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**Hong Kong Special Administrative Regional Government**

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

**Special Report**

**The 11<sup>th</sup> Five-Year Plans of the Four  
Southwestern Provinces/Region  
– Future Development Trends and the  
Interactive Economic Relationship  
with Hong Kong**

**Guangxi, Yunnan, Guizhou and Sichuan Provinces**

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## Abstract

1. The National 11<sup>th</sup> Five-Year Plan marks the rough completion of China's export-oriented and foreign investment-driven industrialisation process, which began with the launch of the economic reform policy. The "scientific development concept" and the "building of a people-oriented harmonious society" have become the guiding principles for China's future development. The new national development strategies include transforming the economic growth model, conserving resources and developing a new industrialisation trajectory.
2. The National 11<sup>th</sup> Five-Year Plan and the *Overall Plan of the Western Development Program During the 11<sup>th</sup> Five-Year Plan Period* provide guiding principles for provincial planning in the Four Southwestern Provinces/Region. These two documents broadly cover issues such as the following: building a new socialist countryside, narrowing regional gaps in public service provision and living standards, developing the principal functional regions based on their unique resources and environmental carrying capacities, establishing a resource conserving and environment friendly society, and promoting local, featured industries with competitive advantages. Therefore, the future development of the Four Southwestern Provinces/Region will differ from the export- and processing-oriented development model adopted by the coastal area and the Pearl River Delta (PRD) region.
3. Sichuan's 11<sup>th</sup> Five-Year Plan places special emphasis on four aspects, these are namely "the building of a new socialist countryside", "a strong industrial province", "an eco-friendly Sichuan" and "infrastructure construction".
4. Guangxi has proposed four development directions in its 11<sup>th</sup> Five-Year Plan and these are summarised as a "Wealthy, Cultured, Eco-friendly and Safe Guangxi". Guangxi has also proposed for the first time the "Beibu Gulf (Guangxi) Economic Development Zone" strategy.
5. Yunnan's development is focused on improving the livelihoods of its residents and infrastructure, strengthening the transportation system, adjusting the regional development layout, emphasising ecological

protection and lending more support to poverty-stricken and ethnic minority-populated areas.

6. Guizhou's 11<sup>th</sup> Five-Year Plan incorporates the requirements of "resource conservation, ecological construction, improving public services and safe production". The Plan strengthens the government's commitment towards environmental protection and improving people's livelihoods.
7. Sichuan and Guangxi are intending to launch pilot projects to explore the best rural development models based on the concept of "industry nurturing agricultural development" and "industry promoting agricultural development". Meanwhile, Guizhou will continue to rely on public goods and services provided by the government over the short and medium term.
8. The industrial development strategies of the Four Southwestern Provinces/Region differ due to disparities in their respective industrial capabilities. Sichuan's goal is to become "a strong industrial province", Guangxi is hoping to "prosper through industry", Yunnan intends to "continue promoting new industrialisation" whilst Guizhou is still in the stage of "constructing a featured economic system".
9. The four provinces/region are making tourism a high priority because their economic foundations are weak, and tourism can generate direct and immediate economic benefits. Their second preference is to develop the modern logistics industry which could facilitate the distribution of industrial products. Given the limited demand for advanced services, their development at this moment is incompatible with Hong Kong's featured business service industry.
10. The National 11<sup>th</sup> Five-Year Plan includes a National Transportation Programme which makes railway construction the first development priority. Transportation development in the four provinces/region is still road-oriented, but the provinces are beginning to contemplate more railway projects. Plans have already been drawn up to make Chengdu (成都) city a regional and intra-provincial railway hub; whilst Guangxi is focusing on the development of the Beibu Gulf (北部灣) region and

the strengthening of coastal port construction.

11. The four provinces/region are not intending to incorporate “Pan-PRD Cooperation” into their development direction or Hong Kong as their primary regional cooperation partner during the 11<sup>th</sup> Five-Year Plan.
12. Sichuan and Guangxi have made changes to their liberalisation and reform policies, and have become more selective over foreign investors and trading partners. However, Yunnan and Guizhou still emphasise the “quantity” of foreign trade and foreign investment, rather than the “quality”.
13. The National 11<sup>th</sup> Five-Year Plan and the provincial 11<sup>th</sup> Five-Year Plans of the Four Southwestern Provinces/Region reflect the efforts of governments at various levels to “transform the economic growth model”, whilst also indicating the likelihood of huge changes emerging in the future. Therefore, the economic complementarities and room for cooperation between Hong Kong and the Mainland are likely to shrink and even vanish in this process; and the labour-intensive and Hong Kong-funded factories in the PRD region will find it difficult to survive in the four provinces/region.
14. Hong Kong has already been incorporated into the national planning process as well as Guangdong’s provincial planning since the launch of the 9<sup>th</sup> Five-Year Plan. However, the National 11<sup>th</sup> Five-Year Plan does not mention anything about Hong Kong’s economic transformation or upgrading, indicating delicate changes in policy orientation and support from Mainland governments towards Hong Kong.
15. The action agenda entitled *Report on the Economic Summit on ‘China’s 11<sup>th</sup> Five-Year Plan and the Development of Hong Kong’* (《「十一·五」與香港發展》行動綱領) published in January 2007, is mainly presented from Hong Kong’s perspective. Furthermore it does not apparently provide a comprehensive study of how Hong Kong should address the development needs of the Mainland. It would not be appropriate for the Central Government to relinquish the general interests of the Mainland in order to accommodate the sectional interests of Hong Kong.

16. The building of a “resource saving and environmentally friendly society” prescribed in the 11<sup>th</sup> Five-Year Plan, in fact represents a huge business opportunity for the environmental protection industry. Hong Kong’s environmental protection enterprises may tap the opportunity and invest in the Mainland, and Hong Kong’s research institutions, colleges and universities should conduct more research on environmental protection technologies. Hong Kong could also endeavour to become the bridge for international environmental protection enterprises wanting to gain access to the Mainland market.
18. The western region intends to develop featured industries based on agricultural products, and this will bring food safety issues to the fore. Hong Kong could consider setting up a food research and inspection centre in the Hong Kong Science Park to serve the PRD region and the southwestern region, and provide consultation services on international food standards. This would help food producers meet international market standards. Some of these food producers might also wish to enter the international market through Hong Kong.
19. Hong Kong enterprises hoping to gain access to service markets in the Four Southwestern Provinces/Region and the Mainland might start with modern logistics.
20. The policy of “a basic balance between imports and exports” in the 11<sup>th</sup> Five-Year Plan will encourage the development of imports. Hong Kong could leverage its reputation as an “international fashion centre”, and develop into an international exhibition and “lifestyle products” distribution hub, with “fine works” (representing high quality, sophisticated culture and diversity) as its future development orientation.
21. The strength of Hong Kong’s service industry lies with its knowledge base. Hong Kong should invest more resources in promoting the latest knowledge, including scientific research, training and knowledge dissemination activities (publications, seminars and online information delivery, etc.)

# **The 11<sup>th</sup> Five-Year Plans of the Four Southwestern Provinces/Region – Future Development Trends and the Interactive Economic Relationship with Hong Kong**

## **1. Foreword**

The Chinese government publishes its national Five-Year Plan mainly to help achieve long-term goals and assist with economic development planning. Since the establishment of the People's Republic of China, there have been eleven Five-Year Plans. The first five Five-Year Plans covered 1953 to 1980, whilst Plans Six through to 10 covered the period from 1981 to 2005. The 11<sup>th</sup> Five-Year Plan runs from 2006 to 2010. It is special not just because of the shift in emphasis from the “(central) planning” in the past towards the concept of a simple “plan”. More importantly, there are changes in the government's governance concept and strategic development thinking.

During the first five Five-Year Plans, the national development strategy was to “change the economic structure and establish a more complete industrial foundation”. It represented a socialist industrialisation stage, and practically, the first long-term period of modern industrialisation since the late Qing Dynasty (清朝). At that time, the western countries, led by the United States, had adopted a containment policy against China. In 1958, the Sino-Soviet relationship turned sour, and both countries made preparations for war. This resulted in a need for a more comprehensive industrial foundation for socialist industrialisation, including the national defence industry and the related heavy and mechanical industries. Agricultural and light industries were assigned a secondary priority. The weight of the primary sector, comprising mainly of the agricultural industries, dropped considerably whilst the weight of the secondary sector, comprising mainly of industrial production, increased dramatically.

Affected by the Cultural Revolution, the annual GDP growth rate (in current prices) was only about 7%. Between the 6<sup>th</sup> and 10<sup>th</sup> Five-Year Plans, i.e. the famous liberalisation and reform era, the United States abandoned its containment policy and hostile relations towards China. The United States and its allies established diplomatic relations with China, allowing China to use the international market for industrial and economic development. The national strategy changed to “economic development and foreign trade”. Subsequently the annual GDP growth (in current prices) reached 15.9% and the annual growth of foreign trade reached 15.6%. With regard to the production structure, the weight of the primary sector dropped considerably, whilst the weight of the tertiary sector

increased significantly, reflecting the progress of industrialisation and globalisation (see Table 1).

Table 1: Major Economic Indicators for China (1952 - 2006)

Year	GDP (RMB billion)	GDP per capita (RMB)	Production structure (%)			Volume of imports and exports (USD billion)
			Primary production	Secondary production	Tertiary production	
1952	67.9	119	50.5	20.9	28.6	-
1980	454.6	463	29.9	48.2	21.9	38.1
1985	901.6	858	28.2	42.9	28.9	69.6
1990	1,866.8	1,644	26.9	41.3	31.8	115.4
1995	6,079.4	5,046	19.8	47.2	33.0	280.9
2000	9,921.5	7,858	14.8	45.9	39.3	474.3
2005	18,232.1	13,985	12.6	47.5	39.9	1,422.1
2006	20,940.7	-	11.8	48.7	39.5	1,760.7

Source: Various issues of the *Statistical Yearbook of China*

The 11<sup>th</sup> Five-Year Plan marks the entrance of the Chinese economy into the market economy. The traditional planned economy and the transitional dual system of the 1980s and 1990s have come to an end. Foreign investments, private enterprises and globalisation (foreign trade) have increased noticeably. The government can no longer use central planning to manage the economy, therefore “planning” has had to change to “a plan”. At the same time, since the economic reform, export-oriented industrialisation fuelled by foreign investments has almost been completed. In order to meet the challenges of global competition and structural transformation, China has initiated a change of development strategy since the 16<sup>th</sup> National Congress of the Communist Party of China. In the 11<sup>th</sup> Five-Year Plan, the strategy was further developed and then implemented as a mid-term plan.

The basic premises of the 11<sup>th</sup> Five-Year Plan are the “scientific development concept” and the “building of a people-oriented harmonious society”. The former requires a change in the economic growth model, and a basic national policy aimed at conserving resources and pursuing a new industrialisation trajectory. The emphasis is mainly on prudent, clean, safe and sustainable development. Development should be in harmony with the population, resources and environment, and not at the expense of them. The “building of a people-oriented harmonious society” requires society to coordinate the interests of all parties. Therefore, on the one hand, the government is seeking to expand domestic demand, creativity and innovation. The emphasis has shifted from foreign capital

to Chinese enterprises, domestic talent, increasing employment, and bigger incomes for urban and rural residents. It is not limited to businesses and investors. On the other hand, the government is providing assistance to less privileged groups and poor districts, by transferring payments and introducing re-distribution policies. For example, it has fundamentally reversed the urban-biased public finance policy and economic development strategy, and established a new direction of “giving more, taking less and vitalisation” and “industry nurturing agricultural development, with cities supporting villages”. In cities, welfare and medical policies are being implemented to protect low income groups.

## **2. The Impact of the National 11<sup>th</sup> Five-Year Plan on the Four Southwestern Provinces/Region**

The Four Southwestern Provinces/Region are typical agricultural and resource-rich western provinces. There are many self-governing ethnic minority areas, different from other areas in central or coastal China that are populated mainly by the ethnic majority, or Han Nationality (漢族). Sichuan and Yunnan are located on the upper reaches of the Yangtze River, Pearl River and other river systems and consequently they have a strategic ecological position. Yunnan and Guangxi are located near the ASEAN countries, at the forefront of the China-ASEAN Free Trade Area (中國-東盟自貿區). Therefore, the borderland development of the Four Southwestern Provinces/Region is different from Guangdong and other coastal areas, and vastly different from other eastern Pan-PRD areas that rely on local development.

Among various 11<sup>th</sup> Five-Year Plans in China, the National 11<sup>th</sup> Five-Year Plan and the *Overall Plan of the Western Development Programme During the 11<sup>th</sup> Five-Year Plan Period* (《西部大開發“十一五”總體規劃》) are the most relevant to the Four Southwestern Provinces/Region. These two documents serve as guidelines for provincial planning.

### **2.1 The Relevance of the National 11<sup>th</sup> Five-Year Plan for the Four Southwestern Provinces/Region**

#### **2.1.1 Building a New Socialist Countryside (Four “Document No. 1s” Issued by the CPC Central Committee)**

Since reform and liberalisation began in China, the problems associated with agriculture, villages, and farmers (“the three agricultural challenges”) have drawn a great deal of attention. From 1982 to 1986, the CPC’s (Communist Party of China) Central Committee published five consecutive “Document No.1s” on agriculture, villages and farmers. In December 2003, 18 years later, Mr. Hu Jintao (胡錦濤) signed *The CPC Central and the State Council’s Views on Policies to Promote Farmers’ Incomes* (《中共中央、國務院關於促進農民增加收入若干政策的意見》) when he took over as President. This made agriculture the theme of the “Document No. 1’s” again. From 2004 to 2007, there were four straight “Document No. 1’s” on agriculture. Clearly the Hu-Wen administration (胡溫政

府) has put a lot of emphasis on agriculture. The 2007 “Document No. 1” explicitly pinpoints the significance of agriculture, villages and farmers, when it states that “a rich agricultural sector creates a strong foundation, rich farmers are part of a strong country, and stable villages lead to a peaceful society”.

Policies on the “three agricultural challenges” have become key national policies in China. In past Five-Year Plans, agricultural development was only covered in chapters on economic development or economic structure. In the 11<sup>th</sup> Five-Year Plan, there is a separate Chapter Two devoted to agricultural policies under the title of “Building a New Socialist Countryside”. Chapter Two follows directly on from Chapter One with its emphasis on, “guiding principles and development goals”, thus reflecting the importance and strategic position of agricultural policies.

