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

THE SEVENTH MONTHLY REPORT
COVERING GUANGXI, YUNNAN, GUIZHOU AND
SICHUAN

December 2006
Table of Contents

Executive Summary ........................................................................................................... 1

1. The Development of the Electricity Industry in the Four Southwestern Provinces/Region ............................................................................................................. 7

1.1 Conditions Across the Whole Country ................................................................ 7

1.1.1 Rapid Growth in Power Generation and Power Consumption .......... 7

1.1.2 Reform of the Electricity System ................................................................. 8

1.2 Trends and Updates on the Four Southwestern Provinces/Region.................... 16

1.2.1 Sichuan Province ....................................................................................... 16

1.2.2 Guangxi Zhuang Autonomous Region .................................................... 17

1.2.3 Guizhou Province ..................................................................................... 19

1.2.4 Yunnan Province ..................................................................................... 22

1.3 Guangdong’s Guaranteed Electricity Supplies .............................................. 25

1.3.1 West-to-East Electricity Transmission and Economic Benefits for Guangdong .............................................................................................................. 25

1.3.2 West-to-East Electricity Brings Environmental Benefits for Guangdong .................................................................................................................. 26

1.4 Electricity Co-operation Between the Southwestern Region and the Neighbouring Regions ................................................................................................. 27

1.4.1 The Southwestern Region to Become Regional Exporter of Electricity to International Markets ...................................................................................... 27

1.4.2 Development of Electricity Co-operation in the Pan-Pearl River Delta .......................................................................................................................... 30

1.5 The Question of Electricity in Hong Kong and Recommendations ............. 31

2 Trends and Updates on the Four Southwestern Provinces/Region ............... 34

2.1 Economic Performance on the Four Southwestern Provinces/Region .......... 34

2.2 Trends and Updates on Sichuan ........................................................................ 36

2.2.1 Economic Performance of Sichuan ............................................................. 36

2.2.2 Updates on Sichuan – Chengdu Policy Release Promotes Full Employment ........................................................................................................... 38
2.3 Trends and Updates on Guangxi Zhuang Autonomous Region .......... 43
  2.3.1 The Economic Performance of Guangxi........................................ 43
  2.3.2 Updates on the Guangxi Zhuang Autonomous Region - The Ageing Population ................................................................. 44
2.4 Trends and Updates on Yunnan............................................................ 50
  2.4.1 The Economic Performance of Yunnan........................................... 50
  2.4.2 Updates on Yunnan - Construction of the Nanning-Guiyang-Kunming Economic Zone ................................................................. 51
2.5 Trends and Updates on Guizhou............................................................ 54
  2.5.1 The Economic Performance of Guizhou........................................... 54
  2.5.2 Updates on Guizhou - “Branded” Agricultural Exports and the Development of Rural Brokers ................................................................. 55
3 Regional Cooperation—The “Greater Southwestern Economic Zone” Takes Shape ................................................................. 60
  3.1 The Conference Agenda ................................................................. 61
  3.2 The Implications of the Conference ................................................................. 66
  3.3 Effects on Hong Kong ........................................................................ 71
Appendix : ........................................................................................................ 72
  Appendix I: Statistical Data for the Pan-PRD Provinces/Region .................. 72
  Appendix II: Glossary ....................................................................................... 76
Executive Summary

1. The Development of the Electricity Industry in the Four Southwestern Provinces/Region

1.1 Reform of the Electricity Network in China

In November 2006, the State Council approved the *Opinions on Deepening the Reform of the Electricity System During the 11th Five-Year Plan Period*. These included further separating the core and supporting businesses of power grid companies, accelerating the development of the electricity market and improving the supervisory system. This reform is meant to establish an electricity price mechanism whereby the government controls the price of electricity distribution but leaves the on-grid and end-user electricity prices unregulated. It is hoped that while the distribution prices remain under the control of the government, the prices of electricity supplied to the power grid and the sale price to the end-user will respond to market competition. Moreover, the government has made it clear that the goal for the next round of reform will be the establishment of regional electricity markets.

1.2 Electricity Development in the Four Southwestern Provinces/Region in Recent Years

Power generation and power consumption are growing rapidly in Sichuan Province, and a small surplus has relieved pressure on power supply. Sichuan is also pursuing an eco-friendly approach in the development of its electricity industry.

Power consumption in Guangxi far exceeds power generation, and this gap continues to widen. However, after the completion of its huge Longtan Hydroelectric Power Plant in 2009, Guangxi will be able to meet its own needs and will also become a major power base in the Pan-Pearl River Delta (PRD) Region.

Power generation in Guizhou has increased and the province has become an important provider, with surpluses transmitted to other provinces in southern China. In the first half of 2006, 8% of Guangdong’s entire electricity consumption was electricity transmitted out of Guizhou.

Yunnan’s power generation is growing by double-digit figures. Between
January and September, Yunnan’s outward electricity transmission increased by 54%, compared with the same period in the preceding year. Abundant water resources make it possible for Yunnan to supply electricity to other provinces during the high-water seasons, realising the goals of the “West-to-East Electricity Transmission Project”. By 2020, Yunnan may have become the biggest electricity seller on the Mainland market.

1.3 Neighbourhood Benefits of Electricity Development in the Four Southwestern Provinces/Region

Guangdong is the largest beneficiary of the China Southern Power Grid’s institutional arrangements and electricity development in the four southwestern provinces/region. The “West-to-East Electricity Transmission Project” has also helped to reduce Guangdong’s pollution from power generation. Between 1993 and late August of 2006, the total amount of electricity transmitted to Guangdong from the West equated to a reduction of 1.1 billion kilograms of sulfur dioxide emissions in Guangdong.

Currently, Yunnan is exporting its electricity to Myanmar and Vietnam, and the China Southern Power Grid is planning to supply electricity to Thailand from 2013 onwards. In July 2005, a memorandum was signed by China, Cambodia, Laos, Myanmar, Thailand and Vietnam in which it was agreed that China would adopt a “grid-to-grid” and “region (of China Southern Power Grid)-to-region (Greater Mekong Sub-Region)” approach to electricity provision, so as to realise the optimal allocation of energy resources in the Greater Mekong Sub-Region. It is also a positive move by China to fulfill its promise to improve relations with its neighbours. In addition to land, water and air transportation, electricity has become “the fourth economic corridor”.

1.4 Implications of Mainland Electricity Reform and Electricity Development in the Four Southwestern Provinces/Region for Hong Kong

Power generation is one of the main contributors to air pollution in Hong Kong. Possible short-term solutions to this include changing the profit control schemes signed with power companies, introducing stringent emission standards to which power companies must adhere, and switching to natural gas and renewable energy in electricity generation.

In the long run, Hong Kong could reduce or even abandon its own power generation and rely instead on the China Southern Power Grid for
electricity supplies, assuming that adequate and stable supplies can be guaranteed. The Mainland is expected to have a power surplus soon; hence it should be able to ensure adequate supplies to Hong Kong. Besides, Mainland’s grid technology is maturing and power can be steadily transmitted to the eastern region from Yunnan and Guizhou in the West.

The Macao SAR Government has already indicated that it will not be developing its local power generation industry due to overall development requirements and environmental concerns. Instead, it intends to rely on support from the China Southern Power Grid and the construction of the third Macao-to-Zhuhai electricity transmission channel. Hong Kong could follow this example and formulate an integrated and long-term development strategy by tapping into supply and demand outside the established system, and developing different types of power generation and power saving mechanisms.

2. Trends and Updates on Sichuan

2.1 Updates on Sichuan Province – Chengdu Policy Release Promotes Full Employment

In November this year, the Labour and Social Security Bureau of Chengdu Municipal Government devised a series of regulations on the social insurance allowance system. These included comprehensive social insurance allowances, “Preferential Re-employment Certificates”, social insurance allowances for employers and grants to provide career advice to the unemployed. These initiatives are aimed at promoting full employment. Specifically, they provide for:

- Allowances to employers who take on workers who have experienced difficulty finding work
- Allowances for part-time community employment
- Allowances for young interns
- Allowances to employers who buy insurance for peasant workers - they are entitled to claim back 4.5% of their payment
- Allowances to part-time workers with disabilities - they are entitled to a 70% refund of the social insurance allowance
2.2 Updates on the Guangxi Zhuang Autonomous Region - The Ageing Population

In October this year, various celebratory activities were held in Nanning City to mark the tenth anniversary of the adoption of the *Law of the PRC on the Protection of Elderly Rights and Interests* (hereafter referred to as the ‘Elderly Law’). These activities were supposed to promote awareness of the law among the elderly, and encourage Nanning citizens to care more about the elderly.

China officially became an ageing society in 1999. It is estimated that the ageing population in China will peak at 437 million in 2051, hence ringing the alarm bells. China has the largest elderly population in the world, which makes the ageing problem very difficult to deal with. In response, the Mainland Government has published the *11th Five-Year Plan for the Development of Services for the Elderly* in June this year, which proposed the establishment of social security and service systems for the elderly.

2.3 Updates on Yunnan Province - Construction of the Nanning-Guiyang-Kunming Economic Zone

Lin Guoqiang (林國強), Mayor of Nanning, recently stated that the city of Nanning would make efforts to establish the so-called “Nanning-Guiyang-Kunming Economic Zone” together with Kunming and Guiyang. This is seen as a continuation of the same idea proposed by the Western Development Program Office of the State Council in 2002. The Economic Zone covers the area where Southeast Asia, South Asia, East Asia, Pacific Ocean and Indian Ocean intersect. The Economic Zone might play a strategic role in the joint economic development of China-ASEAN or across a wider region. However, tangible results have yet to be seen, and leaders from the three cities are struggling to find a breakthrough.

Thus far, the idea of establishing the Economic Zone seems to have received policy support from the relevant municipal governments. Nevertheless, if not carefully planned out but left only for discussion, the idea will not make any real progress. Hong Kong and the Pan-PRD governments should take note of this when seeking regional cooperation.

2.4 Updates on Guizhou Province - “Branded” Agricultural Exports and the Development of Rural Brokers

Many of Guizhou’s agricultural products, including tea, pepper, tomato and cucumber, are exported by enterprises from other provinces under their own
brand names. It is estimated that every year, agricultural exports worth hundreds of millions of RMB are transformed by enterprises from provinces other than Guizhou into branded goods and exported for foreign exchange.

In southwestern China, both the production and sale of agricultural products are mostly conducted by individual rural households, who cannot afford the high costs associated with exploring foreign markets. In light of this, Guizhou has launched a campaign to develop rural brokers, so as to stimulate the development of the rural economy. By now, about 25,335 rural brokers and broker organisations have been developed, with a business turnover worth RMB 200 million.

Hong Kong businesspersons could draw on their strong marketing capabilities and cooperate with those experienced Guizhou rural brokers in market exploration and brand development. If successful, this experience could also be applied nationwide, and even to manufactured products.

3. Regional Cooperation - The “Greater Southwestern Economic Zone” Takes Shape

In November 2006, the 21st session of the Economic Coordination Conference of the Six Provinces, Autonomous Region and Municipalities in the Southwestern Region (hereafter known as the ‘Economic Coordination Conference’) was held in the city of Chongqing. The main outcomes of this discussion were as follows:

- The six parties decided to make the transportation network their top infrastructure development priority, and push forward transportation construction in the southwestern region. A Chengdu-Chongqing highway circular line will be built between Chongqing and Sichuan. The six parties plan to jointly build a highway network, and accelerate the construction of an international thoroughfare linking up with ASEAN. They also plan to build another major route leading to the sea.

