people.com.cn/GB/1047/4294433.html>

policy and upgrade technology and products. Besides, local governments can make adjustments in economic structure and strengthen the development of low energy-consuming industries such as tourism, biotechnology and agricultural product processing, to the effect that per unit GDP energy consumption figures can be diluted.

## 1.6 Implications for Hong Kong

Hong Kong industries have been migrating to the Mainland for years, and Hong Kong does not have the problem of highly intensive energy-consuming industries in the same way that the Southwestern provinces/region do. However, Hong Kong may draw inspiration from the action plan of the Southwestern provinces and China as a whole, as described below:

1. Those affected by the energy conservation action plan are obviously the Hong Kong enterprises now in Mainland China. They were the first batch of investors to enter the Chinese boundary and enjoyed a lot of privileges, but being mostly labour-intensive SMEs, they are characterised by low technology and sometimes even intensive energy-consuming and high polluting industries like dyeing, electroplating, chemical and metal smelting<sup>18</sup>. Making use of their relative superiority in technology and management, as well as privileged policy treatment, the Hong Kong enterprises after years of operation, have accumulated quite handsome profits. However, the problem with Hong Kong enterprises is that they do not invest their profits on research and development, so their technology development has remained at the same level for years. The Hong Kong Trade Development Council found that only 20% of the 100,000 Hong Kong enterprises in the Pearl River Delta had transformed or invested in high-tech

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<sup>18</sup> According to the media, the Guangdong Provincial Government is going to classify printing and dyeing, paper making, leather, electroplating, petrochemicals, fertilizers, dyes and pesticides as highly polluting industries. Shenzhen Baoan is about to release a document entitled *Temporary Guidelines on Developing Renewable Projects and the Concerned Approval in Baoan*, which identifies petrochemical, printing and dyeing, electroplating and printed circuit board as intensive energy consuming, highly discharging and highly polluting industries. The said projects have quite a wide industrial coverage, and are dominated by small- and medium-sized enterprises, who operate low profile businesses in order to dodge stringent environmental regulations. Therefore, it is very difficult to estimate the number of companies on this list. Printing and dyeing, leather, electroplating, petrochemicals, printed circuit board industries are complementary to Hong Kong's traditional industries, such as textiles, clocks and watches, as well as metal products, jewellery and electronic appliance. Hence, it can be deduced that many of Hong Kong's small- and medium-sized enterprises should engage in these industrial areas.

industries<sup>19</sup>, thus most of them will face a serious survival crisis in the near future. To solve the problem, the only solution is to increase input into technological research and development, upgrade the technical element, increase product value-added, improve energy conservation effects, cooperate with Mainland enterprises and develop a renewable economy. This implies big changes in business orientation and modes of operation, and the SMEs lacking capital, human resources and managerial expertise face great difficulties. Therefore, a likely scenario is that in the near future, a great number of Hong Kong enterprises will be pressured by local governments to close their plants and leave.

2. As the energy conservation programme builds momentum in China, from the national to the local levels, enterprises will be required to invest a lot of capital in upgrading energy conservation technology. Energy conservation products present a promising investment opportunity. In Chengdu, for example, the Jialing Electric Appliances Company obtained high-voltage adaptors orders worth over RMB 10 million, in July 2006, while before the average monthly orders amounted normally to only RMB two million. This sudden increase in demand resulted in insufficient production capacity for the first time. The marketing manager, Mr. He Yu commented, 'Energy conserving products have suddenly become hot products over night<sup>20</sup>.' Hong Kong businesses should grab this opportunity to enter the energy conservation products market by utilising their superiority in capital, Mainland experience and overseas connections, import foreign technology, expertise and professional specialists, form ventures or other forms of business relationships.
3. With respect to energy conservation, Hong Kong citizens are highly intensive energy consumers. Shopping arcades and offices are air-conditioned throughout the year, whilst at home air-conditioners are turned on all night; Hong Kong is indeed the 'city of cold-feeling'. Air-conditioning is not good for health, but the people of Hong Kong still like to enjoy strong air-conditioning. One reason is that air ventilation in domestic apartments and offices is generally not satisfactory, and air-

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<sup>19</sup> "Deep problems make it difficult to see blue sky again in Guangdong and Hong Kong", *Asia Week*, 27<sup>th</sup> August 2006.

<sup>20</sup> "Energy conserving products are popular. National action creates billion dollar business", China Electric Equipment Net, 19<sup>th</sup> September 2006, <http://www.ele86.com/newsread.asp?id=404>

conditioning is used to keep the air fresh at a comfortable temperature.

Hong Kong could draw upon the experience of Guangdong. On 15<sup>th</sup> March 2006, Guangdong implemented the “Regulations on energy conservation building designs in areas hot in summer and warm in winter” which stipulate measures and instructions about windows facing different directions. For example, windows should not exceed half the face of a wall, windows facing east or west should not use wall-to-wall glass, whilst dark-coloured roofs and outside walls are not encouraged. Preliminary estimates indicate that energy conserving buildings consume at least 50% less energy. As the buildings have good ventilation properties like sunshine shelter and heat dispersal, they can be used for long periods of time and have long term economic benefits<sup>21</sup>. In Japan and Europe, town planning, urban planning and building structures all take into consideration innovative energy conservation measures. Laws and regulations are issued to ensure good use of energy and success of energy conservation.

In 2004, the Mechanical and Electrical Engineering Department of the Hong Kong SAR Government issued the ‘Regulations governing energy consumption in buildings’ which provided mechanical and electrical engineering guidelines on electricity, lighting, air-conditioning and elevators. Combined with the Guangdong regulations on architectural considerations, such as outside wall, roof structure, building materials, direction of the building etc., these regulations form a rather comprehensive set of guidelines covering the foundational and primary stage of conservation work, and daily and maintenance work. The Guangdong Provincial Government of course can follow their mode of governance and demand that all buildings abide by strict energy conservation regulations, while the Hong Kong SAR Government can only give guidelines for builders to follow.

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<sup>21</sup> Jiang Zheng: “Guangdong energy conservation regulations for buildings: windows not to be more than half the area of the wall”, *Yangcheng Evening Post*, 27<sup>th</sup> February 2006.  
<http://gz.focus.cn/news/2006-02-27/185807.html>

No matter what, soliciting the experiences on the Mainland and abroad, Hong Kong could develop a first class energy conservation system and be a leader from which Mainland cities might learn.

4. The highly intensive use of energy is generally connected with high pollution. In Hong Kong, air pollution and energy consumption are deteriorating. This not only harms the health of Hong Kong citizens, but drives foreigners and investors away. Much of this pollution comes from two thermal electricity plants. As nuclear and hydropower on the Mainland are developing rapidly, strengthening cooperation with Guangdong and increasing transmission of hydroelectric power from the southwestern provinces would mean reduction of investment and hence pollution by the local thermal electricity companies and full use of the capacity of hydropower in the southwest. A Hong Kong-Pearl River Delta-Guangdong transmission network would certainly help realise promising economic benefits in the southwest, and therefore result in a multi-win situation for Hong Kong, Guangdong and the Southwestern provinces/region.

## 2 Trends and Updates for the Four Provinces/Region

### 2.1 Economic Performance of the Four Provinces/Region

Generally speaking, the economies of the four provinces/region fared quite well from January to July in 2006. As in past months, the performance of Sichuan and Guangxi was quite remarkable, outperforming Yunnan and Guizhou. Of the four provinces, the growth rate of value-added industry in Sichuan was topmost, and ranked third nationwide in five consecutive months. The growth rates of Yunnan and Guizhou, in terms of their economic indicators, are still lagging behind the national average, but are more or less stable.

There are two points that need to be singled out regarding Guangxi's economic performance. Firstly, due to the rapid increase of infrastructure investment, urban investment in Guangxi claimed the highest growth rate in the four provinces/region, up by nearly 40%. Secondly, although total sales of industrial products were not so outstanding, they kept improving, and sales rates in May and July surpassed 100% respectively. It seems that the problem of overproduction that haunted Guangxi early this year has disappeared.

**Table 2-1: Economic Performance of the Four Provinces/Region, January to July 2006**

Province / Region	Value-Added to Industry (RMB 100 Million)		Sales Ratio of Manufactured Products (%)		Investment (RMB 100 Million)		Urban disposable income per capita in July (RMB)
	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	
National Total	46,957	17.6%	97.62%	-0.13	44,771	30.5%	915
Guangdong	5,752	18.2%	97.16%	-0.75	3,034	15.2%	1,208
Sichuan	1,422	24.0%	96.98%	-0.43	2,050	37.5%	738
Guangxi	587	22.7%	94.45%	-3.57	869	39.2%	764
Yunnan	673	16.7%	97.85%	-1.02	887	27.7%	834
Guizhou	373	17.4%	95.72%	-0.35	500	21.7%	721

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.

Source: Website of National Bureau of Statistics, <http://www.stats.gov.cn/tjsj>.

Foreign trade in the four provinces/region saw a steady increase, with surpluses continuing to expand. Sichuan performed best—its growth import and export rates were not only the highest of the four provinces/region from January to July this year, they were also higher than the national average, with the growth rate for imports standing at 50%. However, Guizhou was outstripped in this respect by the other three provinces, with its growth rate for aggregate imports slipping continuously, standing at less than 4% from January to July, thanks to a decrease in imports in this month.

From September this year on, the Chinese Government will revise its export rebate policy for the third time. The new round of policy adjustments will cover 16 main sectors, including iron and steel, ferrous alloys, aluminium, copper, tin, zinc, lead, antimony and yellow phosphorus etc., which will impact Yunnan most, as these sectors account for 40% of its exports<sup>22</sup>. It is estimated that the revision will directly lead to the reduction of Yunnan's import and export worth by USD 1 billion. In the late 1980s, Yunnan's non-ferrous metallurgy and phosphorus chemicals industries were gradually developed into its pillar industries, therefore Yunnan has been the hardest hit of the four provinces/region in this round of policy revisions, although the other three provinces which also rely heavily on resources have been influenced by various degrees. However, since the proportion of exports to the whole economy of Guangxi, Yunnan and Guizhou is quite low, and this area is supposed to concentrate mainly on local markets in its future development, the policy adjustment will not give a fatal blow to the provincial economies. Besides, the fast-growing economy and China's manufacture industry will demand a huge amount of metallurgical products, which will presumably absorb parts of the production in this area. Speaking overall, the effects caused by the adjustment on the export rebate are more of a short-term in nature rather than a long-term one.

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<sup>22</sup> For specific references, see "Lowering the export tax redemption rate: crisis or opportunity?", 25<sup>th</sup> September 2006.

1. Economic Reference. [http://news3.xinhuanet.com/fortune/2006-09/25/content\\_5134196\\_2.htm](http://news3.xinhuanet.com/fortune/2006-09/25/content_5134196_2.htm)  
2. Chine Finance Net. <http://img.cfi.net.cn/p20060925000767.html>

**Table 2-2: Foreign Trade in the Four Southwestern Provinces/ Region, January – July 2006**

Province / Region	Exports (USD Million)		Imports (USD Million)		Balance (USD Million)
	Jan - Jul	Growth Rate	Jan - Jul	Growth Rate	Jan - Jul
National Total	5,089.0	24.8%	4,329.4	21.1%	759.6
Guangdong	1,563.4	27.5%	1,207.1	20.0%	356.3
Sichuan	32.7	31.1%	25.1	54.5%	7.6
Guangxi	18.5	18.1%	16.2	24.1%	2.3
Yunnan	17.5	15.5%	16.0	33.4%	1.5
Guizhou	5.5	15.1%	3.1	3.9%	2.4

Note:

1. The data on the import and export commodities in this table are calculated by the location of China's trade managing units by region.
2. A negative balance indicates an unfavourable balance of foreign trade.