When drafting the 11<sup>th</sup> Five-Year Plan, the Central Government commissioned many groups to study village development. The research reports all pointed out that the resolution of village problems is the key to creating a “harmonious society”. Since liberalisation and reform began, China has placed the focus for economic development and investment on industries and cities. As a result, the gap between rural and urban areas has been widening. According to studies, the ratio of average disposable incomes between urban dwellers and their rural counterparts increased from 1.8:1 in the mid-1980s, to 2.5:1 in the late 1990s, and further to 3.2:1 in 2004. In addition, urban residents enjoy state assistance in housing, social security, public health and education while farmers have to pay agricultural tax. These factors add to an income gap of 5~6:1<sup>1</sup>. The Mainland government has tried to increase the income of farmers in order to narrow the income gap, with measures such as encouraging farmers to raise production. However, an excess supply in the agricultural market has caused the price of agricultural products to fall. At the same time, under World Trade Organisation (WTO) regulations, the government cannot subsidise agricultural products. Hence, farmers’ incomes lack an upward drive. Besides, a series of development strategies such as industrialisation, export orientation and rural enterprises has encouraged farmers to leave their farmlands to become workers. The social phenomenon of “leaving villages and farming” and “leaving villages but not farming” has caused disarray and crisis in both the rural public services and social security system for farmers.

To achieve the strategic goal of “a well-off society”, the Central Government has changed the strategic emphasis of the 11<sup>th</sup> Five-Year Plan with

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<sup>1</sup>Research Group of the Economic Research Centre, Ministry of Agriculture: “Resolving the Three Agricultural Challenges: Thinking and Strategy”(農業部農村經濟研究中心所課題組：“加快解決‘三農’問題的思路與對策”), in *Strategic Research for the 11<sup>th</sup> Five-Year Plan*, Beijing Science and Technology Publisher, 2005, pp. 604.

regard to countryside building and agricultural development. On the basis of the 10<sup>th</sup> Five-Year Plan's goals of "stabilising food production" and "increasing farmers' income", future villages are supposed to enhance the collective agricultural production capability and ability to add value. The policy on "new countryside building" focuses on "the building of infrastructure and public services in villages" and "nurturing a new type of farmer". This is a breakthrough from the past when villages were required to develop on their own, or support the development of industries. The central and local governments have increased their support for village policy and public finances and, on the contrary, require "industry to nurture agricultural development".

Such a policy change actually represents a major shift in strategic development. Be it a capitalistic or socialistic development strategy, the goal for the past one hundred years has always been industrialisation. In turn, this industrialisation was supported by agriculture, farmers and villages, i.e. the primitive accumulation of capitalism. After the Soviet Communist Revolution, the debate in the 1920s was about economic development and the industrialisation strategy including a theory of the primitive accumulation of socialism<sup>2</sup>. In 1930, Stalin introduced the Five-Year Plan and collective farms. The state compelled the agricultural sector and farmers to make use of the created value to pay for industrialisation and urbanisation. In 1953, the CPC introduced the Five-Year Plan and rural cooperatives and, in 1958, the People's Commune. Basically, these were the Chinese replication of the Soviet experience in primitive accumulation. Similarly, the post-war capitalist developing countries used the market method or the mixed model to foster the development of a dual structure of agriculture and industry, as well as rural and urban areas. There is not much difference in the nature of these strategies. However, in the 11<sup>th</sup> Five-Year Plan, there is a marked change in that "industry nurtures agricultural development", with far-reaching and long-term effects. This represents a major breakthrough for China and perhaps globally.

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<sup>2</sup> The primitive accumulation of capital is a concept taken from classical economics and is a major concept in Marxism. The concept reflects the changes in the production mode and social formation. Its aim is to explain the big changes in western capitalism from the 18<sup>th</sup> to the 20<sup>th</sup> century. The explanation is to provide guidance for subsequent countries heading for similar changes and developments. After the Second World War, the western development theory only mentioned westernisation and modernisation, without mentioning the primitive accumulation of capital. However, the content is the same. See David Moore, "The Second Age of the Third World: from Primitive Accumulation to Global Public Good?", *Third World Quarterly*, 25:1 (2004), pp 87-109; and M. Perelman, *The Invention of Capitalism: Classical Political Economy is the Secret History of Primitive Accumulation*, Durham, Duke University Press, 2000. The concept of socialist primitive accumulation came from Evgeni Preobrazhenski. The debate in the Soviet Union in the 1920s on industrialisation was also about how to replicate the development of western capitalism. See Alexander Erlich, "Preobrazhenski and the Economics of Soviet Industrialisation", the *Quarterly Journal of Economics*, 64"1 (February 1950), pp 57-88.

On the other hand, the new policy of building a new countryside represents a paradigm shift. With regards to the three agricultural challenges, national public goods and services are being devoted to rural-urban harmonisation and consequently rural and urban residents will receive the same national treatment. This policy is similar to the European Union approach after 1999<sup>3</sup>. It goes beyond the traditionally narrow perspective of the three agricultural challenges and locates the problems at the level of rural-urban coordination and national development. It represents a paradigm shift in development strategy, from the US model, or agricultural industrialisation under the Washington Consensus, to the European Union model.

During the 11<sup>th</sup> Five-Year Plan, the Central Government has adopted the direction of “give more, take less, and vitalise” in order to build a mechanism of workers promoting farmers, and cities leading villages. It has also adjusted the distribution of national incomes, and increased the fiscal contribution to agriculture and villages. Effective from 1 January 2006, i.e. the first day of the 11<sup>th</sup> Five-Year Plan, the National People’s Congress formally passed the resolution to abandon agricultural tax, a tax which has existed for 2,600 years. This signals the entering of a new phase for Chinese agricultural development, and shows the determination of the Central Government to support agriculture.

The Four Southwestern Provinces/Region are typical agricultural provinces, with their proportion of primary production ranking in the country’s top ten. Sichuan is the fourth largest food production area (in terms of total farming area) and strictly follows the central policy. Starting from 2004, the annual “Document No. 1” for the province made reference to the three agricultural challenges. From 2004 to 2006, the provincial “Document No.1” for Guizhou focused on the three agricultural challenges. Similarly, Yunnan and Guangxi have also published provincial government documents on the three agricultural challenges. Presumably, the national policy of the Central Government is to “build a new socialist countryside”, i.e. the development of rural-urban harmonisation, which will have a far-reaching and deeper impact on the development direction of the four provinces/region. It may produce a path different from the coastal areas’ experiences in the past decades, and more consistent with the reality in China. It may also provide a new direction for other developing countries. Therefore, it is a very significant step forward.

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<sup>3</sup> See the “Pan-PRD Region’s Social, Economic and Political Trends: Monthly Consultancy Study” vol. 12 (May 2007), Part II, Guangxi, Yunnan, Guizhou and Sichuan, note 14 on p. 18. See also Thomas Chan (陳文鴻), “Rural Development Versus Agricultural Modernisation in China: Some Preliminary Thinking”, presented at the Conference on Policy Perspectives on Growth, Economic Structure and Poverty Reduction, organised by the International Development Economics Associates, 7-9 June 2007, Beijing.

### 2.1.2 Promoting Regional Coordination and Development

In the 11<sup>th</sup> Five-Year Plan, the Central Government has made two major directional adjustments for regional development.

Firstly, the Central Government intends to narrow the regional gap. The Central Government is no longer emphasising a reduction in the economic aggregate gap, but focusing on reducing the regional gap in public services and living standards, so that people from different regions can enjoy the same level of free education, public health and public safety. Ultimately, people from different regions will gradually begin to enjoy the same living standards<sup>4</sup>. This is the so-called “fair starting point”. Under this policy, the Central Government is evaluating local governments not just on their economic performance, but also on their ability to stage a change of governmental role, from pure economic development in the past, to integrated social and economic development. The aim is to build a people-oriented “harmonious society”. On the one hand, it reduces the direct intervention of local governments in economic activities for GDP growth. Such excessive interventions generate external costs from production and operation, causing many social, resource and environmental problems. On the other hand, it encourages local governments to provide “public goods” with external benefits and promote overall social and economic development.

Secondly, the promotion of regional development bases on resources and the environmental capacity. The entire country is classified into four functional areas, i.e. prior development, major development, restricted development and prohibited development, thus formulating a clear functional position for regional development. Under this new concept, the Central Government has different demands for different regions, with some lands responsible for economic and population function, others responsible for environmental protection and some for permanent agriculture, forest and rivers, etc. For example, coastal areas are expected to focus on economic development whereas the upper reaches of the rivers on the western side are expected to focus on ecological conservation. There will be a regional ecological compensation mechanism, so that there is a horizontal transfer of financial benefits from the coastal areas in the lower reaches of the rivers to the western ecological areas for financial losses arising from ecology conservation, so that the external benefits of ecological conservation can be enjoyed at an appropriate cost.

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<sup>4</sup> “Chairman of the State Development and Reform Commission answering reporters’ questions on the 11<sup>th</sup> Five-Year Plan”(“發改委主任就“十一五”規劃綱要答中外記者問”), People’s Net, 7 March 2006, <http://finance.people.com.cn/BIG5/1047/4171706> .

The economic development of the Four Southwestern Provinces/Region has always lagged behind the national standard. This encourages local officials to adopt the extensive model of economic growth to boost economic performance and bigger tax incomes. For example, they have permitted the development of highly polluting industries, causing pollution to the lower reaches of the rivers. By over-emphasising short-term output growth and economic aggregates, the injection of public services into villages has been neglected, widening the income and welfare gap between rural and urban residents, and resulting in a lack of infrastructure and public input to support rural development.

There are major changes taking place in the administrative aims of the four provinces/region in the new regional development strategy. Local governments must expand public services in villages as a result of pressure from the Central Government. Besides, there are prohibited development areas in Sichuan and Yunnan and there are many restricted development areas in the four provinces/region as well, such as the Sichuan and Yunnan forest ecological and biological diversity zone, the Sichuan Ruergai Plateau (若爾蓋高原) wetland ecological zone, the Sichuan-Yunnan dry and hot valley ecological zone and the Guangxi-Guizhou-Yunnan karst regions. Such changes will inevitably reduce the land supply for local industrial development, and restrict the boundary for industrial development. As a result, the regional cooperation emphasised earlier between the four provinces/region and the Pan-PRD regions may be limited by this national policy and the regional development strategy may require subsequent modification.

### **2.1.3 Building a Resource Conserving and Environment Friendly Society**

The 11<sup>th</sup> Five-Year Plan is different from previous Five-Year Plans in that it emphasises resource conservation and environmental protection.

When the State Development and Reform Commission studied the “strategy to develop a circular economy in China”<sup>5</sup>, it recognised a number of shortcomings. There is a serious shortage of resources and energy in China, whilst the economic growth model is still extensive, resource wastage is serious, and the destruction and pollution of the ecology and environment is rampant. The discrepancy in demand for and supply of natural resources will become more severe during the 11<sup>th</sup> Five-Year Plan period. Scarce water resources will be the

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<sup>5</sup> The research report develops into “the State Council’s Views on Speeding Up and Developing the Circular Economy” (《國務院關於加快發展循環、經濟的若干意見》)(NDRC Document No. 22 [2005]).

major limitation on future development and will manifest itself in three major ways including water resource shortages (cities in the north generally lack water), water pollution (40% of the water in major rivers is not up to standard, underground water resources are heavily polluted in half of cities and 300 million rural people are drinking unsafe water)<sup>6</sup> and serious flooding. Relative to the world average, the water resource per capita in China is only 25%, and farming land is only 40%. The ratio for 45 major mineral resources per capita is only 50% and in 2006, supplies could only be assured for 24 out of the 45 major mineral resources. In 2020, the number is expected to drop to 6 out of 45. In the 11<sup>th</sup> Five-Year Plan the State Development and Reform Commission proposed the concept of the “circular economy” to build a resource conserving, environmentally friendly society, in order to solve the long-term problem of resource shortages. According to President Hu Jintao this means: “insisting on both development and conservation, giving priority to conservation, realising a fundamental change in the economic growth model, improving the efficient use of energy, focusing on saving energy, water, land, materials and utilising energy, and developing the circular economy. Furthermore, the task of resource conservation threads through all stages of production, logistics and consumption, and every area of social development, for the rapid formation of a prudent way of production and consumption<sup>7</sup>.” The 11<sup>th</sup> Five-Year Plan is essentially a conservation plan.

To ensure the successful policy implementation, the Central Government has adopted for the first time “binding indicators” to govern the environmental protection policies of local governments. The binding indicators have the force of law and will be included in the evaluation and results assessment of the economic and social development of every province and department. Among the eight “binding indicators”, five relate to environmental protection and resource usage.

The four provinces/region are major western provinces/region, with large amounts of resources like minerals, coal and natural gas. Sichuan, Yunnan and Guangxi are ranked second, third and fifth in China in terms of water resources. Therefore, the performance of the four provinces/region in resource conservation and environmental protection will greatly affect the result of the “circular economy”. The four provinces/region have been relying too much on local resources with limited technological capabilities. As a result, high energy consuming industries were developed, leading to a huge waste of resources. Under strong pressure from the Central Government, the four provincial/regional

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<sup>6</sup> “Looking Ahead in 2007: Preventing Water Pollution is Still of Vital Importance” (展望 2007 年：水污染防治仍是重中之重) (according to Mr. Zhou Shengxian (周生贤), Minister of the State Environmental Protection Administration), [http://www.sdpc.gov.cn/dqjj/2hdt/t20070118\\_112007.htm](http://www.sdpc.gov.cn/dqjj/2hdt/t20070118_112007.htm) ◦

<sup>7</sup> Speech by Mr. Hu Jintao at the CPC Central Committee Political Bureau, [http://www.sdpc.gov.cn/hjbh/hjjsjyxsh/t20061227\\_103227.htm](http://www.sdpc.gov.cn/hjbh/hjjsjyxsh/t20061227_103227.htm) ◦

governments are expected to try and modify the local economic development model. There will be a lot of changes concerning the choice of industries and the corresponding industrial policy.

As a result of major changes in the fiscal position of the Central Government during the previous two years, the fiscal deficit in 2006 was reduced. There was a surplus in the first half of 2007, and for the first time in history a surplus is expected to be recorded for the whole of 2007<sup>8</sup>. The huge fiscal surplus will enable the Central Government to direct transfer payments and, it is believed, that this will continue for many years. The Central Government will have sufficient financial resources to implement the new policies and measures in the 11<sup>th</sup> Five-Year Plan.

Therefore, the Four Southwestern Provinces/Region will receive, through an ecological compensation mechanism, from the Central Government and other provinces a substantial amount of financial and ecological compensation. Subsequently they may slow down the pace of industrialisation, and even abandon some resource industries that are highly energy-consuming. Such measures will change the current industrial structure and affect local development trends.