- The six parties intend to jointly produce a tourist map, and establish a boundary-free tourism zone and green tour passage. In addition, “a through ticket” for all scenic spots in the region will be issued. The six parties will also introduce streamlined exit and entry procedures for neighbouring countries and establish a visa upon arrival system in the provincial capitals and boundary areas of the six parties.
In the energy sector, the six parties have pledged to connect the power grids of Yunnan, Guizhou and Sichuan, and seek approval for the proposed China—Myanmar oil and gas pipeline project.

The six parties have agreed to build a unified open market, with a multi-layered capital market, a human resources market, and a regulatory safeguard system as well as a “green passage” for agricultural products.

The idea of establishing a “Greater Southwestern Economic Zone” is taking on more substance. The basis for early cooperation, which centred on the exchange of goods and materials, has been gradually broadened to encompass areas such as co-operation over resources and capital, coordination in resource allocation and the joint planning of transportation systems. One of the major focuses of the 11th Five-Year Plan is the Chengdu-Chongqing Area. As an economic belt jointly established by Sichuan and Chongqing at the upper reach of the Yangtze River, this area will probably compete with the Greater Wuhan Area to become the “Fourth Pillar” of China’s economic growth.

The formation of the “Greater Southwestern Economic Zone” would mean a relative weakening of the Pan-PRD “9+2” Regional Cooperation initiative. Yunnan and Guizhou are expected to lean increasingly toward Chengdu and Chongqing, at the expense of Guangdong which may be affected the most.
1. The Development of the Electricity Industry in the Four Southwestern Provinces/Region

1.1 Conditions Across the Whole Country

1.1.1 Rapid Growth in Power Generation and Power Consumption

In recent years, China has experienced rapid economic growth and the GDP growth rate has been increasing by double digit figures every year. As the rapid growth was propelled by extensive mode of development, the consumption of raw materials and energy resources, especially electricity, has been increasing rapidly (see Table 1-1). Electricity is an obvious example. Because the previous Premier Zhu Rongji (朱鎔基) restricted investment in electricity, power shortages have become a problem in recent years. Subsequently, all provinces and municipalities have invested heavily in electricity and it is hoped that by next year the problem of electricity shortages may be solved. However, this does raise the prospect of electricity surpluses in the future.

<table>
<thead>
<tr>
<th>Table 1-1: Electricity Demand and Supply in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Unit: 100 million kilowatt-hours)</td>
</tr>
<tr>
<td>Item</td>
</tr>
<tr>
<td>Total Energy Available for Consumption</td>
</tr>
<tr>
<td>4117.6</td>
</tr>
<tr>
<td>Output</td>
</tr>
<tr>
<td>4106.9</td>
</tr>
<tr>
<td>Hydropower</td>
</tr>
<tr>
<td>923.7</td>
</tr>
<tr>
<td>Thermal Power</td>
</tr>
<tr>
<td>3183.2</td>
</tr>
<tr>
<td>Nuclear Power</td>
</tr>
<tr>
<td>128.3</td>
</tr>
<tr>
<td>Imports</td>
</tr>
<tr>
<td>11.1</td>
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<tr>
<td>Exports</td>
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<tr>
<td>0.4</td>
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<tr>
<td>Ratio of Hydropower to Total Output</td>
</tr>
<tr>
<td>22.5%</td>
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<tr>
<td>Ratio of Thermal Power to Total Output</td>
</tr>
<tr>
<td>77.5%</td>
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<tr>
<td>Ratio of Nuclear Power to Total Output</td>
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<tr>
<td>1.3%</td>
</tr>
<tr>
<td>Total Energy Consumption</td>
</tr>
<tr>
<td>4117.6</td>
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<tr>
<td>------------------------------------------</td>
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<tr>
<td>Consumption By Sector</td>
</tr>
<tr>
<td>1. Farming, Forestry, Animal Husbandry</td>
</tr>
<tr>
<td>and Water Conservation</td>
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<tr>
<td>2. Industry</td>
</tr>
<tr>
<td>3. Construction</td>
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<tr>
<td>4. Transport, Storage and Post</td>
</tr>
<tr>
<td>5. Wholesale, Retail Trade, Hotels and</td>
</tr>
<tr>
<td>Catering Services</td>
</tr>
<tr>
<td>6. Others</td>
</tr>
<tr>
<td>7. Non-production Consumption</td>
</tr>
<tr>
<td>Consumption By Usage:</td>
</tr>
<tr>
<td>(a) End-use Consumption</td>
</tr>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>(b) Losses in Transmission</td>
</tr>
</tbody>
</table>

Source: China Statistical Yearbook 2006

### 1.1.2 Reform of the Electricity System

On 1 November 2006, the Statutory Meeting of the State Council examined and approved the *Opinions on Deepening the Reform of the Electricity System During the 11th Five-Year Plan Period* (hereafter referred to as the “Opinions”). The meeting finally decided on three main tasks for electricity system reform during the 11th Five-Year Plan. The first task is to solve the problems left behind as a result of the separation of power plants and the transmission grid system. Even though power shortages are less of an acute problem, electricity reform should continue and focus on the problems of the illogical structure of power sources, lagged development in power grid construction, and lack of effective market adjustments to determine power resource allocation. There should be innovation in system mechanisms, the building of a legal system and a transformation of growth patterns in the electricity industry. This will ensure the electricity enterprises to increase efficiency, lower costs, improve services, and enhance the development of the electricity industry in a stable, healthy, co-ordinated and secure manner, thus providing a sound basis
for the development of the economy and society\(^1\). The concept of the “Two Guarantees” also emerged from the meeting. One was to guarantee a secure and reliable supply of electricity, and the other was to guarantee the quality of electricity supplies and low prices to the public. The “Two Guarantees” demonstrate that the government does consider first and foremost the interests of the people in every decision it makes on government policy, and therefore it can be expected that electricity system reform will bring tangible benefits to the general public\(^2\).

From the mid-1980s onwards, the electricity industry in China attempted to introduce a series of progressive measures. These include permitting multiple enterprises to invest in power generation, allowing foreign capital to invest in electricity industry, abolishing the Electricity Department and setting up a national electricity company. These helped to break the monopoly in the production market, and alleviated the long term headache of electricity shortages. However, before the electricity system reform in 2002, the national electricity company was still a huge monopolising giant, controlling 46% of the nation’s power generation assets and 90% of power transmission assets\(^3\). The high degree of monopolisation resulted in low efficiency and poor management, and thus made reform very necessary.

In fact, the State Council has initiated already in 2002 the *Policies on the Reform of the Electricity System*. A series of solid reform have been launched which include separating power generation plants and power grids, and introducing an electricity supervisory committee, electricity pricing reform, and regional electricity market testing, etc. However, the reversal of the supply and demand situation in the electricity market in 2003 brought a halt to all these reforms, and the process of reform was slowed down between 2003 and 2006. The focus of electricity work was shifted from speeding up and extending the reform to hastening the construction of power plants to ensure a steady supply of electricity.

The reform that started in 2002 involved the splitting up and reorganisation of the former national electricity company. A total of 11 new companies were formally established, power generation and transmission were


separated, and competition mechanisms were introduced. At the same time, two power grid companies were formed (namely, the State Grid Corporation of China and China Southern Power Grid Co. Ltd.), five electricity generation companies were created and reorganised (namely, the China Huaneng Group, China Datang Corporation, China Huadian Corporation, China Guodian Corporation, and China Power Investment Corporation), and four auxiliary group companies (namely, the China Power Engineering Consulting Group Corporation, China Hydropower Engineering Consulting Group Co., Sinohydro Corporation, and China (Gezhouba) Group Corporation). A national electricity industry supervisory committee was formed, with initial responsibility to conduct research and determine an appropriate electricity pricing proposal, research on power generation related environmental conservation issues and price-cost standards, and study appropriate approval procedural considerations for electricity projects. This is another important step for China to take towards marketisation of the economy, following reform of the telecommunications and civil aviation industries.

According to Mr. Zeng Peiyan (曾培炎), then Director of the National Planning Committee, the works to follow were to further the separation of the core and auxiliary businesses, and “tertiary production”⁴, reorganisation of multiple enterprises, and separation of the power grid companies. The management of state-owned assets would also be strengthened, with auditing on the assets and financial accounts of the newly formed or reorganised companies to clear assets and confirm capital.

1.1.2.1 The Three Major Tasks

The three major tasks as laid down by the “Opinions” were first and foremost to tackle problems created by the separation of power generation and the grid, and gradually carry out reform on the separation of core and auxiliary businesses of the transmission grid enterprises. The second task was to hasten the creation of the electricity market, to make it a unified and open market system that fit the national reality, to form an electricity pricing mechanism that operates in line with the market economy, and to enforce an electricity pricing policy that is


“Tertiary production” here refers to the tertiary industry. In the past the state-owned enterprises, especially after the Cultural Revolution, had to employ a large number of workers. Besides the core business, these enterprises usually conducted auxiliary businesses as a sideline, sometimes even irrelevant tertiary services and a plethora of businesses were offered, just to create more job opportunities in order to satisfy employment needs.
favourable to energy and environmental conservation. Finally, the third task was to further transform the role and work of the government, insist on the separation of government and business enterprises, and create a healthy and complete supervisory system for the electricity market.

Up until now, these three tasks have remained in the exploratory stage. From August 2007, the electricity supervisory committee will begin tackling the issue of the 9.2 million-kilowatt electricity generation property rights which were set aside when the power plant and transmission grid companies were separated. This will be opened up for global bidding with the intention of turning billions of dollars of set-aside assets into cash. This will then be used to carry out the separation of core and auxiliary businesses from the transmission grid companies. On the issue of electricity pricing mechanisms, the National Development and Reform Commission this year put forth a differentiation policy for electricity pricing, according to the principles of energy and environmental conservation. On the issue of supervision and management, the debates are still ongoing. One viewpoint says that electricity construction projects have to be examined and approved by the National Development and Reform Commission, and are therefore not suitable for consideration in the market economy. Another viewpoint is that the reform of the electricity system in China should only be taken in gradual steps. The present situation is that investment in electricity construction in China is seriously irrational and therefore should be subject to close scrutiny and approval procedures. The electricity supervisory system has to exist, i.e. the National Development and Reform Commission is in charge of project examination and approval, and the electricity pricing policy, whilst the electricity supervisory committee is in charge of electricity security and market supervision.

1.1.2.2 The Debate on Reform

Before the present meeting of the State Council, the debate on whether electricity reform could succeed continued. The State Council meeting assessed the reform of the electricity system and expressed the view that during the 10th Five-Year Plan Period electricity system reform had made promising progress, government and business enterprises had been separated, the power plant and transmission grid had been separated, the power generation domain had formed a competitive format, a new electricity supervisory mechanism had been constructed and the electricity industry had developed rapidly. All in all the reform had

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5 Yu Su (于素): "Electricity reform over the next five years has been determined with an emphasis on the unified market system", China Energy Net, 3 November 2006, http://www.china5e.com/news/power/200611/200611030005.html.
strongly supported the development of the national economy and society. Mr Gao Shiji (高世楫), a research member of the Development Research Centre of the State Council, commented that people now could see the benefits of electricity reform and as the reform further deepened, people would benefit from lower electricity prices. Costs for investing in power plants had grossly decreased since the electricity industry had brought in competition mechanisms. In the past, the construction of a thermal power plant using coal fuel cost RMB 5,000 per kilowatt, but now it has been lowered to just over RMB 3,000.