Source: *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 203, July 2006, pp 16-17.

## 2.2 Trends and Updates on Sichuan

### 2.2.1 Economic Performance of Sichuan

The economy of Sichuan operated smoothly from January to July, and saw steady growth in investment, industrial production, foreign trade and budgetary government revenue etc.

Total investment in fixed assets mainly focused on secondary and tertiary industries, of which the industrial sector and transportation sector saw the most robust increase, with growth rates standing at 41.9% and 57.5% respectively<sup>23</sup>.

Industrial investment kept up its fast-growing pace. Industrial production in Sichuan continued to increase rapidly, with the growth rate of value-added to industrial enterprises above a designated size occupying the third place nationwide for five successive months. This rapid increase was mainly driven by heavy industry, which saw its value-added increase by 24.1%, 0.4% higher than the first half of the year. Meanwhile, industrial product sales of enterprises above the designed size were 0.4% higher than the first half of the year<sup>24</sup>. The rapid development of industry may be attributed to the successful implementation of a “Strong Industrial Province” strategy.

Foreign trade from January to July also witnessed rapid growth, with the export of hi-tech products growing by 58.7%<sup>25</sup>. The import and export of mechanical products which account for 50% of the total volume of Sichuan’s foreign trade was 70.9% higher than the same period of preceding year<sup>26</sup>. The export structure is improving.

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<sup>23</sup> “Sichuan economy grows smoothly and relatively fast in the first seven months of this year”, Website of the Statistical Bureau of Sichuan Province, 16<sup>th</sup> August 2006.

[http://www.sc.stats.gov.cn/stats\\_sc/zxtjxx/200608160045.htm](http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200608160045.htm).

<sup>24</sup> “Sichuan economy grows smoothly and relatively fast in the first seven months of this year”, Website of the Statistical Bureau of Sichuan Province, 16<sup>th</sup> August 2006.

[http://www.sc.stats.gov.cn/stats\\_sc/zxtjxx/200608160045.htm](http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200608160045.htm).

<sup>25</sup> “Sichuan exports, capital inflows, and external economic activities continue to grow rapidly between Jan - July”, Sichuan Business Portal, 16<sup>th</sup> August 2006.

<http://sichuan.mofcom.gov.cn/aarticle/sjtongjizl/200608/20060802890615.html>.

<sup>26</sup> “Sichuan import-export figures for electrical and mechanical products increase by 70% between Jan – July compared with same period last year”, BHI, 31<sup>st</sup> August 2006.

[http://www.bhi.com.cn/info/Show/Show\\_N110.asp?id=227313&Code=BQUV0P](http://www.bhi.com.cn/info/Show/Show_N110.asp?id=227313&Code=BQUV0P).

However, there were certain problems with Sichuan's economic performance from January to July. First of all, in recent months, Sichuan has experienced the worst drought for more than 60 years, causing direct economic losses worth up to RMB 8.3 billion<sup>27</sup>. The drought will seriously disrupt agricultural production and the income of peasants in the coming months, thereby affecting rural consumption and the total amount of investment. It will also strain immediate supplies of electricity and water, which may hinder industrial development, whilst urban income per capita is increasingly slowing, which may affect social consumption and retail markets. This in turn will make reducing energy consumption an arduous task. Whether Sichuan will sacrifice its industrial development in order to meet energy consumption targets remains to be seen.

**Table 2-3: Major Economic Indicators for Sichuan, January to July 2006**

Items	Jan – July (RMB 100 Million)	Compared with the Same Period of Preceding Year
Total Retail Sales of Consumer Goods	1,861	14.6%
Budgetary Government Revenue	345	28.1%
Budgetary Government Expenditure	525	24.1%
Total Value of Foreign Trade (USD 100 Million)	58	40.3%
Per Capita Disposable Income of Urban Households	5,495	10.2%
Total Investment in Fixed Assets	2,355	37.1%

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. "Sichuan economy grows smoothly and relatively fast in the first seven months of this year", Sichuan Statistics and Information website, 16<sup>th</sup> August 2006. [http://www.sc.stats.gov.cn/stats\\_sc/zxtjxx/200608160045.htm](http://www.sc.stats.gov.cn/stats_sc/zxtjxx/200608160045.htm).
2. Website of National Bureau of Statistics. <http://www.stats.gov.cn/tjsj>.

## **2.2.2 Updates on Sichuan – a university graduate for each village (community)**

Between May and August 2006, the Organisation Department, Personnel Department, Labour and Social Security Department of Chengdu city and the cities and prefectures within Chengdu (成都) jointly publicised a recruitment notice for "a university graduate for each village (community)". Attractive benefits included a monthly living allowance of RMB 800 for each graduate, employee insurance, additional merits for admission to higher degree

<sup>27</sup> "Sichuan loses 8.3 billion yuan due to drought", China Net, August 19<sup>th</sup> 2006. [http://www.china.com.cn/economic/txt/2006-08/19/content\\_7089137.htm](http://www.china.com.cn/economic/txt/2006-08/19/content_7089137.htm).

studies upon expiry of service, future access to more senior posts in the civil service, flexible registration arrangements for residency and personnel agency policy, and accumulation of years of service policy. Job vacancies included secretaries of grassroots village youth leagues, or village (community) assistants to head officials. They would have the privilege of sitting on village committees or commissions, party committees, or ad hoc project committees, and would be encouraged to initiate or start technology demonstrations, or start economic entities or enterprises, and participate in the construction of a new socialist countryside. Many new graduates applied enthusiastically. Chengdu plans to recruit 1,848 graduate volunteers to work at grassroots level<sup>28</sup>, and by 2007 there will be one university graduate for each village or community<sup>29</sup>.

Fourteen departments of the central administration of the Chinese Communist Party, including the Organisation Department and the Propaganda Department of the Central Committee of Communist China, issued in June 2006 the document of *Notice on successful completion of employment work for graduates from higher educational institutes in 2006*. It called for officials to make efforts to assist university graduates with job placements, and guide and encourage graduates to work at grassroots level. This should ensure the success of projects like the “university student voluntary services in the western region” programme and the “three supports and one assistance” programme (which provides support in medicine, agriculture, and education and assistance to the poor, incorporating the one university graduate for each village programme). In the coming five years, the nation will recruit 100,000 university graduates to work for 2-3 years in the countryside at grassroots level, in projects to provide support in medicine, agriculture, and education and assistance to the poor<sup>30</sup>.

In recent years, Beijing, Henan, Jilin, Sichuan, Hunan, Zhejiang, Anhui and Guangdong have launched the “university graduate for each village” programme. It has become fashionable to work as village government bureaucrats, now referred to as the “New Rustication Movement”<sup>31</sup>. Beijing,

<sup>28</sup> *Guidance from the Offices of the Communist Party Chengdu city committee, and the Chengdu city people’s government, on guiding and encouraging university graduates to work at grassroots level and help construct a new socialism in rural areas*, 12<sup>th</sup> May 2006; *Pengzhou city: ‘one university graduate for each village (community)’ recruitment details*, 8<sup>th</sup> August 2006; *Pujiang County: ‘One university graduate for each village (community) scheme’ recruitment notice*, 5<sup>th</sup> July 2006.

<sup>29</sup> “University graduates as village government officers: cultivating expertise in the developing rural areas”, Sichuan News Net, 15<sup>th</sup> June 2006. <http://rc.newssc.org/system/2006/06/15/010014498.shtml>

<sup>30</sup> “Central Organisation Department, Education Department and 12 other departments jointly issued a document requesting appropriate measures to ensure proper handling of job placements to provide work for fresh university graduates this year”, China Education, Research and Computer Net, 2<sup>nd</sup> June 2006. <http://www.edu.cn/20060602/3192986.shtml>

<sup>31</sup> “Source: Can transplanted ‘university graduate village officials’ fuse into the rural body system?”, *News Weekly*, 22<sup>nd</sup> August 2006. [http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/school/2006-08/22/content\\_4991759.htm](http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/school/2006-08/22/content_4991759.htm)

for example, recruited 2,016 university graduates this year to the countryside to work as assistants to party officials in the villages, or assistants to the head of the village administrative committees. These graduates will stay in the rural areas of Beijing for three years. A total of 8,000 university graduates would be needed to fill every village with one graduate working as village bureaucrat<sup>32</sup>. In the “university student voluntary services in the western region” programme, there were 6,939 volunteers recruited in 2004, for 164 poor prefectures, while the total number of volunteers for the western project totalled 17,132 persons<sup>33</sup>.

The main reasons for university graduates to select to work as village bureaucrats are an increasingly tough job market and the special benefits of working as a village bureaucrat. As universities expand, the number of university graduates in China has increased rapidly from 1.14 million in 2001 to 4.13 million in 2006. Compared with the 2005 figure, university graduates increased by 750,000, or 22%, in 2006. The total demand for university graduates in the job market is estimated to be only 1,665,000, which will leave nearly 60% of new graduates unemployed. A survey on the employment situation of university graduates in China for the year 2006 indicates that up to May, only 49.81% of graduates had signed employment agreements or had promised an employment but not yet signed formally, and in the western region the figure was only 41.73%, and more than half of graduates still could not find a job<sup>34</sup>.

According to data released by the Labour and Social Security Bureau of Beijing, the medium monthly salary of post-secondary institutions in Beijing this year is RMB 1,872<sup>35</sup>, but the average monthly salary of a university graduate village bureaucrat from Beijing is RMB 2,500. Besides, there is the benefit of having Beijing residency registration. This means that competition for village bureaucrat posts is very intense and six graduates compete for each post. The list of applicants includes candidates who have higher degrees and excellent bachelor degrees from Peking University and Tsinghua University. Aside from Beijing, Chengdu offers university graduate village bureaucrats a monthly living allowance of RMB 800 and a list of other benefits. Compared with the starting salary of RMB 800-1,200 for an ordinary graduate, the position of village bureaucrat is obviously very attractive<sup>36</sup>. The situations of many other provinces and municipalities across the nation are similar<sup>37</sup>.

<sup>32</sup> “2,016 university-graduate village officials reported to duty in Beijing’s rural area today”, *Beijing Morning Post*, 4<sup>th</sup> July 2006.

<sup>33</sup> “In 2004 the total number of volunteers to join the Project for the Western Areas of China reached 17,132”, *China Youth Daily*, 16<sup>th</sup> February 2005.

<sup>34</sup> “Job survey on university graduates: 60% of graduates expect starting salary of RMB1,000-2,000”, Sina Net, 16<sup>th</sup> July 2006. <http://news.sina.com.cn/c/2006-07-16/145110439670.shtml>

<sup>35</sup> “Beijing newly employed graduates have average salary set to a minimum of RMB1,145”, *Beijing Youth Post*, 21<sup>st</sup> August 2006. <http://www.ynet.com/view.jsp?oid=11856154>

<sup>36</sup> “Starting salary reduced again by 10%. University graduates in ‘an era of substitute salary’”, Sohu Finance, 13<sup>th</sup> February, 2006.