The provincial 11<sup>th</sup> Five-Year Plans were prepared almost at the same time as the National 11<sup>th</sup> Five-Year Plan. Therefore, the former may not absorb all the ideas of the National 11<sup>th</sup> Five-Year Plan and differences exist between the two. Since the implementation of the National 11<sup>th</sup> Five-Year Plan in 2006, there have been new developments in relevant Central Government policies. Most prominent of these is the agricultural policy, as reflected in the CPC's Central Committee's "Document No. 1" in 2007. The plan for railway construction has also added new features since the beginning of 2006. In 2007, by reason of the Central Government surplus, financial transfers will be increased to pay for the implementation of new central policies (especially ecological sustainable development and uniform public services in a harmonious society). The gap between the provincial 11<sup>th</sup> Five-Year Plans and the National 11<sup>th</sup> Five-Year Plan may widen further. Therefore, the provincial 11<sup>th</sup> Five-Year Plans may only serve

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<sup>8</sup> In 2006, the fiscal deficit was 86.954 billion Yuan, less than the figure published by the government. The main reason was that the government figure included a tax rebate for past exports of 61.3 billion Yuan. The deficit only accounts for 0.4% of GDP, producing an almost balanced budget. This figure has improved markedly from 1.6% in 2005 and 2% in 2004. According to unconfirmed information on the Mainland, the published income figure for the fiscal year 2006 was understated. Actually, there was a surplus, or at least a balanced budget. The surplus in the first half of 2007 amounted to 819.785 billion Yuan. Since expenditure mainly occurs in the second half of the year, the expenditure will exceed income. According to estimates based on annual growth rates in the first half of the year, the budget in 2007 will be balanced or even record a surplus. The fiscal condition of the last two years is unheard of since the reform and liberalisation policy was introduced. It indicates that there will be surpluses in the future, unless the central government increases expenditure. The fiscal data is quoted from the Ministry of Finance Website.

as a reference, rather than being binding, for the actual development and policy direction of individual provinces. In the next few years, it will still follow and change with the direction of the central policies.

## **2.2 The Impact of the Overall Plan of the Western Development Programme During the 11<sup>th</sup> Five-Year Plan Period on the Four Southwestern Provinces/Region**

According to the policy structure, the plan for the Four Southwestern Provinces/Region is focused on regional development within the Western Development Program, and has been recently put forward by the Central Government, by reason of the strategic position and development level of the western areas.

The State Council commissioned the Western Development Office to write the *Overall Plan of the Western Development Programme During the 11<sup>th</sup> Five-Year Plan Period*. It suggested the following nine tasks: the building of a new socialist countryside, strengthening infrastructure construction, developing featured industries with comparative advantages, promoting main functional areas, improving basic public services, increasing investment in the Western Development Programme, expanding the liberalisation of western areas and developing trade with neighbouring countries<sup>9</sup>.

More noteworthy is that during the 11<sup>th</sup> Five-Year Plan period, China intends to implement the “Ten Major Projects in the New Countryside” in twelve western provinces/region. In May 2006, the Western Development Office of the State Council published the *Views on Promoting Featured Industries with Comparative Advantages in the Western Region* (《關於促進西部地區特色優勢產業發展的意見》). It suggests that starting from practicalities, depending on local conditions, six types of featured industries with competitive advantages should be promoted. These industries include energy and chemicals, mineral excavation and processing, featured farming, poultry and processing, major equipment manufacturing, high technology and tourism. The government will provide investment subsidies for relevant projects, enhance financial services, support reasonable land use, promote the export of featured excellent products,

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<sup>9</sup> “Nine major tasks in *The Overall Plan of the Western Development Programme During the Five-Year Plan Period*” (“《西部大開發“十一五”規劃》著重抓好九項工作”), 14 December 2006, <http://www.sss.net.cn/ReadNews.asp?NewsID=10144&BigClassID=16&SmallClassID=52&SpecialID=0&belong=sky> .

support the infrastructure development of the border areas and cross-border areas, and develop border-area cities as major export and processing zones.

From the series of policies developed by the Western Development Programme, China has adopted a totally different development strategy for the western areas as compared with the coastal areas. The western areas will develop an inland orientation. Industrial production will rely on domestic resources, to intensify its processing and quality upgrading, and integrate with the building of the new countryside. This is a continental development model, emphasising domestic production and coordination with the service sector, to build up creativity and reliance on the domestic market. It will comprehensively change the development path of the inland provinces and critically expand the scale of the Chinese domestic market and enhance local competitiveness. If such policies succeed, western development will solve its past predicaments thus reducing regional differences and increasing domestic demand. This will make development in China more stable and there will be less external uncertainties from international trade, market fluctuations and protectionism.

As for the Four Southwestern Provinces/Region, western development will promote four major industries, namely energy, mineral excavation and further processing, the processing of agricultural products and tourism. Guangxi and Yunnan are close to the ASEAN countries. They will develop cross-border cooperation with Vietnam, Laos and Myanmar, and form an interactive relationship based on economic and social development. Since the technology and salary levels in Yunnan and Guangxi are higher than that in the neighbouring Southeast Asian countries, it will push both provinces to upgrade their industrial structures towards more capital and knowledge intensive industries. Therefore, the overall competitiveness of local businesses will likely improve in the near future. This is contrary to some PRD businesses which have for quite a long time, depended upon foreign technology and management experience, and lack the initiative for local development. Hence, Yunnan and Guangxi will have an industrialisation and development model different from that of the PRD and the coastal areas.

In sum, following the development strategy and planning direction of the Central Government, the Four Southwestern Provinces/Region and the western areas will develop differently from the coastal and PRD model of export processing. Correspondingly, the Hong Kong should adopt a different model for regional cooperation.

### **3. The Features and Development Strategies of the Four Southwestern Provinces/Region in their Provincial 11<sup>th</sup> Five-Year Plans**

#### **3.1 Sichuan**

The Sichuan government is placing much emphasis on the provincial 11<sup>th</sup> Five-Year Plan. Since March 2004, it has started researching, setting outlines and drafting the *Summary of the 11<sup>th</sup> Five-Year Plan for Sichuan* and there have been twelve subsequent amendments so far. Compared with the 10<sup>th</sup> Five-Year Plan, the provincial 11<sup>th</sup> Five-Year Plan is rich in content, and over 40,000 words in total, doubling the 20,000 words contained in the 10<sup>th</sup> Five-Year Plan. More specifically, it uses the “column form” to introduce major construction projects during the 11<sup>th</sup> Five-Year Plan period. A substantial number of diagrams are used to illustrate the setting of future regional development, and new infrastructure and energy projects. Compared with the “conceptual” project introduced in the 10<sup>th</sup> Five-Year Plan, the 11<sup>th</sup> Five-Year Plan provides more concrete and detailed arrangements for the future work of the government. It also strengthens the richness, extent and depth of planning.

With regard to overall targets, Sichuan’s 10<sup>th</sup> Five-Year Plan is different from its 11<sup>th</sup> Five-Year Plan.

The overall targets of Sichuan’s 10<sup>th</sup> Five-Year Plan were: “to build an economically strong western province and an ecological barrier at the upper reaches of the Yangtze River, coordinate economic and social development, and realise a new level of development.”

Sichuan’s 11<sup>th</sup> Five-Year Plan seeks to achieve the following outcomes: “build an economically and culturally strong western province, create a lawful, harmonious, open and ecologically sound Sichuan, speed up the building of a new socialist countryside, implement an industrial province strategy, change the model of economic growth in furtherance of reforms and liberalisation, raise overall competitiveness, and build a solid foundation for a well-off society for Sichuan’s people.”

When comparing the two Five-Year Plans, the 10<sup>th</sup> Five-Year Plan is relatively more straight-forward, with a key emphasis on the dual development of economy and ecology. In the 11<sup>th</sup> Five-Year Plan, there are new concepts such as “culture, law, harmony, development, new countryside, strong industrial province,

new economic growth model, and well-off society”. It presents a more comprehensive, balanced and coordinated regional development strategy, requiring the province to find a balance in economics, society, culture, politics and natural resource (ecological) areas.

In its 11<sup>th</sup> Five-Year Plan, Sichuan places much emphasis on “building a new countryside”, “a strong industrial province”, “an ecological Sichuan” and “developing infrastructure”, which suggests the introduction of more in-depth and concrete projects. At the same time, Sichuan’s government has made a number of arrangements to implement the 11<sup>th</sup> Five-Year Plan. For example, the “Document No. 1” published in recent years encourages the building of a modern countryside. Also, two related documents were released in 2006, namely *The Decision to Implement a Strategy for a Strong Industrial Province* (《實行工業強省戰略的決定》) and *The planning summary for Building a Sichuan Ecological Province* (《四川生態省建設規劃綱要》), to promote infrastructural projects based upon “building an integrated transportation system”. The intention is that during the 11<sup>th</sup> Five-Year Plan period, there will be an investment of about 100 billion Yuan for twelve routes to and from Sichuan.

Among the four major policies of Sichuan, “building a new countryside” is designed to solve the problems of villages and farmers. The concept of a “strong industrial province” aims at improving economic efficiency and upgrading industrial structures. The concept of an “ecological Sichuan” is to ensure sustainable development and a balance between development and natural resources. The concept of “building infrastructure” is to break transportation barriers in Sichuan, facilitate labour flows, materials and information in the province, and find the optimal allocation of natural and production resources. It is evident that Sichuan’s 11<sup>th</sup> Five-Year Plan has put forward a more balanced overall policy arrangement.

### **3.2 Guangxi**

The Guangxi Zhuang Autonomous Region in its 11<sup>th</sup> Five-Year Plan has put forward four development directions aimed at building a harmonious “wealthy, cultural, eco-friendly and safe Guangxi”. The province’s 11<sup>th</sup> Five-Year Plan consists of six sections and 18 chapters. The key content focuses on the “Four Guangxis”, also the major task of the 11<sup>th</sup> Five-Year Plan. The sections and chapters are arranged as follows:

Table 2: The Major Content of Guangxi's 11<sup>th</sup> Five-Year Plan

Section	Content	Chapters
1	Wealthy Guangxi	Chapters 2 – 7: Chapter 2 Building a new socialist countryside Chapter 3 Full implementation of the strategy for a prosperous industrial Guangxi Chapter 4 Speeding up the development of the service sector Chapter 5 Speeding up urbanisation Chapter 6 Promoting a harmonious regional development Chapter 7 Strengthening infrastructure construction.
2	Cultural Guangxi	Chapter 8 Developing the advanced culture of socialism
3	Eco-friendly Guangxi	Chapter 9 Building a resource conserving and environmentally friendly society
4	Safe Guangxi	Chapters 10 – 12: Chapter 10 Strengthening public services Chapter 11 Improving the livelihood of the people Chapter 12 Promoting legal governance in Guangxi
5	The important pre-conditions and system safeguards in the “Four Guangxis”	Chapters 13 – 17: Chapter 13 Promoting technological advancement and innovation Chapter 14 Developing education as a priority Chapter 15 Developing Guangxi through high quality human resources Chapter 16 Deepening structural reform Chapter 17 Expanding liberalisation and cooperation
6	The mechanism for implementing the Plan and safeguards	Chapter 18 The mechanism for implementing the innovative plan

Guangxi has adhered strictly to the national policies of the Central Government constrained in the National 11<sup>th</sup> Five-Year Plan, and proposes building a “harmonious society”, “a new socialist countryside” and “a resource conserving and environmentally friendly society”. For the first time it has proposed the “Beibu Gulf (Guangxi) Economic Development Zone” as the new strategy for regional development. Obviously, in choosing its own development path, Guangxi has started from its own perspective, making use of local regional advantages, proactively choosing its own development path, and not, as in the past,

depending on policy capital and resource assistance from the Central Government and other wealthy regions. This indicates that in the future, Guangxi will be more progressive in asserting its own interests when it comes to cooperation between Guangxi and others, and will not just accommodate the wishes of investors. This reflects the new direction in local policy which, in the past, focused on local interests and hence, market protectionism. This has now changed to a more progressive regional development strategy. In the transitional period as the Central Government changes the economic and social development strategy, local governments will have more room to adopt a different strategy in accordance with local conditions. This should happen not only in Guangxi.

The overall targets contained in Guangxi's 10<sup>th</sup> Five-Year Plan, focused mainly on "speeding up development, adjusting the economic structure as the main theme, motivated by reform, liberalisation and technological advancement, and pushing for industrialisation and urbanisation. Improve peoples' living standards as the basic starting point, promote social production capability, expand the economy and develop social advancement". In comparison, Guangxi's 11<sup>th</sup> Five-Year Plan has clearer and more prominent targets included in the "Four Guangxis". Guangxi is still making economic development its first priority, i.e. the creation of a "wealthy Guangxi" is the most important development strategy ahead of all other tasks; however, the other three items contained in the "Four Guangxis" also help to strike a better balance in governance.

Also, the present Guangxi Zhuang Autonomous Regional Party Secretary, Mr. Liu Qibao (劉奇葆), in 2005-2006, directed the writing of Guangxi's 11<sup>th</sup> Five-Year Plan when he was the Vice Party Secretary. It therefore demonstrates his political ideas, and ensures the ability of Guangxi to implement the 11<sup>th</sup> Five-Year Plan.

### 3.3 Yunnan

Yunnan's 11th Five-Year Plan is the longest document among the Southwestern Provinces/Region and exceeds 50,000 words. In January 2006, the then Yunnan governor Xu Rongkai (徐榮凱) pointed out that Yunnan had to carry out the following eight tasks in the 11th Five-Year Plan period<sup>10</sup>:

1. Build a new socialist countryside, and resolve the challenges of "agriculture, villages and farmers";

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<sup>10</sup> "Working Report of Yunnan's government 2006" ("2006年雲南省政府工作報告"), [http://www.gov.cn/test/2006-02/08/content\\_181825.htm](http://www.gov.cn/test/2006-02/08/content_181825.htm) .

2. Push for the upgrade of industrial structures and promote the change of economic growth model;
3. Prioritise the economic setting and promote coordinated regional development;
4. Implement the strategy of developing Yunnan through education and technology and speed up the development of all social enterprises;
5. Strengthen the building of infrastructure and related industries, in order to ensure sustainable development;
6. Expand consumption demand and improve peoples' living standards;
7. Continue the deepening of reform and expansion of liberalisation, in order to provide impetus for fast development;
8. Strengthen the socialist spiritual culture and build a democratic legal system for a safe Yunnan.

In particular, Yunnan listed 45 indicators for economic and social development in the 11<sup>th</sup> Five-Year Plan period, of which 25 are binding. Yunnan's planning by way of extensive, concrete and comprehensive indicators not only exceeds the requirement of the National 11<sup>th</sup> Five-Year Plan, it is rare among provinces.