An abundant supply of capital invested in the electricity industry has enabled China to successfully solve the problem of power shortages, a problem that has crippled many developing countries. In these few years, a large number of new power plants have started to produce electricity, and there have been no more electricity shortages in 2007. The National Development and Reform Commission set electricity prices in accordance with the principle of cost basis, and the regional provincial pricing departments fixed their own electricity prices. This meant that the electricity supply company collected money which included the cost of buying electricity from the power plant, transmitting electricity through the regional grid, and reasonable administrative costs.

The work of the government on electricity pricing reform and pricing supervision mechanism still has room for improvement. Although electricity prices in China are not the most expensive in the world, they are not cheap either. As electricity reform become more comprehensive, electricity pricing mechanisms will become more reasonable, and the government’s pricing supervision scheme more effective. It would be helpful to find out what constitutes costs, in order to ascertain whether there is room for further price falls. However, unlike small products or everyday services, the mere introduction of competition into the industry is not sufficient to ensure lower costs and prices. Certain technical and economic factors exist which tend to form a naturally monopolistic situation within the production chain. Therefore, government supervision is still important.

However, the meeting also pointed out that during the 11th Five-Year Plan Period, electricity system reform should focus on outstanding problems, such as the illogical structure of power sources, lagged development in grid construction and ineffective basic market regulatory functions in the allocation of electricity resources.

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In fact, the “Opinions” passed at this meeting basically carried the guiding spirit of the “5th Document” of 2002, i.e. the principles and directions laid down in the Policies on Reform of the Electricity System. These included separating the power plant and transmission grid, dividing core and auxiliary businesses, hastening the building of regional electricity markets, and deepening the electricity price reform. The preliminary copy was drafted by the electricity supervisory committee, and then submitted to the National Development and Reform Commission and the State Council. The State Council then forwarded the draft to the national electricity grid groups. The draft was amended many times in this way.

In 2002, the former National Electricity Company worked in accordance with the principle of separating power plants from the transmission grid and reorganised to form into five big power generation companies, two big transmission grid companies and four big electricity auxiliary business groups. In the following three years or more, electricity generation has become more competitive. Now, the whole nation has 60-70 independent power generating enterprises in the market, providing a total electricity mechanical capacity which doubles the previous capacity. Experts have pointed out also that the National Grid Company and the Southern Grid Company controlled the process of purchasing, transmitting and supplying electricity, making them in reality a monopolistic purchasing entity. According to experts in the electricity system, reform in the 11th Five-Year Plan Period will attempt to “set free the two ends, and control the middle” (放開兩頭，管住中間) and introduce a pricing mechanism. This will establish a competitive structure for the sale of electricity from power plant to grid companies, and the sale to the end users, while the government sets the price for electricity transmission7.

Another area of concern is about the electricity trading transaction market. In September 2006, the National Grid Company announced that the Company headquarters, the regional grid companies and the provincial electricity companies would separate their market trading and grid transmission functions. Three levels of electricity trading centres would be set up. This measure was criticised by people in the industry because they believed that it would weaken the regional electricity market. These criticisms were made to the Electricity System Reform Working Group who held their 9th meeting on 7 July 2006, to discuss and pass the Opinions on Deepening the Electricity System Reform in the 11th Five-Year Plan Period which clearly laid down the coming tasks and objectives for reform. This included improving the regional electricity market and starting the

research and pilot-testing point for separating electricity transmission and allocation.

Furthermore, the electricity supervisory committee had a meeting this year where the chairman, Mr. Chai Songyue (柴松岳), emphasised that the building of the regional electricity market was an important task and a non-negotiable step for electricity system reform. The building of a regional electricity market itself was not the main objective, the crucial point was to formulate and establish a market allocation mechanism for electricity resources. Mr. Chai Songyue revealed that the next step would see the electricity supervisory committee strongly promote a pilot-testing point for major users to purchase electricity directly and would attempt to make it a common practice.8

However, on 19 September, the World Bank issued a report, based on two years of study, entitled the Final Report on Building up the Capabilities of the Electricity Monitoring Authorities in China. It pointed out that the key problem in electricity supervision was the lack of a single unified monitoring authority with the power needed to supervise the industry. The divergence and blurred monitoring was a hindrance to private investors in the industry, once again opening the debate about who should be in charge. The report commented that the National Development and Reform Commission was responsible for energy and electricity policies, and had the power to approve investment projects in the industry. In fact this latter function took up nearly all their time and energy, or at least a significant portion of it. Therefore, the report suggested that issues like project investment, electricity pricing, feasibility studies and matters relating to interests of end users could be handled by the electricity monitoring authority. The report also commented on the weak appearance and lack of authority regarding the electricity supervising committee, whilst the working group for electricity system reform did not seem to have been active for over three years.

The working group was headed by the Director of the National Development and Reform Commission, and the office manager of the working group was the vice-chairman of the electricity supervisory committee. Having two people from two different departments made the working group inefficient on policy making and execution. The report also noted that whilst the working group came under the electricity supervisory committee, the supervisory committee itself was not in a commanding position with regards to electricity system reform. Other than for the design of the electricity market, the electricity supervisory committee was not responsible for the design and the leadership of the whole reform process,

neither was it responsible for the design and execution of the core matters of electricity price reform. The report identified three main areas of electricity monitoring: price, quality and investment.

At present, the National Development and Reform Commission has the power to set electricity prices and approve investments. Monitoring electricity prices was a core function of the electricity monitoring authority, but when this function was taken over by the National Development and Reform Commission, it seriously weakened the macro-policy making capability, and the planning and regulatory capability of the authority. The functions of the National Development and Reform Commission overlapped with the electricity supervisory committee, and lowered the efficiency and capability of industry monitoring.

Professor Liu Jipeng (劉紀鵬教授) of the Capital Economics and Trade University commented that electricity monopoly included monopoly by the enterprise and monopoly by the administration. Electricity reform in the past merely attempted to break the monopoly by the enterprise, while the monopoly by the administration had not changed. The structure had changed but not the system. The next step for electricity system reform should be to break down the monopoly by the administration, i.e. breaking down the monopolistic power of government departments in approving electricity prices and power generation projects. The government should abandon the right to examine and approve electricity prices. Reform should be in the direction of fewer approval requirements, and the goal of electricity monitoring should not be simply replacing the supervisory authority of one department by another.

Mr. Liu Shujie (劉樹杰), Deputy Director of the Economics Research Centre of the National Development and Reform Commission, hold a different view from Professor Liu. He felt that the reform of the electricity system needed a comprehensive redesign of the whole system, and not just opening up the rights to fix prices and to approve projects. When the electricity market was formed, the crucial element remained to be the price, and the price mechanism determined the success and direction of the electricity system reform.

However, electricity system reform in China at present is still focused on the changes in the management of existing institutions, enterprises, and grid assets. Whether in areas like power generation and supply, grid, and demand from end users, the level of opening up is still limited, and there has not been much

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discussion about these issues. The electricity system in China remains a long way from international practices, leaving much development work to be done.

1.2 **Trends and Updates on the Four Southwestern Provinces/Region**

Of the four southwestern provinces/region, Sichuan is the biggest electricity producer; with electricity production more than double that of Guangxi. Sichuan also produces the highest proportion of hydroelectricity in the region which stood at 61.2% between January and October 2006. Guizhou produces mainly thermal electricity, accounting for 78% of electricity generation and the highest among the four provinces. In Guangxi and Yunnan, the proportion of hydroelectricity and thermal electricity production is about 50% each.

<table>
<thead>
<tr>
<th></th>
<th>Thermal electricity</th>
<th>Hydro electricity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sichuan</td>
<td>341.04</td>
<td>338.52</td>
<td>616.99</td>
</tr>
<tr>
<td>Guangxi</td>
<td>238.09</td>
<td>212.11</td>
<td>179.13</td>
</tr>
<tr>
<td>Yunnan</td>
<td>274.89</td>
<td>311.59</td>
<td>303.61</td>
</tr>
<tr>
<td>Guizhou</td>
<td>569.58</td>
<td>617.34</td>
<td>217.20</td>
</tr>
</tbody>
</table>

Note: The above figures may vary a little from figures announced by the National Statistics Bureau.

1.2.1 **Sichuan Province**

In the summer of 2006, Sichuan suffered a serious drought and this together with high temperatures, caused electricity demand to far exceed supply. However this was an exceptional incident and electricity shortages are not common in Sichuan. In recent years, both power generation and electricity consumption in Sichuan has grown rapidly, usually resulting in a slight supply surplus. The days of electricity shortage are over (see Table 1-3).
Table 1-3: Electricity Generation and Consumption in Sichuan  
(Unit: 100 million kilowatt-hours)

<table>
<thead>
<tr>
<th>Year</th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Generated</td>
<td>448.34</td>
<td>500.24</td>
<td>583.55</td>
<td>695.74</td>
<td>781.81</td>
<td>881.76</td>
<td></td>
</tr>
<tr>
<td>Growth Rate</td>
<td>16.65%</td>
<td>19.23%</td>
<td>12.37%</td>
<td>12.78%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity Consumed</td>
<td>582.85</td>
<td>521.23</td>
<td>589.57</td>
<td>660.51</td>
<td>759.80</td>
<td>857.02</td>
<td>942.59</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>13.11%</td>
<td>12.03%</td>
<td>15.03%</td>
<td>12.80%</td>
<td>9.98%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>-134.51</td>
<td>-20.99</td>
<td>-6.02</td>
<td>35.23</td>
<td>22.01</td>
<td>24.74</td>
<td></td>
</tr>
</tbody>
</table>


The electricity industry in Sichuan is becoming aware of environmental issues. On 17 April 2006, the Sichuan White Horse 1 x 300MW circulating flow engine generating station, designed by the Southwest Electricity Design Institute, smoothly completed a 168-hour full capacity test run, with all indicators pointing to an excellent performance. This proved that the Chinese 300MW smokeless coal circulating flow engine electricity generator station had reached the maximum performance level. This kind of generator station has relatively high technical requirements, and can meet environmental conservation regulations. Burning takes place in the engine, and because the fuel and desulphurised substances remain in liquid form at low temperatures, release of sulphur dioxide and nitrous oxide meets the stringent environmental protection requirements. This type of thermal generator has many advantages including full energy utilisation, improved water conservation, high peak adjustment ability, different fuel adaptability, minimal land requirements and improved environmental performance.

1.2.2 Guangxi Zhuang Autonomous Region

In recent years, as the economy developed rapidly, and particular industries flourished, electricity consumption has far exceeded electricity generation in Guangxi and the resulting shortage problem has become increasingly serious (see Table 1-4).