The All China Students' Federation uses the slogan "Go to the west. Go to grassroots. Go to where the country and the people most need you" to encourage university graduates to work at grassroots level and in the countryside<sup>38</sup>. In comparison, the slogans forty years ago declared, "We have two hands. We don't stay in the city idling for food"<sup>39</sup> and "Take re-education to the poor, lower and middle level peasants"<sup>40</sup>. It is clear that today's slogan has fundamental differences from those of the last rustication movement. Due to the harsh nature of the job market and the attractive basket of benefits offered by the government, university graduates are voluntarily moving to the countryside and contributing to the improvement of education, medicine, agricultural technology, management and democracy at grassroots level by offering their up-to-date knowledge on information science, technology, management and even way of life.

However, this "university graduate village bureaucrat scheme" is not so well accepted by the peasants. The problem is that some graduates are not conversant in agricultural technology, and some of their major subjects are totally unrelated to the construction of a new countryside. Therefore, scholars from the agriculture profession suggest that graduates not majoring in agriculture should take one or two courses in agriculture to make themselves more capable of solving problems for the peasants so that they do not face criticism from the peasants<sup>41</sup>.

In the long run, the university graduate village bureaucrat scheme should produce significant effects on the development of the rural economy, improve rural education and medicine, narrow the gap between urban and rural development, and help construct a harmonious society. In the past, cities have attracted a great number of university graduates, drawing talent out of the countryside. This has resulted in a serious shortage of skilled local personnel in the rural area, widening the gap between urban and rural development. Now the village bureaucrat scheme still has quite a lot of problems, but it can be

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<http://business.sohu.com/20060213/n241791597.shtml>

<sup>37</sup> "2016 university-graduate village officials reported to duty in Beijing's rural area today", *Beijing Morning Post*, 4<sup>th</sup> July 2006.

<sup>38</sup> "Obey the call of the motherland, go to where the country most needs you and strive for achievement there — a proposition letter from the All-China Students' Federation to all university graduates", All-China Students' Federation, 20<sup>th</sup> April 2005.

<http://news.jxnews.com.cn/system/2005/06/09/002019561.shtml>

<sup>39</sup> "We have two hands. We won't live leisurely in the city", *People's Daily*, 23<sup>rd</sup> December 1968.

<sup>40</sup> See Guangzhou Culture Promotion Office edited, *20<sup>th</sup> Century China All Records*, Beiyou Wenyi Publish, 1995, P.929.

<sup>41</sup> "Source: Can transplanted university-graduate village officials fuse into the village body system?", *Xinwen Weekly*, 22<sup>nd</sup> August 2006.

[http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/school/2006-08/22/content\\_4991759.htm](http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/school/2006-08/22/content_4991759.htm)

expected that the scheme will have a positive impact on the improvement of rural human resources and transformation of some rural ways of thinking.

### Implications for Hong Kong

1. The increase in supply of university graduates has created an employment problem and starting salaries are on a downward trend. Subsequently Hong Kong will have to adjust the expectations of university graduates and society.

The problem of job placements for university graduates on the Mainland is quite similar to that in Hong Kong in recent years. In the 1990s, Hong Kong experienced a change from elite education to mass education. Universities greatly increased their intake, and solved the problem of shortage in human resources due to the uncertain prospects of Hong Kong after 1997, but in recent years (especially during the period of economic slowdown between 1998-2003) the university graduate employment problem has become acute. Many graduates cannot find suitable jobs, and the unemployment figure is on the rise. Starting salaries for graduates will surely continue to decline, and the kind of jobs they can get will surely be more rudimentary. The various post-secondary institutions should provide more career guidance to help graduates understand the social trends better and eliminate their inflated elite ego so that they will adjust their salary and job expectations to a more realistic level. Hong Kong has been transformed from a service-oriented economy and the job market tends to compete for talents of higher qualifications. An abundant supply of university graduates makes a bachelor degree the basic requirement for many jobs which obviously tend to cover jobs in the lower echelon, further down from middle to lower levels of management and professional services. The society should make the public aware of this trend, try to create more jobs suitable for our new generation of university graduates, and minimise the waste of human resources and related social problems caused by the over-supply of university graduates.

2. Encourage post-secondary graduates from Hong Kong to participate in the construction of the new countryside in China.

In the developed societies of Europe and America, there are often government and non-government volunteer programmes which send young people to developing countries to help the poor and needy. Young graduates and professionals joining the programme not only help the developing regions but also develop their own perspective, abilities and experience, raising the quality of their mind and soul. The “university student voluntary services in the western region” programme is of this kind. Hong Kong is undoubtedly the most developed area in the Peoples’ Republic of China. It is definitely in a position to encourage its young people to participate in voluntary services on the Mainland, establish such programmes to help the poor and needy in China, or encourage and organise young people to work in the countryside or at grassroots level jobs in China, in areas such as education, medicine and hygiene, engineering technology or daily management work. Such arrangements will not only enable the Hong Kong community to contribute to development on the Mainland, but also strengthen the link and understanding between the Mainland and Hong Kong. Young men can be taught to endure hardship and improve their personal calibre which in return will bring positive rewards for Hong Kong.

## 2.3 Trends and Updates on Guangxi Zhuang Autonomous Region

### 2.3.1 Economic Performance of Guangxi

The growth rates of Guangxi, in terms of its various economic indicators, saw decreases in different areas from January to July in 2006, which was largely caused by economic policy adjustments and unpredictable factors, such as the weather. From January to July, the growth rate for urban investment in fixed assets dropped by 0.9% compared with the first half of the year<sup>42</sup>.

It is worth noting that the structure of urban investment is optimising, with the investment pattern weighing towards “intensive investment”. From January to July, the growth rate of investment in real estate dropped by 1.2%, while investment in upgrading projects increased by 37.1%, a growth rate increase of 2.2%, which will impact favourably on the improvement of industrial technology and efficiency and will be beneficial to sustainable development in the long run.

However, several weak points remain in Guangxi’s economy. Firstly, Guangxi’s industries are still relying heavily on and concentrating too much on the so-called “Three Pillar Industries”, such as the sugar industry, for profit increases. In fact, due to the slowing down of growth rates in sales volumes and profits of the sugar industry, the aggregate profits for Guangxi’s industry fell by 44.5% from January to July compared to the previous year, bringing down the profit growth rate of industrial enterprises above a designated size by 4.9%; secondly, prices for materials and fuel continue to rise. Factory prices of some industrial products have also declined, altogether severely curtailing the profit margins of many enterprises and thus hindering the development of industry<sup>43</sup>.

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<sup>42</sup> “In July Guangxi maintained fast economic growth, which was more obvious than the downward trends”, Guangxi Statistics and Information Net, 18<sup>th</sup> August 2006.  
[http://www.gxtj.gov.cn/report/news\\_display.asp?sendid=1103](http://www.gxtj.gov.cn/report/news_display.asp?sendid=1103).

<sup>43</sup> “Between January and July Guangxi’s industrial profit growth rate dropped slightly”, Guangxi Statistics and Information Net, 21<sup>st</sup> August 2006  
[http://www.gxtj.gov.cn/report/news\\_display.asp?sendid=11046](http://www.gxtj.gov.cn/report/news_display.asp?sendid=11046).

**Table 2-4: Major Economic Indicators for Guangxi, January to July 2006**

Items	Jan - Jul (RMB 100 million)	Compared with the Same Period of Preceding Year
GDP (2 <sup>nd</sup> Quarter)	2,012	13.6%
Total Retail Sales of Consumer Goods	901	13.9%
Total Value of Foreign Trade (USD 100 Million)	35	20.8%
Budgetary Government Revenue	323	23.5%
Consumer Price Index (%)	100.7	0.7

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.

Source: Guangxi Statistics and Information website. <http://www.gxtj.gov.cn/>.

### 2.3.2 Updates on Guangxi – Inward investment policy initiative to attract “a hundred enterprises to invest in Guangxi”

In 2001, China entered the WTO and in August that year, Guangxi introduced a new measure to attract foreign investment – the “A Hundred Enterprises Investing in Guangxi” Programme - aimed at attracting a hundred private enterprises into the region. “Foreign” here means not only those outside China, but also those outside Guangxi. Local government officials of cities and prefectures are therefore not only targeting investors outside China and their US dollar capital, but they are focusing also on investors from neighbouring provinces and municipalities like Guangdong. Guangdong is a neighbour of Guangxi, but since the open-door and reform policy, the disparity between the two provinces has widened. Guangxi in terms of geographical position and natural resources is far stronger than Zhejiang, but Zhejiang is now already an economically strong province, stronger than Guangdong in the labour-intensive manufacturing industries. This is obviously not attributable to natural factors, but to human ones. Guangxi, by all means, can imitate Guangdong and run the fast road to wealth with an export-oriented economy, or follow Zhejiang’s path and do business all over the world.

According to investment and business officials from the autonomous region, the new mode of inward investment was conceptualised with the following background. In July 2001, Ms. Liu Yiandong (劉延東), Vice-Chairman of the CPPCC and Head of the United Front Work Department, came and studied the situation in Guangxi and came to the conclusion with party leaders from the region that the time has come for Guangxi to invite private enterprises into the autonomous region. They immediately agreed to invite Ms Liu to help arrange some well-known enterprises in the Association

of China Private Enterprise and the Association of China Young Entrepreneurs to carry out investment feasibility studies in Guangxi. After which the government of the autonomous region conducted meetings with more than twenty departments of the party and government to mobilise the officials and clarify the objectives, organisation, target investors, focus and methodology of the new mode of inward investment, and set up working organisations to formally launch the “A Hundred Enterprises Investing in Guangxi” Programme. The programme mobilised the efforts of the United Front Work Department, the All-China Federation of Industry and Commerce, the Communist Youth League and many entrepreneurs. The programme was given further impetus by sharp increases in cost structures and the resulting transfer of several thousand Guangdong enterprises, over a short period of time, to cities like Yulin (玉林), Wuzhou (梧州) and Hezhou (贺州)<sup>44</sup>.

Guangxi is full of business opportunities as it is a big resource province with many potentials, as well as factors like the China-ASEAN free trade zone<sup>45</sup>. Since the implementation of the attractive investment policies, capital influx has gathered momentum. Well-known enterprises and private enterprises have moved into the region, including names like Hi-Tech Wealth Corporation, Xinjiang Guanghui, Yanjing Beer, Diheng Group, Fosun Group, China Resources National Corporation, Taiwan Cement Corporation, China Yurun Food Group, Hangzhou Wahaha Group, The Leader Group, Hengan

<sup>44</sup> Zhong Guifa: “Great momentum — ‘A hundred private enterprises investing in Guangxi’ programme boosts the opening up of Guangxi”, Guangxi News Net, 31<sup>st</sup> July 2006.

