

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

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

**October 2006**

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## EXECUTIVE SUMMARY

1. During the period of year 2000 to 2005, the industries of the four south-eastern provinces (Fujian, Jiangxi, Hunan and Hainan) in the Pan-PRD region have developed steadily. The value-added of industrial output of each province has been increasing. The heavy industries are still ahead of the light industries in terms of value-added figures, but the light industries have been growing at a faster rate. The four provinces are different in their industrial development and each has its own competitive industrial sectors. They are common in considering industrial development as an important task in the 11th Five-Year Plan for social and economic development.
2. Small and medium-sized enterprises (SMEs) play a dominant role in the industrial economic growth of Fujian Province. To lower the cost of informationalisation for the SMEs and migrate towards “Digital Fujian”, Fujian launched an “electronic platform for commercial services” in end 2005. The platform is a specific platform that provides common e-commerce services for SMEs. Besides, Fujian has also taken several measures to help SMEs obtain capital funding.
3. Continuous investment in renovating technologies has contributed to the rapid industrial development of Jiangxi Province. The investment aims at strengthening the pillar industries and nourishing the major backbone enterprises. During the transformation process, Jiangxi has reformed the traditional industries, developed high-tech industries, formed industry clusters, and upgraded its industrial structure.
4. The industrial development of Hunan ranks at the medium level in China. The Hunan Provincial Government promotes new industrialisation by supporting the development of competitive industries. There are altogether 10 industries with strong competitive advantages in Hunan: the three pillar industries of equipment manufacturing, ferrous and non-ferrous metals industry, and tobacco industry; the three emerging industries of electronics and information technology industries, new materials industry, and bio-pharmaceuticals industry; and the four traditional industries of food processing industry, petrochemicals industry, construction materials industry, and paper industry.
5. Hainan Provincial Government focuses on harmonious development of industrial development and environmental protection. It emphasises on the “Three Not Principles” of not polluting the environment, not destroying resources, and not conducting low-level repetitive development. The key measures include: specifying functional areas for a more rational distribution of economic activities, adopting advanced technology on pollution control, upgrading the industrial structure and so on.
6. The signing of CEPA and the Pan-PRD regional cooperation have brought immense opportunities to the industries of Hong Kong. Hong Kong manufacturers can change the traditional OEM production method and develop original brand manufacturing by leveraging on the vast consumption market of the Mainland. Meanwhile, Hong Kong industries are also facing some challenges, which include: weak industrial technology base, insufficient high-quality industrial human resources, and the lack of large competitive industrial enterprises.

7. Propelling local industrial development towards high value-added production is crucial to the economic restructuring of Hong Kong. Facing internal and external challenges, Hong Kong should pay attention to the following aspects in industrial development: strengthening of the cooperation with the Mainland in science and technology, encouragement of the development of large competitive enterprises, support for the transformation of SMEs, and coordination of industries both inside and outside Hong Kong.

## **TOPICAL ANALYSIS**

### **Investment Cooperation in the Pan-PRD: Opportunities and Challenges for Hong Kong**

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## **An Overview of New Industrialisation and its Trends in the Pan-Pearl River Delta (Pan-PRD) Region**

The industrial sector has consistently played a dominant role in China's national economic development. In recent years, the State authorities have combined the needs for industrialisation and transformation in the mode of economic growth, and put forward a new industrialisation approach characterised by industrialisation driven by informatisation, propelling informatisation in return. In 2005, the national industrial value-added reached RMB7,619 billion, up 11.4% over the previous year, accounting for 41.79% of the national GDP, higher than the shares of the primary and tertiary industries of the national economy. Of the national industrial value-added, industrial enterprises above designated size<sup>1</sup> attained RMB6,642.5 billion, up 16.4% over the previous year.

### **New Industrialisation**

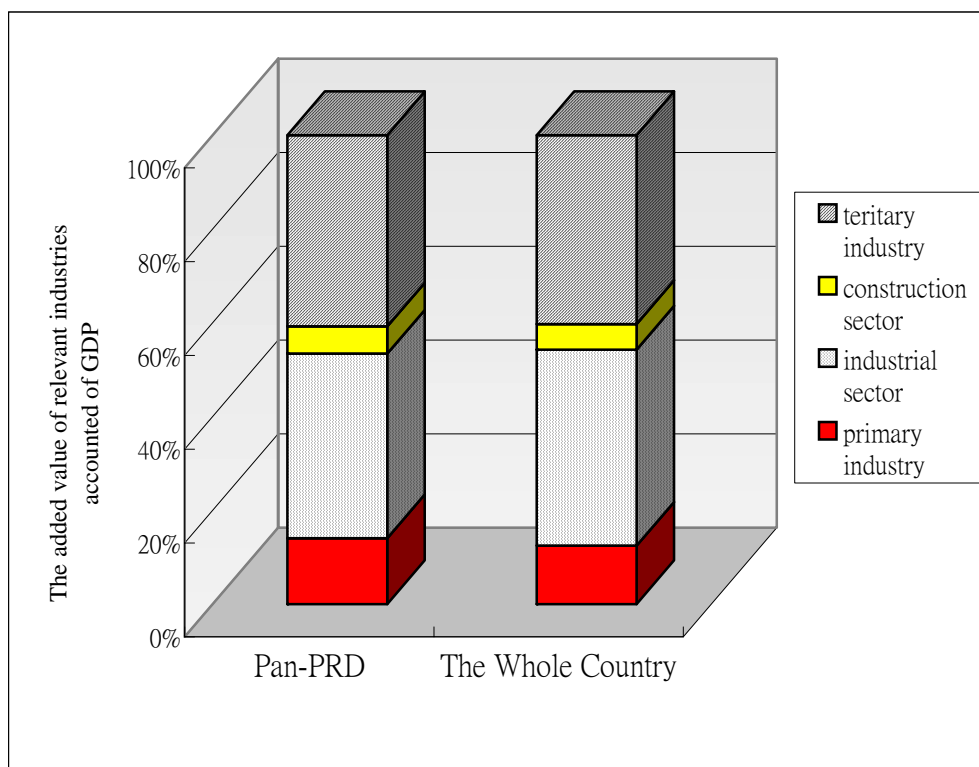
New industrialisation is an innovative industrialisation approach, aimed at high-tech content, good economic benefits, low energy consumption, and full use of manpower resources through positive interaction between industrialisation and informatisation. It is characterised by industrialisation driven by informatisation, with upgrade of technology as the core driving force, combined with sustainable development, and efficient exploitation of China's advantages in human resources.

The Pan-PRD region possesses strong economic strengths on the whole. Especially in recent years, the tertiary industry has experienced rapid development along with the economic transformation of China. However, smooth development of the industrial economy is still of great significance to the development of the entire region. In 2005, the nine Pan-PRD provinces/region realised an industrial value-added of RMB2,227.052 billion, accounting for 39.38% of its GDP, together with the tertiary industry, constituting the main driving force of economic growth in the region (the value-added of the tertiary industry accounted for 40.78% of the GDP of the nine Pan-PRD provinces/region).

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1. "Industrial enterprises above designated size" refers to State-owned industrial enterprises and non-State owned industrial enterprises with annual product sales revenue above RMB5 million.

**Figure 1: Economic Structure of the Nine Pan-PRD Provinces/Region and the Whole Country (2005)**



*Note:* The secondary industry mainly includes the industrial and construction sectors.

*Source:* Statistical Bulletin 2005 (2005 年統計公報), National Bureau of Statistics (國家統計局)

In 2005, all of the eight Pan-PRD provinces/region (excluding Yunnan) achieved a double-digit growth per annum over that of 2004 in respect of industrial value-added (see **Table 1**). Among them, Jiangxi experienced the fastest growth at 20%. Except for the major tourist province of Hainan, the industrial value-added of all the other eight provinces/region accounted for 30% or above of its GDP, reflecting the strong driving role played by industrial development in the local economy. In particular, for Fujian and Guangdong, the two major industrial provinces, their industrial value-added accounted for more than 40% of the GDP.

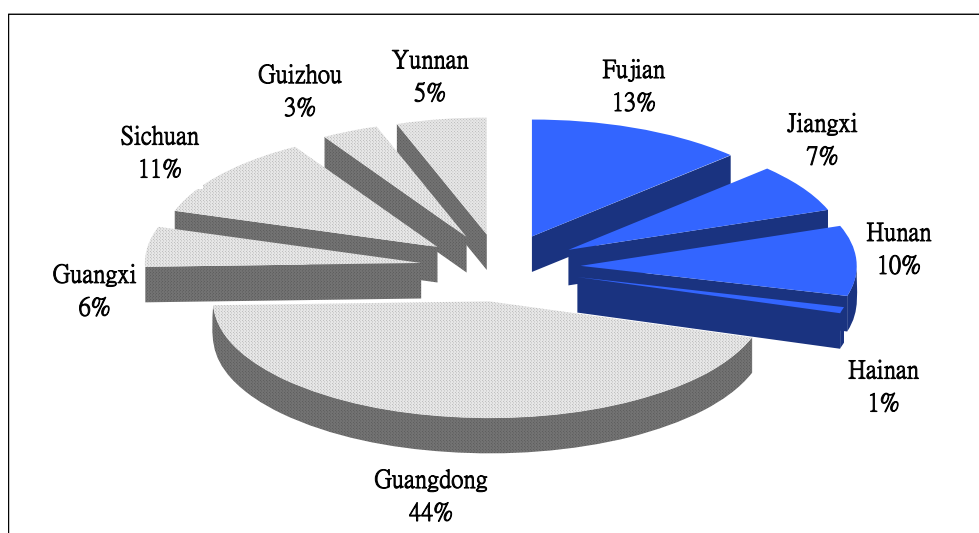
**Table 1: Industrial Value-Added, its Growth Rate and its Share of the GDP for the Nine Pan-PRD Provinces/Region in 2005.**

Provinces (Region)	Industrial Value-Added (billion RMB)	Growth over 2004 (%)	Share of the Province's GDP (%)
Fujian	286.957	14.20	43.74
Jiangxi	145.550	20.00	35.88
Hunan	219.991	15.30	33.98
Hainan	16.662	17.00	18.44
Guangdong	989.137	15.80	45.58
Guangxi	126.302	18.90	31.08
Sichuan	251.260	19.90	34.02
Guizhou	71.186	14.80	36.66
Yunnan	120.007	7.70	34.56

Source: Statistical Bulletin 2005 of Each Province/Region, National Bureau of Statistics

Industrial development is unbalanced in the Pan-PRD provinces/region. As shown in **Figure 2**, Guangdong owns the greatest industrial strength with its industrial value-added accounting for more than 40% of the region as a whole (44%). Fujian, Sichuan and Hunan accounted for 10%. Jiangxi, Guangxi, Yunnan, Guizhou and Hainan each accounted for less than 10%.

**Figure 2: Regional Distribution of Industrial Value-Added in the Nine Pan-PRD Provinces/Region (2005)**

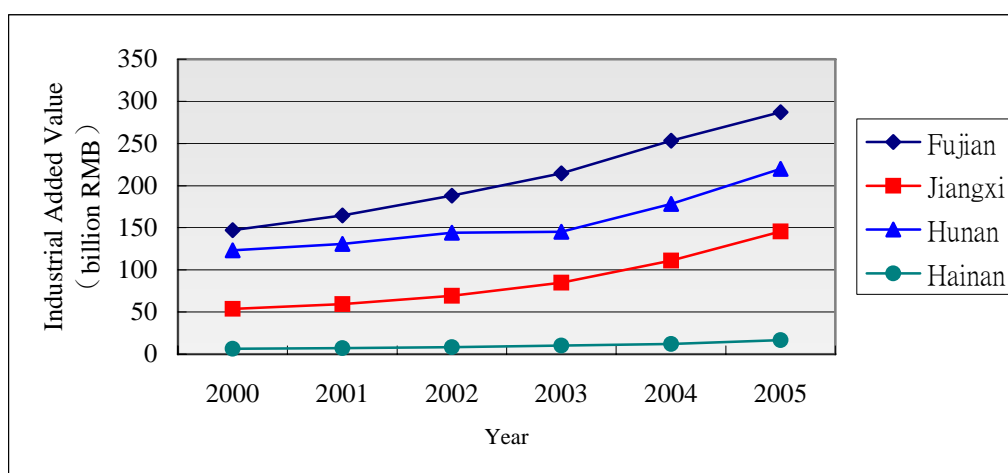


Source: Statistical Bulletin 2005 of Each Province/Region, National Bureau of Statistics

## The Four South-Eastern Pan-PRD Provinces Maintained Steady Industrial Growth

The four provinces of Fujian, Jiangxi, Hunan and Hainan maintained a steady industrial development from 2000 to 2005, with annual increments in industrial value-added (see **Figure 3**).

**Figure 3: Trend of Changes in Industrial Value-Added of the Four South-Eastern Pan-PRD Provinces (2000 – 2005)**



Source: *Statistical Bulletin 2005 of Each Province/Region, National Bureau of Statistics*

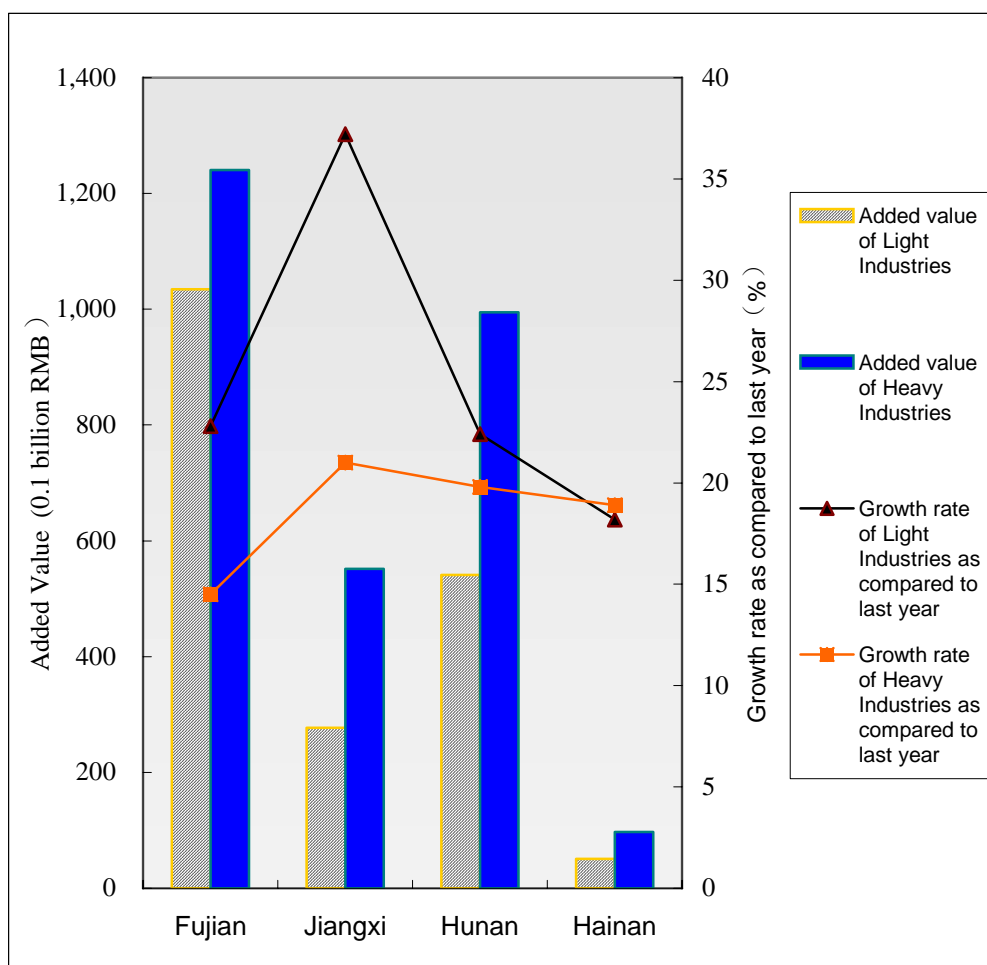
By type of industry (see **Figure 4**), of the industrial value-added of the industrial enterprises above designated size in the four south-eastern provinces, the value-added of heavy industries exceeded that of light industries in all of the four south-eastern provinces. However, light industries grew at a faster pace than heavy industries, particularly in Jiangxi, where light industries recorded the most significant growth. In recent years, Jiangxi has focused on enhancing the level of industrial production, increasing investment in technological transformation, and implementing a series of technology projects. As a result, Jiangxi's light industries achieved a growth of 37.2% in 2005.

Driven by its three leading industries, namely, electronic information, machinery and chemicals industry, Fujian has sustained a steady growth in its industrial economy, and its industrial value-added continues to lead the four provinces, with a position only second to Guangdong province among the nine Pan-PRD provinces/region.

Hainan Province is a major tourist province with a weak industrial base, and its heavy and light industries are similar in development levels. However, its heavy industries have sustained a faster pace of growth (**Figure 4** shows that the growth rate of heavy industries was slightly higher than that of light industries in Hainan in 2005). This is attributable to its strategy of "Introducing large enterprises and using large projects as the driving force" (大企業進入，大項目帶動). For example, the entry of large enterprises such as CNOOC (中海油) and COSCO Group (中遠集團) into Hainan has helped to bring some vitality to Hainan's economy.

Hunan Province has maintained a steady development thanks to its existing industrial base, with more than 70% of its industries concentrated in the top 10 competitive industries, such as equipment manufacturing, ferrous and non-ferrous metals, electronic information, new materials, etc. These top 10 competitive industries have made an outstanding contribution to the industrial development of Hunan Province.

**Figure 4: Value-Added of the Heavy and Light Industries in the Four South-Eastern Provinces and their Growth Rates in 2005**



Source: Statistical Bulletin 2005 of Each Province/Region, National Bureau of Statistics

## Competitive Industries in the Four South-Eastern Provinces

Industrial development in the Pan-PRD region has maintained a good momentum over the years. There is evidence of industrial hierarchy among the provinces, which makes it possible for industrial transfer and exchange. Industrial disparity also exists in the four provinces in Southeast China. Responding to the moving out trend of Hong Kong-funded factories from the PRD region due to pressures in environmental protection, land, labour and energy, the four south-eastern provinces are competing to lure Hong Kong manufacturers with their dual advantages in resources and costs. However, due to their less developed transportation, power supply and telecommunications facilities, and the local governments' efficiencies are yet to be improved, many Hong Kong businessmen are still adopting a wait-and-see approach.