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10 Yang Guosheng, Xu Hong (楊國勝、徐虹), “Another leading world performance-- the biggest smokeless coal fuel circulating flow engine generator station begins operations (又增一項世界領先——最
Table 1-4: Electricity Generation and Consumption in Guangxi (Unit: 100 million kilowatt-hours)

<table>
<thead>
<tr>
<th>Year</th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Generated</td>
<td>217.29</td>
<td>289.09</td>
<td>297.19</td>
<td>317.03</td>
<td>363.67</td>
<td>373.72</td>
<td>445.84</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>2.80%</td>
<td>6.68%</td>
<td>14.71%</td>
<td>2.76%</td>
<td>19.29%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity Consumed</td>
<td>220.77</td>
<td>314.44</td>
<td>331.92</td>
<td>356.95</td>
<td>415.83</td>
<td>456.86</td>
<td>510.15</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>5.56%</td>
<td>7.54%</td>
<td>16.50%</td>
<td>9.87%</td>
<td>11.66%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>-3.48</td>
<td>-25.35</td>
<td>-34.73</td>
<td>-39.92</td>
<td>-52.16</td>
<td>-83.14</td>
<td>-64.31</td>
</tr>
</tbody>
</table>


Hydropower resources in China are mainly located in the Western Region. The regular water resource potential capacity and exploitable capacity account for 82.5% and 84% respectively of the whole nation. Guangxi will soon have the nation’s third largest hydroelectricity station – the Longtan Hydroelectricity Station (龍灘水電站), situated in Tian’e County (天峨縣), Guangxi, at the upper portion of Hong Shui River, a major tributary of the Pearl River. It is smaller than Yangtse’s Three Gorges Hydropower Station, and the Xiluodu Power Station (溪洛渡電站), and is expected to be completed by December 2009. The Longtan Station in the Western Region will break world records for the tallest concrete dam, the biggest underground engine plant and the highest ship raising machine. Just recently, the world’s biggest underground engine plant was completed. Soon, the dam will be able to let water in, and upon completion, the station will be able to produce 18,700 million kilowatt-hours of electricity. This represents an important source of electricity for Guangdong in the 11th Five-Year Plan, and by 2009 50% of the electricity will be transmitted to Guangdong.

The advantage of the Longtan Hydroelectricity Station is that the transmission distance from Guangxi to Guangdong is shorter than from Guizhou to Guangdong or Yunnan to Guangdong. In addition, modern management skills will enable Longtan to offer competitive prices, and it will be the most price competitive station in southern China. Experts have calculated that when the generating capacity of 6.3 million kilowatts is reached, the grid electricity price will be RMB 0.229 per kilowatt-hour. This is RMB 0.15 lower than the present Guangdong price, and slightly lower than the medium price level across the whole nation. Therefore, the Longtan Hydroelectricity Station is going to play an important part in the West-to-East Electricity Transmission Project. It not only ensures energy supplies to southern China, but will link up the Central China Grid.
in Hunan, and will be the first project to connect the South China grid and the Central China grid\textsuperscript{11}.

Furthermore, Guangxi is intending to complete other energy projects during the 11\textsuperscript{th} Five-Year Plan Period in addition to Longtan. These include the construction of hydroelectricity stations at Baise (百色) and Changzhou (長洲), and thermal electricity plants at Qinzhou (欽州), Fangchengang (防城港), and Guigang (貴港), with an increase in capacity of 17 million kilowatts. By 2010, the total engine generating capacity will be 23 million kilowatts\textsuperscript{12}. This will not only relieve the problem of electricity shortages in Guangxi, but will also provide an important energy base in the “Pan-Pearl River Delta Economic Circle”.

1.2.3 Guizhou Province

Contrary to Guangxi, in recent years the electricity generating capacity in Guizhou has rapidly increased, with growth rates of double digits (see Table 1-5). Now Guizhou can meet domestic demand in the province, and also export electricity, especially to Guangdong, which is a big electricity consumer. Plans to make Guizhou into a major electricity exporter are taking shape.

Table 1-5: Electricity Generation and Consumption in Guizhou
(Unit: 100 million kilowatt-hours)

<table>
<thead>
<tr>
<th>Year</th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Generated</td>
<td>231.55</td>
<td>404.70</td>
<td>480.25</td>
<td>547.12</td>
<td>636.60</td>
<td>713.04</td>
<td></td>
</tr>
<tr>
<td>Growth Rate</td>
<td>18.67%</td>
<td>13.92%</td>
<td>16.35%</td>
<td>12.01%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity Consumed</td>
<td>203.70</td>
<td>287.78</td>
<td>335.19</td>
<td>366.63</td>
<td>399.57</td>
<td>458.69</td>
<td>486.97</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>16.47%</td>
<td>9.38%</td>
<td>8.98%</td>
<td>14.80%</td>
<td>6.17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>27.85</td>
<td>116.92</td>
<td>145.06</td>
<td>180.49</td>
<td>237.03</td>
<td>254.35</td>
<td></td>
</tr>
</tbody>
</table>


The summer of 2006 was very hot and electricity consumption across China increased sharply. In August, the Guizhou grid generated 7,900 million kilowatt-hours of electricity, an increase of 21.2% over same period in the previous year; and 4,200 million kilowatt-hours of electricity was supplied, an increase of 26.0%. Furthermore 3,110 million kilowatt-hours of electricity was exported, an increase of 17.1%, with daily average exports of over 100 million kilowatts. The highest record was 112 million kilowatt-hours a day, which provided strong support to neighbouring areas during periods of high temperatures. In this summer, as temperatures have climbed high, the capacity of electricity generation in Guizhou increased too, with daily generation figures 8 times breaking the historical record. On 31 August, the figure reached 270 million kilowatt-hours, 41.14 million kilowatt-hours more than the figure last year; whilst the biggest generating capacity 17 times broke the historical record, and on 31 August it stood at 12.59 million kilowatt-hours, 1.78 million kilowatt-hours more than the highest figure last year.

Chongqing experienced its most serious drought in 50 years, with continuously high temperature for over 60 days. The record high temperature in urban Chongqing rose to 43 degrees Celsius. The Chongqing electric grid reached its maximum shutdown capacity of 1.56 million kilowatts, and a number of factories and the public were greatly affected by the electricity shortage. Since August, there has been a shortage of more than 0.7 million kilowatts. On 17 August, a number of generators broke down, making the total voltage shortage up to 1.56 million kilowatts. The Guizhou grid responded to the situation and, in July and August, transmitted 490 million kilowatt-hours of electricity to Chongqing, with the biggest single transmission amounting to 0.38 million kilowatts. Guizhou’s actions helped alleviate the power shortage of Chongqing and ensured a consistent supply of electricity.

Guangdong was also challenged by high temperatures and a correspondingly high demand for electricity. Since June, electricity demand in Guangdong has increased sharply, and records have been broken everyday. On August 18, the highest electricity consumption figure reached 49.5 million kilowatts, breaking the record for the tenth time. This figure was 5.5 million kilowatts more than last year, and was comparable to the total electricity consumption of a medium-sized province. Guangxi’s grid adjustment transmission also reached a high figure of 7.15 million kilowatts, 0.25 million kilowatts more than the figure last year, which represented an increase of 3.6%. Starting from August 18, Guizhou’s grid increased West-to-East night time transmission from 2.5 million to 4 million kilowatts, which was the same as in the day time. In August, West-to-East Electricity Transmission reached 2,700 million kilowatt-
hours, an increase of 11.3% compared with last year, sending “cool electricity” to Guangdong\textsuperscript{13}.

After years of construction, the southern energy base in Guizhou has finally seen a result. The province has added generating engines of about 11 million kilowatts, whilst the grid adjustment engine has reached 16.04 million kilowatts. In the first eight months of this year, Guizhou, after meeting its own needs for electricity, transmitted more than 5 million kilowatts of electricity to neighbouring Guangdong, Guangxi, Yunnan, Hunan and Chongqing, whilst its electricity capacity reached as high as 17,400 million kilowatt-hours, an increase of 47.7% compared with last year. This shows that Guizhou has the capability to export electricity, and play an important role in supplying electricity to neighbouring areas.

In 2006, South China suffered from high temperatures and low rainfall, and demand for electricity rose sharply. Although Guizhou also suffered from decreased rainfall by 30.6% between January and August compared with the previous year, Guizhou was still able to export electricity because the grid adjustment capacity, especially thermal electricity generation, was in surplus supply. Besides satisfying her own needs, Guizhou fulfilled an agreement to export 4 million kilowatts of electricity to Guangdong, and still had the ability to export electricity to other neighbouring provinces and cities. Up until 4 September, Guizhou did not even once shut down the electricity supply, and the electricity supply reached 31,200 million kilowatt-hours. In fact, 13,300 million kilowatt-hours of electricity was exported to Guangdong, nearly the total volume last year, and Guizhou was able to help Chongqing and Hunan alleviate their peak summer period. Guizhou exported 1,200 million kilowatt-hours to Chongqing, and 800 million kilowatt-hours to Hunan, most of which was exported during the months of June, July and August\textsuperscript{14}.

Guangdong was the largest receiver of electricity. In the first half of 2006, Guizhou transmitted 8,200 million kilowatt-hours to Guangdong, an increase of 113.8% compared with last year. Since the commencement of the West-to-East Electricity Project, the electricity generation construction in Guizhou has been faster than planned. Eight generating projects had been completed, ‘four


\textsuperscript{14} Zhang Junyan (張軍焰): “Guizhou energy base is closer to maturation, between January and August 17,377 million kilowatt hours of electricity was exported to neighbouring provinces and cities (貴州能源基地羽翼漸豐，前八個月向周邊地區送電173.77億千瓦時)” China Electricity Daily, pp. 1, 8 September 2006.
hydro, four thermal’ with a total capacity of 5.38 million kilowatts, followed by a second batch of 16.84 million kilowatts, ‘four hydro, eight thermal’ projects. A total of 12 generating projects are now partially completed, of which a few are already in operation. The GDP of Guangdong is about 65% of the total for Guangdong, Guangxi, Yunnan, Guizhou and Hainan, but energy resources are just a mere 3.5% of the total for the five provinces/region. In this year, the amount of electricity transmitted to Guangdong from Guizhou represented 8% of the total electricity consumed in Guangdong\(^{15}\).

### 1.2.4 Yunnan Province

Conditions in Yunnan are similar to Guizhou and in recent years, electricity generation has increased by double digit figures (see Table 1-6). After meeting local needs, the surplus electricity can be exported through the Southern Power Grid. Yunnan has the capability to be a base for electricity exports.

**Table 1-6: Electricity Generation and Consumption in Yunnan Province**  
(Unit: 100 million kilowatt-hours)

<table>
<thead>
<tr>
<th>Year</th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Generated</td>
<td>228.42</td>
<td>317.46</td>
<td>359.53</td>
<td>426.99</td>
<td>474.80</td>
<td>543.78</td>
<td></td>
</tr>
<tr>
<td>Growth Rate</td>
<td></td>
<td>13.25%</td>
<td>18.76%</td>
<td>11.20%</td>
<td>14.53%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity Consumed</td>
<td>223.71</td>
<td>273.58</td>
<td>320.75</td>
<td>353.20</td>
<td>370.31</td>
<td>454.51</td>
<td>557.25</td>
</tr>
<tr>
<td>Growth Rate</td>
<td></td>
<td>17.24%</td>
<td>10.12%</td>
<td>4.84%</td>
<td>22.74%</td>
<td>22.60%</td>
<td></td>
</tr>
<tr>
<td>Difference</td>
<td>4.71</td>
<td>43.88</td>
<td>38.78</td>
<td>73.79</td>
<td>104.49</td>
<td>89.27</td>
<td></td>
</tr>
</tbody>
</table>


In 2006, Yunnan experienced the worst drought in 50 years and electricity supplies across the whole province became acute. After mid-September, the river levels improved, thermal power generation became more reliable, and the capability of the whole system to generate electricity increased sharply. As the need to export electricity decreased, electricity supply indicators in the province rose to record highs. In September, daily electricity supply figures nine times broke the historical record, and on the 29 September stood at 140 million kilowatt-hours. Electricity capacity in the province five times broke the historical record, reaching 6.92 million kilowatts on 27 September. Between January and September, the Yunnan Power Grid adjusted electricity output to 40,500 million kilowatt-hours, an increase of 20.0% over the same period during the previous

year. Meanwhile, the Power Grid Company sold 39,000 million kilowatt-hours of electricity, an increase of 20.4% over the same period for the previous year. Of this 30.8 billion kilowatt-hours were sold to users in the province. This represented an increase of 13.7%, whilst 8.2 billion kilowatt-hours were sold to users outside the province, an increase of 54.28%\(^{16}\).