<http://news.gxnews.com.cn/staticpages/20060731/newgx44cce5eb-664382.shtml>

<sup>45</sup> In early July, the Office of the Western Region, National Development and Planning Commission, together with six other state bureaux, released a policy initiative on *Fostering the Development of Superior Featured Industries in the Western Region*. This document suggests focusing on “developing locally selected advantageous industries” as the main development theme for the western region. Of which, Guangxi’s energy and petrochemicals, mineral development and processing, featured agricultural and animal husbandry and processing, heavy equipment manufacturing, hi-tech industry and tourism have been added to a list of key national development projects. The concerned featured advantageous industries will benefit from seven policy initiatives from the government, such as preferential consideration in relation to planning important projects, enjoying inclined policy input, financial support from the central budget fund, the long term construction of national bonds and access to preferential financial services. Reference: Pang Geping, Lu Yaodong, “The six big industries of Guangxi benefit from seven government policies”, *Wen Wei Po Guangxi Net*, 11<sup>th</sup> July 2006. <http://www.wenweipogx.com/show.aspx?id=4406&cid=9>

Aside from the industrial policy, the government has offered further favourable taxation policies. Take the reputable Beijing private owned enterprise - Huiyuan Groups as an example. In 2003, it invested RMB 300 million and set up an orange juice manufacturing plant in the Gongcheng county of Guangxi. After its official project launch, the annual turnover was RMB 550 million. In accordance with the 15% tax rate allowed by the Guangxi Government, the annual tax amounted to RMB 82 million only. If the same project had been set up in another province where the tax rate is 33% the tax amount would have been RMB 180 million, representing tax savings of RMB 100 million. Reference: Tan Liudan:

“Hundreds of businessmen rush to Guangxi—a group of renowned enterprises move into important industries in Guangxi”, Guangxi News Net, 4<sup>th</sup> August 2006.

<http://news.gxnews.com.cn/staticpages/20060804/newgx44d2329d-668409.shtml>

International Group, and the Mengniu Group<sup>46</sup>. As expected, 250,000 businessmen from Fujian started enterprises in Guangxi and the amount invested exceeded RMB 50 billion, enterprises with sales exceeding RMB 10 million totaled more than 1,000 firms, and industries attracting investment included agriculture, feedstuff, medicine, education, entertainment, steel, chemicals, real estate, construction materials, etc. They formed a sizeable group and have provided employment for more than 500,000 people. Zhejiang had more than 1,600 enterprises and 200,000 entrepreneurs doing business in Guangxi, investing in petroleum processing, fashion, construction materials, communications, metals, logistics, mechanical and electrical engineering and printing.

Guangdong entrepreneurs in the period between 2000 and 2005, invested up to RMB 70 billion in Guangxi in industries such as logistics, finance and trade, agriculture, culture and education, tourist services, mineral extraction, infrastructure construction and real estate, with an annual production turnover of RMB 100 billion. There are 1.2 million Sichuan businessmen in Guangxi, running more than 3,000 enterprises with a total investment exceeding RMB 40 billion<sup>47</sup>. In 2000, investment from provinces outside Guangxi was worth only RMB 1.9 billion. Since launching the “A Hundred Enterprises Investing in Guangxi” Programme, private capital from provinces outside Guangxi has increased year after year. In 2004, it was RMB 30 billion; in 2005, RMB 55 billion; and in the first half of 2006, RMB 52.89 billion. In the past two years, outside capital invested in Guangxi was about one third of total investment, and private enterprises have increased their share of local GDP from less than 25% to the present 50%<sup>48</sup>. Compared with private investment from outside provinces, foreign investment from outside China accounted for only a small fraction, being USD 417 million, USD 456 million, USD 296 million, and USD 379 million for the years 2002, 2003, 2004, and 2005 respectively<sup>49</sup>.

### Implications for Hong Kong

Returning to Hong Kong, direct foreign investment bounced from a low point but did not perform well and failed to reach the previous high (see

<sup>46</sup> Qin Liudan: “Hundreds of businessmen rush to Guangxi—a group of renowned enterprises move into important development industries in Guangxi”, Guangxi News Net, 4<sup>th</sup> August 2006.  
<http://news.gxnews.com.cn/staticpages/20060804/newgx44d2329d-668409.shtml>

<sup>47</sup> Li Rong: “From the establishment of Chambers of Commerce in Guangxi by various provinces, a look into the brand name effect of ‘Baiqirugui’ (A hundred enterprises investing in Guangxi)”, Guangxi New Net, 1<sup>st</sup> August 2006.  
<http://news.gxnews.com.cn/staticpages/20060801/newgx44ceb041-665337.shtml>

<sup>48</sup> Zhong Guifa: see footnote 44

<sup>49</sup> “2005 statistics on Guangxi’s national economy and social development”, *Guangxi Statistical Yearbook 2005*, page 388.

table 2-5). In terms of structure, investments were biased towards investment holding, real estate and finance, with little effect on employment creation. Even if all direct foreign investment was put into the four major advantageous industries, namely, finance, tourism, trading and logistics, professional and other commercial services, the number of jobs they created were less than half the total figure for Hong Kong despite the fact that these industry categories contributed a dominant portion of local GDP (see table 2-6).

**Table 2-5: Inward Direct Investment in Hong Kong by Major Economic Activity of Hong Kong Enterprise Groups  
(At Market Value, Unit: HKD Billion)**

Economic Activity	Position of inward DI at end of year					DI inflow during the year				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Investment Holding, Real Estate and Various Business Services	2,145.9	1,805.5	1,367.0	1,646.3	1,987.8	326.8	60.5	83.3	41.6	105.1
Financial Services	519.0	546.3	502.0	594.4	710.5	59.0	52.5	-33.9	28.7	79.7
Wholesale, Retail and Import/Export Trade	376.0	406.5	341.4	408.8	516.5	62.8	33.5	29.4	45.2	49.5
Transport and Related Services	73.5	96.6	78.2	69.3	74.5	12.1	2.6	2.4	-7.9	10.7
Manufacturing	76.1	73.0	72.8	64.7	68.7	5.0	2.1	10.0	5.4	13.6
Communications	59.2	80.6	69.0	44.8	39.0	-1.0	37.1	-20.7	-6.3	2.6
Restaurants and Hotels	47.6	44.4	43.1	28.8	35.6	3.7	-3.3	1.0	-4.4	1.4
Construction	45.3	42.4	36.8	28.5	24.5	4.6	5.0	-1.0	1.6	-0.6
Other Activities	208.2	174.3	112.0	74.9	64.8	9.5	-4.7	5.1	2.4	3.3
Total	3,550.8	3,269.7	2,622.3	2,960.4	3,521.9	482.6	185.4	75.5	106.3	265.1

Note:

- (1) Individual figures may not add up exactly to the total due to rounding.
- (2) A Hong Kong Enterprise Group (HKEG) mainly consists of a Hong Kong parent company, its Hong Kong subsidiaries, associates and branches.
- (3) Economic activity here refers to the major activity of the whole enterprise group in Hong Kong. As a HKEG may be engaged in a wide variety of activities, the economic activity is determined on the basis of the principal line of business of the group.
- (4) Negative inflow does not necessarily relate to equity withdrawal. It may be the result of repayment of loans to non-resident affiliates.

Source: Website of Census and Statistics Department, the Government of Hong Kong Special Administrative Region. <http://www.censtatd.gov.hk>.

**Table 2-6: The Four Key Industries of the Hong Kong Economy - Percentage Share to Total Employment**

<b>Unit: Percentage (%)</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
(1) Financial Services	5.3	5.4	5.4	5.2	5.1
(2) Tourism	3.4	3.5	4.2	4.3	4.6
(3) Trade and Logistics	24.2	23.9	23.4	23.9	24.3
(4) Professional Services and Other Producer Services	10.5	10.6	10.6	10.9	10.9
<b>Four Key Industries</b>	<b>43.3</b>	<b>43.3</b>	<b>43.7</b>	<b>44.3</b>	<b>44.9</b>

Source: Website of Census and Statistics Department, the Government of Hong Kong Special Administrative Region. <http://www.censtatd.gov.hk>.

Regional competition is now getting fiercer in the international marketplace, and Hong Kong's superior industries are failing to get the economy moving. The economic structure of Hong Kong may need new drives of growth and new industries, and the development of high-tech and high value-added industries must be the top priority.

The reason that the transformation of the Hong Kong economy no longer yields encouraging results is probably that the government still sticks to the non-intervention or positive non-intervention tradition, the so-called laissez-faire free economy. In fact, the past glory of Hong Kong was largely based on the abnormal condition of Mainland China, for instance, the closed-door policy of China after 1949 had strengthened Hong Kong's entrepot position. However, as China has returned to normal and entered the WTO, Hong Kong's entrepot role has diminished and the traditional non-intervention policy can no longer direct the long-term development of Hong Kong. In short, the four advantageous industries indicate that the development of the Hong Kong economy are constraint by so-called path dependence, but when focused foreign investment in the said industries still cannot produce obvious results in creating employment and a change in the employment structure, this shows that they have little driving effect on the local economy.

From the economic viewpoint, employment and economic growth affect each other. The consultants of this study have pursued the relation between unemployment and GDP growth figures for the period of 1982-2005 and found that the correlation ration was  $-0.88$ , indicating a negative relationship between these two factors.

Historically, we have experienced economic growth impelled by labour-intensive industries and unemployment problems have quickly been alleviated. However, today Hong Kong is impelled by capital-intensive

industries, and economic growth can only create a few more jobs, and this will aggravate the problem of income disparity.

In recent years, many Mainland private enterprises have invested in Hong Kong, helping economic growth, transformation and upgrading of industries, and improvement in the employment situation in Hong Kong. However, attractions to the Mainland investors seem to be falling: property prices and rents are too high, and since 2005, such costs have surged again. Mainland investors are scared by the high operating costs of Hong Kong. They come to Hong Kong, not really interested in industries, but only in raising capital from the securities market. But financing does not create many jobs, it only helps develop financial services and create a small group of high-income professionals and widens the gap between the rich and the poor. Besides, Mainland companies listing in the Hong Kong Stock Exchange are often affected by financial scandals due to management or supervisory ineffectiveness. Therefore, Hong Kong should ensure that Mainland companies applying for listing on the Hong Kong Stock Exchange are financially sound. Hong Kong should develop other high value-added advanced products and services, such as management, technology, design, logistics, intellectual property, anti-dumping and other legal services, consultative services, and also research and development, survey and testing industries, etc. It should assist private enterprises to upgrade their corporate development and internationalisation, and at the same time overcome the obstacles of high rents and high operating costs.

With regard to the Southwestern provinces, their private enterprises do not have the economic capacity to invest in Hong Kong. Targets for attracting investment should be state enterprises, especially the resource-oriented enterprises of Guangxi, Yunnan and Guizhou, and some enterprises focusing on local specialised resources.

## 2.4 Trends and Updates on Yunnan

### 2.4.1 Economic Performance of Yunnan

Yunnan's industry performed quite well from January to July this year. Due to an ease of electricity supply pressures early this year, heavy industry saw further development, and grew month by month, with its value-added 21.4% higher than for the same period last year, making it the prime driving force for the growth of industrial enterprises above a designated size<sup>50</sup>.