However, the binding indicators for Yunnan deal with areas different from the national indicators. In the National 11<sup>th</sup> Five-Year Plan, five out of the eight binding indicators relate to resources and the environment. Among Yunnan's 25 binding indicators, only 10 relate to resources and the environment. Instead, the majority of them relate to public services, peoples' livelihoods, building infrastructure, as well as improving village environments through employment, people in poverty, village medical service coverage, village roads, and insurance for the aged, etc. It shows that Yunnan lags behind in development and below the national average. Therefore, Yunnan still has to focus on improving peoples' livelihoods and basic conditions in rural and urban areas. Fundamentally, Yunnan's binding indicators remain in line with central policies and do not follow the past practice of emphasising GDP growth or industrial production. The number of binding indicators exceeds that in the central plan and shows that the role of Yunnan's government will strengthen further.

On comparison of Yunnan's 10<sup>th</sup> and 11<sup>th</sup> Five-Year Plans, it can be seen that Yunnan is making major adjustments, especially in the enhanced planning of transportation systems, adjusting regional development, enhancing ecological protection, and rallying support for the poor and ethnic minorities. In its 11<sup>th</sup> Five-Year Plan, Yunnan has expanded 20 columns to introduce major new projects or provide policy indicators. Such arrangements make the planning exercise more concrete and easier for different governments in Yunnan to apply the indicators to localities, industries and communities. It is also more convenient

for the provincial government (including all levels of the National People's Congress (NPC)) and society to monitor.

### **3.4 Guizhou**

There are many similarities between Guizhou's 10<sup>th</sup> and 11<sup>th</sup> Five-Year Plans. Maybe Guizhou has not satisfactorily met the development goals in the 10<sup>th</sup> Five-Year Plan, so it has to keep promoting relevant projects in the 11<sup>th</sup> Five-Year Plan, especially in rural construction and environmental protection. A key difference is that in the 11<sup>th</sup> Five-Year Plan, under the idea of "an ecologically established province", new directions such as the "circular economy" and "building a harmonious society" have been proposed, and there is a change of economic growth model in response to the national 11<sup>th</sup> Five-Year Plan development strategy.

Despite this, Guizhou's 11<sup>th</sup> Five-Year Plan is different from the 10<sup>th</sup> Five-Year Plan in terms of presentation and priorities, which therefore shows that Guizhou is changing its development emphasis and direction. In the 10<sup>th</sup> Five-Year Plan the first development focus was on "infrastructure construction". This has changed in the 11<sup>th</sup> Five-Year Plan to "developing and helping the poor in society" and "building a new socialist countryside". At the same time, "ecological and environmental resources" are at the forefront of the provincial development strategy.

Specific chapters show that Guizhou has changed much of the overall development emphasis and details in individual areas. More importantly, Guizhou has made helping the poor and development its first task regarding the three challenges associated with "agriculture, villages and farmers". However, in the 10<sup>th</sup> Five-Year Plan, there was only a minor requirement for this item.

In terms of technological education, the 10<sup>th</sup> Five-Year Plan put foremost emphasis on technology development, plus promotion of basic education and higher education. In the 11<sup>th</sup> Five-Year Plan, educational development has become the first task, plus strengthening and developing basic education and occupational education. This amendment shows that Guizhou has become more pragmatic in its technological education policies. It does not aim to develop high technology, for which Guizhou does not have the preconditions for over the short run, nor higher education, which only benefits a small group of people (the 11<sup>th</sup> Five-Year Plan practically copied the legislative principles from the central and coastal areas, without due consideration of their practicality or actual implementation.) Guizhou has changed the emphasis to realistically promoting

occupational education, which can improve the education level of farmers or ordinary citizens. It shows that the government is pragmatic and able to respond to the poor human resources and economic conditions there. Occupational education, as the main direction, also matches the shift in emphasis of the Central Government to the development of occupational education and the consolidation (rather than the expansion) of higher education. Younger human resources from the occupational educational system will impact on future industrialisation and agricultural production. In addition, occupational education will improve the skill level of farm labourers, which will firstly increase their wages, and secondly, reduce the working model of pure labour.

With regard to improving peoples' livelihoods, the provincial 10<sup>th</sup> Five-Year Plan identified population control as the main condition for improving living standards, requiring a better social security system and developing social public services. However it only put forward principles to deal with major issues, without setting out targets or timetables. On the contrary, the provincial 11<sup>th</sup> Five-Year Plan proposes creating more employment, perfecting the social security system, improving health quality, directing medical resources to disease prevention in village areas, developing cultural enterprises, safeguarding people's life and property, etc. Specific targets for all items are also suggested. Therefore, Guizhou's 11<sup>th</sup> Five-Year Plan is better able to comprehensively take care of all sections of peoples' livelihoods, and to enable all levels of government in Guizhou to have guidelines and long-term targets for practical operation.

Overall, the development emphasis of Guizhou's 11<sup>th</sup> Five-Year Plan is different from the 10<sup>th</sup> Five-Year Plan. The latter focuses more on traditional economic and social development, such as improving agriculture, infrastructure building, adjusting industrial structures, developing the four local resources (energy, mineral, biology and tourism), in order to enrich Guizhou and its people. It is similar to the methods and sayings of the past decades. On the basis of the 10<sup>th</sup> Five-Year Plan, the 11<sup>th</sup> Five-Year Plan makes more of a commitment to "resource conservation, ecological construction, improvement of public services and safe production". It shows that Guizhou's government is focused on resource utilisation, improving peoples' livelihoods and well being, and increasing the government's responsibilities towards the environment.

## **4. The Details of the Four Southwestern Provinces/Region' 11<sup>th</sup> Five-Year Plans**

There are lots of similarities between the Four Southwestern Provinces/Region, in that they all belong to the same western development region, and are subject to the Western Development Programme. There are therefore similarities in their 11<sup>th</sup> Five-Year Plans, but with certain details varying according to local conditions.

### **4.1 Industrial Structure**

A perverse industrial structure is the main reason for the Chinese economy's high resource consumption, widespread pollution, mediocre overall quality and instability. The chief question stems from a weak agricultural foundation. Industries are big but far from strong, and the service sector lags behind. In response to these problems, the State Development and Reform Commission has proposed the following principles of industrial structural adjustment in the 11<sup>th</sup> Five-Year Plan period: improving agricultural foundations, gradually strengthening the agricultural sector, raising the technological level of industries, converting big industries to strong ones and speeding up the development of service industries.

#### **4.1.1 Countryside Building**

In the 11<sup>th</sup> Five-Year Plan's for the Four Southwestern Provinces/Region, village planning and rural development levels are closely related. According to the monitoring results for the nationwide villages' affluence level in 2004, 21.6% of the villages in the country have achieved the required affluent realisation level. However, the Four Southwestern Provinces/Region were behind the national level in this regard and the results were as follows: Sichuan (7.2%), Guangxi (7.0%), Yunnan (3.5%), Guizhou (-10.1%<sup>11</sup>). Guizhou

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<sup>11</sup> There were two main reasons for a negative value in the affluent realisation level in 2004. Firstly, 2004 was a poorer year than the previous one. For example, the ordinary farming area decreased by 0.7% from the previous year. Secondly, in 2004, the provincial development level failed to reach the required affluent level. For example, in 2004, the forest coverage rate was 18.2%, and this indicator has an affluent level pre-determined at 26.2%. Nationally speaking, resources and the environment are the key to the negative value of the affluent realisation level. See "Affluent policy: how to resolve new problems" ("小康之策如

was one of the five provinces which had a negative value and fell behind Tibet and Qinghai<sup>12</sup>. Therefore, Guizhou's 11<sup>th</sup> Five-Year Plan makes helping the poor its first priority for countryside building while Guizhou's 10<sup>th</sup> Five-Year Plan made helping the poor its second priority. The main emphasis then was to "adjust agricultural and village economic structures, improve the conditions for farm production, and foster agriculture through technology". The policy was ineffective, because it did not take helping the village poor seriously, and failed to assign it a central importance in policy. In its 11<sup>th</sup> Five-Year Plan, another poor province, Yunnan, also put a working emphasis on helping the poor. On the contrary, the richer provinces of Sichuan and Guangxi have made it their policy to target farmers' income. Evidently, Mainland provinces formulate agricultural policies according to local conditions.

In addition, the Mainland government is strengthening the development of rural public enterprises in less developed areas which has three advantages. Firstly, public enterprises have external benefits but require huge investment. Villages and farmers are unwilling and unable to afford these relevant expenses. Secondly, the government can improve the overall productive capacity and competitiveness of rural areas via investment in public enterprises. Such initiatives are not in breach of the agricultural products and trading provision of the WTO. Thirdly, some rural public enterprise projects can improve the untidy and dirty look of some villages, and raise the food safety standards of agricultural products. The enhancement of human resources also improves the quality of labour input in agricultural production, in the form of a better grasp of technology, more market information and business relationships, and greater creativity. Both can increase the added value of agricultural products and the market price. This is especially important for Guizhou and Yunnan. Since rural development in Sichuan and Guangxi has become more advanced, industrial and economic conditions have improved. Both governments intend to use pilot projects to explore the rural development model of "industries nurturing agriculture, and workers helping farmers".

Overall, the agricultural policy of Sichuan strictly follows the national direction, which expects villages and farmers to develop agriculture on their own. This implies a more advanced development stage, and pilot projects on the merging of cities and villages will follow. However, Guizhou's villages, crippled by land infertility and poverty, will still need to rely on the support of the central and local governments for public goods and services in the short and medium term.

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何解決新問題”), Chinese Administration Information Net,

[http://www.fsa.gov.cn/web\\_db/sdzg2006/MAP/agg/gcbg2006-021.htm](http://www.fsa.gov.cn/web_db/sdzg2006/MAP/agg/gcbg2006-021.htm) ◦

<sup>12</sup> Shanghai Statistic Bureau, "In 2004, Affluent Realisation Level in Shanghai Villages Tops the Country"

(上海市統計局, "2004年上海農村小康實現程度居全國之首"), 7 June 2005,

[http://www.stats.gov.cn/tifx/ztfx/zjxk/t20050607\\_402259296.htm](http://www.stats.gov.cn/tifx/ztfx/zjxk/t20050607_402259296.htm) ◦

Table 3: Countryside Building in the National and Four Southwestern Provinces/Region' 11<sup>th</sup> Five-Year Plans

	Overall missions	Specific targets
China	Develop according to production, affluent lives, civilised village culture, clean and tidy villages, democratic management, and solid and stable growth.	<ol style="list-style-type: none"> <li>1. Develop modern agriculture</li> <li>2. Increase farmers' income</li> <li>3. Improve the appearance of villages</li> <li>4. Nurture new farmers</li> <li>5. Increase investment in agriculture and villages</li> <li>6. Deepen rural reforms</li> </ol>
Sichuan	Respect the wishes of farmers and support their participation, achieve success with demonstration projects, nurture agriculture through industries and cities.	<ol style="list-style-type: none"> <li>1. Speed up development of modern agriculture</li> <li>2. Increase farmers' income by every means</li> <li>3. Improve the appearance of villages</li> <li>4. Deepen rural reforms</li> </ol>
Guangxi	Increase government investment in agriculture and villages, expand the rural area coverage by public finance, build a long-term mechanism by which workers promote farmers, cities lead villages, and change the living conditions in villages and overall appearance.	<ol style="list-style-type: none"> <li>1. Speed up agricultural production</li> <li>2. Improve the appearance of villages</li> <li>3. Increase farmers' income by every means</li> <li>4. Deepen rural reforms</li> </ol>
Yunnan	Build well-off, civilised, ecological and harmonious villages, whilst increasing farmers' income, and promote the building of a new socialist countryside.	<ol style="list-style-type: none"> <li>1. Promote overall agricultural production capacity</li> <li>2. Increase farmers' income by every means</li> <li>3. Win the battle against poverty</li> <li>4. Substantially develop rural public enterprises</li> <li>5. Deepen rural reforms</li> </ol>
Guizhou	Increase help to the poor in stages and build a new socialist countryside.	<ol style="list-style-type: none"> <li>1. Increase help to the poor in stages</li> <li>2. Increase the overall agricultural production capacity</li> <li>3. Increase farmers' income by every means</li> <li>4. Deepen rural reforms</li> <li>5. Speed up the development of rural public enterprises</li> </ol>

### 4.1.2 Industrial development

The National 11<sup>th</sup> Five-Year Plan has put forward the concept of “new industrialisation” as its development theme, and the promotion of the upgrading of industrial structures. “New industrialisation” was first proposed at the 16<sup>th</sup> National Congress of the CPC. Its purpose was to “use information to promote industrialisation, and industrialisation to promote information, for a new path of industrialisation featuring high technology, good economic benefits, low resource consumption, low environmental pollution and full utilisation of human resource advantages”. In the 11<sup>th</sup> Five-Year Plan, the overall thinking on industry was to promote high technology and equipment-manufacturing industries, upgrade the energy and raw materials industries, upgrade the labour intensive textile industry and use information as the basis of advanced industries. In other words, the development emphasis will be placed on capital intensive, resource-type heavy industries. The second priority is assigned to the export-oriented, further processing, labour-intensive light industries. The information covers the knowledge element, but planning does not include a concrete discussion on knowledge. Developed countries typically have a knowledge economy based on the integration of the manufacturing industries and service sectors, which is a clear difference from the understanding and promotion of the new Chinese industrialisation.

The industrial development level is not the same across the Four Southwestern Provinces/Region. Sichuan, which benefits from the defence industry (including the National Defence and Technology Centre in Mianyang (綿陽)) and energy industries, has the best industrial foundation of the four provinces/region. Guangxi ranks second, with major industries like sugar, aluminium and motorcars. The tobacco industry in Yunnan almost accounts for half of industrial production, with other notables including hydropower, chemicals and metallurgy. Guizhou is limited by resource and transportation barriers. Its industries must rely on local resources such as coal and raw materials. The production structure is weak, but electricity generation has made major strides in “western electricity for eastern consumption”. Thus, the industrial strategies of the four provinces/region are vastly different, reflecting different industrial levels across regions. The clear and conspicuous target of Sichuan is to create “a strong industrial province”, while Guangxi intends “to use industrialisation to build a prosperous Guangxi” and Yunnan is “to continue to promote new industrialisation”. Meanwhile, Guizhou remains at the stage of “building a featured economic system”, and is still in search of a development focus and comparative advantages which could distinguish Guizhou from other provinces.

For the first time, Sichuan, Guangxi and Yunnan have proposed developing industry by creating “a cluster of industries”. However, in terms of overall content and planning, Sichuan’s thinking and arrangement is more comprehensive and concrete, and more consistent with the concept of “a cluster of industries” in terms of requiring a specialised network of industries and districts. Guangxi still remains at the level of industrial parks, and trying to attract investment, and has not targeted any particular industry. Yunnan is basically developing industries using an “industrial base”, and has not yet formulated a comprehensive understanding and policy arrangement for “a cluster of industries”<sup>13</sup>.