According to an analysis (2004) by Liu Manping (劉滿平), an economist of the State Development and Reform Commission (國家發展和改革委員會), each of the four south-eastern provinces has its own competitive industries<sup>2</sup>, as shown in **Table 2**:

**Table 2: Competitive Industrial Sectors of the Four South-Eastern Pan-PRD Provinces**

Provinces	Competitive Industrial Sectors
Fujian	Manufacture of measuring instruments and machinery for cultural activity and office work; petroleum; manufacture of textile; manufacture of communication equipment and other electronic equipment
Jiangxi	Special metallurgy and manufacture of metal products; mining of coal; mining and processing of non-ferrous metal ores
Hunan	Manufacture of transport equipment; manufacture of ordinary and special purpose machineries; smelting and pressing of non-ferrous metals; smelting and pressing of ferrous metals
Hainan	Extraction of petroleum and natural gas; manufacture of paper and paper products; manufacture of medicines

Source: Liu Manping, *Economist, the State Development and Reform Commission* (2004)

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2. "A Gradient Analysis of Regional Industries and Construction of an Industrial Transfer Mechanism in the 'Pan-Pearl River'" (「泛珠江」區域產業梯度分析及產業轉移機制構建) by Liu Manping, 2004, *Economic Theories and Management* (經濟理論與經濟管理), the 11th issue.

After years of development, a few industrial sectors have already been well established in these provinces thanks to their favourable geographical locations and rich resources. Industrial clusters of various sizes have taken shape, among which are the rail transport industrial cluster in Hunan and the textile, garment, leather and fur manufacturing industrial clusters in Fujian. Industrial clusters enjoy advantages such as lower costs and sufficient supply of technical workers. Hong Kong entrepreneurs, before deciding to invest in a certain place, should have a full understanding of the industrial development in the locality and its surrounding area, with a view to capitalising on the well-developed industrial base, to reap more returns at lower costs. They should also make a correct estimate of the possible competition from their local counterparts and know how to cooperate with them with regard to production.

### Trends and Updates on Industrial Development Outlined in the 11th Five-Year Plans of the Four South-Eastern Provinces

In the 11th Five-Year Plans of all of the four south-eastern provinces, priority for development is given to industrial development. **Table 3** shows the objectives and directions of industrial development of each of the provinces during the 11th Five-Year Plan period. In respect of changes in the industrial structure, the share of secondary industries in the provincial economy is set to be raised, with Hainan expects the largest increase at 6.1%, followed by Jiangxi, Hunan and Fujian at 4.8%, 4.3% and 1.8% respectively.

**Table 3: Industrial Development Objectives of the Four South-Eastern Pan-PRD Provinces During the 11th Five-Year Plan Period**

Development Objectives		Fujian	Jiangxi	Hunan	Hainan
GDP of the province (RMB0.1 billion)	Targeted level in 2010	10,000	8,000	10,000	1,500
	Current level in 2005	6,560.07	4,056.2	6,473.61	903.60
Industrial structure (%)	Targeted level in 2010	9:51:40	13:52:35	14:44.5:41.5	29:32:39
	Current level in 2005	12.6:49.2:38.2	19.0:47.2:33.8	19.4:40.2:40.4	33.1:25.9:41
Increased in the share of the secondary industry (%)		1.8	4.8	4.3	6.1
Reduction in energy consumption per RMB10,000 of GDP (%)		16	20	20	25

\* 9:51:40 refers to the value-added ratio of primary, secondary, and tertiary industries respectively.

\*\* The data relates to reduction of energy consumption per unit of industrial value-added and energy consumption per unit of GDP over that in 2005. As Hainan is at the early stage of industrialisation, energy consumption per unit GDP remains at a lower level in the country. However, Hainan is experiencing higher energy consumption per industrial value-added. Thus, Hainan uses the reduction in energy consumption per unit of industrial value-added as one of its energy saving indicators.

Source: Extracted from the 11th Five-Year Plan and 2005 Statistical Bulletin of Each of the Province

Under the same theme of pushing ahead with new industrialisation, all the provinces have their distinct focal points, which can be summarised as follows:

Fujian: To enlarge coastal industrial clusters and push forward city development with the support of large ports and develop new industrialised port cities.

Jiangxi: To boost fully the equipment industry with car, aircraft, and precision manufacturing as its backbone; actively develop specialised metallurgy, metal ware, Chinese traditional patent medicine (中成藥), and bio-pharmaceuticals sectors. To develop emphatically the electronic information and household appliances industries, led by the information technology (IT) industry; expand and strengthen the sectors of refined chemicals and new building materials; speed up the food processing industry with the emphasis on intensive agricultural produce processing; and renovate and upgrade the textile and light industries.

Hunan: To foster 10 major competitive industries with competitive edges; launch a series of large projects with an investment of over RMB100 million; strive to build a new industrial development pattern with high-tech industries as pioneers, advanced manufacturing and infrastructure industrial clusters as the backbone, and branding and competitiveness as the core.

Hainan: To accelerate the development of small and medium-sized enterprises (SMEs) that support the large enterprises, and accordingly realise the cluster effect featuring the prosperity of SMEs spearheaded by large projects and enterprises; optimise industrial layout and expedite industrial clustering.

## Fujian Boosts Industrial Economy by Developing Industrial SMEs

Fujian has undergone a marked improvement in respect of the overall quality of its industrial economy in recent years. It has preliminarily developed an industrial economy with a relatively complete range of sectors, distinct regional characteristics, market competitiveness in certain areas, as well as a higher degree of orientation towards foreign trade. Fujian's industrial value-added in 2005 reached RMB286,957 million, accounting for 43.74% of the province's GDP, up 14.2% over the previous year.

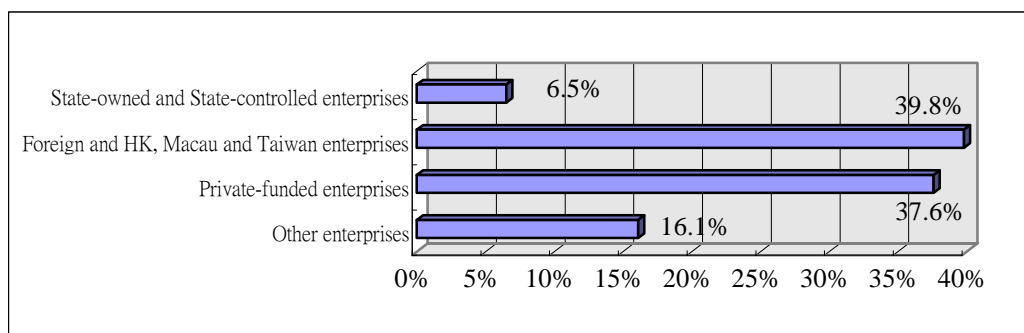
Since the 10th Five-Year Plan, industrial SMEs in Fujian have experienced a strong upward momentum in respect of the main economic indicators. There has been a rapid increase in the number of newly established enterprises, with more job opportunities created year by year. Also with their financial performance significantly improved, industrial SMEs have become the principal driving force for the growth of the industrial economy of Fujian.

### Definition of Small- and Medium-Sized Enterprises (SMEs) in the Mainland

According to the *Interim Provisions on Standards for Small- and Medium-Sized Enterprises* (中小企業標準暫行規定) adopted by the State Council in January 2003, industrial SMEs are defined as industrial enterprises with the number of employees below 2 000, or sales revenue below RMB300 million, or total assets below RMB400 million. Among them, medium-sized enterprises have to satisfy the requirements of having the number of employees at 300 or above, and sales revenue at RMB30 million or above, and total assets at RMB40 million or above. Other enterprises are classed as small-sized enterprises.

### Development of Industrial SMEs

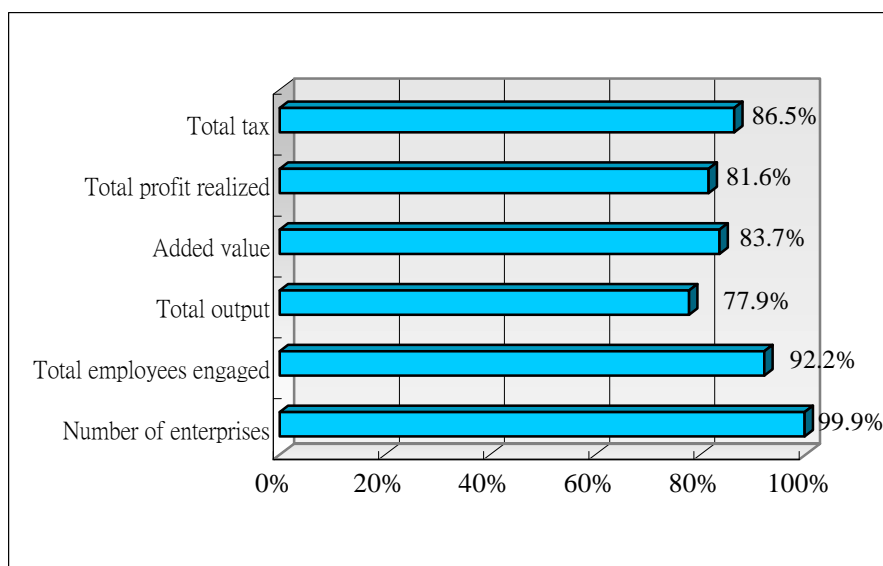
Statistics show the overall size of industrial SMEs in Fujian has been growing. By the end of 2005, there were 53 984 industrial SMEs in Fujian, accounting for 99.9% of all industrial enterprises. By type, they were mainly foreign, Hong Kong, Macao and Taiwan enterprises (39.8%) and private-funded enterprises (37.6%). The proportion of State-owned and State-controlled enterprises is relatively low, accounting for only 6.5% (see **Figure 5**).

**Figure 5: Types of Small- and Medium-sized Industrial Enterprises in Fujian (2005)**

*Other companies include collective enterprises, joint-stock cooperative enterprises, joint ventures and other types of registered enterprises.*

*Source: Fujian Channel, Xinhua Net (新華網福建頻道)*

In Fujian, industrial SMEs have become the main channel of employment. In 2005, industrial SMEs engaged 3 650 900 employees, accounting for 92.2% of the total number of employees engaged by all industrial enterprises in Fujian. In terms of scale, industrial SMEs in Fujian are constantly getting bigger. By 2005, industrial SMEs in the province realised a total profit of RMB38,354 million and paid a total tax of RMB30,081 million, accounting for 81.6% and 86.5% of those of all industrial enterprises respectively. The total output and added-value realised by industrial SMEs also accounted for a significant share of all industrial enterprises (being 77.9% and 83.7% respectively) (see **Figure 6**).

**Figure 6: Share of Various Indicators of Small- and Medium-sized Industrial Enterprises Among All Industrial Enterprises in Fujian**

*Source: Fujian Channel, Xinhua Net*

## Promoting the Informatisation Process in Industrial SMEs

The new industrialisation features industrialisation driven by informatisation, and propelling informatisation in return. SMEs are an important part of Fujian's industrial economy. Therefore, popularising informatisation in SMEs is a crucial step in Fujian's new industrialisation campaign.

However, there are a few obstacles hindering informatisation of SMEs in Fujian, which mainly include (1) SMEs' concern over the risk caused by informatisation; (2) shortage of IT professionals; (3) unaffordable cost of informatisation; (4) failure of existing software and software suppliers to provide services meeting the demand of SMEs for informatisation.

At the end of 2005, with the aim of cutting down SMEs' informatisation costs, speeding up industrial clustering, and sharpening the overall competitive edge of SMEs, Fujian officially launched "Business Navigator" (商務領航), a public service platform for SMEs' e-commerce service, as part of its efforts to build a "Digital Fujian" (數碼福建).

Available on the all-inclusive platform are more than 20 informatisation services under five categories, covering areas such as modern corporate production, operation and management. Major service packages include: Domain name registration, pre-designed website templates and corporate colouring ring back tones (企業彩鈴)<sup>3</sup>, which serve the purpose of enhancing corporate image; online business management, office automation and Global E-Eye (全球眼), which are designed to improve corporate operation and management and increase management efficiency; Sales promotion tools such as online yellow pages (號碼百事通), business hotlines and online translation, which aim to help businesses develop more customers with a strengthened sales force; Business communication tools like corporate messenger (企信通), online conferencing (會議通), one-code-through (一號通) and virtual fax, which provide alternative means of communication to approach customers; Products relating to services and support on network infrastructures and technical support services including corporate LAN set-up, administration, maintenance, and web security.

Through the platform, SMEs can select and order custom-made informatisation products and services according to their own business needs and development circumstances. Within four months since its trial operation, over 13 000 enterprises have used the platform to boost their informatisation, efficiently relieving their problems in lack of funds, technologies and IT professionals.

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3. A corporate colouring ring back tone is a customised ring-back tone offered by telecom companies. A phone caller can, while waiting for the receiving end to pick up the phone, hear custom-made corporate songs, slogans or other music, rather than the traditional monotonous ring tone.

## **Active Expansion of Financial Services for Industrial SMEs**

In order to further the development of industrial SMEs, Fujian has made a great commitment over recent years to building a financial services platform for SMEs, in an effort to relieve their capital shortage. So far, Fujian has gradually established a financial service mode catering to SMEs, thanks to governmental coordination and guidance, favourable banking support, cooperation of guarantor institutions and active participation of SMEs. To encourage financial institutions to renovate their financial products and services, Fujian has made an intensive effort to set up a “Fujian Province Government-bank-enterprise Information Exchange Network” (福建省政銀企會商信息網) and has held an annual provincial government-bank-enterprise information exchange conference and regional bank-enterprise trade talks for four straight years.

Since the beginning of 2004, the Provincial Government has invested a total of RMB22.7 million, and all cities and counties have also established fiscally supported credit guarantee agencies, helping reinforce SME credit guarantee agencies and increase guaranteed amounts. By the end of 2005, the guaranteed amount provided for industrial enterprises grew by RMB8.58 billion over that of 2003. By the end of August 2006, the Fujian Branch of the Industrial and Commercial Bank of China (福建省工商銀行) provided loans to small enterprises with a balance of RMB4.684 billion, up RMB2.016 billion over the beginning of the year, representing an increase of RMB3.022 billion over the previous year. New loans advanced to small-sized enterprises accounted for 30.56% of the loans made during the same period.

## **Major Areas of Cooperation Between Fujian and Hong Kong**

Hong Kong has constantly remained an important source of investment and also trading partner for Fujian. The industrial cooperation between both sides has focused on electronic information, machinery, petrochemicals, high-tech industries and traditional processing trades, which are relatively well established in Fujian. In recent years, Fujian has been enhancing the machinery, petrochemicals and electronic information sectors, developing capital- and technology-intensive industries, intensifying technical renovation, and improving the processing industries’ productivity and equipment. Hong Kong can make full use of its advantages in capital, technology, human resources, and management expertise to cooperate with Fujian in the aforementioned fields. Most of the Hong Kong-invested industrial enterprises in Fujian are SMEs, which play an important part in promoting the growth of Fujian’s industrial economy while enjoying the favourable local business environment.

## Technical Renovation Enhances Jiangxi's Industries

Jiangxi's industrialisation level has long lagged behind other provinces in China. Since 2001, based on the principle of making industrialisation the core element and opening-up the overriding strategy, Jiangxi has been actively advocating and encouraging new industrialisation, which has resulted in an average annual industrial growth rate close to 20% and a quickened pace of industrialisation. The secondary industry's share of the province's GDP rose to 47.2% in 2005 from 35% in 2000, representing an increase of 12.2 percentage points, of which the industrial value-added amounted to RMB145.55 billion, accounting for 35.88% of the province's GDP, up 20% over 2004.

### Continued Investment in Technical Renovation

The rapid development of Jiangxi's industry is mainly attributed to continued investment in technology renovation. Technically upgraded production processes have facilitated industrial advancement. The period of 2002 through 2004 witnessed a significant increase in technology renovation investment, the number of technology renovation projects with an investment of more than RMB100 million, and the number of enterprises enjoying exceptional support (see **Figure 4**).

Jiangxi raises technology renovation funds mainly through channels such as enterprise restructuring, increased fiscal allocations, application for national treasury bond funding and active attraction of outside investment. It plans to invest RMB320 billion in technology renovation during the 11th Five-Year Plan period, up from RMB109 billion in the 10th Five-Year Plan period and an amount of less than RMB35 billion in the 9th Five-Year Plan period. The budget is focused on enhancing the pillar industries and fostering the backbone enterprises through a series of measures which include reshaping the traditional industries, developing hi-tech industries, forming industrial clustering, building a complete industrial network, and optimising and upgrading the industrial structure.

**Table 4: Key Data Associated with Technology Renovation in Jiangxi Province (2002-2005)**

Items / Year	2002	2003	2004	2005
Amount of investment (RMB0.1 billion)	130	193	244.51	334.14*
Number of technology renovation projects with an investment of more than RMB0.1 billion	7	63	100	—
Number of enterprises enjoying exceptional support	30	62	100	—

\* The 2005 figure represents investment amounts in technology renovation for the six pillar industries.

Source: Jiangxi Channel, Xinhua net (新華網江西頻道).

[http://big5.xinhuanet.com/gate/big5/www.jx.xinhuanet.com/cyjj/2005-01/18/content\\_3587055.htm](http://big5.xinhuanet.com/gate/big5/www.jx.xinhuanet.com/cyjj/2005-01/18/content_3587055.htm)

## Major Hi-tech Products and Technology Renovated Enterprises

Jiangxi's high-tech products and enterprises involved in large technology renovation projects are mainly summarised as follows:

**Electronic information:** An industrial mix, mainly comprising electronic components, audio & video devices, electronic materials, and application software, has taken shape. Among the industry players, Lianchuang Optoelectronic (聯創光電) and Tellhow Group (泰豪集團) are ranked among the top 100 electronics companies in China, and Tellhow Software (泰豪軟件), Aheadsoft (先鋒軟件), and Strong Digital Technology (思創數碼科技) are listed among China's 100 best software firms. The accumulative sales of the electronic information industry rose to RMB9.42 billion by the end of the 10th Five-Year Plan period from RMB1.65 billion at the beginning of the period, among which software trade accounted for a share of more than 25%.