Featured agriculture is gradually becoming an important part of Yunnan's economy, increasing peasant cash income by up to 12% in the first half of the year. The growth rates of both total production and value-added to agriculture hit a record high for nearly 10 years<sup>51</sup>. The competitive edge of superior featured agricultural products such as wild mushrooms is continuously improving and growth rates for agricultural exports stood at 11% and 12.6% respectively from January to July, adding USD 280 million to the foreign reserve. Another notable development is the replacement of ASEAN by the EU as Yunnan's top export market for its agricultural products, with the total volume of agricultural products exported to ASEAN dropping by 2.5% compared with the same period of the preceding year<sup>52</sup>, showing a less sanguine picture for Yunnan's agricultural product exports to the ASEAN market. However, expanding exports to the EU suggests that the quality and variety of Yunnan's agricultural products has been able to meet the more stringent demands of markets and consumers in the EU, and that these products will reap more added value and possess more potential for export, even to high consumption countries such as Japan and the USA.

The most outstanding issue confronting Yunnan's economy in July was the fall in urban household consumption, which saw a sharp decline following June's negative growth, with consumption per capita 11.8% lower than for the same period of the preceding year, a new low for this year. Among other reasons, the drop in cost for automobiles and durable consumer goods for households is mainly blamed, which may imply that household consumption is

<sup>50</sup> "Yunnan industrial production growth rates and efficiency improves", website of Yunnan Province Federation of Industrial Economic, August 25<sup>th</sup> 2006. <http://www.yngjl.org/tjxx/Tjxx171.htm>.

<sup>51</sup> "Agriculture Department: Yunnan needs to develop specially featured agriculture to improve peasant income", Xinhua Net Yunnan Channel, August 16<sup>th</sup> 2006. [http://www.yn.xinhuanet.com/gov/2006-08/16/content\\_7797308.htm](http://www.yn.xinhuanet.com/gov/2006-08/16/content_7797308.htm).

<sup>52</sup> "Between January and July this year, Yunnan's agricultural product exports had a revenue of USD 280 million", Xinhua Net Yunnan Channel, August 18<sup>th</sup> 2006. [http://www.yn.xinhuanet.com/newscenter/2006-08/18/content\\_7817485.htm](http://www.yn.xinhuanet.com/newscenter/2006-08/18/content_7817485.htm).

already overdrawn. If this situation continues in the near future, Yunnan's economy may ultimately pay the price.

## 2.4.2 Updates on Yunnan - Unique edible wild mushrooms

Yunnan's unique geography and climate make it the best area to grow edible mushrooms. There are 3,000 varieties of edible mushrooms in the world, of which about 1,000 are found in China, and more than 700 grow in Yunnan, about one quarter of the world figure. Experts from China and abroad call Yunnan the "Wild Mushroom Kingdom"<sup>53</sup>.

On 5<sup>th</sup> August 2006, the 2<sup>nd</sup> "Yunnan wild edible mushroom trade fair" was held in Yimun Prefecture (易門縣) in Yuxi City (玉溪市). The local media reported that over 30,000 tourists from all over China visited the fair to buy and taste the different varieties of edible mushrooms, and enjoy the scenic spot of the city in the Lake Dian (滇池) area. On the first day, a 16.5-kilogram glossy ganoderma was sold at auction for RMB 2,600, a record for that day. Sales volume on the first day exceeded 200 tons and the total amount exceeded RMB 4,000,000<sup>54</sup>. The fair closed on the 7<sup>th</sup> August, with a total of 5.1 million tons of wild mushrooms sold for RMB 13,400,000, both figures surpassed the previous year. At this fair, more than 120 types of wild mushrooms were exhibited, cooking contests, auctions and forums were held, 2,450 customer business units attended, and signed nine contracts worth RMB 120 million<sup>55</sup>.

Wild edible mushrooms are now the second largest exporting agricultural product of Yunnan, second only to tobacco, and five million jobs have been created in the industry. In 2005, the value of mushrooms grown was RMB 2 billion, with exports exceeding 2,000 tons, about 70% of the national figure, and revenue totaled USD 70 million, the number one in China, with products sold to over forty countries and areas of the world. At present, there are more than 400 enterprises involved in purchasing, processing and exporting wild edible mushrooms in Yunnan, and seasonal employment creates jobs for five million people. These jobs involved handpicking mushrooms, purchasing, processing and transportation. Not only has the industry created employment, it

<sup>53</sup> "Yunnan's wild edible mushroom species represent a quarter of the world's total", Yunnan Daily Net, 9<sup>th</sup> August 2006. [http://www.yndaily.com/html/20060809/news\\_90\\_126231.html](http://www.yndaily.com/html/20060809/news_90_126231.html)

<sup>54</sup> Li Jisheng Lei Ming: "Yimen Mushroom Festival had 30,000 customers on the first day", Yunnan Daily Net, 6<sup>th</sup> August 2006.

[http://www.yndaily.com/html/20060806/news\\_90\\_116512.html](http://www.yndaily.com/html/20060806/news_90_116512.html)

<sup>55</sup> Wang Lijun Lei Tongsu: "The second wild mushroom trading fair closed, trading volumes amounted to 5.1million tons", Yunnan Daily Net, 8<sup>th</sup> August 2006. [http://www.yndaily.com/html/20060808/news\\_90\\_123272.html](http://www.yndaily.com/html/20060808/news_90_123272.html)

has helped develop the agricultural economy. Mushroom products include fresh, salted, dried, frozen, deep frozen and canned mushrooms, whilst matsutake, edulis boletus, toadstool and truffle varieties have become sizeable export items to Japan, Italy, France, Germany and America. Experts at the Yunnan Botanical Research Institute estimate that the reserve capacity for growing wild edible mushrooms in Yunnan exceeds 500,000 tons<sup>56</sup>. At present, the percentage of mushrooms from Yunnan is about 43% of the national figure. The best brand, “Old man’s head” is sold to America, matsutake is popular in Japan, and truffle and toadstool are sold to Europe. Chuxiong Nanhua (known as the “village of matsutake”) exported 700 tons of matsutake and edulis boletus to Japan and Korea, and sales amounted to RMB 60 million. Figures illustrate that the future prospects for mushroom export are highly encouraging<sup>57</sup>. Traditionally, Fujian exports the most mushrooms and agaric in the form of fresh and canned products. But as the market is near saturation, Yunnan’s export of wild mushrooms offers a new point of growth.

Modern urban people increasingly care about eating a healthy diet. Sales of natural food without synthetic additives have increased steadily, and healthy food<sup>58</sup> in particular is widely welcome in the market. Wild edible mushrooms from Yunnan obviously have excellent commercial prospects. In the USA, for example, per capita consumption of edible mushrooms increased three fold from 1960 to 2000 (see table 2-7 and 2-8). Wild edible mushrooms from Yunnan are more competitive in the international market than traditional mushrooms, and wild mushrooms are not threatened by substitution products or competitive products, and the value-added is high. Hong Kong could provide a venue for Yunnan’s mushroom producers and entrepreneurs to exhibit their products and help Yunnan earn more revenue. Besides, the relative superiority of Hong Kong in the processing industry could help Yunnan research, promote and package products. These product-oriented services are Hong Kong strengths.

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<sup>56</sup> “Yunnan’s wild edible mushrooms this year earned a revenue of USD 70 million”, Yunnan E-Government Net, 2<sup>nd</sup> December 2005.

<http://www.yn.gov.cn/yunnan,china/73468267456364544/20051202/1027505.html>

<sup>57</sup> Shang Yaodong: “This year, production and sales of wild mushroom were very profitable, and more than five million people are involved in the wild mushroom industry”, Yunnan Daily Net, 9<sup>th</sup> August 2006. [http://www.yndaily.com/html/20060809/news\\_90\\_126202.html](http://www.yndaily.com/html/20060809/news_90_126202.html)

<sup>58</sup> Apart from the general type of health food, it also includes functional foods and nutraceuticals (Nutrient with special therapy function). Wild and planted edible mushrooms already enjoy quite a large share of this area. Though the mushroom pharmaceutical market has yet to mature, the health foods made by an active substance from the fungus mycelium is growing rapidly. Reference: Siu-wai Chiu, et. Al, Themes for mushroom exploitation in the 21<sup>st</sup> century, sustainable waste management and conservation, *Journal of general applied microbiology*, 49 (2000), pp.269-282.

**Table 2-7: U.S. Mushrooms, Per Capita Use (Pounds, Fresh-equivalent \*)**

Decades	Fresh Market	Processing*	Total*
1960	0.24	0.79	1.03
1970	0.64	1.30	2.02
1980	1.70	1.65	3.35
1990	2.13	1.70	3.83
2000	2.60	1.38	3.98

Note: Agaricus Bisporus dominates the U.S. mushroom market. Some featured mushrooms, such as Shiitake and Oyster mushroom, are also available to customers. However, other mushrooms in the form of healthy food have great market potential.

Source: Gary Lucier, Jane Allshouse, and Biing-Hwan Lin, "Factors Affecting U.S. Mushroom Consumption", United States Department of Agriculture website.  
<http://www.ers.usda.gov/publications/VGS/mar03/vgs29501/vgs29501.pdf> °

**Table 2-8: World Mushroom Production in 2001**

China	U.S.	Netherlands	France	Poland	Others
32%	16%	10%	6%	4%	32%

Source: Same as the Table Above.

On the other hand, Hong Kong could also stage promotion events like wild mushroom cooking contests, mushroom auctions and forums, thereby helping Yunnan and at the same time helping Hong Kong's tourist industry. In fact, aside from other ASEAN countries, Hong Kong's restaurant industry is facing keen competition from its neighbours. Shenzhen (深圳) for example, has over 30,000 restaurants of which more than 20,000 are Chinese restaurants and 4,000 are foreign restaurants serving exotic food<sup>59</sup>. Due to stiff competition, they provide entertainment shows to attract customers. Although Hong Kong is known as the "good food paradise", there is a lack of innovative business ideas in the restaurant industry. The title of "good food paradise" is slowly moving to the neighboring cities such as Guangzhou (廣州), Macao (澳門) and Shenzhen. Indeed the restaurant industry of Hong Kong should introduce new elements, and Yunnan's wild edible mushrooms are a good product that could be explored and used in this way.

<sup>59</sup> Zhu Qiao: "Wild and crude dishes of Mongolia", *Ming Pao*, 21<sup>st</sup> August 2006, D10

## 2.5 Trends and Updates on Guizhou

### 2.5.1 Economic Performance of Guizhou

The growth rate of Guizhou's economy still lags behind the national average as far as many of its economic indicators are concerned, but the economy is growing steadily nevertheless.

The power industry, which contributes most to the industry of the whole province, retained its remarkable growth, with its value-added growing by 15.7%. Heavy industry drove industrial expansion in July and the growth rate of heavy industry again surpassed that of light industry, and was 11.1% higher to be exact<sup>60</sup>.

From January to July this year, investment in tertiary industry accounted for the most part of the province's urban investment in fixed assets, accounting for 53.5%. The growth rate of transportation, storage and postal services was 6.5% higher than that of the first six months, with investment in road construction increasing by 28.4%<sup>61</sup>. Guizhou's tourist industry benefited from various construction projects and vigorous promotion and publicity by the government, and revenue from tourism between January and July reached more than RMB 15 billion, 97.36% higher than the same period of the preceding year<sup>62</sup>.

However, outstanding issues still remain to be solved with Guizhou's economy. Constrained by the Central Government's macro-control measures, investment in Guizhou's major industries — ferrous and non-ferrous metallurgical smelting and rolling processing industries — dwindled by 37.8% and 35.2% respectively<sup>63</sup>, compared with the same period last year, which may slow down Guizhou's economic development. Furthermore, aggregate exports

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<sup>60</sup> "Guizhou's industrial production maintains relatively fast growth rates in July", Portal of People's Government of Guizhou Province, 16<sup>th</sup> August 2006.