Table 4: Industrial Development in the National and Four Southwestern Provinces/Region’ 11<sup>th</sup> Five-Year Plans

	Overall mission	Specific targets
China	<p><b><u>Upgrading the industrial structure</u></b></p> <p>Market-oriented and corporation based new industrialisation. The critical part is the ability to innovate. Continue the competitive advantage of labour intensive production, and upgrade product structure and corporate organisation. Upgrade technology and competitiveness, so that large industries can become strong.</p>	<ol style="list-style-type: none"> <li>1. Speed up high technology industries</li> <li>2. Promote equipment-manufacturing industries</li> <li>3. Optimise the development of energy industries</li> <li>4. Adjust the structure and arrangement of raw material industries</li> <li>5. Upgrade the level of the textile industry</li> <li>6. Promote information</li> </ol>
Sichuan	<p><b><u>Implementing the strategy for a strong industrial province</u></b></p> <p>Implement industry clusters and upgrade production and develop featured industries and industry clusters. Use information to promote industrialisation, speed up the structural</p>	<ol style="list-style-type: none"> <li>1. Build a major equipment base</li> <li>2. Reinforce a clean energy base</li> <li>3. Develop agricultural product processing industries</li> <li>4. Develop high technology industries</li> </ol>

<sup>13</sup> Manufacturing industries tend to cluster around each other in their early development. On the one hand, this is a choice made by the market and corporations to achieve scale and network benefits. Knowledge and technology transfer, production arrangement, etc, also cause relevant industries to gather in one location to form “a cluster of industries”. On the other hand, the government can follow the functioning of the market to produce “a cluster of industries” quickly and instantly through investment. The USSR in fact formed the base of a single and heavy industry and built a large and comprehensive industry from this instead of “a cluster of industries”. In the planned economy era, China also adopted this method. Since the beginning of reform and liberalisation, China has followed international examples for building industrial parks, in order to limit and gather corporations there. Nevertheless, in the past, there was no selection of industries, with different types of industry residing in the park resulting in a low degree of clustering. Recently, there have been industrial parks created with specialised industries. The PRD and Yangtze River Delta regions have gone further to develop industrial parks with reference to the coordination of production chains. The development stages of Yunnan, Guangxi, and Sichuan’s industrial policies are reflected by the extent to which they have developed industrial bases, parks or clusters of industries. Nonetheless, they still lag behind that of the PRD.

	Overall mission	Specific targets
	upgrading of industries, and build a strong economic western province. Annual growth of industrial added value to reach 12% or above.	5. Upgrade traditional industries 6. Promote the clustering of industries
Guangxi	<b><u>Implementing the strategy for a prosperous Guangxi through industrialisation</u></b> Develop resource-type industries and modern manufacturing industries, expand the production chain, form a cluster of industries, and upgrade industrial structures. In industries with comparative advantages and major industries, develop stronger businesses and famous brand names and strengthen small- and medium- sized enterprises. Speed up the building of industrial parks and major industrial projects; promote the leading position of industries.	1. Strongly develop resource-type industries 2. Strengthen modern manufacturing industries 3. Develop high technology industries 4. Strengthen the building of industrial zones
Yunnan	<b><u>Continue to promote new industrialisation</u></b> Target the new industrialisation path, of high technology, good economic benefits, low resource consumption, low pollution and best utilisation of advantages in human resources. Implement the strategy for an industrially strong province, develop new industries and labour intensive industries with Yunnan features. Annual growth of industrial added value to exceed 9% or above during the 11 <sup>th</sup> Five-Year Plan, and the weight of non-tobacco industries to rise to about 65%.	1. Accelerate the upgrade of industrial structures 2. Enhance industrial creativity and innovation 3. Upgrade and develop six production chains with comparative advantages, including the electronic industry, chemical industry, metallurgical industry, tobacco industry, biological resource processing industries and newly developed industries.
Guizhou	<b><u>Adjust and upgrade the industrial structure, speed up the building of featured economic system</u></b> Use the local resource advantages to upgrade the arrangement of industrial districts, strengthen the pillar industries, and develop featured industries, high technology and light industries. Annual growth of industrial added value to reach 13% during the 11 <sup>th</sup> Five-Year Plan. Build a resource and raw material industrial base, electronic information industry base, new raw material base and modernise the Chinese medicine production base.	1. Target the new industrialisation path and build a featured economic system 2. Improve the overall technological level of major and pillar industries

It is noteworthy that the Four Southwestern Provinces/Region have proposed developing local featured industries using local agricultural products for raw materials. This is a breakthrough from the past development model which emphasised industrialisation across cities and villages (actually it was uniform and blind industrialisation in the country, without consideration of any disparity in

local resources). This will result in the more efficient use of local natural and human resources, and develop industries more appropriate to local conditions. In this regard, it changes the Mainland practice of the past two decades, when the development model was focused on attracting foreign investment to build export-oriented industrial zones. It also reflects changes in policy thinking regarding economic growth models at all levels of government.

### 4.1.3 Service Sector Focus

The development of the national service sector was basically carried out in the same way as that in the four provinces/region and followed the direction of market orientation, industrialisation and socialisation. The provinces attempted to widen the scope and scale of the sector, upgrade its structure, strengthen its function, develop a more regulated market, enhance service quality and increase the weight of total output.

The National 11<sup>th</sup> Five-Year Plan adopts the concept of international service sector development. For the first time, it divides the service sector into the “production service sector” and “consumption service sector” whereas in the past, service industries were generally referred to as the modern service sector<sup>14</sup>. This stricter categorisation is useful to governments at all levels in policy implementation. They can plan and formulate policy with due consideration of the specific demands of service users. It is more convenient to draw clear distinctions between service sector design, industrial structure and price monitoring for management purposes.

It seems that the four provinces/region have not yet mastered the change in policy direction undertaken by the Central Government. They are still following the previous Five-Year Plans which were designed to strengthen selected service industries from a local standpoint rather than a comprehensive arrangement from an overall and systematic viewpoint. Since the four provinces/region are agricultural provinces, their industrial foundations are relatively fragile, and demand for modern services is limited. The four provinces/region have put more focus on tourism, which creates direct and immediate economic benefits. Their second choice is the logistics industry, which

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<sup>14</sup> Internationally, production services are further broken down into advanced production services, which relate to the World City (or Global City). They are regarded as a special feature of the World City, and used as a criterion (taking into consideration the service providers' scale and international network) in the global ranking of the World City. See Saskia Sassen, *The Global City; New York, London, Tokyo*, Princeton, Princeton University Press, 2001, second edition; B. Deruader, P.J. Taylor, F. Witlox and G. Catalano, Hierarchical Tendencies and Regional Patterns in the World City Network: Global Urban Analysis of 234 cities, *Regional Studies*, 37:9 (December 2003) pp. 857-886.

helps the flow of agricultural and industrial products. Their last choice is advanced business services such as financial and consultancy services. This represents a traditional mode of thinking that the service sector develops in stages following changes in industrial structure (prior to reform and liberalisation, the service sector did not even feature in economic development and policy content).

However, it does not match the international economic environment under globalisation. On the one hand, manufacturing industries have been integrating with the service sector. From the flow of value chains or industry chains, manufacturing industries and the service sector (including production, consumption and advanced production services) are indistinguishable and inseparable. On the other hand, even in agriculture, the closed and self-sufficient mode of the small farmers' economy is broken by the forces of industrial agricultural production, the market economy and global competition. Nowadays agricultural products, like any other industrial product, enter the value chain or product chain (or specifically the food chain or agribusiness). The impact of service industries on change and integration in production has also penetrated every stage of agriculture. The development of these two aspects is becoming rampant across the coastal areas. It is only a matter of time before the Four Southwestern Provinces/Region catch up.

Table 5: The Focus of the Service Sector in the National and Four Southwestern Provinces/Region' 11<sup>th</sup> Five-Year Plans

	Specific targets
China	<p><b><u>Quick development of the service sector</u></b></p> <ol style="list-style-type: none"> <li>1. Production services such as transportation, modern logistics, finance, information and commercial services</li> <li>2. Consumption services such as trading services, real estate services, tourism, urban public services, community services and sports services</li> <li>3. Service sector development policy</li> </ol>
Sichuan	<p><b><u>Prosperous service sectors</u></b></p> <ol style="list-style-type: none"> <li>1. Strengthen tourism</li> <li>2. Modernise the logistics industry</li> <li>3. Expand the finance, information and commercial service sector</li> <li>4. Strengthen the real estate, catering and community service industries</li> <li>5. Annual growth of service output to reach about 10% during the 11<sup>th</sup> Five-Year Plan</li> </ol>
Guangxi	<p><b><u>Speed up the development of the service sector</u></b></p> <ol style="list-style-type: none"> <li>1. Build a strong tourism province</li> <li>2. Develop a modern logistics industry</li> <li>3. Upgrade and optimise the structure of the service sector</li> <li>4. Promote information</li> </ol>
Yunnan	<p><b><u>Develop modern service industries</u></b></p> <ol style="list-style-type: none"> <li>1. Develop the culture industry, tourism, modern logistics, information and financial services. Regulate and orderly develop the real estate services industry</li> <li>2. Annual growth of service output to exceed economic growth, at about 9.5%</li> </ol>
Guizhou	<p><b><u>To expand the scale and upgrade the quality of the service sector</u></b></p> <ol style="list-style-type: none"> <li>1. Upgrade traditional service industries such as logistics, catering, transport and public enterprises</li> <li>2. Promote new service industries such as chain stores and e-businesses</li> <li>3. Strengthen tourism, information, modern logistics, finance, insurance, consultancy, real estate, education and training services</li> <li>4. Support cities and major villages in developing the tertiary sector</li> <li>5. Relax the entry requirements and establish a transparent and public, regulated entry system</li> <li>6. The annual growth of service output to reach 13% or above</li> </ol>

According to their 11<sup>th</sup> Five-Year Plans, the demand for services in the Four Southwestern Provinces/Region does not match the strength of Hong Kong in supplying commercial services. The tourism industry emphasised by the four provinces/region, is by nature, a localised sector. Firstly, it is not the strength behind Hong Kong's service sector. Secondly, it is difficult to create high added

value for service supplies in cross border operations. On the contrary, the modern logistics industry could be profitable for Hong Kong businesses, but the ultimate result will depend on the connectivity, networking and cohesiveness of the transportation network between Hong Kong and the four provinces/region. Nevertheless, from the viewpoint of a value chain, production chain or food chain (including the logistics supply chain), the Four Southwestern Provinces/Region will only increase their demand for services in the future. There is a fundamental difference in government planning and the development of the service sector - take tourism as an example. The Four Southwestern Provinces/Region have changed from the traditional sight-seeing type of tourism to ecological, leisure and cultural tourism, thereby expanding the tourism production chain. On Mainland China, understanding of the service sector remains at a preliminary stage. Hong Kong still has enough time and the opportunity to outpace the four provinces/region (or even the coastal areas). Relying on the international network, Hong Kong can develop value chains, production chains, and food chains in the service sector, and nurture corporations, human resources and knowledge. Hong Kong should be able to contribute to the Four Southwestern Provinces/Region, especially knowledge-wise, in the development of their service sectors.

#### **4.2 Constructing Transportation Infrastructure (Railways, Highways and Waterways)**

The Four Southwestern Provinces/Region are located in mountainous and peripheral areas. The inconvenient transportation greatly hampers economic development, especially that of the ethnic minority villages in the mountains. The transportation barrier hinders the flow of people, goods, capital and information, which is the basic reason for poverty and backwardness. The local government's major task has always been to improve the transportation infrastructure.

The National 11<sup>th</sup> Five-Year Plan is different from the previous Five-Year Plans in that the transportation system comes under the chapter of "production service" instead of the traditional chapter on infrastructure construction. It signals a deeper understanding of the transportation system by the Central Government, which no longer separates transportation from economic operations. In the past, the government merely considered investment and ignored the operation of transportation. The expansion of the transportation system not only assists the flow of people and goods, more importantly, it also enlarges the scale of the consumer market and production system. With a larger commercial space, a greater degree of specialisation, more professional development, better resource allocation, and enhanced economic benefits, greater efficiencies can result (demonstrated by the increasing returns from scale and network). In fact,

the 11<sup>th</sup> Five-Year Plan emphasises very much the growth of domestic demand, and an effective transportation system is one of the necessary preconditions to meet this target.

In addition, in the 11<sup>th</sup> Five-Year Plan, transportation planning makes railway construction the first priority, and changes from the past model of road construction. This change arises from road transport bringing about energy pressures, and also from the constraint on land use. According to relevant statistics, a highway (four lanes in two directions) occupies 120 acres of land per-kilometre, whereas a railway only occupies 40 acres of land per-kilometre. Highway's transportation capacity and efficiency is lower than that for railways. For example, in 2005, the passenger and goods transportation capacity per kilometre of highway was 57.4% and 19.5% of the railway capacity respectively. Highways also have higher maintenance and repair costs, resource consumption and pollution costs than railways. Following further expansion in the economy, if China retains the highway model, highways will compete with agriculture for land by 2030<sup>15</sup>. The Central Government has therefore decided that from the 11<sup>th</sup> Five-Year Plan onwards, railways will become the main component of the transportation system. It is also planning to build 7,000 kilometres of high speed passenger line during the 11<sup>th</sup> Five-Year Plan period. The total distance of railways will even surpass the world's current total for high speed railways (at about 6,500 kilometres)<sup>16</sup>.

When studying the transportation infrastructure planning of the Four Southwestern Provinces/Region, it is found that the four provinces/region still make road transportation their top priority. This is probably because of the general time lag associated with implementing central policy<sup>17</sup>. It is noteworthy that Sichuan's railway planning has followed the medium- and long- term railway development planning of the Central Government, intended to turn Chengdu into a regional and provincial railway hub. Furthermore, Chengdu will become one of the eighteen railway container hubs under the national planning policy. Therefore, Chengdu is expected to be the economic and logistics centre in the southwestern region.

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<sup>15</sup> The Chinese Macro-economic Society's Research Group: "Problems of Structuring Space in China Up to 2030" (中國宏觀經濟學會課題組: "到 2030 年中國空間結構問題研究"), in *Strategic Research for the 11<sup>th</sup> Five-Year Plan*, Beijing Science and Technology Publisher, 2005, pp. 604.

<sup>16</sup> During the 11<sup>th</sup> Five-Year Plan period, which started in 2006, permission can be given for immediate construction of new projects, such as the Guangzhou – Guizhou high speed railway and the Guangzhou - Nanning high speed railway (the latter is still being scrutinised). Hence, railway projects to be completed in the 11<sup>th</sup> Five-Year Plan period will likely exceed the planned 7,000 kilometres.