**New Materials:** High-strength and low-relaxation pre-stressed steel strand, magnetic functional materials, wear-resistant steel, as well as environmentally friendly lighting. For example, through technology renovation on its production of high-quality screw base lights and T5 lights, Southern Lighting (南方照明有限公司) produces environmentally-friendly and energy-saving lighting products using local rare-earth resources.

**Bio-pharmaceuticals:** High-performers include Boya Bio-pharmaceuticals (博雅生物制藥), Beida Ruixin Bio-pharmaceuticals (北大瑞欣生物藥業), and Chengzhi Bioengineering (江西誠志生物工程).

**Refined Chemicals:** Water polyacrylamide (a water treatment agent made by Changjiu Biochemical Industry Company (江西昌九生化股份公司)), cyclohexanone-formaldehyde resin, and SAS surface-active agent.

**New Pesticide:** High-purity Carbaryl made by Haili Guixi Chemical Pesticide Company (貴溪海利).

**Cars:** During the 10th Five-Year Plan period, with the completion of technology renovation of JMC's Transit (江鈴全順汽車) and Landwind (陸風) CV9 lines, the launch of Changhe's (昌河) project to produce 100 000 cars and 150 000 engines, as well as the construction of supporting bases for parts and components manufacturing in Jindezhen City (景德鎮) and Nanchang, the leading car-makers such as JMC and Changhe have been on track of rapid expansion.

**Copper:** On top of steady expansion to the copper smelting sector, Jiangxi has vigorously developed intensive processing of copper, electrolytic copper foil, copper strip, inner spiral copper tube, special enamelled wire, as well as gold, silver, tellurium, bismuth and other rare and precious metals. After the third phase of technology renovation, one of the fourth batch of projects funded by national treasury bonds, the Guixi Smelter of Jiangxi Copper Company (江銅貴冶) has achieved a copper smelting capacity of 400 000 tons. Plus, its ISA electrolysis process also leads the industry in China.

Non-ferrous Metals: Jiangxi has changed from being an exporter to being an importer of mineral resources such as copper and tungsten. The emphasis of its industrial operation and technology renovation has switched from sales of raw materials and rough processing to intensive processing of rare-earth hydrogen storage materials, permanent magnetic materials, luminous materials, tungsten-based products and tantalum powder and wire. An industrial chain of higher value-added has come into being.

### **Opportunities for Hong Kong-Jiangxi Partnership**

Endowed with plentiful land and labour resources, Jiangxi can accommodate those Hong Kong sectors such as textile, garment, light industries, electronics, telecommunications, and household appliances. In terms of industrial cooperation, Hong Kong and Jiangxi can join efforts in technology innovation. Hong Kong businesses can work with Jiangxi's enterprises, colleges and universities, as well as sci-tech research institutions, in research and development in a bid to improve the technology content and quality of products. Additionally, Hong Kong and Jiangxi can join efforts to develop new hot products. Take the traditional Chinese medicine (TCM) sector as an example. It has a long history in Jiangxi. Striving to build the sector into one of its pillar industries, Jiangxi welcomes outside investors' involvement in TCM development and operation. As Hong Kong enjoys the advantages of abundant funds, strong marketing abilities and wide sales channels, whereas Jiangxi has sound technological and production capacities, both parties can join hands to develop TCM products.

## Hunan Spurs Industrial Growth via Ten Competitive Industries

Hunan has gradually developed a complete industrial system, with the total industrial output ranking medium nationally, while nearly 30 of its 62 major industrial products have an output ranking in the top 10 nationally. In 2005, Hunan realised an industrial value-added of RMB219,991 million, accounting for 33.98% of the province's GDP, up 15.3% over the previous year.

Hunan has adopted a strategy of “achieving industrialisation, urbanisation and agricultural industrialisation” (三化進程)<sup>4</sup>, for which the industrialisation drive is the core. Meanwhile, the industrialisation drive in turn has a core too, i.e. to build a chain of competitive industries. Currently, the existence of a chain of competitive industries is reckoned as a crucial element of good investment environment, as well as the typical embodiment of a region's overall competitiveness. Hence, the Hunan Provincial Government is stepping up its efforts to foster competitive industries, and forge them into a powerful industrial driving force, so as to spearhead the development of Hunan's industrial economy and spur the province's new industrialisation drive.

### Top Ten Competitive Industries and Competitive Enterprises

Hunan's top 10 competitive industries include the three pillar industries of equipment manufacturing, ferrous and non-ferrous metals industry, and tobacco industry; the three emerging industries of electronics and information technology industries, new materials industry, and bio-pharmaceuticals industry; and the four traditional industries of food processing industry, petrochemicals industry, construction materials industry, and paper industry (See **Table 5**). In 2005, these 10 competitive industries created an industrial value-added of RMB117,462 million, accounting for 53.39% of the province's total and 74.68% of the total generated by enterprises above designated size.

The top 10 industries have a competitive edge nationwide. During the 11th Five-Year Plan period, Hunan will base its new industrialisation on fostering industry clusters, with the aim of fostering 50 industry clusters each with an annual principal operating revenue of more than RMB5 billion, covering sectors such as quality steel, non-ferrous smelting and deep processing, engineering machinery, motor cars and parts, as well as deep processing of food. According to the plan developed by the Hunan Provincial Development and Reform Commission (湖南省發展和改革委員會), by 2010, Hunan intends to nurture the following large enterprises in its top 10 competitive industries: three to five enterprises with a sales revenue of more than RMB20 billion, and 10 to 12 enterprises with a sales revenue of more than RMB10 billion, and 20 to 25 enterprises with a sales revenue of more than RMB5 billion.

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4. Hunan put forward the strategy of “achieving industrialisation, urbanisation and agricultural industrialisation” during its 10th Five-Year Plan period, which placed industrialisation at the core of preferred development.

**Table 5: Top Ten Competitive Industries and Competitive Enterprises in Hunan**

Types of industries	Competitive industries	Competitive enterprises	Location
Pillar industries	Equipment manufacturing	Large equipment manufacturing enterprises like Changfeng Group (長豐集團), Jiangnan Automobile (江南汽車), Zoomlion Group (中聯集團), Sanyi Heavy Industry (三一重工), Zhuzhou Times (株洲時代), Xiangtan Electric Manufacturing Group (湘潭電機), TBEA (特變電工), etc.	Changsha (長沙), Zhuzhou (株州), Xiangtan (湘潭)
	Ferrous and non-ferrous metals industry	Hunan Non-ferrous Metals Holdings Group (湖南有色金屬控股集團)	Changsha
	Tobacco industry	Changsha Cigarette Factory (長沙捲煙廠) and Changde Cigarette Factory (常德捲煙廠)	Changsha, Changde (常德)
Emerging industries	Electronics and information technology industries	China's top 100 software enterprises like Powerise Software (創智軟件), GreatWall Information (長城信息), Suzsoft (China) (新宇軟件), INN (國訊), Sinosoft Group (中科軟件), etc; a number of enterprise clusters are emerging in Changsha Xingsha IT Development Zone like LCD enterprise cluster, advanced electronic devices & components enterprise cluster, digital TV and communication products enterprise cluster, etc.	Changsha, Chenzhou (郴州)
	New materials industry	More than 30 backbone enterprises in Changsha High Technology Development Zone like Kingray Technology (金瑞科技), Lyrun Material (力元新材), Hunan Haili (湖南海利), Shanshan Material (杉杉新材料), Jingxin Tech (晶鑫科技), Intcera High Tech (大陶科技), etc.	Changsha
	Bio-pharmaceuticals industry	There are some bio-pharmaceuticals enterprises located in Hunan Liuyang Bio-medical Park (湖南瀏陽醫藥生物園) like Changsha No.3 Pharmaceuticals Factory (長沙製藥三廠), etc.	Liuyang (瀏陽)

**Table 5 (continued)**

Types of industries	Competitive industries	Competitive enterprises	Location
Traditional industries	Food processing industry	A number of big food processing enterprise clusters are located in Hunan Hi-Tech Food Industrial Base like Want Want Hunan (Headquarters) Factory (旺旺集團湖南總廠), etc.	Changsha
	Petrochemicals industry	Changling Petrochemicals (長嶺煉化), Sinopec Baling (巴陵石化)	Yueyang (岳陽)
	Construction materials industry	Suntop Cement Group (韶峰水泥集團), Zhuzhou Guangming Glass Group (株州光明玻璃集團有限公司), Yueyang Changxin Ceramics Ltd. (岳陽常鑫陶瓷有限公司), Hunan Province Building Ceramics (Headquarters) Co. (湖南省建築陶瓷總公司等), etc.	Xiangxiang (湘鄉), Zhuzhou, Yueyang (岳陽), Xiangtan
	Paper industry	Tiger Forest and Paper Group (泰格林紙), Hengan Paper Products Co. (恒安紙業)	Changsha, Changde

Source: Obtained from relevant web pages of Hunan Province

### Actively Foster Competitive Industrial Chain

According to a motion by the Hunan People's Political and Consultative Conference (湖南省政協) entitled *Suggestions on Accelerating the Development of Competitive Industry Clusters and Striving to Promote the Industrialisation of Hunan* (加快培育優勢產業鏈，著力提升我省工業化水平的建議), four major problems exist in the development of the province's competitive industry clusters. They are as follows:

- (a) There are few "leading" enterprises and they are small in size, thus weak in driving the province's industrial sector;
- (b) There are few competitive and well-integrated industry clusters, and the local supporting facilities are poor and costly;
- (c) The dominant industries are weak, with a short chain and few high value-added processes, bringing not much contribution to the economy;
- (d) Little effort has been made in pushing forward industrial clustering and investment promotion for the competitive industries and their industry chains, affecting the overall performance and multiplier effect of the industrial platform.

To tackle these problems, six measures were introduced in the motion aiming to shape and optimise the province's competitive industry clusters. They are:

- (a) To develop industrial development plans with a view to shaping and optimizing competitive industry clusters;
- (b) To foster leading enterprises and build up competitive industry clusters;

- (c) To establish a first-rate service system for competitive industry clusters through active integration with Hong Kong and Macao's service industries under the framework of CEPA;
- (d) To improve the mode of investment promotion, switching to industry cluster-based from policy-based;
- (e) To conform to international standards, and integrate with the international purchasing circle and global supply chains; and
- (f) To further broaden the channels of financing for the construction of competitive industry clusters.

#### **Policy-Based Investment Promotion**

This is an investment promotion mode whereby a series of preferential policies are issued by the government to attract investment from overseas.

#### **Industrial Chain-Based Investment Promotion**

This refers to the investment promotion mode whereby investment is attracted to a particular industry comprising the leading products of a region, and the raw materials, ancillary materials, parts and accessories as well as packages for those products, with the aim of achieving mutual development and multiplier effects, and elevating the competitiveness of the products, enterprises, industry and even the overall competitiveness of the regional economy as a whole.

### **Two Receiver Areas for Relocated Industries Facilitate Industrial Cooperation between Hong Kong and Hunan**

Hong Kong's manufacturing industry is facing the pressure of moving out of the PRD region. Taking into account factors such as a region's accommodation capacity, its industrial structure, its development structure and transportation costs, Hunan is one of the preferential places for Hong Kong's manufacturing industry. According to a member of the Hunan Provincial Committee of Chinese People's Political Consultative Conference (湖南省政協) from Hong Kong, Hunan now has two areas for Hong Kong businesses to settle in. One is the Changsha-Zhuzhou-Xiangtan City Cluster (長株潭城市群), and the other is the Chenzhou Export Processing Zone (郴州出口加工區).

The Changsha-Zhuzhou-Xiangtan City Cluster Zone is located in the hinterland of China, connecting China's east and west. It enjoys convenient transportation, with interwoven highways, railroads, rivers and airports. The three cities are about 45 kilometres away from each other. As an old industrial base of China, the zone boasts complete infrastructure and rich human resources. There are more than 20 institutions of higher education in the three cities, taking up over 80% of the province's total education resources. Furthermore, there are quite a few state- or province-level development zones in the three

cities, such as the Changsha Economic Development Zone (長沙經濟開發區), the Changsha High and New Technology Industrial Development Zone (長沙高新技術開發區區), Xiangtan High and New Technology Industrial Development Zone (湘潭高新技術產業開發區), and so forth.

Located at the junction of Hunan, Guangdong and Jiangxi, Chenzhou City is within a three-hour drive from Guangzhou and Changsha as well. The Chenzhou Export Processing Zone, authorised by the State Council in June 2005, is Hunan's only export processing zone, also the nearest to Guangdong, Hong Kong and Macao among all the export processing zones in central and western China. Since 2000, Hong Kong business people have relocated 61 projects from the PRD region to Chenzhou, with the investment totalling RMB1.34 billion. The industrial positioning of the Chenzhou Export Processing Zone is to concentrate on developing export- and processing trade-oriented hi-tech industries, including electronic information, precision machinery, and new materials, so as to foster featured industry clusters and realise the upgrading and transformation of the processing trade.

The Changsha-Zhuzhou-Xiangtan City Cluster Zone has been rather well developed, with complete industrial support facilities. It is also the most economically developed area of Hunan with a solid industrial foundation and extensive coverage. However, the cost of business operation in the zone is higher than in the other areas of Hunan. The Chenzhou Export Processing Zone has an edge in terms of geographic location, but so far only the infrastructure of the first phase including water supply, power supply, roads, standardised workshops and warehouses has been built. However, as Chenzhou is speeding up its construction, it is predicted that by 2007 the city will be able to offer "One-Stop" services for express customs clearance, facilitating a smoother goods flow to the outside world. Hong Kong's business people may, based on the needs of their own trade, make an on-site visit to these two zones, and then decide on the more suitable one to develop their business.

## **Hainan Pursues Industrial Development and Environmental Protection in a Coordinated Manner**

In recent years, the Hainan Provincial Government has made great efforts in boosting industrial development by policy adjustment. For this, Hainan is pursuing a strategy of “Introducing Large Enterprises and Using Key Projects as Driver” based on concentrated distribution of industries. It is also stepping up its efforts in turning its resource advantages into industrial advantages and building the “Western Industrial Corridor” (西部工業走廊), focusing on the development of such pillar industries in the national economy as natural gas and natural gas chemicals, petroleum refining and petrochemicals, integrated forest-pulp-paper industries, car making and pharmaceuticals. In 2005, the province’s industrial value-added reached RMB16,662 million, up 17% over the previous year, accounting for a higher share of 18.44% of the province’s GDP.

### **Industrial Development Aligns with Environmental Protection**

Hainan boasts abundant natural resources and beautiful scenery, and hence the issue of how to preserve its ecological environment while seeking industrial development is a primary concern for the whole province in pursuing new industrialisation. The province is committed to pursuing industrialisation “without polluting the environment, without spoiling resources and refrained from low-level repetitive construction”, with a view to achieving industrial development aligned with sound ecological conservation. Industrial projects, which might cause environmental pollution, spoil resources, or are repetitive in nature, will be denied. Whereas projects that are categorised as emerging industries, high-tech industries, or competitive-resource-based industries (資源優勢工業) will be embraced. Meanwhile, environmental problems arising from industrial development are expected to be overcome in the process of development through control and guidance of, among other things, policy, and economic or technical means. The major measures or means to be adopted are as follows:

To divide environmentally functional zones, and implement rational distribution of production capacity. In Hainan, large enterprises and projects are to be concentrated in the western region of the province, so as to tackle environmental pollution in a centralised way. And as for the central mountain area, priority is given to ecological conservation. By contrast, in the eastern area, green agriculture, eco-tourism and real estate industries are promoted thanks to the local favourable natural environment.

To adopt advanced anti-pollution technologies. Large enterprises entering Hainan are required to minimise the pollution they may cause by means of up-to-date anti-pollution technology. For example, an amount as much as nearly RMB2.5 billion of its total investment of RMB11.6 billion of an eight million-ton oil refinery project was spent on cutting pollution. All hazardous substances in exhaust emissions are recycled, while discharged water after treatment can even be used for farmland irrigation. Take Jinhai Pulp Plant (金海漿紙廠) as another example. Of its total investment of RMB10.4 billion, RMB2.4 billion was used on sewage treatment. After being treated, the discharge can also be used for purposes such as watering flowers or breeding fishes.

To adjust the industrial structure appropriately. Hainan denies entry to any contamination-prone small businesses, and does not accept any relocation of industries that may cause environmental pollution, waste resources, or are technologically backward, making room for high-tech industries. Large enterprises which are environmentally friendly and generate sound economic results, on the other hand, are favoured (see **Table 6**) by Hainan.

**Table 6: Some Large Industrial Projects Completed or in Operation in Hainan**

Project names	Location	Total investment (RMB0.1 billion)	Responsible parties
Haikou thermal power plant expansion project	Laocheng	27	Huaneng Group (華能集團)
240,000-ton bottle grade polyester chips project	Haikou	4	Sinopec Hainan Shengzhiye Hi-tech. Inc. (中石化海南盛之業高新技術公司)
Haima (海馬) 150,000-auto engine project	Haikou	12	Haima Group (海馬集團)
Hunan Tradetool (海南元創) auto parts industry project	Haikou	1.5	Taiwan Tradetool International Limited (台灣元創開發集團)
Haikou Medicine Valley Phase I (海口藥穀)	Haikou	3.01	Nine medicine manufacturers
Samsung optical cable project	Haikou	US\$56.8 million	Korea Sumsung
Eight million-ton fusing oil project	Yangpu	116	Sinopec (中石化)
80 000-ton styrene (苯乙烯) project	Yangpu	3.05	Hainan Shihua Garson Chemical Co., Ltd. (海南實華嘉盛化工有限公司)
One million-ton pulp project	Yangpu	95	Indonesia Sinar Mas Group (印尼金光集團)
700 000-ton float glass project	Laocheng	20	Fuyao Group (福耀集團)
Fudao fertiliser project Phase II	Dongfang	30	CNOOC (中海油)
600 000-ton methyl alcohol	Dongfang	14.7	Joint venture by Sinopec and Kingboard Chemical Holdings Ltd. (香港建滔化工集團)
Project of carbon dioxide-degradable plastic project	Dongfang	1.4	CNOOC (中海油)
Huasheng Changjiang (華盛昌江) two million-ton cement project	Changjiang	4.8	Huasheng Tianya Cement Co. Ltd. (華盛天涯水泥有限公司)
Reconstruction of Yangpu electricity plant	Yangpu	5.8	CNOOC (中海油)
SDIC one million-ton cement project	Changjiang	3	SDIC Hainan Cement Co., Ltd. (國投海南水泥有限公司)

Source: Obtained from relevant web pages of Hunan Province.