[http://www.gzgov.gov.cn/shouye\\_tc/showzwx.asp?id=25934](http://www.gzgov.gov.cn/shouye_tc/showzwx.asp?id=25934).

<sup>61</sup> "Guizhou's urban fixed capital investment grew by 21.7% between January and July", Portal of People's Government of Guizhou Province, 22<sup>nd</sup> August 2006.

[http://www.gzgov.gov.cn/shouye\\_tc/showzwx.asp?id=26111](http://www.gzgov.gov.cn/shouye_tc/showzwx.asp?id=26111).

<sup>62</sup> "A plethora of secondary route airports boost tourism in Guizhou", website of the Western Development Program Office of the State Council, 24<sup>th</sup> August 2006.

<http://www.chinawest.gov.cn/web/NewsInfo.asp?NewsId=32653>.

<sup>63</sup> "Guizhou urban fixed capital investment grew 21.7% between January and July", Portal of People's Government of Guizhou Province, 22<sup>nd</sup> August 2006.

[http://www.gzgov.gov.cn/shouye\\_tc/showzwx.asp?id=26111](http://www.gzgov.gov.cn/shouye_tc/showzwx.asp?id=26111).

from January to July was 14% lower than for the same period last year, and falling prices for quite a few products on the international market did a disservice to the total value of exports<sup>64</sup>.

### 2.5.2 Updates on Guizhou - Calligraphy and painting markets

On 2<sup>nd</sup> July an auction company from Guizhou organised an auction meeting for 2006. A “*Shi Nu*” (仕女) painting series became the main focus of bidding at this meeting. This painting, item number 108, was the work of a well-known painter from Guizhou, Song Yinke (宋吟可) who painted it in 1949. The starting price was RMB 58,000 but after several rounds of fierce bidding, the transaction was concluded at RMB 110,000. The local media commented that this was the highest price for a painting of this kind at Guizhou’s painting market.

Compared with the auction season at the Spring Festival period, there were something different at this auction meeting; nearly half of the paintings were small in size and priced below RMB 1,000. Four-screen paintings of Chinese mountains and streams suitable for hanging on household walls were exceptionally popular. After the auction meeting, Mr. Zheng, a citizen who had bought more than ten paintings of a price under RMB 1,000, said his house was quite empty and needed some paintings to decorate it. As they were not expensive, he bought a few more, for himself and as souvenirs. They were both beautiful and good value for money, and after several decades perhaps they have the potential to appreciate greatly<sup>65</sup>.

The trade in calligraphy and paintings has existed for a long time and between 70% and 80% of the works of art sold at art auctions are calligraphy and paintings. Many auction companies on the Mainland hold spring or autumn auction fairs, nearly all of which feature calligraphy and paintings. On television, there are programmes on art appreciation and cultural relics authentication. In recent years, the main trading items at art auctions have been calligraphy and paintings, and prices have kept on rising making the arts market prosper and booming. More and more money is being attracted to the

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<sup>64</sup> “Import-export reports for July 2006”, Portal of People’s Government of Guizhou Province, 16<sup>th</sup> August 2006. [http://www.gzec.gov.cn/zhengwu/info/Article.jsp?a\\_no=4528&col\\_no=14](http://www.gzec.gov.cn/zhengwu/info/Article.jsp?a_no=4528&col_no=14).

<sup>65</sup> Zhou Xiaoling: “Small painting and calligraphy work are very popular among ordinary citizens at auctions as they are beautiful and good value”, Jinqian Online, 3<sup>rd</sup> July 2006. <http://www.gog.com.cn/jq/j0603/ca991392.htm>

market. People estimate that the arts market has not yet reached its peak and there are still years of development ahead<sup>66</sup>.

So the saying goes, “Gold at times of chaos, and calligraphy, paintings and antiques at times of prosperity”. The boom in the calligraphy and paintings market indicates that China is now at the stage of a well-off society. Calligraphy and paintings are not just the toys of the rich and powerful, but are being purchased by ordinary families. Guizhou used to be described as a place where “The sun never shines for more than three days; the land is never flat for more than three square miles; and people do not own more than three pieces of silver”. Since 1949, Guizhou has become more prosperous, but compared with the wealthy coastal provinces, it is still quite poor. Now that an ordinary citizen is willing to spend more than RMB 1,000 on calligraphy and paintings, it is clear that the wealthy life is dispersing to the western region. The tastes of ordinary people have changed in Guizhou and this is a positive indicator that the nation’s economy is prospering and people’s tastes are becoming more refined.

### Implications for Hong Kong

In Hong Kong, the calligraphy and paintings market is not popular. The two biggest auction companies in the world are planning to strengthen their presence in Hong Kong as a result of the growing market for relics and antiques. However, those who actively participate in this market are foreigners, including those from Taiwan and overseas Chinese, with very few local collectors and relics experts from Hong Kong. Since the fall of the Qing Dynasty (清朝), many relics of high value have gone overseas. At first, there were still collectors in Hong Kong trying to purchase and keep these relics here. But it is a fact that the auction market for calligraphy and paintings in Hong Kong is a very small market with a very small circle of fans. In recent years, the market on the Mainland has heated up, and some rich private entrepreneurs have come to Hong Kong to join in the bidding. As there are very few Hong Kong bidders, the auction market actually serves Mainland buyers.

There is a great potential for the development of small and medium-sized auction companies in the market of calligraphy and paintings, but the crucial factor is whether they can collect sufficient works of art. As China exhibits strong demand, Hong Kong could play the role of middleman in the process of returning relics and antiques from overseas back to China. Take

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<sup>66</sup> Ran Maojin: “Chinese paintings and calligraphy markets urgently need guidance and regulations”, Xinhua Net, 5<sup>th</sup> December 2005.  
[http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/collection/2005-12/05/content\\_3876816.htm](http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/collection/2005-12/05/content_3876816.htm)

Japan as example, they also experienced outflow of cultural relics before economic take-off, and bought them back at high prices after the economy took off. China is in the process of buying back its cultural relics and antiques. The only problem is the lack of authentication expertise for genuine relics. The older generation of experts and collectors are now too old, but the educational institutions might consider introducing courses to train the needed personnel, and give a boost to our cultural relics development.

Moreover, calligraphy and paintings as well as cultural relics, offer valuable business opportunities.

Firstly, an imitation copy of a collection in an international museum, such as that of a traditional Chinese wood-carved watermark calligraphy or painting, can create a sizeable cultural product industry (quite different from the commercial cultural products on the Mainland). The British Museum and Rong Bao Zhai (榮寶齋) of Beijing have collaborated on such productions. Hong Kong companies and museums in China have not yet developed such cooperation. In conjunction with the cultural relics auctions, and the antiques shops and cultural relics market on the Upper Lascar Row (摩羅街), Hong Kong's cultural industry could develop in this direction.

A second path of development is the creation of online digital museums, e.g. the Imperial Palace Museum of Taipei, and the Metropolitan Museum of New York. The approach is to take classical Chinese calligraphy and paintings and cultural relics, make digitalized copies and upload them onto the internet, with full Chinese and English description, available to international customers. On the one hand, it helps promote Chinese culture, and on the other hand, such exhibits can be duplicated to an excellent standard. Chinese calligraphy and paintings, for example, could be made to order according to the specifications of the buyer, and not mass produced. Carvings and porcelain artwork could be duplicated using the best quality materials available, and not cheap mould processing. As Hong Kong attracts a lot of high quality and high consuming international commercial customers, this market has great potential, and would help boost the cultural image of Hong Kong. Hong Kong could even organise online museums including collections from all over the world, and as correlation, develop related digital technology and the digital industry. The crucial factor is the formation of a knowledge-based website featuring local and overseas experts on cultural relics, who produce write articles and briefings about exhibits and exhibitions. Online museums should be modeled on the British Museum and the New York Metropolitan Museum, and built into an educational institution. Published articles and background materials about exhibits on the web or in printed format could also be added.

### 3 Regional cooperation

#### 3.1 China and Vietnam construct the Kunming-Hanoi Economic Corridor

On 13<sup>th</sup> June and 5<sup>th</sup> July 2006, five provinces and municipalities in China and Vietnam (namely, Yunnan Province of China, and Lao Cai Province (老街省), Hanoi City (河内市), Haiphong City (海防市) and Quang Ninh Province (广宁省) of Vietnam) held a specialists meeting on economic consultation and China-Vietnam economic and trade cooperation, in Mengzhi (蒙自), Yunnan. The meeting discussed matters related to economics and trade, tourism, transport, educational training and agricultural cooperation in conjunction with the construction of the Kunming (昆明) – Hanoi (河内) Economic Corridor linking Kunming, Lao Cai, Hanoi and Haiphong<sup>67</sup>. More than fifty enterprises from the five provinces and municipalities negotiated and signed a number of agreements<sup>68</sup>. Yunnan specialists put forward the improvement of Kunming-Hanoi's economic structure and productivity framework, and advocated the advancement of the construction of the Economic Corridor with the objective of generating USD 1 billion of cross-border trade between Yunnan and Vietnam (in 2005, export trade from Yunnan amounted to USD 4.74 billion, of which exports to Vietnam was worth USD 0.32 billion).

The Kunming-Hanoi Economic Corridor is part of the Kunming-Lao Cai-Hanoi-Haiphong-Quang Ninh Economic Corridor, a project within the Two Corridors and One Ring scheme<sup>69</sup>. In May 2004 when the Vietnamese premier visited China, he suggested the project to the Chinese premier. The China-Vietnam five-province economic consultation meeting, which is a coordinating mechanism of the Kunming-Hanoi Economic Corridor, was initiated later that year.

<sup>67</sup> "China and Vietnam will further strengthen the construction of the Kunming-Hanoi Economic Corridor", China Economic Net, 21<sup>st</sup> June 2006.

<sup>68</sup> "Xu Rongkai made the summary speech and signed the *Meeting records*" *Yunnan Daily*, 16<sup>th</sup> June 2006.

<sup>69</sup> On 20<sup>th</sup> May 2004, the Vietnam Premier Phan Van Khai visited China, where he proposed the concept of "Two Corridors and One Ring" to China's Premier Wen Jiabao. The proposal was positively received by the Chinese government. "Two Corridors and One Ring" consists of: Kunming-Lao Cai-Hanoi-Hai Phong-Guangning corridor, Namning-Langshan-Hanoi-Hai Phong-Guangning corridor and the Beibu Gulf Economic Ring. Excluding Yunnan, Guangxi takes part in one corridor and one ring. The Guangxi Government proactively communicated with the Vietnamese bureau in relation to its one corridor and one ring proposal, under the political framework of "Two Corridors and One ring", it aims to construct cooperation mechanisms, devise cooperative projects and forge joint economic development. Reference: Nong Lifu: "Guangxi Vietnam goujian 'Lianglang yiquan' kuangjia, jianshe jingji zoulang", Sina Net, 17<sup>th</sup> February 2005. <http://gov.finance.sina.com.cn/zsy/z/2005-02-17/53793.html>

The key project of Yunnan's section within the Kunming-Hanoi Economic Corridor is the construction of a linkage between the Beishan (北山) International Border Zone in Hekou (河口), Yunnan, and the Kim Thanh (金城) Commercial-trading Area in Vietnam. Kunming will be the central point in the Yunnan section, with Yuxi (玉溪), Mengzhi and Wenshan (文山) as regional centres, and Tianbao (天保) Port and Jinshui (金水) Port as the two wings<sup>70</sup>.