By 14 October 2006, the electricity transmitted by the Yunnan Power Grid surpassed 200 million kilowatt-hours a day for the first time, reaching 200.48 million kilowatt-hours, of which 130 million kilowatt-hours were destined for local use within the province, an increase of 21.4% over the same period in the previous year. A total of 62.07 million kilowatt-hours were exported to Guangdong, an increase of 93%, and 3.58 million kilowatt-hours were transmitted to Vietnam, an increase of 174%.

In less than three years the Yunnan Power Grid has doubled daily electricity generation from 100 million kilowatt-hours to 200 million kilowatt-hours. This shows that Yunnan has great potential in hydropower generation. It is estimated that by the end of the 11th Five-Year Plan Period, the quantity of electricity generated in Yunnan will exceed 130 billion kilowatt-hours, with the potential to export more than 80 billion kilowatts outside the province. This will increase the capacity for West-to-East transmission to over 78 billion kilowatts\(^{17}\).

The future development of Yunnan is also biased towards the electricity industry. According to the medium-term objectives of the Yunnan Economic Development Plan, by 2008 the province will have engines generating up to 38 million kilowatts, and annual revenue from selling electricity should exceed RMB 45 billion. This will surpass the revenue of the tobacco industry, the present biggest industry of Yunnan, and therefore electricity will become the biggest pillar industry of Yunnan.

By 2020, the total capacity of all the power generation engines for all types of power in the province will exceed 60 million kilowatts, and annual electricity generation will reach 300 billion kilowatt-hours, the total value of which will exceed RMB 100 billion. A total of 45 million kilowatts will be transmitted outside the province (including the West-to-East transmission project and electricity to Southeast Asian regions). By that time, it is possible that Yunnan


will be the champion province for electricity sales. At present, Yunnan is speeding up the construction process to make it the most important ‘electricity province’ in the Western Region of China, and making full advantage of the province’s geographical features in the Pan-Pearl River Delta and Lancang River (瀾滄江) - Mekong Sub-region co-operation and in the formation of the China-ASEAN Free Trade Area.

In fact, the biggest advantage of Yunnan is its water resources. Hydropower capacity in the province is more than 100 million kilowatts, 15.3% of the total hydropower potential of the nation, and the development capacity of hydropower generator engines could reach more than 90 million kilowatt-hours. Of the 128 counties in the province, 118 counties could develop hydropower stations of 10,000 kilowatts or more. Especially in the hydropower-rich areas of Jinsha River (金沙江), Lancang River and Nu River (怒江), where the potential development capacity reaches 65.43 million kilowatts, there are 35 potential sites on which large hydropower stations capable of producing 250,000 kilowatts or more could be built. This is rare in China.

The first hydropower station in China was situated in the Sishan District (西山區) of Kunming, Yunnan at a dam known as the Shilong Dam (石龍壩), on the north bank of the Tanglang River (螳螂川). Since China’s opening up and reform in the 1980s, Yunnan’s electricity industry has adopted the policy of “multiple enterprises and multiple sources of capital” to develop the industry, and followed the principles of “prioritising the development of hydroelectricity, coordinating the development of thermal electricity, and synchronising the pace of power grid construction”. Thus, the development of hydropower is massive in scale and resulted in frequent unexpected successes – the Lubuge (魯布革) Hydropower Station was the first hydropower project open to foreign investors, the first to use loans from the World Bank, the first to open for tender internationally, and the first to bring in advanced facilities, equipment and management experience from abroad. It created a “Lubuge Shock Wave” all over the electricity construction industry in China. Since 2000, the total electricity generator engine capacity of the whole province has reached 7.59 million kilowatts, and annual electricity generation has reached 31.8 billion kilowatt-hours. This not only satisfied domestic demand within the province, it also resulted in electricity exports to southern China during the rainy season. In fact Yunnan became the first province to realise the “West-to-East Electricity Transmission” project.18

1.3 Guangdong’s Guaranteed Electricity Supplies

1.3.1 West-to-East Electricity Transmission and Economic Benefits for Guangdong

Guangdong has become the biggest beneficiary of electricity development in the southwestern provinces/region and the arrangement of the Southern Power Grid. In Guangdong, 100% of coal, 80% of petroleum and 20% of electricity have to be imported from outside the province. Per capita regular energy reserves are less than 5% of the average figure for China, showing that Guangdong is very seriously lack of energy sources. However, during the 10th Five-Year Plan Period, Guangdong’s GDP grew by 13% per annum. Such high growth rates further made Guangdong a big energy-consumer. Experts predicted that between 2000 and 2010, electricity consumption in Guangdong would increase from 121 billion kilowatt-hours to 267 billion kilowatt-hours and electricity shortages would become an extremely serious problem. In 2005, the electricity shortage was more than 4.5 million kilowatts, about 10% of total electricity demand. The shortage has become increasingly acute in recent years. In this summer (2006), the electricity shortage and typhoon damage to the power grid have compromising the security of electricity transmission and adequate supplies are in jeopardy. On 1 September 2006, the Southern Power Grid reached its highest capacity of 58.02 million kilowatts, breaking the historical record for the twelfth time; and the Guangdong Power Grid reached its highest capacity of 37.25 million kilowatts, breaking the historical record for the tenth time.

Although electricity shortages have occurred in both eastern and western provinces, the Southern Power Grid has been able to guarantee supplies to Guangdong. The grid under the management of the Ultra-high Voltage Transmission Company, which is the main line of the West-to-East electricity transmission, has long been under its maximum transmission capacity, and the Guizhou-Guangdong direct circuit was in maximum capacity three months ahead of schedule. From the beginning of this year, the Southern Power Grid’s West-to-East Transmission reached a maximum capacity of 12.1 million kilowatts; and the transmission line of the Ultra-high Voltage Transmission Company reached a maximum capacity of 8.61 million kilowatts. The West-to-East Transmission main line of Southern Power Grid’s Ultra-high Voltage Company has a total length of 8,000 km covering Guangdong, Guangxi, Guizhou and Yunnan. It shoulders one-

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19 According to the “Policies for the Reform of the Electricity System”, the China Southern Power Grid Company Ltd. was formed in December 2002. It serves five provinces, namely, Guangdong, Guangxi, Yunnan, Guizhou and Hainan, and was responsible for the investment, construction and management of the power grid in the south China area.
quarter of the electricity capacity of Guangdong, and is in a very important position in the Southern Power Grid.

Up until now, the direct circuit system of that Company’s main line has sharply increased its energy availability rate, and the system protection equipment of 220 kilowatts or above has maintained a 100% rate of optimum movement. The summer peak period did not experience any system breakdowns. It guaranteed 25% of the electricity supply to Guangdong, and provided over eight million kilowatts of “Western electricity” to various users in the Pearl River Delta20.

In 2005, GDP in Guangdong reached RMB 2,170 billion, which is 67% of the total GDP of the five provinces/region served by the Southern Grid (Guangdong, Guangxi, Yunnan, Guizhou and Hainan). Guangdong is seriously in need of more energy sources, as the energy reserves of Guangdong represent only 3.5% of the whole region. Yunnan and Guizhou, however, have energy reserves representing up to 90.5% of the total of the five provinces/region, with known coal reserves of 80 billion tons, and hydropower reserves of 120 million kilowatts. In 2005, total electricity consumption in Guangdong was 267.5 billion kilowatts, 1.6 times the sum total of the other four provinces/region. Western electricity (not including electricity from the Three Gorges) to Guangdong for the same period was 34.2 billion kilowatts, about 13% of total electricity consumed. If there were no West-to-East electricity, economic development in Guangdong would not be possible. Besides, since Western electricity is cheaper, the average price of Western electricity sold in Guangdong was cheaper by RMB 0.1 per kilowatt-hour than the average price for Guangdong’s grid electricity. This means a total reduction in expenditure for purchasing electricity of more than RMB 14 billion, making Guangdong electricity cheaper to the final consumer21.

1.3.2 West-to-East Electricity Brings Environmental Benefits for Guangdong

Western electricity also brings obvious benefits in environmental conservation. If the 34.2 billion kilowatt-hours of electricity were generated by thermal power plants in Guangdong, other than land costs and water problems, the exhaust gas of sulphur dioxide would be discharged into the atmosphere in the

amount of 260 million kilograms (calculated based on the assumption that coal burns at 370 gm per kilowatt-hour, and one ton of coal burnt discharges 20 kilograms of sulphur dioxide). The existing coal and petroleum thermal power plants have already caused serious environmental damage, resulting in estimated losses of nearly RMB 4 billion annually due to sulphur dioxide and acid rain.

As West-to-East electricity is mainly produced from hydro resources, the western provinces will not experience sharp increases in carbon dioxide, sulphur dioxide and nitric oxide pollution even though electricity generation has increased tremendously. Environmental effects to the western provinces are minimal. At present, western electricity exported to Guangdong amounts to 144.4 billion kilowatt-hours (not including electricity from the Three Gorges). From this figure, it can be calculated that Guangdong has already reduced sulphur dioxide discharges by 1.1 billion kilograms. According to the survey and analysis carried out by the National Environment Conservation Bureau for 17 provinces and municipalities, in the first half of 2006, major pollutants like sulphur dioxide and oxygen consumed in the oxidation process increased by 5.8% and 4.2% respectively compared with same period over the previous year, but increases in Guangdong were only 2.9% and 1.1% respectively amidst a GDP growth rate of 14.4%. While Guangdong is economically the better province, the environment has not suffered in proportion, and West-to-East electricity is the crucial factor.

1.4 Electricity Co-operation Between the Southwestern Region and the Neighbouring Regions

Since the southwestern provinces/region are improving technologically as well as in the administration, electricity cooperation has become the focus of regional energy cooperation.

1.4.1 The Southwestern Region to Become Regional Exporter of Electricity to International Markets

Yunnan is the main province which exports electricity to neighbouring countries. Between January and May 2005, Yunnan exported 87.2 million kilowatt-hours of electricity to countries in the Greater Mekong Sub-Region, an increase by 17.2 times over that for the same period in 2004. Myanmar and Vietnam are the main importers. In the past ten years, Yunnan has supplied electricity to Myanmar, with an annual rate of increase of 40%. Between
September 2004 and May 2005, electricity exported by Yunnan to Vietnam amounted to 108 million kilowatt-hours.

At present, China does not supply electricity to Cambodia, Laos or Thailand, but some form of cooperation has started. According to an agreement between the Southern Power Grid and the Thailand National Electricity Company, China will supply 1.5 million kilowatts of electricity annually using 500-kilowatt lines in 2013 and 2014. China and Laos have reached an agreement also to help the national electricity projects of Laos and have selected relevant Chinese enterprises to implement these plans.