## The Roadmap for Industrial Development in Hainan During the 11th Five-Year Plan Period

During the 11th Five-Year Plan period, in respect of natural gas and natural gas chemicals, Hainan will put emphasis on both fertilisers and chemicals, accelerate the development of downstream products by taking synthetic ammonia and methanol as the source, in a bid to build a comprehensive production capacity of five billion cubic metres of gas and three million tons of chemical products annually.

In the field of petroleum refining and petrochemicals, Hainan will vigorously enhance the development of products such as polypropylene (聚丙烯), styrene (苯乙烯), PX and PTA<sup>5</sup>, based on a yearly refining capability of eight million tons of crude oil.

In the field of motor car making, the province will expand its motor car assembly capacity, speed up auto engines, components and accessories industries, and strive for a yearly production capacity of 150 000 passenger cars by 2010.

Regarding paper-making, the province is seeking to forge an extended industrial chain integrating both upstream and downstream afforestation, pulp and paper-making, with the aim of building a yearly production capacity of 1.6 million tons of paper and 1.6 million tons of high-grade paper products.

As for pharmaceuticals, Hainan will encourage pharmaceutical enterprises to introduce, absorb and develop new varieties and new formulations with exclusive intellectual property rights and unique features, and give priority to the construction of the Haikou Pharmaceutical Valley (海口藥谷). Furthermore, Hainan will regulate the exploitation of mineral resources, including titanium and quartz sand, according to law and boost the development of the processing industry such as high-quality float glass.

## Opportunities for Industrial Cooperation between Hong Kong and Hainan

Hainan possesses significant advantages in tourism and agriculture. With the development of Hainan's industry, its richness in exploitable resources is becoming increasingly self-evident: perovskite, zircon ore, petroleum, natural gas, iron ore, Southern China TCM drugs (南藥), etc. Hence, Hainan is blessed with great potential when it comes to cooperating with Hong Kong in terms of petrochemicals, tropical agriculture, pharmaceuticals, eco-tourism, marine industry, and food and beverages. In Hainan, Haikou, Sanya, Yangpu (洋浦) and Dongfang (東方) are the major areas attracting investment from Hong Kong.

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5. PX is short for P-xylene, and PTA for Pure Terephthalic Acid. PX is the most direct and primary raw material for producing PTA.

In order to promote Hainan-Hong Kong cooperation, the Hainan Provincial Government has stepped up its efforts to absorb foreign capital and, for the cultivation of competitive industries, opened further up to outside and deregulated the market entry requirements. As a result, overseas investors are allowed to invest in Hainan through mergers and acquisitions, participation in reorganisation, taking up assigned shares, and BOT (build-operate-transfer) investments, etc. At present, the Hainan Provincial Government has indicated its policies as: to support Hong Kong businessmen in setting up wholly-owned, cooperative and joint venture enterprises to explore industrial projects in the sectors of offshore oil, natural gas, chemicals manufacturing, and other emerging industries in Hainan; and encourage Hong Kong businessmen to participate in the restructuring of Hainan's state-owned assets. In addition, drawing on its good reputation as a province with a well-conserved ecological environment, an island with a healthy lifestyle, and a demonstration zone free of epidemic diseases spread by designated animals (無規定動物疫病示範區), Hainan will seek Hong Kong's cooperation in establishing (or integrating) bases for agricultural products, livestock products, seawater aquaculture products and the processing of such products in accordance with relevant international standards.

## Future Role of Hong Kong, and its Opportunities and Challenges

Hong Kong is in a different stage of economic development from that of the Mainland. In the post-industrialisation era, the service sector has become the mainstay of Hong Kong's economy, while the industrial sector has gradually declined. Hong Kong's industrial sector is concentrated on the manufacturing industry. Its economic transformation is characterised by an integration of the manufacturing and service sectors and a gradual switch to service sector domination. With the northward mass migration of Hong Kong's manufacturing industry, Hong Kong's local manufacturing industry has established an offshore production network with Hong Kong as the management centre of both local and offshore industries. Though suffering a relative decline of its share in Hong Kong's entire industrial mix, the industrial sector is still playing a significant role in the stable development of Hong Kong's economy. This report will, in view of Hong Kong's own industrial development, explore the impact of the Mainland's drive towards new industrialisation on Hong Kong.

### Characteristics and Strengths of Hong Kong's Industrial Economy

Hong Kong's industrial enterprises are largely SMEs, which constitute the backbone of the Hong Kong economy. SMEs can swiftly make production adjustments in response to market changes. As for industrial mix, light industries are the main part of Hong Kong's industries, concentrating highly on the production of garments & accessories, electrical machinery, instruments, tools and parts and components (see **Table 7**). Such a light-type industrial mix features a large employed population, short production cycle, low technical content, and fast returns. Coupled with its industrial structure, Hong Kong's industrial economy features a high reliance on foreign trade. Hong Kong-made industrial products mainly rely on exports to the Mainland, the US, and a few major European markets (see **Table 8**).

**Table 7: Hong Kong's Domestic Exports by Principal Commodity in 2005**

Principal commodity divisions	HK\$ million	Share of total domestic exports (%)
Articles of apparel and clothing accessories	56,240	41.3
Electrical machinery, apparatus and appliances, and electrical parts thereof	18,839	13.8
Miscellaneous manufactured articles (mainly jewellery, goldsmiths' and silversmiths' wares)	15,038	11.1
Office machines and automatic data processing machines	13,721	10.1
Textile yarn, fabrics, made-up articles and related products	4,695	3.5

Source: Census and Statistics Department, Hong Kong SAR Government (香港特別行政區政府政府統計處)

**Table 8: Hong Kong's Domestic Exports by Principal Destination in 2005**

Principal destination	HK\$ million	Share of total domestic exports (%)
The Mainland of China	44,643	32.8
United States of America	37,767	27.8
United Kingdom	7,304	5.4
Netherlands	5,386	4.0
Taiwan	5,142	3.8
Germany	4,353	3.2
Japan	4,320	3.2

Source: Census and Statistics Department, Hong Kong SAR Government

## Opportunities and Challenges for Hong Kong

The signing of the Closer Economic Partnership Arrangement (CEPA) and cooperation with the Pan-PRD region and other Mainland provinces will render Hong Kong unlimited opportunities. As the Mainland's economy leaps forward, the consumption market of branded goods is beginning to mature with increased brand awareness and demands on product design and quality. The traditional industrial enterprises of Hong Kong mainly carry out OEM manufacturing, engaged in processing and manufacturing products for foreign brands. They hardly have their own brands, nor do they put enough efforts into design and renovation. The enormous consumer base in the Mainland provides a great market for Hong Kong's new products and brands. Hong Kong products are often well received by the Mainland consumers. Through tapping the Mainland market, Hong Kong manufacturers can increase their output and sales swiftly and thus expand themselves, laying a solid foundation for the future entry into the international market.

### OEM

OEM (Original Equipment Manufacturer) is an operating mode by which processing or manufacturing services are subcontracted out. Instead of manufacturing themselves, the brand owners outsource the processing and manufacturing assignments to other manufacturers. With proprietary crucial core technologies, they are responsible for the design and development of new products, and control the last link – marketing channels.

Hong Kong is experienced in dealing with the world market for many years. It is not only a product exchange arena attracting leading buyers and sellers of the world, but also an information centre, a talent fair, and an international financial hub. Hong Kong businesses enjoy the fastest and earliest exposure to new technologies and products, which enables them to grasp the market trends sooner than others. With cheap land and labour, the Mainland has attracted a good number of international companies to set up their manufacturing plants. Hong Kong can lure the multinationals to base their regional headquarters in the SAR. Still

more, Hong Kong can play an active role in the “going global” endeavours of the Mainland enterprises which have been steadily developing and expanding.

Aside from these opportunities, the rapid advance of the Mainland’s industry also poses challenges for Hong Kong, especially for its industry, which are subject to both inward and outward pressure. In recent years, the Mainland provinces have attached great importance to new industrialisation and actively supported their local industrial development with more financial, land, and manpower resources. Because of these efforts, Mainland enterprises have kept updating and upgrading their products. Hong Kong products now face comprehensive competition from the Mainland products. To make things worse, Hong Kong manufacturers find themselves in an unprecedented operational dilemma due to increasing production costs in the Pan-PRD region.

Furthermore, Hong Kong’s industry is haunted by inherent problems such as:

Firstly, the industrial structure with SMEs as the main trunk results in a weak technological base for Hong Kong industry and poor technological innovation awareness and motivation. Many traditional industrial enterprises in Hong Kong are engaged in the production of low technology content, low value-added products that cause high pollution. Though Hong Kong businesses can move northward as a countermeasure against the rise of production costs in the PRD region, they must realise that they will have no future wherever they move, if they cannot break away from their traditional production mode.

Secondly, the manpower resources in the industrial sector are of low quality on the whole. There is a scarcity of technical specialists and young entrepreneurs. The prejudice of preferring trade to industry has long been prevalent in the Hong Kong community. When choosing a specialty to study or as a career, Hong Kong citizens tend to opt for financial and real estate sectors and shy away from the industrial sector. Constrained by such a social ideology, Hong Kong has all along failed to cultivate sufficient industrial talent, which puts the secondary industry of Hong Kong in an unfavourable situation when dealing with challenges.

Thirdly, there is a lack of large enterprises with structural and economies of scale advantages. Although Hong Kong’s SMEs have made a remarkable contribution to Hong Kong’s economic development, Hong Kong, as an economy, is in urgent need of large enterprises to build up the city’s overall economic strength by playing a leading and dominant role in R&D, product innovation, and market development.

### **Viable Countermeasures Against Challenges**

To achieve a new economic transformation, Hong Kong needs to develop a high value-added service sector, enhance integration with the Mainland’s economy, and make an intense effort to push ahead with its industrial development by emphatically cultivating industrial enterprises with high value-added. Looking forward, Hong Kong should pay special attention to the following:

## **1. Strengthening sci-tech cooperation with the Mainland**

In modern industry, technical system is a dominant element of practical productivity. To create new competitive capabilities, Hong Kong must, responding to the trends of world economic development, embark on a technological innovation-oriented path to develop high value-added and hi-tech industries in communications and Internet-related sectors, and other industries such as telecommunications, computer software and systems, multimedia, network systems, etc.

Hong Kong and the Mainland can complement each other in hi-tech development. The Mainland boasts a systematic scientific and technological research base, rich research results, and abundant talent. But the commercialised level of many research results is not high due to the separation of the scientific and technological circle from the marketplace. Hong Kong can, according to its own needs, exert its advantages, leverage on the rich resources of the Mainland, join hands with the Mainland provinces in R&D, and transform the existing manufacturing industries into high value-added ones in a win-win approach. Meanwhile, Hong Kong should intensify its efforts to cultivate local talent and absorb the Mainland's scientific and technical elites. Some measures should be taken to rectify the social stereotype of placing trade before industry and publicise the idea that the industrial sector provides promising career prospects.

## **2. Encouraging the development of large enterprises**

Large leading enterprises enjoy advantages in terms of capital, technology and human resources. Basically, large enterprises initiate major original innovations, while SMEs copy their innovations. So large enterprises can take a lead in R&D, product innovation, and market development. They play a pioneering part in driving the new emerging industries forward.

Due to the shortage of large leading industrial enterprises in Hong Kong, Hong Kong should create conditions to attract the Mainland or overseas investment to develop the industrial sector. Currently, the Mainland economy, especially the non-private sector, enjoys great development opportunities and promising prospects. The Mainland has become one of the major sources of investment for Hong Kong. As for foreign-invested enterprises in Hong Kong, they are characterised by their large scale and high technological level. They supplement Hong Kong's industrial development with new industries, products and technologies. Aside from attracting the Mainland and overseas investment, Hong Kong should also encourage local conglomerates to support product innovation and hi-tech industries, and take a share of the industrial development.

### **3. Supporting and reforming SMEs**

SMEs, especially those specialised in the processing field, are the backbone of Hong Kong's industrial sector. SMEs maintain a close relationship with large manufacturers through the practices of sub-contracting or outsourcing. Such pattern enables the whole sector to respond flexibly and quickly to outside demands. But SMEs are generally weak and backward technically due to a lack of funds. A survey, conducted by the Hong Kong Productivity Council (香港生產力促進局) in August 2006, concludes that most SMEs move slowly or even fail to apply available IT technologies to logistics management. Besides, SMEs do not perform well in personnel training and human resources management. The survey states that, of all the SMEs, fewer than 20% have long-term employee training and career development plans, and only around 40% have put into effect an employee reward and penalty system.

In a word, all the weaknesses make it hard for SMEs to establish a sound financial and technical foundation. This results in an unfavourable situation in the face of increasingly intense competition. SMEs tend to seek quick, short-term returns. They should be engaged in sustainable and promising sectors of high value-added, which is the right way to develop hi-tech industry. In an interview, a General Committee member of a local trade association remarked that because of restraints in operations and irrelevance to enterprises' practical needs, the research centres in Hong Kong are not providing many beneficial supports to the enterprises of Hong Kong. Besides, many Hong Kong businessmen hope that Hong Kong SAR Government will conduct extensive and detailed consultation and coordination with the Mainland Government to support their development in the Mainland.

### **4. Mutual promotion between local industries and offshore industries**

The size of secondary industry in Hong Kong is very small. Most of the manufacturers have moved northward into the Mainland, making Hong Kong a management centre for local and offshore industries. Therefore, Hong Kong should make a proper balance between local and offshore industries. Both industries should have a clear division of work and well cooperated. The government support measures should take them into account.

Local enterprises should focus on developing new products and technologies, building famous brands, and carrying out core production processes. When their production expands to a certain scale, they can move to the Mainland which has abundant land and labour resources for mass production. After China's entry into World Trade Organisation (WTO) and the signing of CEPA, some of the Hong Kong manufacturers have even relocated their factories back to Hong Kong. At present, although there are no figures to show how much the return of manufacturing has affected the development of the local industry, it is a noteworthy phenomenon which should be studied and well prepared in advance. For example, it should be considered that whether the vacant industrial land at present is equipped with relevant facilities and whether there are any new methods to control the usage of manufacturing plants.

Offshore manufacturing enterprises of Hong Kong would attract the supporting tertiary industry in Hong Kong to move into the Mainland. They may also give impetus to the development of other sectors. It is understood that the establishment of organisations like the

Hong Kong Economic and Trade Office in Guangdong (GDETO) (香港駐粵經濟貿易辦事處 (駐粵辦)) is welcomed by Hong Kong businessmen. On the other hand, the Hong Kong Economic and Trade Office in Chengdu (駐成都辦) is deemed not sufficient to meet the demands of Hong Kong businessmen based in the surrounding provinces in central China. The businessmen hope that one or two additional offices will be established in central China to assist them to solve the difficulties that they may encounter in making local investment and setting up factories.

## **TRENDS AND UPDATES ON THE FOUR-EASTERN PROVINCES**

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## **Fujian Intends to Further Strengthen Economic and Trade Cooperation with ASEAN**

As the “China-ASEAN Free Trade Area” (中國—東盟自由貿易區) is to be established by 2010, China and ASEAN (東盟) will get to become closely linked in respect of trade and economic development<sup>6</sup>. In September 2006, Yang Biao (楊彪), Director-General of the Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省外經貿廳), said that the province intends to further strengthen economic and trade cooperation with ASEAN, and implement a trade-led strategy that combines “attracting inward investment” and “going out”, by leveraging on the favourable conditions of the “China-ASEAN Free Trade Area”. It aims to facilitate at the same time imports and exports, foreign investment, offshore manufacturing investment, labour cooperation, contracting of construction projects and aid to foreign countries<sup>7</sup>.

### **Fujian-ASEAN Trade and Economic Relations will Experience Rapid Development in the Near Future**

In 2006, ASEAN became the fifth largest trade partner, the fifth largest export market and third largest import market of Fujian. Of the four Pan-PRD south-eastern provinces (Fujian, Jiangxi, Hunan and Hainan), Fujian holds closer economic and trade relation ties with ASEAN. In 2005, trade between Fujian and the ASEAN countries amounted to US\$4,655 million, while trade between each of Jiangxi, Hunan and Hainan and the ASEAN countries was less than US\$400 million.

From January to July 2006, Fujian’s exports to the ASEAN countries reached US\$1,528 million, up 21.17% over the previous year, and its imports from the same region were worth US\$1,354 million, up 5.27% over the previous year. During the same period, machinery items accounted for 62.12% of Fujian’s imports from the ASEAN countries and 43.13% of Fujian’s exports to the same region. In 2005, the trade volume between Fujian and the ASEAN countries reached a value of US\$4,655 million, among which, Fujian’s exports to

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6. As at 4 November 2002, China and the 10 ASEAN countries signed the *Framework Agreement on Comprehensive Economic Cooperation between China and ASEAN* (中國與東盟全面經濟合作框架協議), whereby, the “China-ASEAN Free Trade Zone” is to be established by 2010. Upon completion, the China-ASEAN Free Trade Zone will become the world’s third largest free trade area after the North American Free Trade Agreement (NAFTA) (北美自由貿易區) and the European Union (EU) (歐盟). Starting from 1 July 2005, the “China-ASEAN Free Trade Zone” formally entered into the process of tariff rates reduction, whereby, both sides began to reduce tariff rates on more than 7 000 types of products, and most of them will be reduced to zero within five years. The 10 ASEAN member countries include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

7. *International Business Daily* (國際商報), 26 September 2006.

the ASEAN countries was US\$2,428 million, and its investment in the same region was US\$210 million<sup>8</sup>.

Based on a number of favourable factors, including positive economic growth in the ASEAN countries, accelerated economic integration of the ASEAN region, and continued development of Fujian's economy, it is expected that the economic and trade ties between Fujian and the ASEAN countries will undergo rapid development in the near future.