The comprehensive trading entity of Beishan, Hekou in Yunnan and Kim Thanh in Vietnam will follow the administrative model of "two countries one zone, closed operation, inside border and outside customs, free trade"<sup>71</sup>. Hekou was the largest port trading with Vietnam and in 2005, 2,929,000 people crossed the border<sup>72</sup>. It connects two municipalities and one prefecture in Vietnam. Beishan in Hekou and Kim Thanh in Vietnam are included in the cross-border economic entity. With more convenient trading and 50% tariff reductions, the small amount of cross-border trading is likely to flourish.

Based on the "Proposal of the Honghe, China and Lao Cai, Vietnam Economic Cooperation Zone" signed by the authorities from the Lao Cai Province of Vietnam and the Honghe (红河) Autonomous Prefecture of China in 2005, Vietnam plans to merge the cities of Lao Cai and Cam Duong (甘塘) into Lao Cai City which will be developed into the third largest city in Vietnam. This will see the upgrading of the Lao Cai-Hanoi road, the Lao Cai-Hanoi-Haiphong railway, an airport at Lao Cai and a shipping route along the Honghe joining Lao Cai, Hanoi and Haiphong<sup>73</sup>. In July 2006, the specialist conference disclosed that Lao Cai in Vietnam would mainly connect with Yunnan and put forward beneficial policies<sup>74</sup> including lower tax rates for land use, minimal processing times for joint enterprises to apply for land, training courses for technical workers, faster application procedures for investment permits through the investment planning bureau, beneficial policies to attract workers to Lao Cai, and implementation of the land exchange policy for engineering projects.

<sup>70</sup> "Kunming-Hanoi Economic Corridor will increase Yunnan-Vietnam trade volumes to over USD 1 billion by 2010", *Chuncheng Evening Post*, 10<sup>th</sup> July 2006.

<sup>71</sup> "Golden corridor lists the Sino-Vietnam economic cooperation strategy plan", *Wen Wei Po*, 15<sup>th</sup> November 2005.

<sup>72</sup> "Hekou Yao Nationality Autonomous County party secretary, Ye Cuiping, participated in the Hekou-Pan Pearl River Delta interactive meeting with ASEAN", *Wen Wei Po*, 4<sup>th</sup> June 2006.

<sup>73</sup> "Golden Corridor lists the Sino-Vietnam economic cooperation strategy plan", *Wen Wei Po*, 15<sup>th</sup> November 2005.

<sup>74</sup> "The Lao Cai Province of Vietnam increases incentives for incoming capital investment, Yunnan enterprises investors enjoy tax-exemption for 15 years", Yunnan Information Net, 7<sup>th</sup> July 2006. [http://news.yninfo.com/yunnan/jingji/2006/7/1152242012\\_3/index.html](http://news.yninfo.com/yunnan/jingji/2006/7/1152242012_3/index.html)

Vietnam also plans to construct a highway from Hanoi to Yunnan next June, costing more than USD 1 billion<sup>75</sup>.

With regards to railways, Vietnam plans to construct a Hanoi-Haiphong express railway, not directly related to “Two corridors and one ring”, but which will definitely improve transport capacity in the area, including part of the Kunming-Hanoi Economic Corridor<sup>76</sup>. Meanwhile, the long-term Pan-Asian Railway project, will see an east line run from Singapore (新加坡), via Kuala Lumpur (吉隆坡), Bangkok (曼谷), Phnom Penh (金邊), Ho Chi Minh City (胡志明市), Hanoi, and end at Kunming. It will be 5,500 km in length and will feature a branch line to Myanmar. Upon completion, the line will further link up the political, economic, trading and information communication between China and the ASEAN countries<sup>77</sup>.

Unfortunately, the Dong Dang (同登) -Hanoi railway is built with narrow rails which are incompatible with the standard rails in China, and will have to be rebuilt. The Kunming-Lao Cai section of the Yunnan-Vietnam railway also has narrow rails, with many steep slopes and curves, and low transport capacity. Reconstruction of the line is too expensive so China intends to build a new Kunming-Lao Cai railway. The proposal is to extend the present standard rail between Kunming –Yuxi to Mengzhi, based on the present narrow rail from Mengzhi to Hanoi and set aside reserved land for a standard rail line. Upon completion, the line will be 141 km in length, costing RMB 4.5 billion, and construction will be commenced as soon as possible when the feasibility report and permission procedures are completed. In the long run, both countries should once and for all standardise all railway sections from Kunming, through Hekou, Lao Cai, to Hanoi, and from Nanning, through Pinxiang (憑祥), Lang Son (諒山), to Hanoi, to improve transport capacity and build the foundation for the Pan-Asian railway. The Vietnamese authority proposed that China and Vietnam should reconstruct the Vietnam-Kunming line and the Vietnam-Guangxi line in accordance with the Pan-Asian railway standards, and connect

<sup>75</sup> “Vietnam invests USD 1 billion to build roads connecting the Sino-Vietnam Economic Corridor”, Jiefang Net, 20<sup>th</sup> July 2006. <http://www.jfdaily.com>

<sup>76</sup> According to Vietnam’s *News Daily* dated 20<sup>th</sup> July, Nguyen Huu Bang, the general manager of Vietnam’s National Rail, indicated that his company planned to invest USD 30 billion to construct 4 express railways between 2010-2015, the total mileage is 880 km, and includes the Hanoi-Vinh route (280 km), Ho Chi Minh-Nha Trang route (400 km), Ho Chi Minh-Vung Tau route (100 km) and Hanoi-Hai Phong route (100 km). Of which, the former 3 routes are newly constructed projects. The last one is an upgrade and re-built. The news also indicated that rail gauge of expressed rail is 1.435 metres and the average speed is 160-300 km. According to initial estimates, the average cost of the express rail is USD 37 million per km, which includes both the construction and procurement of new rail compartments. Reference: “Vietnam to construct 900km express rail”, China Railway Technological and Economic Information Net, 21<sup>st</sup> July 2006, <http://info.rails.com.cn/redian/show.asp?id=0020068111307000012>

<sup>77</sup> “‘East line project’ of the Singapore-Kunming Pan-Asia Railway preliminarily fixed”, China Net, 2<sup>nd</sup> April 2002. <http://www.china.org.cn/chinese/TR-c/126828.htm>

it with the Pan-Asian railway line. This proposal was also echoed by the specialists committee. The Vietnamese railway authority put forward the construction of Lao Cai-Haiphong-Quang Ninh east-and-west branch line, with the new line expecting to handle 50% of the total cargo tonnage in the region for the past five years, and 40% of passenger flows. The first stage is to be completed in 2008, by which time the annual transport capacity will have reached three million tons<sup>78</sup>.

The main reason for constructing the Kunming-Hanoi Economic Corridor is to better utilise the border area and to penetrate the border area of the neighboring country, thus enlarging the hinterland on both sides and enabling the comparative advantages and cluster benefits of both sides to be fully realised. This enlargement of hinterland will no doubt provide material foundation for creating a competitive edge in regional economic development and in international regional competition, which will be beneficial to both China and Vietnam and is a step towards the goal of a China-ASEAN Free-Trade Area.

The rapid development of the Kunming-Hanoi Economic Corridor is a sharp contrast to the slow process of economic synthesis of Hong Kong and the Mainland. Since 1997, the integration pace of Hong Kong and the Mainland has lagged behind the development of neighbouring areas. For instance, the Hong Kong-Zhuhai-Macao Bridge (港珠澳大橋) is still under debate; the Guangdong-Hong Kong express railway and cross-border highway are still not finalised; passenger and cargo cross-border arrangements are not convenient, comfortable or fast.

The construction of the Kunming-Hanoi Economic Corridor can inspire our thoughts on the utilisation of the boundary areas. Hong Kong is characterised by insufficient land and a large population. The prosperous urban area is already overcrowded with little space for further development and reclaiming land from the sea is constrained by a number of factors. The need to connect with Shenzhen economically, however, is apparent, and road communication is especially important. The strategy to develop the urban area around Victoria Harbour is not good enough, while the potential to develop the North District and the boundary area of Shenzhen is enormous. Therefore, development of the 30 sq km of restricted area from Lok Ma Chau to Lo Wu, Ta Ku Ling, and Sha Tau Kok, is favourable to balancing the spatial structure of the city, increasing the overall economic benefits to Hong Kong, forming a

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<sup>78</sup> Du Weitao: "Water, land and air transport network: report on the Yunnan section of the Sino-Vietnam border", Guangxi New Net, 14<sup>th</sup> August 2006.  
<http://news.gxnews.com.cn/staticpages/20060814/newgx44dfdb7a-676376.shtml>

new growth area in the northern part of Hong Kong and facilitating the steady and sustainable development of Hong Kong's economy<sup>79</sup>.

In the future, cooperating with Shenzhen over the development of the Shenzhen River restricted boundary area will obviously help the process of unifying Hong Kong and Shenzhen, and it will at least help to speed up the flow of passengers and goods across the boundary. The development of industrial parks, commercial and trading areas, logistics parks and tourist areas are further possibilities worth considering. The comprehensive trading entity of Hekou in Yunnan and Kim Thanh in Vietnam, illustrates the possibility of forming such an administrative system to promote cross-border trade between an inland port with an outside country. At Lo Wu, Lok Ma Chau, Man Kam To and Sha Tau Kok, the flow of passengers and goods is obviously larger than the Vietnam border, and the trading volume, consumption of goods and services, and business opportunities obviously greater.

### 3.2 “M Strategy” of economic development in Guangxi

On 20<sup>th</sup> July 2006, the new party chief of Guangxi, Mr. Liu Qibao (劉奇葆), put forth the “M Strategy” for the open-door development and regional cooperation of Guangxi, at a forum on Beibu Gulf Rim economic cooperation<sup>80</sup>. The new economic structure is formed by the Pan Beibu Gulf Economic Cooperation Zone, Great Mekong Sub-region Cooperation and a central axis of the Nanning-Singapore Economic Corridor, thus forming a big M-shaped two-wing one-axis geographical structure. The “M Strategy” covers international and intra-national regional cooperation, including marine economic cooperation, i.e. the Pan Beibu Gulf Economic Cooperation Zone; Mainland economic cooperation, i.e. the Nanning-Singapore Economic Corridor; and river drainage area cooperation, i.e. the Mekong Sub-region Cooperation<sup>81</sup>. ASEAN is the core part of this strategy, thus it can be named the China-ASEAN “M Strategy” regional economic cooperation strategy<sup>82</sup>.

<sup>79</sup> Lu Xiang: “Pearl River Delta has to pass five hurdles”, *Economic Journal* (Electronic version). <http://www.jingji.com.cn/show.aspx?id=49>

<sup>80</sup> Liu Qibao: “Promoting development of the Pan-Beibuwan Circle, the construction of regional economy and a new model of economic development --- speech at the Pan-Beibuwan Economic Cooperation Forum”, 20<sup>th</sup> July 2006. <http://www.fecbg.org/staticpages/20060721/newgx44bfccc7-656445.html>

<sup>81</sup> The Great Mekong Sub-region Cooperation initiative has been a development project of the Asian Development Bank since 1992. The scope of cooperation includes: Laos, Myanmar, Cambodia, Thailand, Vietnam and China. The projects involved are transportation, energy, telecommunications, environment, tourism, human resources and investment. The underlying implications of the Great Mekong cooperation is to reduce economic and political conflict caused by the competitive exploitation of common drainage areas, such as the development and utilisation of water resource along the upper- and lower-stream of Mekong River.