In recent years, as regional economies have developed rapidly, the acute shortage of electricity has created a bottle-neck to economic development in the Greater Mekong Sub-region. Experts estimate that by 2008, electricity shortages in Cambodia, Laos, Myanmar, Thailand and Vietnam will reach 20.3 million kilowatts. To strengthen co-operation over electricity supplies, the Greater Mekong Sub-region countries, namely, China, Cambodia, Laos, Myanmar, Thailand and Vietnam, have signed the Memorandum on the first stage of the electricity trading transaction agreement in the Sub-region in the second Leaders’ Meeting for the Greater Mekong Sub-region on 5 July 2005. The memorandum provided a basis for co-operation over technical matters concerning a regional power grid connection and a unified electricity price across borders. China will adopt a new “Grid-to-Grid” network, and “Region (the China Southern Power Grid region)-to-Region (the Greater Mekong Sub-region) model” to supply electricity to neighboring countries. This will enable the Sub-region to enjoy greater power resources according to absolute advantages, and increase the reliability of technical operations.

In the Greater Mekong Sub-region, most countries are in the preliminary stage of industrial development, with a great need for electricity, but having backward machinery and being lack of talents. Electricity from China has absolute advantages and is mutually beneficial to all parties. Electricity co-operation with the neighbouring countries is not just an economic activity; it is also a fulfillment of an earlier promise by China to develop with the developing countries hand-in-hand, to foster good relations, maintain a secure and safe environment, and seek wealth and prosperity together. This will help build up mutual trust and mutual benefits, and will help China exert political influence in the region.

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The China Southern Power Grid Company is now supplying electricity to northern Vietnam via a 220-kilowatt grid network. This project is the largest cross border electricity project and came into formal operation on the 26 September 2006. The grid network connection marks a new era of electricity cooperation between China and Vietnam. On 31 October 2005, the China Southern Power Grid Company and Vietnam’s National Electricity Company officially signed a contract in which China agreed to sell 220 kilowatts of electricity to the six northern provinces of Vietnam. Construction work started on 10 February 2006, and supplies of electricity were delivered two months earlier than scheduled. The present three circuits of 110-kilowatt lines of the Southern Grid were upgraded into 220-kilowatt lines.

The Chinese Government has delegated the right to implement the Greater Mekong Sub-region agreement to the China Southern Power Grid Company, which follows the strategic policy of “going global”. With a base in the five southwestern provinces/region, the company will utilise its location and geographical advantages, and strengthen cooperation over power grid, electricity trading and joint development with the Sub-region’s countries, namely, Vietnam, Laos, Myanmar and Thailand. The China Southern Power Grid Company is the first Mainland power company to “go global” and has seen fruitful results in various aspects. By September 2004, three 110-kilowatt lines had been constructed and were supplying electricity to Vietnam, one from Hekou (河口), Yunnan to Lao Cai (老街), Vietnam, one from Fangchenggang, Guangxi to Quang Ninh (廣寧), Vietnam, and one from Wenshan (文山), Yunnan to Ha Giang (河江), Vietnam. By the end of August 2006, 1.01 billion kilowatt-hours of electricity had been transmitted, worth USD 44 million. The Southern Power Grid is speeding up construction of a second 220-kilowatt China-Vietnam transmission line, expected to begin operations in April 2007. At the same time, a 500-kilowatt grid connection project has been initiated featuring the interchange of knowledge of electricity transmission technology, personnel training, and experience of electricity trading, and a BOT investment to construct an electricity generation project will be made with assistance from the Vietnamese Government.

China is also speeding up co-operation over developing electricity resources and investing in power station construction, with Vietnam, Laos, Myanmar and Thailand. With this development trend, electricity has become the

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fourth economic route between China and ASEAN, after roads, waterways, and aviation.

1.4.2 Development of Electricity Co-operation in the Pan-Pearl River Delta

The provinces/region of Guangdong, Guangxi, Guizhou and Yunnan are within the Southern Power Grid. They have not only built up the electricity supply network, they have also built “six indirect and two direct circuits” of 500-kilowatt “West-to-East” electricity transmission pathways. Guangdong and Hainan are also planning to connect their power grids and already have a 500-kilowatt grid connection. Sichuan and central China have had their grid connected, and are connected to Guangdong through the Central China-Guangdong direct circuit line. Guangdong has four special lines carrying 400 kilowatts of nuclear generated electricity and several 132-kilowatt lines connected with Hong Kong, plus four 110-kilowatt lines connected with Macao. Such massive inter-connection ensures the co-operation of inter-provincial electricity supplies, the uninterrupted supply of electricity in times of shortage, and a high degree of reliability and security for all areas concerned.

In 2005, West-to-East Electricity Transmission in the Southern Power Grid reached a capacity of 1,200 billion kilowatts, which is ten times that of 2000. By 2010, the transmission capacity will be expanded further by 1,150 – 1,350 billion-kilowatts. Western electricity (including Leyu River of Hunan (湖南鯉魚江) and the Three Gorges) supply to Guangdong amounted to 53.5 billion kilowatt-hours, with its maximum power reaching 11.2 million kilowatts. Western electricity supply to Guangxi amounted to 5.8 billion kilowatt-hours. Guangdong supplied Hong Kong 11 billion kilowatt-hours of electricity, and Hong Kong supplied Guangdong 4.5 billion kilowatt-hours of electricity. Guangdong supplied Macao 0.3 billion kilowatt-hours of electricity. Guizhou and Hunan, Sichuan; Guangdong and Guangxi, Hunan; Yunnan and Sichuan also had small volume of electricity transactions.

The Southern Power Grid not only covers the five provinces/region of Guangdong, Guangxi, Yunnan, Guizhou and Hainan, it also links up with the

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24 “The Southern Power Grid sends western electricity to the east, covers five provinces/region and connects with the Hong Kong and Macao grids (覆蓋五省區連接港澳電網，南方電網西電東送）”, Macao Daily, 5 July 2006, pp. A3.
electricity grid networks of Hong Kong and Macao. Under the support of the Southern Power Grid, a third electricity supply line between Zhuhai and Macao was started to construct on 20 September 2006 and was expected to begin operations in May 2007. By then the capacity of electricity supplies from the Mainland to Macao will increase by 50%, sufficient to meet Macao’s future demand over the next five years. The Mainland will then be the main source of electricity supply to Macao. At present, the power generating capacity of Macao is 472 billion kilowatts. There are also two Mainland-Macao transmission lines with a capacity of 500 billion kilowatts.

In the past five years, the Southern Power Grid has doubled both in capacity and electricity consumption. In 2005, total engine capacity reached 90,830 billion kilowatts, and by 2010, it will be 160,000 billion kilowatts, with an actual electricity loading capacity of up to 114,000 billion kilowatts. It is estimated that Macao will have its electricity loading doubled to 1,170 billion kilowatts, but this amounts to merely 1% of the Southern Power Grid. The Macao SAR Government has decided that due to developmental and environmental considerations, Macao will not develop its electricity industry. The Southern Power Grid will work in accordance with the Pan-Pearl River Delta Regional Framework Agreement and set up a working group to look at increasing electricity supplies to Macao. This has received the support of the National Development and Reform Commission and other relevant departments, and the planning of the Southern Power Grid in the 11th Five-Year Plan will fully consider Macao’s electricity needs26.

### 1.5 The Question of Electricity in Hong Kong and Recommendations

Compared with the Mainland, Hong Kong is the forerunner of the market economy. However in areas like electricity system reform, the separation of generator plants and power grids, power grid price bids, and the construction of the cross-regional power grid, the Mainland has moved faster than Hong Kong. The problem facing Hong Kong is how to balance the pros and cons of competition whilst ensuring a reliable and secure supply of electricity. What should Hong Kong do to reform its electricity system?

The ultimate objectives of the electricity system reform on the Mainland and abroad is to separate power generation, power transmission, power allocation

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and the selling of electricity, and to let electricity prices reflect actual market demand and supply. When it comes to reforming the electricity system in Hong Kong, is it simply a question of whether the two electric companies should receive the legitimate profit return rate as laid down in the *The Control Agreement Scheme*?  

The air pollution problem in Hong Kong has been criticised for a long time, as it does not fit with the image of an internationally advanced city. International rating institutions have even downgraded Hong Kong just because the problem of air pollution has not been well handled. Other than exhaust gases from traffic vehicles, electricity generation is one of the major polluting devils. Short term ways to solve the problem include firstly, changing the profit guarantee clause agreements with the electric companies of Hong Kong, as the present mechanisms encourage them to increase capital investment without regard to the genuine needs of Hong Kong. Secondly, the present regulations forbidding the discharge of exhaust gas are too weak. There should be stricter regulations, or at least, demands for the electric companies to install sulphur-free facilities, as in Sichuan which provides a good example. Lastly, the use of natural gas as a fuel for thermal power should be considered, the trade in polluting emissions should be encouraged, electricity sold by CLP Power to the Mainland should be reduced and constraint by terms and conditions, and recyclable energy sources such as wind and solar energy should be used, etc.

In the long run, in order to guarantee secure and reliable supplies of electricity, Hong Kong should learn from the Macao experience and reduce or abandon local power generation, and let the Southern Power Grid supply electricity to Hong Kong. There is a power supply surplus on the Mainland and the Chinese media is now worrying about oversupply of electricity, because investment in the electricity industry has been increasing rapidly. In 2003, the total generating capacity in China was 390 million kilowatts, but in 2006, the estimated capacity reached 600 million kilowatts. The electricity industry growth rate has surpassed that of GDP, and this will bring forth a surplus of electricity supplies. Between 1998 and 2002, the annual power generating capacity was about 19 million kilowatts, with no significant increase, and this has resulted in electricity shortages since 2002. In 2005, 25 provinces experienced some shortages in supply. In 2006, there were some provinces experiencing surpluses and some in shortage. The surpluses were evidenced by a decrease in the generating hours of the power generating machines. In the first half of 2006, the average hours used by thermal

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27 Tsang Kit-mei (曾潔媚): "Electricity System Reform – Mainland and Hong Kong: Who is one step faster? (電力體制改革—大陸香港：誰快一步?)", *Hong Kong Policy Research Institute Web*, http://www.hkpri.org.hk/passagesPDF/onNewspaper%E4%B8%AD%E6%B8%AF%E7%A0%94%E7%89%A9%E9%9B%BB%E5%8A%A9%E9%AB%94%E5%88%B6%E6%94%B9%E9%9D%A9.pdf.
engines across the whole nation decreased by 178 hours compared with the same period last year. It would be feasible to solicit electricity supplies from the Southern Power Grid, and the surplus supply of electricity on the Mainland makes it sensible to do so. Hong Kong imports water from Dongjiang River（東江）, Guangdong, and has not experienced any big problems so far. Importing electricity from China, just like the Dongjiang water, should not be too complicated. Other than the interests of the present monopolistic electric companies and some technical considerations concerning security, there should be no major problems.

However, besides the present electricity system, Hong Kong could also consider opening up power generation and power consumption, and diversifying power generation, such as to solar energy and other sources of power. Home users could use their own solar energy and save up surplus electricity through a power grid. Power conservation mechanisms should also be considered. Electricity power is an integral part of sustainable growth in a society and therefore should not be considered merely under the headings of economics or business enterprises. A more holistic, comprehensive and long term developmental strategic plan should be considered.