<sup>17</sup> Individual provinces compiled their railway planning in late 2005, or early 2006 when the local 11<sup>th</sup> Five-Year Plan had been finalised, and even passed by the authority. The local 11<sup>th</sup> Five-Year Plan therefore does not reflect new agreements and railway project planning. It should not hinder the development of new railway projects in the 11<sup>th</sup> Five-Year Plan period.

Since 2006, Guizhou, on the basis of the provincial 11<sup>th</sup> Five-Year Plan for railways, has been actively seeking new railway projects from the Central Government. An example is the newly approved Guiyang (貴陽) to Guangzhou (廣州) high speed passenger railway line, which reduces travelling time from over 10 hours to four hours. Guangxi is also seeking approval from the Ministry of Railways for relevant railway lines in its Beibu Gulf development project. It is estimated that the Four Southwestern Provinces/Region in the 11<sup>th</sup> Five-Year Plan period will build more railways (including projects submitted for approval) than the 11<sup>th</sup> Five-Year Plan suggests, thus speeding up the formation of a southwestern railway network.

Besides, Guangxi in the 11<sup>th</sup> Five-Year Plan period will strengthen the building of coastal ports as one of the major tasks of developing the Beibu Gulf. By the end of the period, the total throughput capacity will exceed 100 million tonnes. When linking up with other transportation projects, Guangxi should be able to achieve the long-term vision of a “southwestern sea corridor” in the 11<sup>th</sup> or 12<sup>th</sup> Five-Year Plan period.

At the same time, the Four Southwestern Provinces/Region plan to invest substantially in rural road construction. This will help to narrow the rural-urban disparity, improve rural public services and build a new countryside.

Table 6: Transportation Infrastructure Construction in the National and Four Southwestern Provinces/Region’ 11<sup>th</sup> Five-Year Plans

	Overall mission	Major projects
China	Coordinate the planning, realise the integration and efficiency of different modes of transportation and the overall competitive advantages. Build a convenient, smooth, highly efficient and safe transportation system.	<ol style="list-style-type: none"> <li>1. Speed up the development of railway transportation. Build passenger railway lines, intra-cities railway lines, coal transport lines, a container transport system and construct a major passenger and goods transport hub. Build 17,000 kilometres of new railways, of which 7,000 kilometres are passenger railways.</li> <li>2. The major emphasis is to build a national highway network. Total distance will reach 2.3 million kilometres, of which highways account for 65,000 kilometres.</li> </ol>
Sichuan	Form a comprehensive transportation system to satisfy different transport demands. By 2010, passenger and goods throughput in the province will reach 121.2 billion passenger-kilometres and 106 billion tonne-kilometres respectively.	<ol style="list-style-type: none"> <li>1. Road: strengthen passages to and from Sichuan, form an intra-provincial highway network to the provincial capital. Rebuild the second-tier network linking cities and counties, build and maintain rural roads.</li> <li>2. Railway: expand the railway from Sichuan, improve the intra-provincial network, build the Mianyan-Deyang-Chengdu-Emei-Leshan passenger railway line, and strengthen Chengdu as the southwestern railway hub.</li> </ol>

	Overall mission	Major projects
Guangxi	Build a southwestern sea corridor and an international passage to the ASEAN countries for Pan-PRD regional cooperation. To form a comprehensive transportation system.	<ol style="list-style-type: none"> <li>1. Road: construct highways connecting the peripheral provinces and the ASEAN countries, construct and improve the roads that connect cities, counties, harbours and new industrial bases. Enhance rural roads. By the end of the 11<sup>th</sup> Five-Year Plan, the total road length will reach 80,000 kilometres, of which 3,000 kilometres are highways.</li> <li>2. Railway: expand the railway network, improve the capacity towards central, southern, and western China. Connect the harbours and Vietnam. Improve the railway to Nanning, Fangchenggang, Qinzhou and Beihai. Adapt to meet the needs of major industrial arrangements in coastal areas.</li> <li>3. Port: promote the development of the ports according to scale and professionalism and improve the competitiveness of the ports of Fangchenggang, Qinzhou and Beihai. Towards the end of the Five-Year Plan, the total turnover of the coastal ports will exceed 100 million tonnes.</li> </ol>
Yunnan	Establish Yunnan as the bridge from China towards South and Southeast Asia according to the provincial development strategy.	<ol style="list-style-type: none"> <li>1. Railway: form the railway network linking China with Southeast and South Asia. The plan includes four networks to Yunnan (Nanning-Kunming, Guiyang-Kunming, Chengdu-Kunming, Kunming railways), and three networks from Yunnan (China-Vietnam, China-Laos, China-Myanmar) .</li> <li>2. Road: refine the road network, build the main hub and regional hubs, develop harbours, build speedy passenger transportation and improve rural roads.</li> </ol>
Guizhou	Complete a network chiefly of quality highways and railways by 2010. To form a comprehensive transportation system with other modes of transportation such as railway, highway, civil aviation and water transport.	<ol style="list-style-type: none"> <li>1. Road transportation network: build “one horizontal, one vertical, four crossing” network of highways and quality roads, implement the plan of “three vertical, three horizontal and eight crossing, and eight subsidiary” network.</li> <li>2. Speed up the building of the railway transportation system. Quickly build the “three horizontal and three vertical” railway network, so that the Guiyang railway hub can expand and improve.</li> </ol>

### **4.3 Ecological Protection**

Ecological protection is the principal focus of China's 11<sup>th</sup> Five-Year Plan, with a policy emphasis on resource conservation and environmental affordability. The Central Government will implement ecological policies by "promoting regional coordination and development" and "building a resource conserving and environmentally friendly" society. It will also use two binding indicators in the 11<sup>th</sup> Five-Year Plan on energy consumption and emissions of major pollutants, to evaluate the working progress of local ecological policies.

There was detailed analysis on the demands and development of the Four Southwestern Provinces/Region' ecological protection policies, in the form of a special report in volume eight of this *Consultancy Report* for January 2007. Overall, under the strict requirements of the National and provincial 11<sup>th</sup> Five-Year Plans, the four provinces/region prefer to develop their economies slowly, and may even abandon development in some districts, in order to comply with the ecological indicators. Local authorities are refusing investment from highly polluting industries located in the developed coastal areas. This will reduce the possibilities for Hong Kong businesses to transfer production to these provinces (at the moment, some individual local governments have failed to comply with the Central Government's national environmental policy by providing special privileges to some processing enterprises. Such violations cannot last much longer). The environmental policy creates many environmental protection business opportunities, which allow Hong Kong businesses to change or upgrade their production, towards "a circular economy" and "environmentally friendly production".

### **4.4 Regional Cooperation**

The Four Southwestern Provinces/Region belong to the "Pan-PRD cooperation" initiative, which involves regional cooperation within China. Even cities outside of the Mainland, such as Hong Kong and Macao, are not involved in the international element. Under the Chinese political and economic system, the Central Government monopolises foreign affairs and international relationships. Local governments are not entitled to take the initiative in these matters and all relevant policies and measures must be approved by the Central Government. The Pan-PRD cooperation is led by Guangdong, however, it has not obtained policy approval from the Central Government so far. In regional development policy documents, including the 11<sup>th</sup> Five-Year Plan, there are no references to Pan-PRD

cooperation. Even though Pan-PRD cooperation does not carry any foreign or international content, it is not a major regional cooperation project in China.

Comparatively speaking, the West Coast Economic Zone (海峽西岸經濟區) for the Taiwan Straits in Fujian province and the Sichuan-Chongqing Economic Zone (川渝經濟區) represent Central Government policies. Therefore, for both Fujian and Sichuan, the relationship with the Pan-PRD has lower policy significance, and the Pan-PRD area is not the priority focus for regional cooperation. Other Pan-PRD provinces, including Guangxi, Yunnan and Guizhou, are similar. Although Guizhou in its provincial 11<sup>th</sup> Five-Year Plan stresses the importance of Pan-PRD cooperation, it is more of a gesture than a concrete promise.

## Sichuan

Sichuan's planning for regional cooperation incorporates the following: strengthening of cooperation with Chongqing, promoting the construction and development of the Sichuan-Chongqing Economic Zone, building an economic area in the upper reaches of the Yangtze River, and participating in development and cooperation along the Yangtze River Delta. Furthermore, Sichuan's planning includes the implementation of the Pan-PRD regional cooperation arrangements, promotion of the "9+2" Pan-PRD members economic cooperation initiative, participation in the AESAN-China Free Trade Zone and expansion of regional and international economic cooperation. Lastly, Sichuan is seeking to strengthen its work targeting the residents of Hong Kong, Macao, and Taiwan, and furthering economic interaction with Taiwan.

The above paragraphs clearly demonstrate that for Sichuan, the most essential partners in regional cooperation are Chongqing and provinces along the Yangtze River with Pan-PRD cooperation having been assigned a lower priority. Also, during the 11<sup>th</sup> Five-Year Plan period, Sichuan intends to pay a lot of attention to planning connections and coordination with Chongqing in various aspects such as transportation networks, infrastructural construction and regional economic planning. The Sichuan-Chongqing Economic Zone is listed as a key project for regional cooperation in the *Overall Plan of the Western Development Programme During the 11th Five-Year Plan Period* (see the 10<sup>th</sup> issue of this *Consultancy Report* in March 2007 for details). On the contrary, Sichuan does not have an explicit policy arrangement for Pan-PRD cooperation.

Even with regard to international cooperation, Sichuan pays more attention to ASEAN countries and Taiwanese investors (mainly the electronics

information industry, and in particular, the semiconductor industry). Sichuan does not consider Hong Kong as a primary target for cooperation.

### Guangxi

Guangxi is planning to “expand regional cooperation domestically and internationally” by taking part in the construction of the China-ASEAN Free Trade Zone and fully participating in regional economic cooperation such as the Greater Mekong Sub region (大湄公河次區域), “two corridors and one ring”, “Pan-PRD Economic Zone”, and the six Southwestern Provinces/Region. Furthermore, Guangxi’s plans include strengthening trade, cooperation and interflow with ASEAN countries, promoting the Nanning (南寧) -Hanoi (河內) Economic Corridor and Beibu Gulf Economic Zone, and establishing Guangxi as the regional centre for manufacturing, processing, logistics and trade as well as a cultural platform in the China-ASEAN Free Trade Zone. Lastly, Guangxi is intending to implement the Pan-PRD Cooperation Arrangement and consolidate cooperation with Pan-PRD provinces, Hong Kong and Macao.

Obviously, Guangxi is paying most attention to regional cooperation with members of ASEAN and the Greater Mekong Sub-region, and those who can help Guangxi build a Beibu Gulf Economic Zone. The Central Government has designated Guangxi the chief province for ASEAN economic cooperation. Under authorisation from the Central Government, Guangxi can now establish regional cooperation with ASEAN, whilst the Pan-Beibu Gulf Economic Gulf has also been approved and is being supported by the central leadership. Clearly, Pan-PRD cooperation and Hong Kong are not principal partners of cooperation for Guangxi.

### Yunnan

Yunnan’s plans for “domestic and international liberalisation” involve making use of its geographical advantages, speeding up the construction of an international route connecting China, Southeast Asia and South Asia, and establishing Yunnan as the bridge and hub for the three markets of China, South East Asia and South Asia. Furthermore, Yunnan’s plans include participating in the building of the China-ASEAN Free Trade Area, the Greater Mekong Sub-regional economic cooperation initiative, and India-Myanmar-Bangladesh-China cooperation. Lastly, Yunnan plans to broaden internal liberalisation, join the Pan-PRD “9+2” regional cooperation initiative, promote cooperation with the Yangtze River Delta, in particular with Shanghai and Zhejiang, and strengthen cooperation with the Sichuan-Chongqing area.

Yunnan and Guangxi are likewise designated by the Central Government as the leading provinces for international cooperation with ASEAN and South Asia. Naturally, Yunnan is paying most attention to international cooperation with Southeast Asian and South Asian countries. It shows in Yunnan's careful consideration of infrastructural projects, and when planning the three railways leading out of Yunnan (China-Vietnam, China-Laos and China-Myanmar), including upgrading customs and excise, arranging international trade and investment, and developing resources and production. Much like the Yangtze River Delta, the Pan-PRD is an important partner, but not the only one for Yunnan in terms of regional cooperation. Yunnan is also paying high regard to cooperation with Shanghai, Zhejiang, Sichuan and Chongqing. Even with regard to the Pan-PRD and the Yangtze River Delta, Yunnan has its own emphasis, and is not merely relying on the former.

### Guizhou

Guizhou's plans for "domestic and international liberalisation" involve "participating in the Pan-PRD and southwestern six provinces regional cooperation initiative, whilst also seizing the opportunity to build a China-ASEAN Free Trade Area".

Out of the Four Southwestern Provinces/Region, Guizhou is paying the most attention to Pan-PRD cooperation, which is assigned the highest priority in terms of regional cooperation. This is partly because the present governor of Guizhou was previously the Party Secretary of Guangzhou, and has a close relationship with Guangdong. He is therefore naturally in support of Pan-PRD cooperation and as soon as he took office, he immediately repeated the Guangzhou experience of transportation investment and promoted the Guiyang-Guangzhou high speed railway project. In terms of international cooperation, ASEAN countries are the first priority for Guizhou.

## **4.5 Liberalisation, International Trade and Investments**

The policy direction of the National 11<sup>th</sup> Five-Year Plan on liberalisation, international trade and investment has seen a major change from the 10<sup>th</sup> Five-Year Plan. The "expansion of goods and services exports" in the 10<sup>th</sup> Five-Year Plan, has changed to "a basic balance of imports and exports" and "an upgrade of foreign trade from quantity-oriented to quality enhancement", "from attracting more foreign investment" to "importing advanced technology, management experiences and quality personnel via foreign investments".

This change in attitude is inseparable from the recent accumulation of the huge trade surplus and foreign exchange reserve. At present, China has sufficient economic might to negotiate terms, choose high added value exports, and attract foreign investment in solid technology in order to upgrade its industrial structure. China even has to encourage domestic enterprises to invest abroad. By “externalising”, the pressure from the rapid accumulation of foreign exchange reserve can be partially relieved.

In the Four Southwestern Provinces/Region, the conditions for development in Sichuan and Guangxi are better. Their opening-up policies are similar to the national policies, which are selective about foreign investments and trading partners. The economic foundations in Yunnan and Guizhou are weaker and there are more concerns about the “quantity” of foreign trade and investment, whose “quality” is not strictly examined.

With regard to the industries courting foreign investments, Sichuan and Guangxi require technology-intensive manufacturing industries, infrastructure building, environmental protection and modern business services. The foreign businesses are supposed to have a good reputation and operational capability. In sum, the Four Southwestern Provinces/Region are all tending towards developing the Southeast Asian market.