### **Fujian Adopts a Combined Strategy of “Attracting Inwards Investment” and “Going out” in Dealing with ASEAN**

Fujian has adopted an “attracting inwards investment” strategy towards ASEAN, and outruns Jiangxi, Hunan and Hainan in terms of capital attracted from the ASEAN countries. As a result, ASEAN has become Fujian's third largest source of contracted foreign direct investment (FDI) and utilised FDI. By the end of 2005, Fujian absorbed 3 110 investment items from the ASEAN countries in total, with contracted FDI and utilised FDI amounting to US\$7,503 million and US\$4,073 million respectively. From January to July 2006, Fujian absorbed contracted FDI of US\$767 million from the ASEAN countries, with US\$408 million being actually used.

Fujian has also adopted a proactive strategy of “going out” in dealing with ASEAN countries, and the ASEAN has become the largest market of foreign construction project contracts and labour export of Fujian. From January to July 2006, Fujian set up 32 directly invested entities in the ASEAN countries, with a total investment of US\$60.2 million, covering sectors such as resource exploration, agricultural development, real estate and construction. During the same period, Fujian enterprises entered into US\$97.788 million of construction project contracts and labour service cooperation contracts, and completed US\$187.979 million. The number of people sent overseas totalled 18 262 in July 2006.

### **Complementary Nature between Fujian and ASEAN**

Fujian Governor Huang Xiaojing (黃小晶) once said that Fujian will strengthen exchanges and cooperation with the ASEAN countries based on the complementary strengths of the two parties in resources and industries<sup>9</sup>. Yang Biao (楊彪), Director-General of the Provincial Department of Foreign Trade and Economic Cooperation, proposed three ideas for Fujian and ASEAN to exert their complementary strengths.

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8. Source: Pan-PRD Regional Cooperation Information Network (泛珠三角合作信息網).

9. Conversation by Fujian Governor Huang Xiaojing at a Dialogue Meeting of Pan-PRD Administrative Chiefs and ASEAN Ministerial Officials of Commerce in June 2006.

First, each party should leverage on its own strengths by focusing on the key trade products, so as to achieve complementary synergy in trade. Along with economic development, Fujian's demand for raw materials and energy has been growing. Fujian's imports of raw material products from the ASEAN countries (such as plastics and rubber materials, minerals including coal, tungsten, oil and others, as well as chemical materials) have sustained steady growth, accounting for 30% of the province's total imports from the ASEAN countries. To the ASEAN countries, products like textiles, garments, processed agricultural products, footwear, vehicle parts and components, and small machinery of Fujian, have a certain appeal to them.

Secondly, Fujian should actively attract foreign capital for a more rational division of labour and further development in trade and commerce. As Fujian is considered to have certain advantages in its three leading industries, i.e. electronic information, machinery and equipment and petrochemicals, it will try to extend its key industrial chains, strengthen co-ordination with the ASEAN countries in areas such as industrial relocation and industrial restructuring, and proactively absorb relocated industries from the ASEAN region.

Thirdly, Fujian should try to leverage on the "Overseas Chinese Businessmen Economic Circle" (華商經濟圈), strengthen its ties and communication with Chinese associations and businessmen in the ASEAN countries, and further create a platform for two-way trade and economic cooperation. Fujian is a famous hometown of overseas Chinese. It is estimated that there are more than 10 million overseas Chinese of Fujian origin, of which 85% reside in the ASEAN countries (e.g. Jinjiang (晉江) and Shishi (石獅) people in the Philippines, Fuzhou and Fuqing (福清) people in Indonesia, Anxi (安溪) and Yongchun (永春) people in Malaysia). Fujian intends to leverage on its advantages of having a huge number of overseas Chinese of Fujian origin with great economic strengths, through such means as mutual visits between trade and industrial organisations, two-way investment seminars and investment promotion events held in the ASEAN countries, to promote cooperation between Fujian and ASEAN in the field of trade and two-way investment.

## **Opportunities for Hong Kong**

Fujian plans to further strengthen its economic and trade cooperation with ASEAN countries through active implementation of a strategy that combines "attracting inwards investment" and "going out". This may create a lot of business opportunities for Hong Kong.

In trade and commerce, Hong Kong should actively participate in the economic and trade cooperation projects involving the ASEAN countries, and also strive to participate in the economic and trade cooperation projects between the other Pan-PRD constituents and the ASEAN countries in an all-round approach. In 2005, Hong Kong's total trade value reached HK\$4,579.6 billion, of which re-exports amounted to HK\$2,114.1 billion, accounting for 94% of the total exports of HK\$2,250.2 billion. This reflects the significance of re-exports to the Hong Kong economy<sup>10</sup>. Geographically, Fujian is far away from the ASEAN countries,

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10. Source: the Census and Statistics Department of the Hong Kong SAR Government.

without direct and convenient land transport. If Hong Kong can strive for the role of a transit hub for goods flowing between Fujian and the 10 ASEAN countries, the trade development of Hong Kong will be greatly facilitated.

Strategically, the strategy of combining “attracting inwards investment” and “going out” of Fujian to deal with ASEAN is a good opportunity for Hong Kong to play the role of an intermediary. Hong Kong can make use of its own advantages in terms of financial services, trade, information and services and other areas, seeking opportunities to participate in any cooperation projects between Fujian and the ASEAN countries, so as to attract foreign capital to Fujian (including capital from the ASEAN countries), and also to find ways out for Fujian’s capital (e.g. financing, listing in Hong Kong, etc.) to create a “win-win” situation.

## **Fujian Actively Promotes a Supplementary Medical Insurance Scheme**

In 2001, Fujian's insurance sector pioneered nationwide in carrying out a reform of the medical insurance system and promoted a "Xiamen-Mode" Program of Supplementary Medical Insurance for Workers (職工輔助醫療保險計劃) (hereinafter "Supplementary Medical Insurance Program"), which was first adopted by Xiamen, throughout the whole province. Thus, Fujian's workers, in particular those who suffer from serious disease, have been provided with another medical insurance guaranty in addition to the original Program of Basic Medical Insurance (基本醫療保險計劃) (hereinafter "Basic Medical Insurance Program")<sup>11</sup>. From 2001 to the end of 2005, workers insured by the Supplementary Medical Insurance Program across the province (excluding Xiamen) totalled 7 927 000 persons.

### **"Xiamen-Mode" Program: A Supplement to the Basic Insurance Program**

In 1997, the Xiamen Municipal Government introduced a Supplementary Medical Insurance Program around the whole city following the guideline of "commercial operation guided by the government" (政府主導、商業化運作). The major features of the Program are: (1) it takes the form of collective participation on the foundation of the Basic Medical Insurance Program, providing another medical security net for workers; (2) the medical outlay exceeding the coverage of the Basic Medical Insurance Program is undertaken by commercial insurance companies through the Supplementary Medical Insurance Program; and (3) the Medical Insurance Management Centre in charge of the Basic Medical Insurance Program withdraws a specified sum from each individual's Basic Medical Insurance Program account every year as a premium for the Supplementary Medical Insurance undertaken by commercial insurance companies, and therefore, the individual insurers and their employers need not pay any extra premium.

Starting from 2001, the Supplementary Medical Insurance Program began to be implemented all over Fujian. Taking three years as a phase, the Project has entered its second phase in 2006. The average annual premium for each individual ranges from RMB35 to RMB80, with medical expenses of RMB28,000 to RMB53,000 as the bottom line for claiming compensation, and the sum insured varying from RMB100,000 to RMB150,000. In 2005, with the Supplementary Medical Insurance Program in full swing, Xiamen registered RMB23 million of premium revenue from the Program and the population insured totalled 460 000, accounting for nearly 60% of the total amount of city or town residents. Meanwhile, Xiamen's premium revenue from the New Countryside Cooperative Medical Insurance Program (新型農村合作醫療保險) reached RMB26.88 million, and the population insured totalled 610 000, accounting for 93% of the total population in the countryside.

In the opinion of the Xiamen Municipal Government, as a necessary supplement to the Basic Medical Insurance Program, the Supplementary Medical Insurance Program helps to

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11. *Fujian Daily* (福建日報), 22 September 2006.

meet workers' demand for health security, reflecting the flexibility and rationality of health security, which is conducive to the formation of a harmonious and sustainable medical insurance system. In addition, the high medical expenses incurred by serious illnesses or those in need of immediate treatment have rendered the Supplementary Medical Insurance Program a contingency plan for households with members suffering from serious diseases.

### **Networked Medical Insurance Service throughout Fujian**

Starting from January 2006, medical insurance service can be accessed through a computer network throughout Fujian Province, and a new information analysis and decision support system has been put into operation, which has helped to enhance the medical insurance information management level<sup>12</sup>. Within the borders of the whole province, insurance buyers who are placed in a different jurisdiction after their retirement, who have changed to a job in a different jurisdiction, or who have sought medical advice or treatment in a different hospital, can satisfy their own needs and apply to the medical insurance bodies at the municipal or higher level where they have registered their insurance policy for relevant approval, so that they can seek medical help in a different jurisdiction. An up-to-date comprehensive medical insurance network has been established by linking separate networks together with the aid of over 10 000 computers, creating a networked environment at provincial, municipal, county and township levels.

### **Implications of the “Xiamen-Mode” Supplementary Medical Insurance Program for Hong Kong**

Hong Kong is confronted with constant rise in medical costs due to the aging population and scientific advances. It is also challenged by its general public's increasingly high expectations placed upon medical services. Consequently, resolving the shortage in medical funds is an urgent task. The “Xiamen-Model” Supplementary Medical Insurance Program implemented throughout Fujian in line with the principle of “commercial operation guided by the government” may throw some light on resolving the aforesaid problem for the Hong Kong SAR Government.

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12. *Economic Daily* (經濟日報), 5 January 2006.

## Nanchang Implements Informatisation Project Comprehensively

According to the Special 11th Five-Year Plan on National Economic and Social Informatisation in Jiangxi Province (江西省國民經濟和社會資訊化“十一五”專項規劃)<sup>13</sup>, Jiangxi will implement its Informatisation Project comprehensively during the 11th Five-Year Plan period. The general objective is to “achieve one rise in level, two leaps forward, three improvements and four enhancements, and make Jiangxi rank top in central China in terms of its informatisation level”<sup>14</sup>. Among the cities and counties in Jiangxi, Nanchang stands out in terms of achievements in the area of informatisation.

### The Major Four Objectives of the Informatisation Project in Jiangxi During the 11th Five-Year Plan Period

By 2010, the major four objectives of the Informatisation Project for Jiangxi include (1) all the governments at provincial, municipal and county levels and other divisions under them shall establish their own web portals, whereby 100% of the government documents and forms available for the public shall be available for download via the Internet, and 80% of the items requiring government approvals shall be handled online; (2) 100% of the large enterprises and 50% of the medium-sized enterprises shall informatise their design and research and development, and have their production equipment digitalised, production processes automated and management systems networked, with an e-commerce penetration rate of more than 50% for Jiangxi-based enterprises; (3) the telephone penetration rate shall attain 71.8 phones per 100 persons, the radio and television coverage shall reach 99% and 99.7% respectively, and more than six million households shall be capable of having access to the internet, among which, 100% of nature villages shall have access to fixed-line phones, mobile phones and radio and television broadcasts, and 100% of the administrative villages shall have access to broadband networks; (4) 100% of the urban and rural secondary schools in the province shall provide informatised education.

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13. Source: *Circular on Issuing the Special Eleventh Five-Year Plan on National Economic and Social Informatisation in Jiangxi Province* (江西省國民經濟和社會資訊化“十一五”專項規劃) (Gan Fa Gai Gao Ji Zi [2006] No. 868), issued by the Office of the Jiangxi Provincial Development and Reform Committee (江西省發展及改革委員會辦公室) on 6 August 2006.

14. “One rise” means that the city’s national economy and social informatisation will rise to a new level; “two leaps forward” refers to the achievement of one leap forward in the construction of the infrastructure related to the information industry and the other in the development of the information industry itself; “three improvements” refers to improvements in the application of IT, sharing of information resources, and public information services; and “four enhancements” refers to informatisation development by enhancing the general public’s ability to access electronic information, the ability of independent innovations, the drive in respect of industries, and security capabilities.

## Four Specific Tasks for Nanchang's Informatisation Process

According to the *Outline of the 11th Five-Year Plan on National Economic and Social Informatisation in Nanchang Municipality* (南昌市國民經濟和社會資訊化“十一五”規劃綱要), Nanchang intends to make breakthrough in terms of its city broadband intra-city network, electronic government (e-government), key information industries, and key R&D projects. The city expects to improve its informatisation to an advanced level among all cities in central China and become an innovation pilot city for the whole country's informatisation program. In terms of Nanchang's informatisation program, there are four concrete tasks to be fulfilled as follows:

- (a) To focus on establishing five key public service information systems. The objective is to construct a database related to labour and social security based on the existing social security information system; and on the basis of social security cards, it is to build a comprehensive labour and social security information application system, which integrates five types of social insurance (old age, medical, unemployment, work-related injuries, and maternity), and covers employment and unemployment administration, vocational training, skills evaluation, labour supervision, labour arbitration, wages administration, and so on.
- (b) Under the principle of “enterprises act independently under the guidance of the government”, to encourage enterprises – starting from those in high-tech industrial parks and other industrial zones – to adopt modern IT systems in upgrading their mode of management, production and marketing, and to apply information technologies like intranets, enterprise resources planning (ERP), e-Commerce, supply chain management, customer relationship management, and business process reengineering (BPR).
- (c) To implement the All-Schools-Linked-Online Project (校校通工程), linking all schools of different types and at different levels with the educational authorities based on the existing broadband data communications network and educational software and other educational resources, so as to create an informatised environment to provide comprehensive application services for the education circle of the whole city, including high-level educational services for both teachers and students.
- (d) Leveraging on technology transfers from overseas, and from the PRD and YRD region, to speed up the pace of industrial restructuring, vigorously develop the information industry (especially the software industry and electronic information manufacturing industry), to foster a national IT industrial park. Furthermore, Nanchang plans to strengthen cooperation with the well-known software developers at home and abroad, so as to elevate the awareness of its software industry in the international market, and strive for an annual revenue growth of more than 30% for the software industry.

## **Opportunities for Hong Kong**

Jiangxi's endeavours to promote its Informatisation Project comprehensively during the 11th Five-Year Plan period, coupled with Nanchang's aspiration to become an innovation pilot city for national informatisation, may bring ample business opportunities for Hong Kong-based telecom and IT firms and management consultants.

In view of Nanchang's initiative to "focus on establishing five key public service information systems" during the 11th Five-Year Plan period, it is advised that Hong Kong-based IT companies can, by using their expertise and experience, try to participate in the construction of Jiangxi's (Nanchang City in particular) information system by seeking cooperation with their Mainland counterparts. In response to the concept of "upgrading the mode of management, production and marketing" proposed by Nanchang City, Hong Kong-based IT companies and management consultants can, by drawing on their experience, expertise and technical know-how, design, improve or manage the relevant application programs or management systems for Jiangxi's (Nanchang in particular) enterprises. In addition, in respect of Nanchang's All-Schools-Linked-Online Project, Hong Kong's IT companies ought to utilise their experience in designing and managing educational software (especially those with e-learning interfaces) in cooperation with the Mainland enterprises to take part in the construction of the project.

Finally, Nanchang's desire to strengthen cooperation with brand-name software developers at home and abroad, in the hope of raising the output value of its software industry, provides opportunities for the IT industry of Hong Kong.

## Electronic Port Construction Enters a New Phase in Jiangxi

On 12 September 2006, the Jiangxi Provincial People's Government and the General Administration of Customs (海關總署) signed a *Memorandum on Cooperation for the Electronic Port Construction in Jiangxi* (建設江西電子口岸合作備忘錄) in Nanchang, marking a new stage in the construction of an electronic enforcement system at the ports ("electronic ports" or "e-ports"). In the next five years, Jiangxi is expected to build an electronic, networked and digitised system for the overall processes of port logistics, and create a workable and user-friendly unified information platform entitled "Unified Customs Clearance" (大通關)<sup>15</sup>, so as to enable more rigorous and effective enforcement management at the ports, and promote orderly and facilitated customs clearance services for importers and exporters.

### E-Port Construction is One of the Major Government Projects in the Mainland

The goal for China's port construction is "to facilitate the flow of people and goods, so that enterprises pay lower customs costs and become more competitive in the international marketplace"<sup>16</sup>. E-port construction is one of the major government projects in China. According to the *Circular of the General Office of the State Council on Strengthening e-Port Construction* (國務院辦公廳關於加強電子口岸建設的通知) (Guo Ban Fa [2006] No.36)<sup>17</sup>, the e-port project, as an inter-departmental e-government project approved by the State Council, is to be undertaken by the General Administration of Customs in conjunction with relevant departments of the State Council. The goal of the e-port project is to develop in five year's time a unified information platform entitled "Unified Customs Clearance" with such features like access to the network through portal, one-time authentication & log-in, and "one-stop" services, integrating Customs enforcement and administration with other port logistics services.

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15. "Unified Customs Clearance" refers to the overall processes of formalities for import and export of goods ranging from customs inspection and declaration, tax payment and rebate, payment collection and remittance, to cargo handling, loading and unloading, delivery and so on. The concept of Unified Customs Clearance differs from the narrowly defined "customs clearance", as the latter only relates to customs formalities, and the former means a "customs clearance chain" involving various management agencies at the port such as the customs house, commercial administration, foreign trade, state inspection, and taxation entities, bankers, and integrating various port services such as cargo forwarding, Customs declaration, transportation and warehousing.
  16. *Departmental Information* (部門信息) of the General Administration of Customs (中國海關總署), 20 July 2006 (Source: [http://www.gov.cn/gzdt/2006-07/20/content\\_341281.htm](http://www.gov.cn/gzdt/2006-07/20/content_341281.htm)).
  17. *Gazette of The State Council* (國務院公報), Portal of the Central Government of the PRC, issued on 15 May 2006 (Source: [http://www.gov.cn/gongbao/content/2006/content\\_327798.htm](http://www.gov.cn/gongbao/content/2006/content_327798.htm)).

## Functional Positioning and Major Tasks of e-Ports in Jiangxi

As a constituent of the national e-port project, the Jiangxi e-port project involves 17 government authorities in industry and commerce, taxation, port inspection, foreign exchange, foreign trade, transportation, and banking, while networking with such entities as importers and exporters, processing trade operators, foreign trade intermediaries, shippers in foreign trade, vessel and truck terminals, and warehouses and storage yards. The system will store administrative information on imports and exports, funds, and logistics in a centralised database, provide information about various government authorities at any time, and provide networking and data exchange services across departments, sectors and regions as an information platform.