29 Opening up means opening up the power grid, with no restrictions on the source of power supply, allowing for multiple sources of power, including building up mechanisms to promote the diversification and divergence of electricity sources. Divergence refers to the notion that as the technology to generate electricity develops, generating engines become smaller, and then community organisations, business enterprises and even domestic homes can use various technologies to produce electricity. Although small engines mean low efficiency and low benefits in the scale of production, conservation technologies, such as solar energy, wind energy, gas, can offset the loss in economic efficiency and production. These communities, businesses or homes could produce their own electricity, and if needed, buy electricity from the power grid company, or in the case of electricity surpluses, could sell their electricity back to the power grid company. From the point of view of environment conservation and technological feasibility, opening up and divergence will be an important issue for electricity system reform in the coming future.
2 Trends and Updates on the Four Southwestern Provinces/Region

2.1 Economic Performance on the Four Southwestern Provinces/Region

From January to October in this year, the overall economy of the four provinces/region run steadily and maintained a rapid growth, but the growth rates of some major economic indicators dipped. In industry, Sichuan still led the region in terms of the growth rate of industrial value-added, but Guizhou and Yunnan saw their growth rates falling, by 0.1% and 0.4% respectively compared with the aggregate growth rates of the first three quarters, of which Yunnan saw the largest decline.

As to urban investment, Sichuan, Guangxi and Yunnan kept a 30% year-on-year increase, better than the national average. However, due to the impact of the national macro-control policies, the growth rates of these three provinces fell by between 0.8% and 1.7% against the aggregate growth rates of the first three quarters, with rapid growth turning into steady increase. Only Guizhou saw the opposite trend.

The four provinces/region saw mixed performance in terms of the ratio of sales of industrial products. Sales ratio was picked up by the four provinces/region, and higher than the aggregate ratio of the first three quarters. Guangxi experienced the biggest recovery, nearly leveling that of Sichuan, while Sichuan’s rally caught up when compared with the same period of last year. However, the ratios of the four provinces/region still lagged behind the national average, and they were significantly lower compared with the same period of last year, which could hardly recover in the future two months.

Per capita urban disposal income of the four provinces/region in October was higher than that in September, and the growth rates of Guangxi, Sichuan and Yunnan were also higher than that in the past. One of the biggest contributing factors is believed to be in conjunction with the National Day Holiday and the Mid-Autumn Festival in October, when the income of the staff will typically increase because of the “festive pay”.

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Value-Added of Industry (100 Million Yuan)</th>
<th>Ratio of the Sales of Industrial Products</th>
<th>Urban Investment (100 Million Yuan)</th>
<th>Urban disposable income per capita in October (Yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan-Oct (Aggregate)</td>
<td>Year-on-year growth</td>
<td>Jan-Oct (Aggregate)</td>
<td>Year-on-year growth (percentage)</td>
</tr>
<tr>
<td>Nationwide</td>
<td>69,867</td>
<td>16.9%</td>
<td>97.91%</td>
<td>0.11</td>
</tr>
<tr>
<td>Guangdong</td>
<td>8,715</td>
<td>18.3%</td>
<td>97.33%</td>
<td>-0.63</td>
</tr>
<tr>
<td>Sichuan</td>
<td>2,097</td>
<td>23.6%</td>
<td>97.38%</td>
<td>-0.04</td>
</tr>
<tr>
<td>Guangxi</td>
<td>851</td>
<td>23.5%</td>
<td>97.19%</td>
<td>-1.89</td>
</tr>
<tr>
<td>Yunnan</td>
<td>1,013</td>
<td>16.6%</td>
<td>97.80%</td>
<td>-0.94</td>
</tr>
<tr>
<td>Guizhou</td>
<td>559</td>
<td>17.3%</td>
<td>96.13%</td>
<td>-0.27</td>
</tr>
</tbody>
</table>

Note: Local statistics represent preliminary data, which may be subject to adjustment in the future, and may differ from statistics published by the National Bureau of Statistics at a latter date. Source: Website of the National Bureau of Statistics—Statistics Update: http://www.stats.gov.cn/tjsj/index.htm.

The four provinces/region sustained their good performance in foreign trade. Compared with the first three quarters, growth rates of exports all increased while imports saw mixed results. Sichuan and Yunnan experienced significant drop, although their growth rates of imports still stayed above 40%; while Guangxi and Guizhou saw slight increase in their growth rates. And, it is worth noting that the aggregate growth rate of Guizhou’s imports climbed to double digits since the period from January to May.

Table 2.2: Imports and Exports of the Four Provinces/Region, January to October 2006

<table>
<thead>
<tr>
<th>Region</th>
<th>Export</th>
<th>Import</th>
<th>Import and Export Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan-Oct (100 mil USD)</td>
<td>Year-on-Year Growth</td>
<td>Jan-Oct (100 mil USD)</td>
</tr>
<tr>
<td>Nationwide</td>
<td>7,792.9</td>
<td>26.8%</td>
<td>6,456.6</td>
</tr>
<tr>
<td>Guangdong</td>
<td>2,410.7</td>
<td>28.0%</td>
<td>1,825.0</td>
</tr>
<tr>
<td>Sichuan</td>
<td>52.9</td>
<td>42.1%</td>
<td>36.2</td>
</tr>
<tr>
<td>Guangxi</td>
<td>28.3</td>
<td>22.5%</td>
<td>24.4</td>
</tr>
<tr>
<td>Yunnan</td>
<td>26.7</td>
<td>22.6%</td>
<td>24.0</td>
</tr>
<tr>
<td>Guizhou</td>
<td>8.4</td>
<td>24.2%</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Notes: 1. Statistics are based on location of importers and exporters.
2. A negative figure indicates a trade deficit.
2.2 Trends and Updates on Sichuan

2.2.1 Economic Performance of Sichuan

Sichuan’s economy performed quite well from January to October, and industrial production, investment and consumption maintained a steady growth, among other sectors.

Table 2-3: Major Economic Indicators of Sichuan (January to October 2006)

<table>
<thead>
<tr>
<th>Items</th>
<th>Jan-Oct (RMB 100 Million)</th>
<th>Year-on-Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Investment in Fixed Assets</td>
<td>3,467</td>
<td>31.2%</td>
</tr>
<tr>
<td>Total Retail Sales of Consumer Goods</td>
<td>2,754</td>
<td>14.8%</td>
</tr>
<tr>
<td>Foreign Trade (US$, 100 million)</td>
<td>89</td>
<td>42.9%</td>
</tr>
<tr>
<td>Government Revenue</td>
<td>481</td>
<td>28.5%</td>
</tr>
<tr>
<td>Government Expenditure</td>
<td>790</td>
<td>20.7%</td>
</tr>
<tr>
<td>Urban Disposal Income Per Capita(Yuan)</td>
<td>7,723</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

Note: Local statistics represent preliminary data, which may be subject to adjustment in the future, and may differ from statistics published by the National Bureau of Statistics at a latter date.

Sources:

Although the growth rate of value-added to industrial enterprises above a designated size in October was 0.2% lower than that of the same period in the preceding year, Sichuan witnessed an accumulated growth of 23.6% from January to October, which was still 0.5% higher than that of the preceding year. The main driving force behind growth came from heavy industry, and the value-added to heavy industry reached RMB 142.4 billion from January to October, which increased by 23.8% and 1.3% higher than that of light industry.

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Due to China’s macro-control policies, total investment in fixed assets in Sichuan slipped by 1.4% compared with the three previous quarters, but the investment structure is still being optimised. Investment was under effective control in such sectors as the iron and steel industry and ferroalloy manufacturing industry which are the major targets of those policies, while it gained momentum in superior sectors. Among those sectors, the electronic information industry was the most prominent, and investment worth RMB 4.72 billion was poured in, an increase of 53.4%. The water and electricity supply industries and equipment manufacturing industry stood next, with both experiencing increases of more than 35%. In the three main industries, the investment growth rate in the primary industry was the fastest, with an increase of 37.1% compared with the same period in the preceding year32.

The growth rate in total retail sales of consumer goods was 0.8% higher compared with the same period last year, setting a new high this year. Retail sales markets at the municipal and county levels saw more rapid growth, while those under the county level also picked up pace, and reached 13.4%, with a total value of RMB 91 billion. Thanks to the National Independence Holiday and the Mid-Autumn Day Holiday, tourism boomed and retail sales for the catering industry also expanded rapidly, with growth rates 3.1% higher than for wholesale and retail trade33.

Although Sichuan’s economy is developing steadily, problems remain which call for special attention. Firstly, the economic structure has not yet been effectively adjusted, which has resulted in uneven development between the secondary and tertiary industries and in the low contribution of consumption to economic growth. Secondly, the unceasing climb in prices for raw materials curtailed the profit margins of enterprises, and this will exert a negative impact on the improvement of industrial benefits. Finally, faced with the arduous task of energy conservation, Sichuan may well have to overcome some hurdles in economic development34.

34 Ibid.
2.2.2 Updates on Sichuan – Chengdu Policy Release Promotes Full Employment

On 7 November this year, the Labour and Social Security Bureau of Chengdu Municipal Government released a series of regulations on the social insurance allowance system. These included comprehensive social insurance allowances, granting of “Preferential Re-employment Certificates”, social insurance allowances for work units, and grants for career advice to the unemployed. These initiatives are aimed at promoting full employment. According to these regulations, relevant groups and employers are entitled to enjoy preferential policies in terms of employment, social insurance, and taking on and training those experiencing difficulty finding jobs. Specifically, the regulations are:

1. Allowances to Employers Who Take on Workers Experiencing Difficulty Finding Work

Eligibility: Work units which have participated in social insurance programs and paid due costs, including business- and service-oriented enterprises (except those engaged in sectors excluded by the state) which have newly employed people with the Preferential Re-employment Certificates or the Disability Certificates and signed with them labour contracts for over 1 year; work units and communities which have employed people with Preferential Re-employment Certificates or Disability Certificates in communal jobs and signed with them labour contracts for over 1 year; and any work unit which has employed people experiencing difficulty finding jobs and signed with them labour contracts for over 3 years.

Allowance Standards: 1. Allowances for those work units which have covered basic endowment insurance, basic medical insurance and unemployment

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35 Eight categories of people, who hold city residency certificates, are able bodied within the legal age and hold employment expectations can apply for the Re-employment Certificates. These include laid-off workers from state-owned enterprises; workers of closed or bankrupt state-owned enterprises; laid-off workers of township collective enterprises; laid-off workers of public undertakings under enterprise management; unemployed farmers without land; laid-off workers of “zero employment” families in the urban areas; demobilised military personnel who are unemployed; and urban citizens who are enjoying minimum living guarantees and who have registered unemployment for at least one year. Those who have had the Re-employment Certificates should not make any alteration to the Certificates, and should not rent or sell the Certificates, which, if discovered, will result in the confiscation of the Certificates and the revocation of all the privileges hitherto enjoyed.

Please see Xiao Jian (蕭建): “Work units which participate in Chengdu’s comprehensive social insurance programs for peasant workers can claim back 4.5% of their payment (為民工買社保，用人單位可獲 4.5%的補貼)”, Sichuan News Net, 8 November 2006, http://scnews.newssc.org/system/2006/11/08/010181567.shtml.
insurance for employees. 2. Those work units and communities which have employed people experiencing difficulty finding work in communal jobs can enjoy duty allowances (50% of local minimum wage precisely), which will last for no more than 3 years. 3. Those work units which have employed people experiencing difficulty finding jobs and signed with them labour contracts for more than 3 years can apply for duty allowances that will last for no more than 3 years, after those work units have paid due costs on social security for 12 months. For each of the people employed, the work units and communities will receive RMB 1,000 per month for the first year, RMB 1,500 per month for the second year, and RMB 2,000 per month for the third year. Applications for allowances will be conducted on a monthly basis, and will be handled before the 15th of the next month.