Table 7: Liberalisation and the National and Four Southwestern Provinces/Region’ 11<sup>th</sup> Five-Year Plans

	Specific targets
China	<ul style="list-style-type: none"> <li>● Foreign trade: foreign trade to emphasis quality rather than quantity. Optimise the export structure by restricting exports of energy-consuming, highly polluting and resource products. Expand imports and develop trading services.</li> <li>● Attract foreign investment: improve the quality of foreign investment, implement the strategy of “investing abroad”.</li> </ul>
Sichuan	<ul style="list-style-type: none"> <li>● Foreign trade: expand exports of high technology products, completing sets of electro-mechanical equipment, vanadium and titanium products and featured agricultural products. Upgrade traditional export products with competitive advantages, such as textiles and clothing.</li> <li>● Utilise foreign investment: attract foreign investors, especially direct investment and production transfers by well-known multinational corporations in the pillar industries of manufacturing, finance, infrastructure, agriculture, technological development and environmental protection.</li> </ul>
Guangxi	<ul style="list-style-type: none"> <li>● Foreign trade: expand exports of mechanical, electronic and high technology products. Consolidate traditional export markets in Hong Kong, Macao, Taiwan, Europe and Japan; develop new markets in South Korea, India, Middle East and Russia with a special emphasis on the</li> </ul>

	Specific targets
	<p>AESAN markets, especially that of Vietnam. Expand general trade and upgrade processing trade.</p> <ul style="list-style-type: none"> <li>● Utilise foreign investment: the main focus to be on coastal areas and hub cities, by way of development zones, to attract foreign investment in infrastructure such as transport, energy, water, urban construction and ecological protection. Develop service industries such as modern logistics, tourism, exhibition and information services.</li> </ul>
Yunnan	<ul style="list-style-type: none"> <li>● Foreign trade: limit exports of energy-consuming and highly polluting products, encourage imports of advanced technological equipment and scarce resources in China. By 2010, the value of imports and exports should reach US\$ 8.28 billion, representing an annual growth of 12%. Establish a logistics and export processing base, expand the Southeast Asia and South Asia markets.</li> <li>● Utilise foreign investment: achieve a breakthrough in foreign investment. By 2010, realised foreign investment should reach US\$1.1 billion over a five-year span.</li> </ul>
Guizhou	<ul style="list-style-type: none"> <li>● Foreign trade: raise the proportion of mechanical and electrical products, featured agricultural products and high technology products for total exports. Establish export processing zones, form production bases for new export products.</li> <li>● Utilise foreign investment: refine the service prospective of foreign investors, invite both domestic and international quality industries.</li> </ul>

## **5. The Impact of the Four Southwestern Provinces/Region' 11<sup>th</sup> Five-Year Plans on the Pan-PRD and the Chinese-Hong Kong Economic Interaction**

Judging from the first year (2006) of implementing the 11<sup>th</sup> Five-Year Plan, the Central Government is serious about the Plan in terms of policy results. For example, the 11<sup>th</sup> Five-Year Plan emphasizes the work of agriculture, villages and farmers and the building of a new countryside. Correspondingly, in 2006, the Central Government spent 339.7 billion Yuan on these aspects, an increase of 42.2 billion Yuan from the year before, while food production has increased for three consecutive years. The Mainland government has raised the cash injection and support for agricultural production to release the potential pressure from an economic downturn. Regarding the trade structure adjustment, there emerges a series of export tax rebate policies, to control the exports of energy consuming and highly polluting products. Even if China fails to meet the pre-determined targets for conservation and waste reduction, it is slowing down the speed of environmental damage. In terms of recent Chinese history, this marks the first time that the government has taken the initiative on environmental protection work. Premier Wen Jiabao (溫家寶) emphasized in the *Government Working Report* in March 2007 that the two binding indicators on environmental protection are very serious issues that cannot be changed. All levels of government must strive to meet these requirements. Local governments are not trying their best to enact the environmental protection policy of the Central Government, and the clear determination of the latter. All the above serve to indicate that the 11<sup>th</sup> Five-Year Plan will be gradually executed and implemented, especially from October 2007, when the change of leadership occurs at the 17<sup>th</sup> CPC Congress. Subsequently, there will be fewer obstacles to the policy enactment of the Central Government.

### **5.1 Pan-PRD Cooperation**

In the National 11<sup>th</sup> Five-Year Plan, the Central Government has designated the Tianjin Binhai New Area (天津濱海新區), Shanghai Pudong New Area (上海浦東新區) and the West Coast of Taiwan Straits (台灣海峽西岸) as the key development areas for the eastern region. Similarly, the three major development areas in the Western Development Programme, such as the Sichuan-Chongqing Economic Zone (成渝經濟區), do not divide by reference to the Pan-PRD boundaries. The new rising areas in central China are provinces, and are not

involved in regional cooperation with the Pan-PRD. In fact, PRD and Pan-PRD cooperation do not fall within the Central Government's policy of regional development. It can be seen that the Central Government has certain reservations towards Pan-PRD cooperation. Naturally, the Four Southwestern Provinces/Region have followed the thinking of the Central Government. In the provincial 11<sup>th</sup> Five-Year Plans, the framework of Pan-PRD cooperation is only briefly mentioned, without elevation to the strategic level. Even Guangdong, the initiator of Pan-PRD cooperation, places Pan-PRD cooperation as the last item under the works of "strengthening regional coordination and cooperation". It comes immediately after "enhancing the level of Guangdong-Hong Kong cooperation". It therefore seems that Guangdong does not have too much confidence in Pan-PRD development.

Clearly, Pan-PRD cooperation only occupies a lower priority in the National 11<sup>th</sup> Five-Year Plan, secondary to the Four Southwestern Provinces/Region' Chengdu-Chongqing Economic Zone and the Beibu Gulf Economic Zone. If in the next two or three years, Pan-PRD cooperation fails to gain policy recognition from the Central Government, or achieve certain concrete results, the cooperation will very likely be reduced to nominal cooperation. An example is the southwestern six provinces cooperation model, whereby high-ranking officials of local governments hold casual meetings annually.

## **5.2 Creating Room for Economic Interaction, Complementarities and Cooperation between the Four Southwestern Provinces/Region and Hong Kong**

The above chapters in this report have analysed the main content of the National and four southwestern provincial 11<sup>th</sup> Five-Year Plans. These Plans reflect the proposition from all levels of governments to "change the model of economic growth". The practical meaning is that, the development direction of China in the next 10 to 15 years will be vastly different from the social economic development model followed since the beginning of reform and liberalisation.

Hong Kong is one of the major beneficiaries of the Mainland's reform and liberalisation. Hong Kong businesses have used low-cost Chinese workers and land, favourable local government policies on export trading, and the opportunities under globalised free trade, to create spectacular economic growth in the past two decades. By reason of these historic opportunities, Hong Kong businesses have relatively easily obtained major commercial success. Moreover, Hong Kong businesses are mainly small- and medium-sized enterprises, they lack sufficient resources, capability and determination for creating long-term strategies

especially under influence of the path-dependent and lock-in effects. Most Hong Kong businesses are trading firms, and focus on the revenue from individual orders rather than the long-term growth and corporate development. Therefore they rely more on goods processing or assembling, and try by all means to avoid investment in equipment, plant technology and human resources. On the contrary, Taiwan businesses are mainly characterised as industrial corporations which focus on industrial investment and development. This is in sharp contrast with Hong Kong businesses, which generally repatriate the profits to Hong Kong into real estate investments. Industrial investment enhances competitiveness, and helps businesses upgrade their technology under the constant pressure of a competitive edge. In the mid 1990s, Taiwan manufacturers moved from Dongguan (東莞) and the PRD to the Yangtze River Delta, reflecting the tendency to upgrade industrial production. So far, Hong Kong businesses are still sticking to the past business model and operations in the PRD. Gradually they are being pushed to the lower end and are being marginalised as foreign businesses and local corporations in the PRD keep on advancing.

In the last five years, especially since China's accession to the WTO, Chinese economic development has undergone a substantial change. China is not adversely affected by expanded imports. Instead, China has used the free trade opportunity to increase its exports. Under the pressure of international competition, many Chinese industries are seeking production upgrades and raising their competitiveness. During this time, Hong Kong businesses have not made any substantial changes. As a result, against a background of rising costs and steeper competition, many Hong Kong small- and medium- sized enterprises in the PRD have had to lower their costs, but lack the capital and the will to undergo technical upgrades or plant relocation. They are beginning to collapse or close down. Meanwhile, the service businesses in Hong Kong are moving into finance and consumption industries. The plight of production services is speeding up change in the service industry structure. Hong Kong services are failing to upgrade, and failing to help the Hong Kong businesses in the PRD to upgrade.

With Hong Kong facing a constantly changing and developing Mainland economic system, its own production base is gradually reducing or weakening. Furthermore, the previous room for economic complementarities and cooperation between China and Hong Kong is reducing or disappearing under this dynamic process of change.

Looking at the present development of the Four Southwestern Provinces/Region, their economic complementarities and cooperation with Hong Kong lie in the service sector. It is difficult for the labour-intensive Hong Kong factories in the PRD to find breathing room in the four provinces/region. On the Mainland, under the pressure of protecting the ecology, heavily polluting Hong

Kong factories may ultimately have to relocate to other countries. Even those labour-intensive processing corporations will face a number of difficulties if they move to the Four Southwestern Provinces/Region. Firstly, transportation and time costs are increasing, which is not good news for the processing of goods and exports to oversea buyers. Secondly, the labour constraint is taking effect. By relying exclusively on the Four Southwestern Provinces/Region, the labour supply will soon be exhausted, causing wages to rise rapidly. The minimum wage implemented in all Chinese provinces has to be amended every two years (mostly upward). The Four Southwestern Provinces/Region themselves are undergoing rapid development, especially in Guangxi and Sichuan and since workers tend to move out of the four provinces/region to find work, there has been an insufficient local labour supply. At the same time, the wage levels in major cities in the four provinces/region are higher than that in the smaller cities. The effective wage is already at a similar level as that of the eastern coastal cities (taking into account living expenses, homesickness, family and transportation costs). Hence, the rural labour force will move towards major cities in the four provinces/region, which will cause wages and other costs to rise rapidly and as a result there will be insufficient labour supply in smaller cities and rural areas.

In the past, the PRD enjoyed a labour supply from the whole country. In the future, as the country develops, there will be an insufficient labour force in the PRD. Other provinces will have to rely on their own domestic labour supply without supplies from outside. It will be impossible to repeat the PRD experiences from the past two decades when wage costs were stable or only experienced minor changes (wages even fell in real terms). Thirdly, there will be competition from local enterprises. As workers in the PRD and Yangtze River Delta begin to move back home they will take with them technology, market information, even overseas orders and set up factories in their home town. The relocated Hong Kong businesses will have to compete with them and there is no particular advantage for the former in obtaining orders, labour supplies and land. Fourthly, there is a special language, culture, geographical and kinship relationship between Hong Kong businesses and the PRD. Such bonding cannot be replicated elsewhere in the Mainland. The difference in these factors will incur more operational costs. Fifthly, unless there is a large-scale inward move as a group, the scale of economies, cluster and network effects in the PRD will disappear, or at least, diminish a great deal.

However, Hong Kong services may not be able to continue to operate in the four provinces/region. Once the local residents have mastered the relevant skills, they can provide similar services with lower labour costs. The Hong Kong commercial service providers mainly serve Hong Kong investors on the Mainland. The Mainland businesses may not be able to pay for the high costs of Hong Kong services, and may not be willing to adopt cross boundary services, especially

logistics services. From a risk management viewpoint and cost considerations, they would mostly prefer to choose local service suppliers. Be it production or consumption services, the key is the local factor which is different from enclave exports and processing. In particular, social capital (human resource and social network, etc) and institutional elements are very important. Although CEPA has made it easier for Hong Kong service suppliers to enter the Mainland market, the development there does not merely rely on large capital scale and management skills. The competitive advantage of Hong Kong businesses over overseas competitors cannot be completely extended to competition with Mainland businesses. Therefore, Hong Kong businesses have to possess certain key advantages to overcome their shortcomings with regard to the localisation factor.

In finance, recently, the lender-borrower relationship between banks in Hong Kong and Hong Kong businesses has weakened. In the PRD, Mainland banks have begun to replace some of the services offered by Hong Kong's banks. In Hong Kong, the finance industry tends to focus on mortgage loans, stocks and futures trading and foreign exchange. These services are not closely related to manufacturing, hence the service targets cannot extend to manufacturing firms in the PRD. Even in insurance, by reason of the control of the Central Government, Mainland residents are no longer allowed to purchase insurance contracts in Hong Kong and enjoy the protection of Hong Kong insurance companies. By its very nature, the finance industry has high added value and low employment (or polarised employment and pay). Even if it keeps developing, it will have a limited effect on the income of Hong Kong residents and their local needs. Compared with the economic development of the Four Southwestern Provinces/Region, it is difficult for the Hong Kong finance industry to find the scope and foundation of cooperation. The room for complementary cooperation between the four provinces/region and Hong Kong therefore cannot be found from the existing production structure.

Undeniably, the Four Southwestern Provinces/Region' development strategy is a mirror image of Mainland development. If Hong Kong businesses manage to succeed in the Four Southwestern Provinces/Region, the model could be transplanted to other inland provinces with relative ease. Maybe the four provinces/region can serve as the foundation of a pilot project in which the Hong Kong businesses transform and upgrade themselves.

### **5.3 The National 11<sup>th</sup> Five-Year Plan and Hong Kong**

In 2007, public opinion in Hong Kong held the belief that the Mainland government has for the first time incorporated Hong Kong into the Five-Year Plan. This is not actually the case. In fact, as early as the 9<sup>th</sup> Five-Year Plan, the Central

Government had already written down the role and function of Hong Kong into the Five-Year Plan. It is true that the Central Government's supportive attitude towards Hong Kong in the 11<sup>th</sup> Five-Year Plan is different from that in the 9<sup>th</sup> and 10<sup>th</sup> Five-Year Plans. Table 8 shows that from the 9<sup>th</sup> to 11<sup>th</sup> Five-Year Plans, the Central Government consistently emphasised cooperation between the Mainland and Hong Kong. However, the Plans differ on the concept of economic development, policy support and attitudes towards Hong Kong. During the 9<sup>th</sup> Five-Year Plan period, China was in need of Hong Kong's support and capital to promote Chinese economic development for "mutual benefits" and "joint development". During the 10<sup>th</sup> Five-Year Plan period, the Central Government stressed the "consolidation" and "strengthening" of Hong Kong's role as an international finance, trade and shipping centre. However, during the 11<sup>th</sup> Five-Year Plan period, the Central Government is "supporting" Hong Kong to develop financial, logistic, tourist and information services, and is "maintaining" the role of Hong Kong as an international finance, trade and shipping centre. There is no mention of the upgrade and transformation of the Hong Kong economy. The degree of support by the Central Government towards Hong Kong has changed subtly in policies and attitude.