According to the *Opinions on Accelerating e-Port Construction in Jiangxi* (關於加快推進江西電子口岸建設的意見) by the Jiangxi Provincial Department of Foreign Trade and Economic Cooperation (江西省外經貿廳)<sup>18</sup>, the fundamental goals for Jiangxi e-port construction are to integrate the core processes of import and export trade by taking import and export customs clearance and modern logistics activities as the mainstay, and cost reductions for the enterprises at the core, to realise “two 100%” (i.e. 100% of the relevant port authorities are able to provide services to the public in a collaborated manner on the same platform, and 100% of enterprises with internet access are able to enjoy the core services of the Unified Customs Clearance) and, ultimately, an electronic, networked and digitised system for the overall processes of port logistics. The functional positioning of the e-port project is a unified information platform entitled “Unified Customs Clearance” to take port customs clearance as its mainstay and help implement more rigorous, effective customs enforcement and administration at the ports. It is expected to evolve gradually into a platform extending to relevant business services, integrating various logistics related processes both vertically and horizontally as well as data exchange functions.

There are three major tasks for Jiangxi e-port construction. The first task is, by taking internet declaration and local customs clearance formalities (網報關、區域通關) as the breakthrough point, and shipping forwarders, freight forwarders and port operators as the main sources of information, to establish an information processing platform, whereby only one-time information input and feedback are required by the inspection agencies at the ports, so as to realise rapid transmission of information for customs clearance at the ports, and ultimately faster customs clearance at the ports. Subsequently, an extension shall be made into air, rail, water and land transport, so as to perfect exchanges of customs clearance information for key logistics processes in Jiangxi. The second task is to extend its services to B2B (Business to Business) e-commerce, to realise electronic, network-enabled documentation and upgrade the usage level of the system. The third task is to integrate with the coastal ports of YRD, PRD and Fujian directly, so as to realise a facilitated customs

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18. Please refer to the *Circular on Transmission of the Opinions of the Jiangxi Provincial Government on Accelerating e-Port Construction in Jiangxi Issued by the Department of Foreign Trade and Economic Cooperation* (江西省人民政府辦公廳轉發省外經貿廳關於加快推進江西電子口岸建設意見的通知), 5 September 2006 (Source: <http://www.jiangxi.gov.cn/gb/jxzwgw/zfgg/userobject1ai53619.html>).

clearance model of “declaration at local customs house and goods inspection and release at the port”<sup>19</sup>.

## Implications for Hong Kong

With rapid development of the national e-port management information system, Hong Kong should actively study the long-term planning and the latest developments in respect of the Mainland’s ports and customs formalities from relevant Mainland entities (such as ports, customs houses and border inspection entities) and cooperate proactively.

Jiangxi’s aspiration for building an electronic, networked and digitised system for the overall processes of port logistics in the next five years deserves in-depth investigation by the Hong Kong SAR Government, logistics sector, and IT industry. By doing so, Hong Kong stakeholders can, on the one hand, probe into the methodology adopted by the Mainland entities in realising an electronic, networked and digitised system for the overall logistics processes at the Mainland ports, and on the other hand, undertake a review of Hong Kong’s own information management system and customs clearance models at Hong Kong control stations to further improve the approaches and information system of cross-border traffic management in Hong Kong.

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19. The model of “declaration at local customs house and inspection and release at the port” refers to the customs clearance mode whereby the enterprises import or export goods, satisfying the specified requirements by the customs, may choose at their own discretion on any local customs houses for customs declaration, then handle goods inspection and release formalities with the customs house at the ports where the goods are imported or exported. (Source: *Bulletin of the General Administration* (海關總署公告) by the General Administration of the PRC, issue 43, 2006, source: <http://www.customs.gov.cn/YWStaticPage/3889/a9520f38.htm>)

## Hunan Plans to Step up Efforts in Ecological Conservation during the 11th Five-Year Plan Period

According to the chapter on “Resources and the Environment” of the *Outline of the 10th Five-Year Plan for the National Economic and Social Development Program in Hunan* (湖南省國民經濟和社會發展第十一個五年規劃綱要) (the “Outline”)<sup>20</sup>, Hunan is to step up its efforts in ecological conservation and speed up the construction of a resource-saving (環境節約型) and environment-friendly community during the 11th Five-Year Plan period. In this period, the number of key environmental protection projects to be implemented increase to 154, with a total investment of RMB32.5 billion<sup>21</sup>.

### Seven Key Tasks on Environmental Protection in Hunan

According to the Outline, by 2010, Hunan aims to achieve a rate of at least 70% in urban sewage treatment, a rate of at least 60% in harmless disposal of house refuse, and the agricultural pollution should be effectively brought under control by then. During the 11th Five-Year Plan period, the province will strive to resolve those problems seriously menacing people’s health arising in the process of economic and social development, strengthen the prevention of air and water pollution, enhance the control of urban and rural pollution, and improve the quality of the environment. Seven major tasks (See **Table 9**) were brought up in the Outline.

**Table 9: Seven Major Tasks on Environmental Protection in Hunan Province During the 11th Five-Year Plan Period**

No.	Major tasks
1	Strengthen air pollution protection; further control the emission of sulphur dioxide from coal-fired generators and ash particles in cities
2	Enhance water pollution protection; strengthen the sewage control of major rivers, e.g. Xiangjiang and Dongting Lake; special treatment to mining zones pollutions in Zhuzhou Qingshuitang (株洲清水塘), Xiangtan Zhubugang (湘潭竹埠港) Yutang (嶽塘), Hengyang Shuikoushan (衡陽水口山), Changsha Sanchaji (長沙三叉磯), Xiangxi Huayuan (湘西花垣), etc.
3	Enhance the industrialisation and commercialisation of urban sewage and waste treatments; increase the efficiency of urban sewage treatment steadily; better treatment of domestic waste, medical and hazardous wastes; enhance urban pollution protection

20. Full text of the *Outline of the 10th Five-Year Plan for the National Economic and Social Development Program in Hunan* is included in the full text of the Hunan Provincial People's government portal. (Website: <http://www.hunan.gov.cn:82/gate/big5/www.hunan.gov.cn/zhuanti/sywgh/>).

21. *Changsha Evening News* (長沙晚報), 13 September 2006.

**Table 9 (cont'd)**

No.	Major tasks
4	Develop ecological and organic agriculture; control pollution by restricting the usage of pesticides and fertilisers to a reasonable level
5	Implement unified regulation on important mining zones and enhance the recovering and enforcement of mining zone environment
6	Enhance the environmental education and propaganda; increase people's environmental consciousness
7	Enhance the protection of wild animals and plants, safeguard the biological diversity; improve the local environmental laws and enforcement

Source: Hunan Provincial People's government website: <http://www.hunan.gov.cn/>.

## Hunan Plans to Inject RMB32.5 Billion into Key Environmental Protection Projects During the 11th Five-Year Plan Period

In September 2006, the *Resolution of the Hunan People's Provincial Government on Implementing the Scientific Concept of Development and Enhancing Environmental Protection* (湖南省人民政府關於落實科學發展觀切實加強環境保護的決定) (the "Resolution")<sup>22</sup> was adopted at the Sixth Environmental Protection Conference of Hunan Province (湖南省第六次環境保護大會). At the conference, the Hunan Provincial Government signed a letter of responsibility for reducing the total volume of major pollutants with each of the city or prefecture governments under its direct jurisdiction, the Provincial Environment Protection Bureau, and some key enterprises respectively<sup>23</sup>.

The Resolution includes four key points: (1) As from 2006, the fulfilment of environmental protection indicators shall be included in the government performance evaluation system for governments and cadres at all levels; (2) During the 11th Five-Year Plan period, the province's main task with regard to environmental protection is to ensure the safety of potable water, improve the air quality of cities to meet the standards, control the pollution caused by acid rain and sulphur dioxide, conserve the ecological environment of the upper reaches of four rivers, i.e. the Xiangjiang (湘江), Zishui (資水), Yuanjiang (沅江) and Lishui (澧水), and curb nuclear radiation; the total volume of pollutants should be brought strictly under control, in particular the "one river, two zones and three cities" area<sup>24</sup>; (3) The

22. *The Resolution of the Hunan Provincial Government on the Effective Implementation of the Scientific Concept of Development and Strengthening Environmental Protection* (湖南省人民政府關於落實科學發展觀切實加強環境保護的決定) (Xiang Zheng Fa [2006] No. 23). The full text can be found on the public network of Hunan Provincial Environmental Protection Administration (湖南省環境保護局) (Source: <http://www.hunan.gov.cn:82/gate/big5/www.hbj.hunan.gov.cn/dispNewsForm.aspx?id=4661>).

23. *Changsha Evening News*, 13 September 2006.

24. "One river" refers to the water pollution treatment directed at the Xiangjiang River valley; "two zones" refers to the comprehensive treatment of pollution directed at Qingshuitang (清水塘) Industrial Zone and Shuikoushan (水口山) Industrial Zone; "three cities" refers to the simultaneous treatment of environment pollution directed at Changsha, Zhuzhou and Xiangtan.

province will launch 154 key environmental treatment projects with investment totalling RMB32.5 billion in the 11th Five-Year Plan period<sup>25</sup>; (4) The province will institute a “three simultaneous” deposit mechanism in order to ensure “the simultaneous design, simultaneous construction and simultaneous implementation of a project’s principal part and its pollution control part”. According to the initial concept of the mechanism, a project undertaker shall be required to deposit a sum equivalent from 5% to 20% of the capital to be used in the construction of pollution control facilities with the authorities for the sake of the aforesaid “three simultaneous” elements, which shall not be refunded until the pollution control facilities are accepted in accordance with the “three simultaneous” requirements and regarded as acceptable.

## Implications for Hong Kong

Hunan’s commitment to ecological conservation evidenced by the “seven major tasks” may provide some inspiration for Hong Kong in improving its environmental protection work.

As pointed out in *The 2006-07 Policy Address* by the Hong Kong SAR Government, the environmental protection is a long-term mission, and Hong Kong shall, with a forward-looking strategic view, set specific environment-improving targets to be reached in different stages in the future. Although the environmental policies of Hong Kong are different from Hunan, the latter’s environmental protection layouts in its 11th Five-Year Plan and the Resolutions can be good reference to Hong Kong. In particular, the “three-simultaneous” deposit mechanism introduced by Hunan, which requires a deposit equivalent to 5% to 20% of the investment in pollution control facilities be made by the project undertaker (the deposit will not be refunded until the project is qualified and accepted), worth Hong Kong to study in depth.

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25. The 154 key environmental treatment projects include: (1) 83 industrial pollution treatment projects including the Comprehensive Pollution Treatment Project of Zhuzhou Metallurgy Plant (株洲冶煉集團有限公司), the recycling of chromium slag and treatment of furnace dust discharged from the electric furnace of Hunan Ferroalloy Plant (湖南鐵合金廠), etc., with a total investment of RMB11.2 billion; (2) 62 public pollution treatment projects including Changsha Sewage Disposal Works (長沙污水處理廠), the Comprehensive Heavy-Metal Pollution Treatment of Qingshitang Industrial Zone (清水塘工業區), etc., with a total investment of RMB18.8 billion; and (3) six key scientific research projects on environmental protection including the disposal and recycling of hazardous waste containing heavy metal, with a total investment of RMB1.57 billion.

## **Hunan Strives to Build Itself into a National Transportation Hub During the 11th Five-Year Plan Period**

In September 2006, the Hunan Provincial Communications Department (湖南省交通廳) announced three plans including the *Hunan Expressway Network Plan* (湖南省高速公路網規劃) and *Hunan 11th Five-Year Plan on Construction of National and Provincial Trunk Highways* (湖南省“十一五”國省幹線公路建設規劃) and *Hunan 11th Five-Year Plan on Construction of Rural Roads* (湖南省“十一五”農村公路建設規劃). By 2010, the total length of national and provincial trunk highways in Hunan would reach 16 180 km, with more than 3 500 km of expressways and every village accessible by road<sup>26</sup>. According to the Hunan Provincial Communications Department at a summit forum of the theme “The Rise of the Central Region: Transportation First” (中部地區崛起：交通先行), Hunan intends to invest RMB173.5 billion in transportation construction, striving to build itself into a national transportation hub<sup>27</sup>.

### **Hunan Intends to Link 14 Seats of Municipal/Prefectural Governments with Class II or Above Highways by 2010**

By the end of 2005, national and provincial highways in Hunan have reached 13 934 kilometres in length, ranking 10th place nationally. According to the *Hunan 11th Five-Year Plan on Reconstruction of National and Provincial Trunk Highways* (湖南省“十一五”國省幹線公路改建規劃), by 2010, all of the seats of 14 city/prefectural governments in the province will be linked up with all the counties (cities and/or districts) under their jurisdiction with Class II or above highways, and all the counties (cities and/or districts) along the expressways will be connected to the expressways with Class II or above highways; national and provincial trunk highways between neighbouring counties (cities and/or districts) will basically be linked with Class II (III) or above highways; intra-provincial national and provincial trunk highways connecting neighbouring provinces (連接周邊省份的國省省際通道) will reach Class II highway standards; roads linking to the major tourist destinations will be built; all ferry crossings on the national and provincial highways (except the Yangtze River Crossing) will be replaced by bridges.

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26. *Changsha Evening News*, 22 September 2006.

27. *Changsha Evening News*, 1 September 2006.

## **Hunan's Expressway Network of "Five Verticals and Seven Horizontals" Will Reach 5 615 km in Length**

According to its plan, Hunan aims at accomplishing an expressway network layout comprising five vertical (south to north) expressways and seven horizontal (east to west) expressways, forming a network that connects the north and the south, the east and the west, covers the whole province, and links up the neighbouring provinces. Such a network is set to have an appropriate density, be high efficient and convenient, and have a total length of 5 615 km. It is expected that, at the end of the 11th Five-Year Plan period, a round trip from Changsha to any other city/prefecture within the province can be achieved within one day. At the time, a traveller starting from Changsha will be able to arrive at any provincial capital city of the neighbouring provinces within one day, and 90% of the counties in the province will get access to an expressway within 30 minutes.

It is reported that the total length of expressways built recently in Hunan has reached 2 623 km in total, with new additions of 2 184 km. By the end of 2010, the total length of expressways in use will reach 3 587 km, with 1 402 km constructed in the medium term as additional mileage. By the end of 2020, the total length of expressways in use will reach 4 989 km, with 626 km constructed in the long term as additional mileage. By the end of 2030, the total length of expressways will reach 5 615 km.

## **Hunan will Invest RMB173.5 Billion in Transport Construction During the 11th Five-Year Plan Period**

Ouyang Bin (歐陽斌), Director-General of the Hunan Provincial Communications Department, indicated that Hunan needs to address five major tasks during the 11th Five-Year Plan period. First, RMB101 billion will be invested to accelerate highway construction and achieve the goal of a total expressway length of 3 587 km by the end of 2010. Secondly, RMB29.2 billion will be invested to reconstruct 6 000 km of national and provincial trunk highways. Thirdly, RMB32.4 billion will be invested to reconstruct nearly 110 000 km of rural roads. Fourthly, RMB7.6 billion will be invested to construct major waterways such as Xiangjiang (湘江) and Zishui (資水). Fifthly, RMB3.3 billion will be invested to build and improve the high-speed traffic services network and rural passenger transport network<sup>28</sup>.

It is estimated that Hunan will invest RMB173.5 billion in transport construction during the 11th Five-Year Plan period, for which the budget funds will come from six channels as follows: fiscal input from the Provincial Committee of the CPC and Provincial Government; stipulated traffic charges, toll collections as well as financing; State investment and loans from domestic and foreign financial services institutions; inward investment; transfer of operation rights; matching funds from local cities and counties.

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28. *Changsha Evening News*, 1 September 2006.

## Hunan Expects to Construct and Reconstruct 95 000 km of Rural Roads by the End of the 11th Five-Year Plan

In September 2006, at the Provincial Meeting on Transport Construction and Maintenance Management (全省交通建設養護管理工作會議) held in Changsha, responsible persons of 14 cities/prefectures submitted to the Provincial Government their responsibility letter on rural road construction during the 11th Five-Year Plan period. By the end of the 11th Five-Year Plan period, Hunan intends to construct and reconstruct rural roads totalling 95 000 km in length. To ensure that these objectives can be achieved, the Provincial Government intends to develop an accountability mechanism, whereby incentives will be given to performers or over-performers, and penalties will be imposed on those units or individuals who fail to perform their responsibilities and/or meet their targets.<sup>29</sup>

## Opportunities for Hong Kong

The first *National Expressway Network Plan* (國家高速公路網規劃)<sup>30</sup> will include Hong Kong in the national expressway network, and reinforce Hong Kong's connectivity with those economically developed regions such as YRD, PRD and Bohai Rim (環渤海), reflecting the importance attached to Hong Kong by the Central Government. In order not to be "marginalised" by the Mainland's transport planning, Hong Kong should proactively study and understand the national transport planning (especially those of the Pan-PRD and PRD regions), their potential impacts on Hong Kong and opportunities from various transport infrastructure projects for the corporations of Hong Kong.

Hunan strives to build itself into a national transportation hub through an investment of RMB173.5 billion during the 11th Five-Year Plan period, expecting to raise some of the funds through such financing means as inward investment and transfer of operation rights. This may provide opportunities for Hong Kong enterprises to take a share in the transport construction projects of Hunan.

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29. *Hunan Daily* (湖南日報), 22 September 2006.

30. *National Highway Network Plan* (國家高速公路網規劃) was published on the 13 January 2005, the full text of which is published on the website of the Ministry of the People's Republic of China (Source: [http://www.moc.gov.cn/06tongjjsj/06jiaotonggh/guojiagh/guojiajt/200608/t20060815\\_46064.html](http://www.moc.gov.cn/06tongjjsj/06jiaotonggh/guojiagh/guojiajt/200608/t20060815_46064.html)).

## **Hainan Plans to Invest Eight Billion Renminbi in Construction of Power Grid During the 11th Five-Year Plan Period**

During the 11th Five-Year Plan period, Hainan plans to invest RMB8 billion in the construction of a power grid, averaging at RMB1.6 billion annually. By 2010, the Hainan power grid will evolve into a “Double Looped Network with the Shape of the Chinese Character Ri (日)” (雙環網、日字型) as its backbone power grid framework. Hainan will also build additional gas-fired power plants at Haikou, Sanya and Wanning (萬寧), to increase the power supply for the eastern grid, and reinforce the structure of the power grid supplying such important development zones as Haikou, Sanya, and Yangpu (洋浦). Upon completion of these projects, it is expected that Hainan will further enhance the reliability of its power supply, especially for key cities<sup>31</sup>.