As China faces the international politico-economic environment, the objectives of opening up have changed from single-tracked economic-orientation to a comprehensively outward strategy, including energy, resource strategy and positive relations with neighbours. However geopolitical military considerations have to be pondered, for example, in Southeast Asia, China has to deal with a new “congame” policy from the USA (a strategy to contain and engage China put forward by the American ambassador to Iraq, Mr. Zalmay Khalilzad, before President Bush took office<sup>83</sup>). Another example is the protection of the Strait of Malacca (馬六甲海峽) to ensure a safe waterway for the transportation of petroleum to China. The southward strategy for cooperating with ASEAN therefore plays a crucial role in national security. The open-door development of Guangxi is a marriage of regional interest and national strategy, making full use of national trading, finance, diplomacy, and overall planning policy, to boost up the development of the local economy. Strengthening cooperation with ASEAN countries in areas like transport infrastructure construction, economic and trade cooperation, resource development, logistics and tourism are some of the major works to be done.

A point worth noting is that Mr. Liu Qibao emphasised the importance of constructing the “Pan Beibu Gulf Economic Cooperation Zone” and deepening “Great Mekong Sub-region Cooperation”, and for the first time he put forth the proposal for a Nanning-Singapore Economic Corridor. The construction of the Nanning-Singapore railway and road is the fastest and most beneficial route for joining the Pan-Pearl River Delta region with the Indochina Peninsula. The Nanning-Singapore railway east-west branch only needs 300-500 km to be constructed; and the road from Nanning to Singapore is 3,900 km long, of which the Nanning-Youyiguan (友誼關) highway linking the border of Vietnam has already been completed. In the coming future, Guangxi will speed

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Zhu Rongji and Wen Jiabao attended the first and second conference of the Great Mekong Sub-Region initiative which is more inclined to balance political interests among the concerned countries. This time, Guangxi put more weight on development by highlighting the economic benefits of regional cooperation, hence it has a rather different precondition from the previous arrangements.

<sup>82</sup> Beibu Gulf (Guangxi) Economic Zone Planning, Constructing and Administering Council Office: “‘M Strategy’: Guangxi’s external new open-door strategy for national interest”, The Western Development Programme Leading Group Office of State Council, 27<sup>th</sup> July 2006.  
<http://www.chinawest.gov.cn/web/NewsInfo.asp?NewsId=32247> ◦

<sup>83</sup> The current Ambassador of the United States to Iraq, Mr. Zalmay Khalilzad in his publication titled “The United States and a Rising China: Strategic and Military Implications” in 1997, proposed Congagement as a main theme of Sino-America relationship. Congagement is a strategic initiative combining “Containment” and “Engagement”. In order to congame China, the US cooperated with China in economic and trade aspects but cooperated with Japan and South Korea over military development, and reinforced political and military cooperation with the ASEAN member states. Source: Zalmay Khalilzad, Abram N. Shulsky, Daniel Byman, Roger Cliff, David T. Orletsky, David A. Shlapak, Ashley J. Tellis, *The United States and a Rising China : Strategic and Military Implications*, [http://www.rand.org/pubs/monograph\\_reports/MR1082/](http://www.rand.org/pubs/monograph_reports/MR1082/). Zalmay Khalilzad, *Congage China*, [http://www.rand.org/pubs/issue\\_papers/IP187/IP187.html](http://www.rand.org/pubs/issue_papers/IP187/IP187.html).

up the construction and upgrade of the Nanning-Hanoi-Phnom Penh-Bangkok-Kuala Lumpur-Singapore route of railways and roads, develop urban and cross-border cooperation, attract industries, logistics, professional markets and developing a routeway economy, thus gradually forming the Nanning-Singapore Economic Corridor across the Indochina Peninsula.

### Implications for Hong Kong

The regional economic development strategy of Guangxi overrides the concept of geographical region or country, and enters into the notion of geo-economic concepts, beyond the border of countries. In this forum, Mr. Liu Qibao did not mention Pan-Pearl River Delta cooperation, but focused on a new initiative, the formation of a Beibu Gulf (Guangxi) Economic Zone, making a fourth region of growth, after the Pearl River Delta, Yangtze River Delta, and Bohai Rim regions. Cooperation with Singapore will raise the status of Guangxi's regional economic cooperation to a national strategy level.

Guangxi is determined to develop a "Pan-Beibu Gulf Economic Cooperation Zone", making it a motivating force for economic growth in the region. Economic and trade cooperation with ASEAN will form the Nanning-Singapore Economic Corridor linking China and ASEAN. For Hong Kong, this development obviously has far-reaching effects and will change the competitive status of Singapore and Hong Kong in the region:

- In the four Southwestern provinces/region, Guangxi, Yunnan and Guizhou will form a closer interactive relationship with ASEAN, of which the most positive and influential province is Guangxi. The Nanning-Singapore Economic Corridor strategy implies that Nanning will be the centre of the regional economic entity within the Chinese side of the border, and outside the border cooperation along the economic axis to Singapore. Hong Kong is effectively left outside. At present, Hong Kong is the biggest source of foreign investment in Guangxi, but as Singapore and Taiwan enterprises come into Guangxi and increase their role in the economy of Guangxi, the role of Hong Kong will shrink. In the long run, the balance and competitiveness of Singapore and Hong Kong in the region will undoubtedly reverse, one rises the other falls, and a crisis is coming.

## Appendix :

### Appendix I : Statistical Data on 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 in July 2006

Province / Region	Value-added to Industry (RMB 100 Million)		Sales Ratio of Manufactured Products (%)		Investment in July (RMB 100 Million)	Per Capita Disposable Income of Urban Households in July (RMB)
	July	Growth Rate	July	Growth Rate (% Points)		
National Total	7,200	16.7%	98.29%	-0.32	8403	915
Guangdong	875	16.3%	98.29%	-0.10	449	1,209
Sichuan	207	23.7%	99.31%	2.79	313	738
Guangxi	75	20.2%	103.83%	-2.48	131	764
Yunnan	103	27.3%	101.22%	-1.56	154	738
Guizhou	57	18.0%	97.08%	-0.67	81	721

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

Table 2 : Fiscal Indicators for the Four Southwestern Provinces/Region Between January–June 2006

Province / Region	Government Revenue (Funds Excluded) (RMB 100 Million)		Government Expenditure (Funds Excluded) (RMB 100 Million)	
	Jan - Jun	Growth Rate	Jan - Jun	Growth Rate
Sichuan	295	27.3%	449	22.9%
Guangxi	168	25.0%	286	18.2%
Yunnan	184	28.1%	285	7.1%
Guizhou	114	31.6%	190	11.6%

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

Table 3 : Social and Household Consumption for the Four Southwestern Provinces/Region Between January–June 2006

Province / Region	Total Retail Sales of Consumer Goods (RMB 100 Million)	Per Capita Disposable Income of Urban Households		Per Capita Consumption Expenditure of Urban Households		Consumer Price Index
		Jan - Jun (RMB)	Growth Rate	Jan - Jun (RMB)	Growth Rate	
Sichuan	266	4,757	9.8%	3,610	11.6%	101.8%
Guangxi	130	5,174	9.9%	3,392	6.1%	100.7%
Yunnan	93	5,030	8.9%	3,688	8.0%	102.0%
Guizhou	55	4,672	11.8%	3,422	11.6%	101.2%

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

Table 4 : Total Value of Exports and Imports for the Four Southwestern Provinces/Region Between January–June 2006

Province / Region	Total Value of Exports and Imports (USD 100 million)				Total Value of Exports and Imports by Foreign-Invested Enterprises (USD 100 million)	
	Jan – Jun	Growth Rate	Proportion to National Total	Balance	Jan – Jun	Proportion to Regional Total
Sichuan	47.9	39.2%	0.6%	7.1	11.6	24.2%
Guangxi	29.2	20.5%	0.4%	1.9	9.6	32.9%
Yunnan	28.4	23.4%	0.4%	1.0	2.3	8.0%
Guizhou	7.3	8.3%	0.1%	1.8	1.0	13.8%

Source: China's Customs Statistics (Monthly Exports & Imports), Series No. 202, June 2006.

## Appendix II : Glossary

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Agricultural Products	農產品
“A Hundred Enterprises Investing in Guangxi” Programme	百企入桂
Entry Barriers	准入門檻
Glossy Ganoderma	靈芝
Rustication Movement	上山下鄉
Hezhou	賀州
Kunming-Hanoi Economic Corridor	昆河經濟走廊
Manufacture of Artwork and Other Manufacturing	工藝品及其他製造業
Manufacture of Beverages	飲料製造業
Manufacture of Chemical Fibres	化學纖維製造業
Manufacture of Communication Equipment, Computers and Other Electronic Equipment	通信設備、計算機及其他電子設備製造業
Manufacture of Electrical Machinery and Equipment	電氣機械及器材製造業
Manufacture of General Purpose Machinery	通用設備製造業
Manufacture of Leather, Fur, Feather and Related Products	皮革、毛皮、羽毛(絨)及其製品業
Manufacture of Measuring Instruments and Machinery for Cultural Activity and Office Work	儀器儀錶及文化、辦公用機械製造業

Manufacture of Non-metallic Mineral Products	非金屬礦物製品業
Manufacture of Paper and Paper Products	造紙及紙製品業
Manufacture of Raw Chemical Materials and Chemical Products	化學原料及化學製品製造業
Manufacture of Special Purpose Machinery	專用設備製造業
Manufacture of Textile, Wearing Apparel, Footwear, and Caps	紡織服裝、鞋、帽製造業
Manufacture of Tobacco	煙草製品業
Manufacture of Transport Equipment	交通運輸設備製造業
Mekong Sub-region Cooperation	湄公河次區域合作
Mining and Washing of Coal	煤炭開採和洗選業
“M Strategy”	“M”型戰略
A University Graduate for Each Village (Community) Programme	一村一名大學生計劃
Pan-Asian Railway	泛亞鐵路
Pan-Beibu Gulf Economic Cooperation Zone	泛北部灣經濟合作區
Programme for Supporting the Medical Service, Agriculture, Education and Assistance to the Poor	“支醫、支農、支教和扶貧計劃”
The “Three Supports and One Assistance” Programme	(簡稱“三支一扶計劃”)
Poverty-stricken Counties	貧困縣

Processing of Petroleum, Coking, Processing of Nuclear Fuel	石油加工、煉焦及核燃料加工業
Production and Distribution of Electric Power	電力、熱力的生產和供應業
Smelting and Pressing of Ferrous Metals	黑色金屬冶煉及壓延加工業
Two Corridors and One Ring	兩廊一圈
Per Unit Gross Domestic Product Energy Consumption	單位 GDP 能耗
Well-off Society	小康社會
Wild Mushrooms	野生菌
Wuzhou	梧州
Yulin	玉林
Zigong City	自貢市