Table 8: Provisions Relating to Hong Kong in the Chinese 9<sup>th</sup>, 10<sup>th</sup> and 11<sup>th</sup> Five-Year Plans

	Provisions relating to Hong Kong
9 <sup>th</sup> Five-Year Plan	<ul style="list-style-type: none"> <li>● Take advantage of the proximity to Hong Kong, Macao and Taiwan, capitalise on the high degree of liberalisation and scale economies, based on the PRD and Fujian southeastern areas, to form an export oriented economic zone.</li> <li>● Ensure Hong Kong and Macao participate in international multilateral and bilateral economic activities. Maintain the position of Hong Kong as an international finance, trade and shipping centre.</li> <li>● Economically, Hong Kong, Macao and Mainland China should benefit mutually and develop together to further promote the prosperity and stability of Hong Kong and Macao, and help the socialist modernisation of the Mainland.</li> </ul>
10 <sup>th</sup> Five-Year Plan	<ul style="list-style-type: none"> <li>● Consolidate and strengthen the role of Hong Kong as an international finance, trade and shipping centre.</li> <li>● Strengthen the economic cooperation and interflow of Hong Kong, Macao and Taiwan with the Mainland.</li> </ul>
11 <sup>th</sup> Five-Year Plan	<ul style="list-style-type: none"> <li>● Strengthen and promote the interflow and cooperation of the Mainland and Hong Kong in areas such as trade, economics, technology, education, culture, public health and sports. Facilitate the implementation of CEPA between the Mainland, Hong Kong and Macao, and strengthen their cooperation in areas such as infrastructure construction, industrial development, resource utilisation and environmental protection.</li> <li>● Support Hong Kong in developing financial, logistics, tourist and information services. Maintain the role of Hong Kong as an international finance, trading and shipping centre.</li> </ul>

Source: *“The Outline of the 9<sup>th</sup> Five-Year Plan for National Economic and Social Development of the People’s Republic of China and Summary of the 2010 Long-term Missions”*, *“The Outline of the 10<sup>th</sup> Five-Year Plan for National Economic and Social Development of the People’s Republic of China”*, *“The Outline of the 11<sup>th</sup> Five-Year Plan for National Economic and Social Development of the People’s Republic of China”*.

On the other hand, Guangdong province, which is closely connected with Hong Kong, spent many chapters emphasising cooperation with Hong Kong in its early Five-Year Plans. Many measures for cooperation were voluntarily formulated. However, in Guangdong’s 11<sup>th</sup> Five-Year Plan, there were considerably fewer provisions relating to Hong Kong. On the contrary, Shenzhen, in its 11<sup>th</sup> Five-Year Plan, still writes paragraphs on cooperation and development with Hong Kong.

Overall, the National 11<sup>th</sup> Five-Year Plan is actually sending a signal to Hong Kong, pointing out that Hong Kong’s position with the Mainland is different from before. It reflects the economic development on the Mainland and Hong Kong. The development gap between the two is closing fast, with Hong Kong’s importance diminishing accordingly. After the handover of Hong Kong, the Central Government gradually reduced the special attention given to Hong Kong. Essentially, it reminded Hong Kong to adjust quickly, and improve and upgrade according to local strengths. Hong Kong cannot rely on the past and delay further development, or it may lag behind China’s development trend.

## 6. Suggestions

Since the 16<sup>th</sup> National Congress of the Communist Party of China, the National 11<sup>th</sup> Five-Year Plan has put forward a new economic development model, which will impact substantially on the national economic, social and political structure. This represents a new direction and concept for all levels of government, businesses and people. As a result it will take more time for them to digest the policies and change accordingly. In fact, the 11<sup>th</sup> Five-Year Plan itself is a dynamic process of exploration, adjustment and improvement. Under the new direction, there will be many subsequent developments and modifications. According to the usual practice of the Mainland government, the central and local governments will carry out a mid-term assessment of the 11<sup>th</sup> Five-Year Plan. Some policies will be adjusted, some will see stronger implementation. These will be the foundation for the 12<sup>th</sup> Five-Year Plan.

In September 2006, there was an economic summit in Hong Kong entitled “China’s 11<sup>th</sup> Five-Year Plan and the development of Hong Kong”. In January 2007, the summit’s four focus groups submitted “*The Action Agenda for China’s 11<sup>th</sup> Five-Year Plan and the Development of Hong Kong*” to the Chief Executive. The focus groups mainly worked on the premise of the current business regime and public resources, and made recommendations in the interest of Hong Kong. They considered the present problems faced by Hong Kong and China, and the past development model. Yet the action plan lacks analysis of the development concept behind the 11<sup>th</sup> Five Year Plan and full understanding of the real meaning behind the “change of growth model”. Furthermore, there is no fundamental reflection on the past experiences of Chinese social and economic development. Some of the Hong Kong study still remains at the “change of economic and industrial structure” stage and emphasizes in economic development and structural adjustment, when actually, “a change of growth model” necessarily leads to “change in economic and industrial structure”.

If the aim of the action plan is only to change the existing structure, by reason of path-dependent and investment risk considerations, it may not easily develop into a change of growth model. The latter’s technology, management, business operation, input-output structure, etc., are all different from the current model. Therefore, the action plan seems to lack a comprehensive analysis of how to accommodate the needs of Mainland development. It does not suggest that Hong Kong businesses and the economy should make accommodations or adaptations either. Mostly, it covers unilateral demands from Hong Kong to the Mainland government, such as beneficial policies and assistance seeking. Such an approach focuses more on the unilateral interests of Hong Kong, and not the mutual benefits of both, nor equal consultation and discussion. The Central

Government is not able to sacrifice the overall interests of the Mainland for the sectional interest of Hong Kong.

China's development and changes are critical to Hong Kong and Hong Kong needs to understand these in depth and accurately foresee their direction, so that to be forewarned and make appropriate adjustments or responses. The present approach of *China's 11<sup>th</sup> Five-Year Plan and the Development of Hong Kong's Economic Summit* (《“十一五”與香港發展》), in terms of time, lags behind the planning and implementation of the 11<sup>th</sup> Five-Year Plan. The summit also lacks sufficient research support regarding the supply of information, especially regarding the Central Government's 11<sup>th</sup> Five-Year Plan's specific policies and thinking, and possible future developments, etc. The integration of Hong Kong and Mainland China is getting deeper and more comprehensive. Mainland development, on the one hand, is highly affected by the government; on the other hand, it is undergoing a dramatic structural change. Hong Kong needs to grasp this information and act upon it at an early stage.

Although the Four Southwestern Provinces/Region are presently at the investment-driven stage and require substantial capital in transportation infrastructure, resource development, tourism development and urban public services, etc., there may not be many business opportunities for Hong Kong's investment and capital financing for two reasons. Firstly, the Mainland commercial banks have sufficient liquidity and the deposit-loan discrepancy is continuing to grow. At the end of March 2007, it stood at over 1,100 billion Yuan<sup>18</sup>. Some experts think that the deposit-loan discrepancy could still see further growth, intensifying the current situation of excess liquidity. In Sichuan, Guangxi and Yunnan, the banking system is already reporting the deposit-loan discrepancy, and local investors can get loans from domestic institutions with relative ease. Secondly, the Hong Kong financial advantage is in public offerings and capital raising in the stock market. As Mainland institutions and businesses can get loans from the Mainland financial system with relative ease, they would rather not take the trouble to follow the strict requirements of Hong Kong and the international financial system. Therefore, the following recommendations will encourage Hong Kong to participate in non-finance activities in the Four Southwestern Provinces/Region:

- The 11<sup>th</sup> Five-Year Plan requires the building of a “resource conserving and environmentally friendly society”. It sets binding requirements for

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<sup>18</sup> Song Yanyan and Song Jiechen, “Cool Thoughts on 17,000 Billion Yuan Worth of Residential Savings” (宋養琰、宋潔塵, “對 17 萬億居民儲蓄的冷思考”), People's Net, 18 June 2007, <http://theory.people.com.cn/BIG5/49154/49155/5879660.html> .

conservation, waste reduction and emissions control. It offers many business opportunities for the environmental protection industries, including product imports and investment. Sichuan and Guangxi have expressly indicated that they would welcome investments from the environmental protection industries. Hong Kong environmental protection industry should tap the opportunity to invest on the Mainland, and Hong Kong research institutes and universities should carry out more research on environmental protection technology. Hong Kong could also become the bridge for the international environmental protection industry to enter China, or even provides subsidies and assistance to enhance Hong Kong businesses' chance of success and a bigger market share in the Mainland market.

- The western areas will rely on local agricultural resources, and develop a featured agricultural industry. This involves meeting a significant number of food safety standards and the relevant equipment is costly. Hong Kong could consider setting up a food research and examination centre in the Hong Kong Science Park, serving both the PRD and the southwestern region. The research centre could also provide consultation services for international food safety standards, so that food products can comply with international requirements and go to the international market via Hong Kong. This will enhance the diversity of re-exports and make good use of the logistics industry in Hong Kong. Besides, the food research and examination centre could guarantee the safety of domestically-produced and imported foods, benefiting the Hong Kong people. Examination and testing is a production service. Hong Kong has considerable competitive advantages through its international connections and legal system. Lastly, by providing such a service, this might generate other industries and services based on scientific research.
- In services, the Hong Kong logistics industry should be the one that can immediately enter the Four Southwestern Provinces/Region, or even the huge Mainland service market. The development of the logistics industry involves a comprehensive connection of the transportation system between Hong Kong and the Mainland. Since the 11th Five-Year Plan period, China has clearly positioned railways as a key component of mass passengers and goods' transportation system. Hong Kong should be prepared to act fast.
- The Mainland government's policy direction of "a basic balance of imports and exports" will encourage the import of advanced equipment, fine products and luxury items. On the basis of the consumer culture

and maturity in the Hong Kong market, Hong Kong could build into an “international fashion centre” and develop a regional distribution centre for “lifestyle products”, and open up the Mainland market for imports. However, Hong Kong should avoid an over-reliance on markets of famous global brand names, because brand name consumption can easily be replicated in Mainland cities in the form of franchises, thus reducing the uniqueness of Hong Kong’s retailing industry. Hong Kong should take “fine products” (emphasising quality, fine culture and diversity) as the direction for development.

However, the advantages of Hong Kong services in the Four Southwestern Provinces/Region do not lie in the competitiveness of business operations. For example, the chain stores of Hong Kong’s fashion brand names have lost their earlier competitiveness in Mainland cities. The high-end products cannot compete with international brand names while generic products can only compete with the Mainland brand name chain stores without any particular advantage. The main reason is because there is no separation of the market position for Hong Kong products and Mainland brand names. Whether in production and design, or even advertising, promotion and packaging, there is no distinction between Hong Kong and Mainland products. The product in sale, services provided, and marketing tactics are no different from the Mainland brand names (Mainland businesses can learn very quickly). However, Hong Kong chain stores may find it difficult to compete on local factors, such as efficient use of local human resources, familiarity with local market features and trends, adaptation to the regulations and local governance, management methods, and the grasp of local socio-cultural factors in marketing and advertising.

There are limits to the advantages of Hong Kong businesses in overseas experience and quality personnel, because services related to supply chain management such as logistics typically stress the importance of local elements in services. As for professional services such as legal, insurance, accounting and medical services, because of protection in terms of professional qualifications and barriers of local social capital (especially social connections), it is difficult for Hong Kong businesses or professionals to enter the market. The Four Southwestern Provinces/Region are less international than coastal cities like Shanghai, Beijing or Guangzhou. Even under the framework of WTO and CEPA, which have relaxed some entry restrictions, the institutional and social-cultural factors still pose a significant limiting effect on foreign capital, businesses and personnel. Although enclave processing production is possible, once it involves domestic markets, it can be constrained by

institutional and social-cultural factors. It is quite difficult for service industries to adapt and merge into the local society and market.

Nevertheless, Hong Kong's service sector has built up a knowledge advantage, especially knowledge of how the market economy and cross-border operations work (including international operations). Therefore, when it involves cross-border and international services, the knowledge advantage of Hong Kong businesses may offset some disadvantages over local elements. In high added value services, the management knowledge advantage of Hong Kong businesses can be converted to corporate competitiveness via inputs of capital and human resources. Thus, it has an advantage over Mainland businesses. The question is whether the knowledge advantages of Hong Kong businesses have to merge with local factors (also expressed in terms of knowledge), for a better overall competitiveness. Knowledge needs constant updates. The Hong Kong service sector, from past experiences of operating in Hong Kong, presently enjoys a considerable knowledge advantage relative to the Four Southwestern Provinces/Region. However, if the knowledge update is slow or stagnant, the advantage will shrink swiftly with the fast learning of the Four Southwestern Provinces/Region. Therefore, the basic conditions required for Hong Kong services to gain entry into the Four Southwestern Provinces/Region by their knowledge advantage are twofold. Firstly, it involves the ability of firms and industries to update and advance their knowledge and their practical performance. Secondly, it requires the ability of the Hong Kong service sector to constantly improve and provide knowledge and experience updates for Hong Kong businesses. The latter would involve the structural transformation and upgrading of the Hong Kong economy, and its innovative capabilities.

In the short run, the Hong Kong service sector, whether entering the Four Southwestern Provinces/Region or other places on the Mainland, or elsewhere in the world, needs to invest substantially to promote knowledge updates such as scientific research, training and all knowledge dissemination activities (publications, seminars and conferences, online information deliveries, etc.). Such investment should be jointly carried out by firms, industries and the government.

## Appendix: Glossary

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Advanced Services	先進服務
Building a People-oriented Harmonious Society	以人為本的和諧社會建設
Economic Complementarities	經濟互補
Ethnic Minority-populated Areas	少數民族地區
Export-oriented	出口導向
Foreign Investment-driven	外資帶動
Fine Works	精品
Western Development Programme	西部大開發
Industry Nurturing Agricultural Development	工業反哺農業
Labour-intensive	勞動密集
Local, Featured Industries with Competitive Advantages	地方特色優勢產業
New Industrialisation	新型工業化

Modern Logistics Industry	現代物流業
Pan–Pearl River Delta (PRD) Regional Cooperation	泛珠合作
Pilot Projects	試點
Poverty-stricken Areas	貧困地區
Report on the Economic Summit on China’s 11 <sup>th</sup> Five-Year Plan and the Development of Hong Kong	《「十一五」與香港發展》行動綱領
Resource and Environmental Carrying Capacities	資源環境承載
Resource Conserving and Environmentally Friendly Society	資源節約型、環境友好型社會
Scientific Development Concept	科學發展觀
Strong Industrial Province	工業強省