### **Hainan Expects a Power Demand of 17.5 Billion kWh by 2010**

The development of the Hainan power grid is closely related to its development of large projects. During the 11th Five-Year Plan period, a number of large and medium-sized industrial projects, such as a 1.6 million-ton paper mill, an eight million-ton oil refinery, a 600 000-ton methanol project, and a 700 000-ton float glass line, will be completed and brought into production successively in Hainan. During the same period, the province will also start the construction of projects like the Bo’ao Special Economic Zone (博鰲特別規劃區) and the Shenzhou Peninsula Development Zone (神州半島開發區). With the drive provided by these large projects, power demand in Hainan will grow substantially. It is estimated that by 2010, the province’s power demand will reach 17.5 billion kWh, with an average annual growth rate of 15.5%, more than double that of 2005, which was 8.5 billion kWh.

### **Hainan will Invest RMB3.4 Billion to Transform its County-Level Power Grids During the 11th Five-Year Plan Period**

By the end of 2005, Hainan was the first province in China to achieve access to electricity by all administrative villages under its jurisdiction, and its rural electricity consumption had increased 6.77 times. On this basis, the province is stepping up its efforts in the development of a new type of rural power supply to achieve integrated administration of its urban and rural power supply, modernised urban and rural power grids, and to build sophisticated rural power supply services. This is a new rural power supply strategy. To enhance the quality of rural power supply services effectively, Hainan plans to invest approximately RMB3.4 billion in the transformation of its county-level power grids during the 11th Five-Year Plan period.

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31. *Hainan Daily*, 18 September 2006.

In this RMB3.4 billion county-level power grid transformation project, a distribution power grid of 110 kilovolts (kV) and below, 40 110kV transformer substations with a total circuit length of 735 km, 69 35kV transformer substations with a total circuit length of 951 km, and 11 240km long of circuits of 10kV and below will be constructed, to improve the county-level power grid framework. In addition, Hainan will also construct in this transformation some 6 000 eco-village power grids in accordance with the relevant standards, so as to provide “effective power supply” from the basic “access to power” condition for the whole rural area. On top of the further improved and optimised development plans for the county-level power grids under the 11th Five-Year Plan, the county-level power supply firms will carry out supportive projects in respect of distribution power grids of 10kV and below. They will strongly improve the technology content of power grids, target at evolving gradually into oil-free, maintenance-free, small and compact systems, and build up systems that will employ the latest energy conservation technology and automate the sales services.

### **Industrial Enterprises Above Designated Size in Haikou Consumed 269 Million Kilowatt-hours (kWh) in the First Half of 2006**

At present, the continuous development of industrial enterprises in Haikou has caused a rapid growth in power consumption. As a result, power supply began to appear overloading in some industrial zones (e.g. Haikou High-Tech Zone (海口高新區)), and the production processes of some enterprises were affected due to the shortage of power. Looking ahead, as Hainan plans to make significant investment in power grid construction during the 11th Five-Year Plan period, the current situation is expected to be resolved along with Haikou’s industrial and economic development.

According to statistics, for the first half of 2006, industrial enterprises above designated size in Haikou consumed 269 million kWh of electricity, up 25.2% over the previous year. In the views of the Haikou Municipal Bureau of Statistics (海口市統計局), the fast growth of industrial power consumption in the first half of 2006 was mainly attributable to the fact that some new enterprises that are substantial power users started to operate, and that some production enterprises expanded their production capacity also resulted in faster growth in power consumption<sup>32</sup>. In the first half of 2006, industrial enterprises above designated size in Haikou realised an industrial output of RMB13,074 million in total, up 14.2% over the previous year. Haikou’s industrial growth was led by chemical materials and products manufacturing, represented by the new Sinopec Hainan Shengzhiye Hi-tech. Inc. (海南盛之業), which completed an industrial output of RMB932 million in the first half of 2006, contributing 58.7% of Haikou’s industrial growth. Sinopec Hainan Shengzhiye consumed 17.72 million kWh of electricity in the first half of 2006, accounting for 6.6% of the total electricity consumption by industrial enterprises above designated size in Haikou, driving the growth in industrial power consumption by 8.2%.

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32. *Hainan Daily*, 4 September 2006.

The electricity consumption of some significant users in Hainan, for example, Samsung Fiber Optics (三星光纜), Hainan Zhenghong Technology Development Co., Ltd. (正紅科技) and Asia-Pacific Brewery (亞太啤酒) in the first half of 2006 were up 112%, 128% and 46.4% respectively over their consumption in 2005.

### **Opportunities for Hong Kong**

Hainan plans to invest RMB8 billion in the construction of power grids and a number of new gas-fired power plants during the 11th Five-Year Plan period, which may bring new business opportunities for Hong Kong. The construction or management of power grids, gas-fired power plants and other projects, requires specialised knowledge and there are relevant talents and experts in the electricity companies and engineering consultancy firms in Hong Kong. Such entities can negotiate with the relevant authorities in Hainan to undertake such contracts concerning power and engineering consultancy projects. The financial services sector in Hong Kong can try to provide financial services to the relevant companies, so as to carry out the strategy of expansion in the scope of services to the Mainland by Hong Kong financial services institutions (“going into the Mainland”) proposed by Joseph Yam (任志剛), Chief Executive of the Hong Kong Monetary Authority (香港金融管理局).

## Sanya City of Hainan Promotes a Healthy Urbanisation Process

Under the *Outline of the 11th Five-Year Plan for National Economic and Social Development in Sanya City* (三亞市國民經濟和社會發展第十一個五年規劃綱要) (the “Outline”)<sup>33</sup>, Sanya’s development objective is to build Sanya into “a vibrant, harmonious and glamorous city with sound economic strengths” based on the strategy of “One City, Two Metropolises and Three Centres”<sup>34</sup>, and to expand the city space. To accomplish this task, Sanya city launched six key construction projects in September 2006, with the expectation of giving fresh impetus to its economic and social development and further improving the appearance of the city, moving closer towards the goal of a healthy urbanisation process<sup>35</sup>.

### Sanya Commenced Six Major Construction Projects

In September 2006, the six key construction projects started, including the Project for the Old City Reconstruction of Shuiju Lane in Times Coast (時代海岸水居巷舊城改造項目), Xiaodonghai Project in the Luhuitou Tourist Area (鹿回頭旅遊區小東海項目), Xincheng Road West of Sanya Bay (三亞灣新城西路), Taiyang Bay Premier Resort (太陽灣高級度假區), Phoenix International Water City (鳳凰國際水城) and The Ritz-Carlton Hotel (麗思卡頓酒店). These projects cover areas such as rebuilding of old cities, real estate development, infrastructure construction, tourism product development, tourism supporting facilities, and involve a total investment of nearly RMB12 billion. During the construction of such projects, the last previously uncompleted development, typically left unfinished due to financial difficulties or other reasons (referred to as “half-built building” in the Mainland) will be removed, by which Sanya will officially end an uncompleted development era, and step into a new stage of development.

According to statistics, Sanya injected an investment of RMB2.3 billion in the key projects in 2005, accounting for 45.1% of the total fixed assets investment in that year. During the first seven months of 2006, Sanya started 47 key projects of the total 93 key projects, expecting an actual investment of RMB2.125 billion for the key projects<sup>36</sup>.

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33. The *Outline of the 11th Five-Year Plan for National Economic and Social Development in Sanya City* was released in February 2006, the full text of which is published on the Sanya Municipal People’s Government portal (Source: <http://www.sanya.gov.cn/dynamic/200602200865.shtml>).

34. The Sanya Municipal Government put forward the development strategy of “One City, Two Metropolises and Three Centres” in July 2004, for which, One City refers to the international tropical seaside tourism city, “Two Metropolises” refers to both leisure metropolis and health metropolis, and “Three Centres” refers to fashion centre, shopping centre, and conference and exhibition centre.

35. *Hainan Daily*, 17 September 2006.

36. The *Newsletter of Governmental Affairs* (政務動態) on the website of the Sanya Municipal Government (Source: <http://www.sanya.gov.cn/dynamic/200609221625.shtml>).

To create a better investment environment, the Sanya Municipal Government successively promulgated such documents as the *Decision on Improvement of the Investment Environment* (關於改善投資環境的決定), and *Early Warning Mechanism for Preventing Risks Associated with Key Project Investment and Construction* (重點項目投資建設風險防範預警機制) in 2006. Meanwhile, Sanya implemented an early-warning mechanism to guard against the risks associated with project investment and construction, requiring investors in urban construction projects to enter into relevant contracts, whereby the project construction duration, investment intensity and other elements are specified based on mutual agreement.

### Sanya City is Committed to Promoting a Healthy Urbanisation Process

According to the Outline, by 2010, Sanya will strive to build itself into the central city of southern Hainan, driving the development of the whole of southern Hainan, a “Mega-Balcony” of tourism, health and leisure for Chinese people, and a world-renowned and Asia’s premier tropical seaside destination for holiday and leisure. As indicated in the Outline, Sanya is still an underdeveloped area with a low level of urbanisation, and five specific tasks (see **Table 10**) are required to be carried out during the 11th Five-Year Plan period to accelerate the process of urbanisation.

**Table 10: Sanya City in Hainan to Carry out Five Tasks for Sound Urban Development During the 11th Five-Year Plan Period**

Principal works	Contents
Complete the layout of city planning	Establish the concept of planning first; combine city planning with industrial planning; speed up the new series of city planning; protect the legal status of planning
Establish the status as the regional transportation hub	Speed up the expansion works of Phoenix International Airport; intensively develop the transportation industry by linking up the developments of Sanya International Guest Harbour, Nanshan Cargo Terminal and Liudaowan Fish Harbour; speed up the northward moving of Sanya Railway Terminal, the removal of the Long Distance Bus Terminal, and the reconstruction of the West Link railway; actively link up the traffic flow between highways, railways, harbour and aviation
Speed up to perfect the urban infrastructure	Speed up the construction works of urban transportation network; actively develop the constructions of natural gas station network, urban electricity network, key areas sewage pipe network and organic waste treatment factories; build up a communication network covering both urban and rural areas; develop “Digital Sanya” and enhance electronic business network, community informatisation and city information technology management system; gradually implement the commercialisation of public enterprises so as to improve the quality of public services
Adjust city spacial structure reasonably	Combine and reconstruct the old and new areas of the city; speed up the urbanisation of Sanya’s New City, Linchun, Hongtan and Liutao areas and especially the development of Haitong Bay; develop international class resort area and expand the urban spatial development

**Table 10 (cont'd)**

Improve city administration	Standardise the city management constantly and decentralise management power to local community. Strengthen the power of monitoring city management and control of illegal construction
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Source: Sanya Municipal People's Government website: <http://www.sanya.gov.cn/>

### **Implications for Hong Kong**

In *The 2006-07 Policy Address* (2006 至 07 年施政報告) by the Hong Kong SAR Government, Hong Kong itself was styled as “a thriving and vibrant city, full of energetic people”. The Policy Address also states that in order to develop cultural and creative industries, there is a need to attract creative talent around the world to come to Hong Kong, which is also necessary for creating an appropriate cultural atmosphere. In this aspect, Sanya has adopted a strategy of improving the appearance of the city and promoting a healthy urbanisation process during the 11th Five-Year Plan period, which may provide some enlightenment for Hong Kong.

During the 11th Five-Year Plan period, Hainan will step up its efforts towards improving its municipal infrastructure and development of e-commerce, informatisation of community and informatisation of urban administration, with the aim of achieving a “Digital Sanya”. Hong Kong should, by making reference to the relevant experience of Hainan and its own actual conditions, commit itself to enhancing the infrastructure, community information environment and the quality of urban administration in order to further raise the city quality on the one hand, and strongly promote environmental protection for a better environment on the other.

## Memorabilia of Pan-PRD Regional Cooperation

### Fujian

#### **The China Customs and Fujian Province Sign a Memorandum on the Construction of an Economic Zone on the West Coast of the Taiwan Strait**

(13 October 2006) The China Customs and the Fujian Provincial Government held the signing ceremony for the *Memorandum on Stepping up Construction Cooperation for an Economic Zone on the West Coast of Taiwan Strait* (關於加快海峽西岸經濟區建設合作備忘錄) in Fuzhou, Fujian, with cooperation based on the basic principle of “serving the overall policy on Taiwan affairs, and allowing for tentative moves”. The focus of the Memorandum is to deregulate the restrictions on trade between Taiwan and Fujian, and expand the opening up of Fujian ports, promote and achieve the transformation and upgrade the processing of trade in Fujian, as well as facilitate exchanges in various sectors (e.g. aviation, postal services, trade and agricultural cooperation) between Fujian and Taiwan. (Fujian South-eastern News (福建東南新聞網), 13 October 2006)

#### **The Cross-Strait Agricultural Cooperation Results Exhibition and Projects Promotion Expo Closes in Xiamen**

(19-20 October 2006) The Cross-Strait Agricultural Cooperation Results Exhibition and Projects Promotion Expo (海峽兩岸農業合作成果展覽暨項目推介會) was held in Xiamen. It was organised jointly by The Research Centre for Relations across the Taiwan Straits under the Taiwan Affairs Office of the CPC Central Committee (中共中央台灣工作辦公室海研中心) and the China Kuomintang National Policy Foundation (中國國民黨國政研究基金會), and co-organised by the Association of Agricultural Exchange for Both Sides of the Straits (海峽兩岸農業交流協會), the Association of Cross-Strait Economic and Trade Exchanges (海峽兩岸經貿交流協會), the Taiwan Provincial Farmers' Association (台灣省農會) and the Federation of Taiwan Provincial Agricultural Cooperatives (台灣區農業合作社聯合會). According to the organisers, there were nearly 500 cross-strait agricultural cooperation projects signed through the facilitation of the Expo, with an actual contract value amounting to nearly RMB18.6 billion. (Fujian South-eastern News, 20 October 2006).

## **Jiangxi**

### **Nanchang Officially Launches Loan Platform for Small and Medium-sized Enterprises (SME)**

(12 October 2006) The Jiangxi provincial branch of the State Development Bank, Nanchang Technology Bureau (南昌市科技局), Nanchang Venture Capital Limited (南昌創業投資有限公司) held the signing ceremony for the *Cooperation Agreement on Loans to Technology-driven Small and Medium-sized Enterprises in Nanchang by the State Development Bank* (國家開發銀行南昌市科技型中小企業貸款業務合作協議), indicating the official launch of a loan platform for technology-driven SMEs in Nanchang. According to the above-mentioned agreement, the Jiangxi Provincial Branch of the State Development Bank will provide specific loans of a specified credit limit to technology-driven SMEs in Nanchang by way of “instalment loans based on instalment repayment” (分批借款、分批還款), with the aim of alleviating financing difficulties faced by the latter. (*Jiangxi Daily* (江西日報), 17 October 2006)

### **The 37th China Pharmaceutical Trade Fair is Held in Zhangshu, Nanchang**

(18 October 2006) The 37th China Pharmaceutical Trade Fair (第37屆中國藥交會) was held in Zhangshu (樟樹), Nanchang, which attracted over 5 600 manufacturers and traders who exhibited up to 8 390 kinds of drugs and medicines, including, among others, Chinese Traditional Patent Medicine, herbal cutting (中藥飲片), herbal medicine, and prescription drugs, western medicine, biological health products, genetic drugs, biochemical reagents and a wide range of new drugs. On the opening day, the turnover in deals reached RMB1 billion, and 22 projects were signed with a contracted value of nearly RMB3.3 billion, including 18 Traditional Chinese Medicine projects with a contract amount of RMB1.5 billion. (*Nanchang Daily* (南昌日報), 19 October 2006).

## **Hunan**

### **SOE Ownership Assignments Hit RMB48.9 billion at The First Central China**

#### **Investment and Trade Exposition**

(14 October 2006) Special investment promotion activities in the field of Hunan-based SOE ownership assignment took place at The First Central China Investment and Trade Exposition (第一屆中部投資貿易博覽會) (Expo Central China) sponsored by the State-Owned Assets Supervision And Administration Commission (湖南省國資委) in Changsha on 14 October. At the Expo Central China, Hunan launched 52 SOE ownership assignment projects and promoted projects totalling a value of RMB48.9 billion. Among them, there were 41 projects above RMB100 million, 19 executed projects with a value of RMB10.2 billion and 15 projects above RMB100 million. The executed projects involved non-ferrous metals, metallurgy, mechanical engineering, equipment manufacturing, light industry and textiles, construction, hotels and tourism, investment and trade and other sectors. (*China Industry News* (中國工業報), 18 October 2006)

### **Changsha China (Hong Kong, Macao and Taiwan) Investment Seminar Attracts A**

#### **Total Investment of over RMB10 Billion**

(17 October 2006) The Changsha China (Hong Kong, Macao and Taiwan) Investment Seminar (中國·長沙(港澳台)投資說明會) organised by the Changsha Municipal Government, and undertaken by the Changsha National Economic and Technological Development Zone (國家級長沙經濟技術開發區) and Changsha County Government was held successfully in Hong Kong. At the seminar, the Changsha National Economic and Technological Development Zone and Changsha County secured 13 project contracts with merchants from Hong Kong, Macao and Taiwan, involving a total investment of RMB10,696.9 million. (*Changsha Evening News*, 18 October 2006)

### **The Third Sino-German Enterprises and Trade Cooperation Conference Lowers the Curtain**

(20-21 October 2006) The Third Sino-German (Xiangtan) Enterprises and Trade Cooperation Conference (第三屆中德(湘潭)企業與貿易合作大會) lowered the curtain on 21 October. The conference launched 120 projects, 60 of which have been formally executed, with a total investment of RMB5.6 billion, including 26 foreign-funded projects involving an investment of US\$400 million. The exhibition showcased and sold over 1 000 products from nearly 200 enterprises in the Xiangtan (湘潭). At the conference, 50 corporate participants from the Chinese side held business talks with more than 30 enterprises from over 10 countries including Germany, the United States, France, Japan, Canada, etc. (*Changsha Evening News*, 22 October 2006)

## **Hainan**

### **Passenger Joint Inspection Building at the Sanya Phoenix International Ferry Terminal Enters Final Construction Phase**

(14 October 2006) The international passenger joint inspection building at the Sanya Phoenix International Ferry Terminal (三亞鳳凰國際客運碼頭) has entered the final construction phase. It is estimated that upon commissioning of the joint inspection building, the passenger port will be able to handle more than 600 000 passengers annually. With a gross floor area of 8 909 square metres, the joint inspection building integrates all the offices of customs, border control, quarantine, inspection, ports and security into one building, to provide five major services including joint inspection, a departure lounge, material supply to cruisers, ancillary retail facilities for the passenger port and business offices. (*Hainan Daily*, 16 October 2006)

### **Wenchang Fowls Make Hong Kong Debut**

(15 October 2006) The first batch of 1 500 live Wenchang chickens raised at the Hainan Luoniushan Company (海南羅牛山公司) made their market debut in Hong Kong, following the successful supply of frozen Wenchang chickens to Hong Kong in January 2006. (*Hainan Daily*, 16 October 2006)

### **Hainan Province Signs Contracts with Value of Nearly RMB3 Billion at the Fourth China Agricultural Trade Fair**

(20 October 2006) The 4th China Agricultural Product Trade Fair (第四屆中國國際農產品交易會) was closed in Beijing. A Hainan exhibition delegation consisting of 58 corporate exhibitors signed 106 economic and trade projects in total with a contract volume of 431 000 tons, amounting to a value of RMB2.99 billion. Among them are 48 sales contracts with a contract volume of 278 000 tons, making it one of the seven prominent deals of the Trade Fair. (*Hainan Daily*, 22 October 2006)

## **Pan-PRD (9+2)**

### **Cooperation Organisations from Three Major Economic Rings in China Sign the First Regional Cooperation Protocol**

(17 October 2006) The Third Seminar on Domestic Cooperation and Exchanges Between Some Major Cities in China (第三屆全國部分重點城市國內合作交流工作研討會) was held in Hangzhou. The three major regional cooperation organisations from the Yangtze River Delta, Pan-PRD region and the Bohai Rim met for the first time and signed the *Protocol on Conducting Work Exchanges and Cooperation among Regional Cooperation Organisations* (關於區域合作組織間開展工作交流與合作的協定), marking a new phase

for cooperation and exchanges among the three major regions. The three organisations intend to visit each other annually for reviewing key cooperation projects. (Internet version of *Securities Times*, 20 October 2006)

### **The Seventh Joint Meeting on the Cooperation of IT Industry in the Pan-PRD Region takes place in Guiyang (貴陽)**

(17 October 2006) The Seventh Joint Meeting at Department (Bureau) Level on the Cooperation of the IT industry in the Pan-PRD Region (第七屆泛珠三角區域合作資訊產業廳(局)聯席會議) cooperation was held in Guiyang, with 32 representatives from the IT industry departments (bureaux) of the Pan-PRD provinces/region and the Hong Kong Special Administrative Region present at the meeting to discuss development plans for the regional IT industry. The participants drafted the *Proposals on Stepping up Efforts to Support Information Infrastructure Construction for the New Socialist Rural Areas in the Central and Western Pan-PRD Region* (關於加大對泛珠區域中西部地區社會主義新農村資訊化建設支援的建議), and a detailed proposal will be submitted to the National Information Industry Ministry. (Internet version of *Guizhou Daily* (貴州日報), 19 October 2006)

### **The Nine Pan-PRD Provinces/Region to Share Information on Food and Drug Regulations**

(20 October 2006) The nine Pan-PRD provinces/region entered into a protocol for information sharing and concerted enforcement in respect of the rectification of food and drug market order. According to the protocol, the nine provinces/region will use modern IT to gradually establish a regional coordinated, uniform and standardised mechanism for information gathering, collation, exchange and use, so as to enable due management and sharing of information resources. The nine provinces (regions) intend to publish shared information on regulatory aspects of food and drugs on the Pan-PRD Cooperation Network on Food and Drugs (食品藥品泛珠合作網). (Xinhua Net, 23 October 2006)

### **First Pan-PRD Quality Forum Held in Shenzhen**

(25-26 October 2006) The First Pan-PRD Quality Forum (首屆泛珠三角地區品質論壇), organised by the Shenzhen Bureau of Quality and Technical Supervision (深圳市質量技術監督局), Shenzhen Municipal Quality Association (深圳市質量協會), Hong Kong Quality Management Association (香港品質管理協會) and the Shenzhen Special Zone Daily agency (深圳特區報社), was held in Shenzhen. The Forum invited well-known experts on quality management and entrepreneurs from home and abroad as well as relevant governmental agencies to exchange views on such hot topics as the relationship between quality management innovation and corporate sustainable development, the latest developments in the application of quality management and research in the global arena. (*Shenzhen Special Zone Daily*, 26-27 October 2006)

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## Fujian

	2004	2005	2006 Jan-Jun	2006 Jun	2006 Jul	2006 Aug
Nominal Gross Domestic Product (Rmb100 mn) <sup>2</sup>	6,053	6,560	3,157	-	-	-
Real Gross Domestic Product Growth (%) <sup>2,5</sup>	12.1	11.3	12.8	-	-	-
Urban Per Capita Disposable Income (Rmb) <sup>2</sup>	11,175	12,321	7,247	1,034	1,056	1,076
Rural Per Capita Net Income (Rmb) <sup>2,3</sup>	4,089	4,450	2,357	-	-	-
Consumer Price Index (%) <sup>2</sup>	4.0	2.2	0.2	1.0	0.9	1.0
Retail Sales of Consumer Goods (Rmb100 mn) <sup>2</sup>	1,996	2,346	1,302	221	213	212
Year-on-year growth (%) <sup>2,5</sup>	14.7	13.8	14.6	14.2	13.8	14.5
Value-added of Industry (Rmb100 mn) <sup>2,6</sup>	1,846	2,274	1,249	244	221	229
Year-on-year growth (%) <sup>2,5,6</sup>	23.5	17.9	19.2	15.8	14.9	18.4
City, County and Above Investment in Fixed Assets (Rmb100 mn) <sup>2,4</sup>	1,601	1,986	1,092	1,092	1,269	1,471
Year-on-year growth (%) <sup>2,4,5</sup>	29.0	24.1	42.8	42.8	39.7	36.7
Value of Exports (US\$100 mn) <sup>7,8</sup>	294.0	348.5	191.4	34.5	34.9	-
Year-on-year growth (%) <sup>5,7,8</sup>	39.1	18.5	15.1	-	-	-
Value of Imports (US\$100 mn) <sup>7,8</sup>	181.5	195.9	111.2	18.8	18.6	-
Year-on-year growth (%) <sup>5,7,8</sup>	27.9	8.0	10.3	-	-	-
Foreign Direct Investment (US\$100 mn) <sup>9</sup>	53.2	62.3	39.0	-	4.6	-

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

## Jiangxi

	2004	2005	2006 Jan-Jun	2006 Jun	2006 Jul	2006 Aug
Nominal Gross Domestic Product (Rmb100 mn) <sup>2</sup>	3,496	4,056	1,840	-	-	-
Real Gross Domestic Product Growth (%) <sup>2,5</sup>	13.2	12.8	12.6	-	-	-
Urban Per Capita Disposable Income (Rmb) <sup>2</sup>	7,560	8,620	4,881	744	718	6,324
Rural Per Capita Net Income (Rmb) <sup>2,3</sup>	2,953	3,266	1,523	-	-	-
Consumer Price Index (%) <sup>2,4</sup>	3.5	1.7	0.4	0.4	0.5	1.1
Retail Sales of Consumer Goods (Rmb100 mn) <sup>2</sup>	1,060	1,236	678	112	104	111
Year-on-year growth (%) <sup>2,5</sup>	14.8	15.0	15.3	-	-	-
Value-added of Industry (Rmb100 mn) <sup>2,6</sup>	618	829	523	114	99	103
Year-on-year growth (%) <sup>2,5,6</sup>	26.1	23.6	21.9	-	-	-
City, County and Above Investment in Fixed Assets (Rmb100 mn) <sup>2</sup>	1,488	1,934	799	233	166	151
Year-on-year growth (%) <sup>2,5</sup>	36.0	30.9	37.7	-	-	-
Value of Exports (US\$100 mn) <sup>7,8</sup>	19.9	24.4	16.3	3.3	3.5	-
Year-on-year growth (%) <sup>5,7,8</sup>	32.5	22.3	37.1	-	-	-
Value of Imports (US\$100 mn) <sup>7,8</sup>	15.4	16.2	13.4	2.8	3.8	-
Year-on-year growth (%) <sup>5,7,8</sup>	50.3	5.4	-	-	-	-
Foreign Direct Investment (US\$100 mn) <sup>2,9</sup>	20.5	24.2	14.3	4.4	1.5	1.9

- Notes:
- 1 - Values are all in nominal terms.
  - 2 - 2004, 2005 & 2006 data source: Jiangxi Statistical Information Net.
  - 3 - Jan-Jun 2006 data refer to cash income, normally announced only in March, June, September and December.
  - 4 - 2006 data source: National Bureau of Statistics of China.
  - 5 - Real growth rate.
  - 6 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
  - 7 - 2004 & 2005 data source: Jiangxi Statistical Information Net; Jan-Jul 2006 data source: China Customs.
  - 8 - Classification according to source and destination of product.
  - 9 - Actually utilised amount of foreign direct investment.

## Hunan

	2004	2005	2006 Jan-Jun	2006 Jun	2006 Jul	2006 Aug
Nominal Gross Domestic Product (Rmb100 mn) <sup>2</sup>	5,612	6,474	3,206	-	-	-
Real Gross Domestic Product Growth (%) <sup>2,5</sup>	12.0	11.6	12.2	-	-	-
Urban Per Capita Disposable Income (Rmb) <sup>2</sup>	8,618	9,524	5,487	-	781	803
Rural Per Capita Net Income (Rmb) <sup>2,3</sup>	2,838	3,118	1,836	-	-	-
Consumer Price Index (%) <sup>4</sup>	5.1	2.3	0.4	0.8	0.9	1.4
Retail Sales of Consumer Goods (Rmb100 mn) <sup>2</sup>	2,070	2,459	1,348	230	225	222
Year-on-year growth (%) <sup>2,5</sup>	14.0	14.4	14.9	15.5	14.9	14.5
Value-added of Industry (Rmb100 mn) <sup>2,6</sup>	1,198	1,536	925	192	164	175
Year-on-year growth (%) <sup>2,5,6</sup>	24.1	20.6	20.5	21.3	18.0	23.3
City, County and Above Investment in Fixed Assets (Rmb100 mn) <sup>2</sup>	1,690	2,194	1,083	321	229	228
Year-on-year growth (%) <sup>2,5</sup>	36.0	29.8	31.8	-	-	-
Value of Exports (US\$100 mn) <sup>7,8</sup>	31.0	37.5	21.6	4.6	4.3	-
Year-on-year growth (%) <sup>5,7,8</sup>	44.3	20.9	17.6	-	-	-
Value of Imports (US\$100 mn) <sup>7,8</sup>	23.4	22.6	13.2	2.4	2.0	-
Year-on-year growth (%) <sup>5,7,8</sup>	47.2	-3.5	-13.3	-	-	-
Foreign Direct Investment (US\$100 mn) <sup>2,9</sup>	16.4	23.3	12.1	2.3	2.1	2.5

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

## Hainan

	2004	2005	2006 Jan-Jun	2006 Jun	2006 Jul	2006 Aug
Nominal Gross Domestic Product (Rmb100 mn) <sup>2</sup>	790	904	492	-	-	-
Real Gross Domestic Product Growth (%) <sup>2,5</sup>	10.4	10.1	11.6	-	-	-
Urban Per Capita Disposable Income (Rmb) <sup>2,3</sup>	7,736	8,124	5,023	692	693	698
Rural Per Capita Net Income (Rmb) <sup>2,4</sup>	2,818	3,004	1,785	-	-	-
Consumer Price Index (%) <sup>2</sup>	4.4	1.5	1.4	1.9	2.3	1.8
Retail Sales of Consumer Goods (Rmb100 mn) <sup>2</sup>	219.0	269.0	148.3	24.1	24.0	23.8
Year-on-year growth (%) <sup>2,5</sup>	14.4	13.4	14.2	13.8	13.4	14.0
Value-added of Industry (Rmb100 mn) <sup>2,6</sup>	123.5	148.5	85.9	15.1	15.1	16.4
Year-on-year growth (%) <sup>2,5,6</sup>	18.4	18.6	18.4	15.3	18.5	18.6
City, County and Above Investment in Fixed Assets (Rmb100 mn) <sup>2,7</sup>	235.3	351.5	162.6	39.2	26.8	26.5
Year-on-year growth (%) <sup>2,5,7</sup>	16.6	20.8	16.2	15.9	23.7	11.7
Value of Exports (US\$100 mn) <sup>8,9</sup>	10.9	10.2	4.4	0.7	0.9	1.7
Year-on-year growth (%) <sup>5,8,9</sup>	26.0	-6.4	7.9	-	-	-
Value of Imports (US\$100 mn) <sup>8,9</sup>	23.1	15.7	8.0	2.6	0.9	1.2
Year-on-year growth (%) <sup>5,8,9</sup>	63.8	-32.0	45.4	-	-	-
Foreign Direct Investment (US\$100 mn) <sup>2,10</sup>	6.7	6.8	3.1	1.1	1.4	-

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

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

	Fujian	Jiangxi	Hunan	Hainan	Guangxi	Yunnan	Guizhou	Sichuan	Guangdong
Nominal Gross Domestic Product (Rmb100 mn) <sup>3,4</sup>	3,157	1,840	3,206	492	2,013	1,670	930	3,727	11,417
Real Gross Domestic Product Growth (%) <sup>2,3,4</sup>	12.8	12.6	12.2	11.6	13.6	10.6	11.8	13.3	14.4
Urban Per Capita Disposable Income (Rmb) <sup>3,5</sup>	7,247	4,881	5,487	5,023	5,174	5,030	4,672	4,757	8,531
Rural Per Capita Cash Income (Rmb) <sup>3,5</sup>	2,357	1,523	1,836	1,785	1,590	1,130	881	1,635	2,899
Consumer Price Index (%) <sup>3,6</sup>	0.2	0.4	0.4	1.4	0.7	2.0	-	1.8	1.7
Retail Sales of Consumer Goods (Rmb100 mn) <sup>3,4</sup>	1,302	678	1,348	148	775	528	339	1,590	4,434
Year-on-year growth (%) <sup>2,3,4</sup>	14.6	15.3	14.9	14.2	13.8	14.7	13.6	14.5	15.6
Value-added of Industry (Rmb100 mn) <sup>3,5,7</sup>	1,249	523	925	86	512	559	317	1,250	4,868
Year-on-year growth (%) <sup>2,3,5,7</sup>	19.2	21.9	20.5	18.4	21.8	14.9	17.6	24.1	18.5
Total Investment in Fixed Assets (Rmb100 mn) <sup>3,4</sup>	1,234	-	1,274	170	882	-	478	1,980	3,231
Year-on-year growth (%) <sup>2,3,4</sup>	39.9	-	31.8	16.6	37.0	-	24.3	37.7	20.5
City, County & Above Investment in Fixed Assets (Rmb100 mn)	1,092	799	1,083	163	766	746	419	-	1,600
Year-on-year growth (%) <sup>2,3,4</sup>	42.8	37.7	31.8	16.2	41.7	31.3	21.0	-	15.3
Value of Exports (US\$100 mn) <sup>8</sup>	191.4	16.3	21.6	4.4	16.3	13.3	5.7	23.1	1,326.9
Value of Imports (US\$100 mn) <sup>8</sup>	111.2	13.4	13.2	8.0	16.1	16.4	4.0	22.5	1,068.0
Foreign Direct Investment (US\$100 mn) <sup>3,9</sup>	39.0	14.3	12.1	3.1	1.8	1.2	-	6.2	68.3

- Notes:
- 1 - Values are all in nominal terms.
  - 2 - Real growth rate.
  - 3 - Data source: Provincial/Regional Statistical Reports.
  - 4 - Guizhou data source: worldbydata.com, 10 Aug, 2006.
  - 5 - Guizhou data source: Guizhou Daily, 18 July, 2006.
  - 6 - Yunnan data source: Private Economy News, 24 July, 2006.
  - 7 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
  - 8 - Classification according to source and destination of products. Data source: China Customs.
  - 9 - Actually utilised amount of foreign direct investment; Sichuan data source: Chengdu Daily, 19 July, 2006.

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

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

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

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

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

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

- Notes:
- 1 - 2000 data.
  - 2 - 2003 data.
  - 3 - 2004 data.
  - 4 - Data source: CEIC Data.
  - 5 - Data source: China Population Statistical Yearbook 2005.
  - 6 - Data source: China Statistical Yearbook 2005.
  - 7 - Data source: Provincial/Regional Statistical Reports.
  - 8 - Data source: China Monthly Statistics.
  - 9 - Data source: Almanac of China's Finance and Banking 2005
  - 10 - Yunnan data is 2004 data.
  - 11 - Refer to proportion of 6 years old and above population.
  - 12 - Refer to proportion of 15 years old and above population.
  - 13 - Including all state-owned enterprises and non-state-owned enterprises with annual turnover of Rmb5 million and above.
  - 14 - Classification according to source and destination of products.
  - 15 - Hainan data is 2004 data.
  - 16 - Including tourists from Hong Kong, Macao and Taiwan.
  - 17 - Actually utilised amount of foreign direct investment.
  - 18 - The statistics is up to 30 April 2006. The data before 15 September 2004 is based on the Twelfth Monthly Report of this series, others are based on their registered addresses.  
Data source: Hong Kong Exchanges and Clearing Ltd website, securities companies websites & relevant news reportings.

## ENGLISH-CHINESE GLOSSARY OF TERMS

China-ASEAN Free Trade Area (CAFTA)	中國-東盟自由貿易區
Competitive industries	優勢產業
Global supply chains	全球供應鏈
Industrial chains	產業鏈
Industry clusters	產業集群
Medical savings accounts	醫療儲蓄戶口
New industrialization	新型工業化
Small and medium-sized enterprises (SMEs)	中小企業
Transfer of industries	產業轉移