2. Allowances for Part-Time Community Employment

Eligibility: Those employed in the community on a part-time basis who work for more than 4 hours a day and no less than 22 days a month; whose earnings represent their major income source, and which should be no less than the minimum standard of living allowance for urban residents; whose work and service is directed at helping the residents of the communities where they are employed; finally, those who are engaged in domestic services must provide letters of certification from their employers every month.

Allowance Standards: 1. Those “4050s” with Preferential Reemployment Certificates (including those engaged in communal work) and those unemployed with a Disability Certificate are entitled to a 70% refund of the social insurance allowance. 2. Others with Preferential Reemployment Certificates and urban residents with Unemployment Certificates are entitled to a 40% refund of the social insurance allowances.

3. Allowances for Young Interns

Eligibility: Graduate students from college or senior secondary school, aged between 16 and 25 (in some cases this age limit can be extended up to 30 years old), who are registered as unemployed residents in Chengdu.

Allowance Standards: Career service centres in those districts, counties and cities, where graduate students have registered their residency, should arrange vocational internships of 3 to 6 months for these students, during which time they are entitled to receive allowances (30% of the local minimum wage per person per

36 “4050s” refer to those aged between 40 and 50 years old.
month). These students can also receive an additional allowance worth between RMB 50-80 per person per month (including fees covering their life and accident insurance).

In addition, those career service centres which provide such internship opportunities can also apply for allowances.\(^\text{37}\)

### 4. Safeguards for Underprivileged Groups

The most important goal of these regulations is to further protect the economic interests of underprivileged groups. The following measures are designed to offer further protection:

#### A. Work units which buy insurance for peasant workers are entitled to claim back 4.5% of their payment

Work units which participate in Chengdu’s comprehensive social insurance programs for peasant workers can claim back 4.5% of their payment. Graduate students from college or senior secondary school can receive internship allowances. Work units which have employed persons with non-urban residency registration and have paid due costs in good time can claim back 4.5% of their payment. According to these regulations, work units should buy comprehensive social insurance for peasant workers, with work units meeting 14.5% of the total costs and the peasant workers 5.5%. To encourage more work units to buy insurances for peasant workers, social insurance agencies will refund 4.5% of their payment as allowances until December 2008.

Work units which participate in social insurance programs should collect information on those employees with non-urban residency registration, including those who have registered with social security agencies in their neighbourhood and completed the Peasant Worker Certification Form for Sichuan Province and filled in the Comprehensive Social Insurance Allowance Application Form. Information relating to their identification card, residency registration,

\(^{37}\) For details of the above policies, please see Huang Xuyang (黃旭陽): “Nine policy measures released in Chengdu to promote full employment in both urban and rural areas (促進城鄉充分就業, 成都出台 9 項具體政策), Sichuan News Net, 8 November 2006, http://scnews.newssc.org/system/2006/11/08/010180823.shtml.
labour contracts and the social insurance agencies which have handled their social insurance programs is also needed\textsuperscript{38}.

**B. Part-time workers with disabilities are entitled to a 70% refund of the social insurance allowance**

The Labour and Social Security Bureau of Chengdu Municipal Government has stated clearly in its regulations regarding allowances to part-time workers with disabilities, that those “4050s” with Preferential Reemployment Certificates and those with disabilities who are employed on a part-time basis are entitled to a 70% refund of the social insurance allowance every month; others with Preferential Reemployment Certificates and Unemployment Certificates are entitled to a 40% refund of the social insurance allowance every month.

Part-time employment refers to those with urban residency registration, who have not been employed by any organisation or applied for any Certificate of Business Registration on individual basis other than engaged in community work including domestic services, bicycle repair, shoe repair and recycling. Their monthly social insurance payment in 2006 should have been: the previous year’s monthly average wage of posted staff in Sichuan province (RMB 1,319) × 20% + the monthly average wage of all staff in Chengdu City (RMB 1,440) × 9.5% = RMB 400.6

The measures introduced by Chengdu are mainly aimed at encouraging enterprises to employ underprivileged groups by subsidising social insurance calculated according to the minimum wage. Two aspects of this policy are particularly noteworthy:

One aspect is concerned with peasant workers. Chengdu has changed its policies on social insurance which only covered urban residents to include peasant workers, reflecting the direction of the Central Government which seeks to improve the treatment of peasant workers. Since quite a few peasant workers come from outside Chengdu City, this change has demonstrated how the Chengdu Municipal Government is committed to granting equal welfare to non-local workers, which is also aimed at using them to push forward local development.

The other aspect is concerned with people employed on a part-time basis. On the one hand, they are required to pay part of the costs for their social

\textsuperscript{38} Xiao Jian (蕭建): “Work units which participate in Chengdu’s comprehensive social insurance programs for peasant workers can claim back 4.5% of their payment (為民工買社保，用人單位可獲 4.5%的補貼)”, Sichuan News Net, 8 November 2006, http://scnews.newssc.org/system/2006/11/08/010181567.shtml.
insurance and insure their future livelihood whilst on the other hand; the government shoulders the rest of the costs to reduce their payments. The purpose of this move is to support the unemployed urban residents and encourage them to work on a part-time basis, especially those “4050s”, and people with disabilities. The underlying rationale is to push forward individual led community service work, increase employment opportunities, and develop the service sector work which is commercially less profitable but indispensable to every community.

Since social insurance allowances for people employed on a part-time basis vary depending on their situation, people holding Preferential Employment Certificates, aged between 40 and 50, and people with disabilities are entitled to a 70% refund of the social insurance allowances, that is, their real payment every month is: RMB 400.6 x (1-70%) = RMB 120.18. Others who hold the Preferential Employment Certificates and Unemployment Certificates are entitled to a 40% subsidy of the social insurance allowances, that is, their real payment every month is: RMB 400.6 x (1-40%) = RMB 240.3639.

Other large and medium-sized cities across the country face the same sort of employment problems as Chengdu City, which, if dealt with properly, will lay a solid foundation for the building of a harmonious society. As a matter of fact, the Mainland and Hong Kong share strikingly similar employment problems: they have both achieved an excellent performance in macroeconomic development, such as GDP growth, but they both face tremendous employment pressures and widening gaps between rich and poor, which is detrimental to social stability.

**Implications for Hong Kong**

Chengdu’s policy is aimed at promoting full employment, which is largely financed by the government. In essence, this is not unlike the welfare-to-work formula, but it is based on the minimum wage and social insurance systems. Incorporating subsidised employment into the above two systems is the basic requirement for the government and although the government provides subsidies, employers must not be allowed to shun social insurance payments. However, these allowances and wages are both set against the minimum wage standards. These are all experiences that Hong Kong could learn from.

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39 Yao Changshou (姚長壽): “The disabled who are employed on a part-time basis are entitled to a 70% refund of the social insurance allowance (殘疾人靈活就業社保可補貼 70%)”, *Sichuan News Net*, 5 November 2006: http://scnews.newssc.org/system/2006/11/05/010178217.shtml.
2.3 Trends and Updates on Guangxi Zhuang Autonomous Region

2.3.1 The Economic Performance of Guangxi

Guangxi’s economy kept up its rapid growth between January and October, and performed quite well in industrial production, foreign trade and consumption.

Table 2-3: Major Economic Indicators of Sichuan (January to October 2006)

<table>
<thead>
<tr>
<th>Items</th>
<th>Jan-Oct (RMB 100 Million)</th>
<th>Year-on-Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Production Value (the First Three Quarters)</td>
<td>3,066</td>
<td>13.1%</td>
</tr>
<tr>
<td>Total Retail Sales of Consumer Goods</td>
<td>1,312</td>
<td>14.4%</td>
</tr>
<tr>
<td>Foreign Trade (USD 100 million)</td>
<td>53</td>
<td>26.3%</td>
</tr>
<tr>
<td>Government Revenue</td>
<td>460</td>
<td>20.8%</td>
</tr>
<tr>
<td>Consumer Price Index (%)</td>
<td>101.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Note: Local statistics are preliminary, and may be subject to future adjustment and differ from the statistics published by the National Bureau of Statistics at a later date. Sources: Guangxi Statistics and Information Net, http://www.gxtj.gov.cn.

Guangxi’s industrial production grew rapidly, with value-added by industrial enterprises above a designated size between January and October worth RMB 85.1 billion, 23.5% higher on a year-on-year basis, and 0.4% higher than the period between January and September. The growth rate of heavy industry was 8.5% higher than that of light industry, reaching 26.4%. Guangxi’s industrial performance also improved in terms of quality, with profits from industrial enterprises above a designated size between January and October 43.5% higher than the same period last year, standing at RMB 14.7 billion, which actually exceeded the total value of last year. The six major industries driving profit growth were agricultural processing and sideline products, the power industry and special equipment manufacturing. These accounted for 68.8% of all profits from industrial enterprises above a designated size. The newly added profits in these industries accounted for 93.6% of all newly acquired profits.


41 “Profits earned by enterprises above a designated size in Guangxi between January and October have exceeded the total for the previous year (1-10月廣西規模工業實現利潤已超過去年全年水平)”, China
The growth rates of Guangxi’s imports and exports both increased, with the foreign trade surplus standing at USD 106 million in October, the highest this year. This export expansion was largely driven by general trade, and was 25% higher than the same period last year, contributing 18.1% to Guangxi’s export growth. Imports of mechanical and electrical products, and hi-tech products increased by 14.6% and 78.3% respectively, and become the primary driving force behind import growth\(^42\).

Benefiting from holiday consumption during the National Independence Holidays and the Mid-Autumn Holiday, retail sales in October reached the highest level in this year, standing at USD 14.5 billion, an increase of 16.2%\(^43\). Between January and October, the catering industry and retail industry increased by 14.3% and 16.7% respectively\(^44\).

It was notable that, as fixed asset investment in the second and tertiary industries grew by 50.4% and 26% respectively, investment in the primary industry increased only by 0.2%\(^45\), which will hinder the development of local primary industry and rural areas.

### 2.3.2 Updates on the Guangxi Zhuang Autonomous Region - The Ageing Population

On 29 September, the six districts of Nanning City started their publicity campaign to mark the tenth anniversary of the *Law of the PRC on the Protection of the Elderly Rights and Interests* (hereafter referred to as the ‘Elderly Law’). The campaign was aimed at promoting awareness of the Elderly Law among elderly people, informing them about how to better protect their lawful rights, and encouraging Nanning citizens to care more about the elderly around them. This also reflected efforts by the Nanning Municipal Government to put more and more emphasis on the elderly population and work involving the elderly.

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\(^45\) Ibid.
Currently, the number of elderly people aged above 60 in Nanning City stands at 790,000, and they account for 12.41% of the city’s total population. In comparison with international standards where the ratio of those aged above 60 stands at 10% and those above 65 at 7%, Nanning City has an ageing population.

In fact, Nanning’s ageing population represents all but a fraction of China’s total ageing population. It was as early as 1999 that China officially became an ageing society and is one of the few developing countries which have had to prematurely embrace the ageing society. Between 1982 and 1999, China completed the transformation of its population age structure and became an ageing society in less than 20 years, which would probably take most developed countries several decades or even more than a hundred years to achieve. Taking the time span during which the elderly population aged above 65 rose from 7% to 14% as a comparison, according to estimates, China would need 28 years, France 115 years, Sweden 85 years, and the UK and Germany 45 years. This aptly demonstrates the rapidity and seriousness of China’s ageing problem.

According to the Forecast Report on Trends and Developments on China’s Ageing Population released by China on 23 February this year, the number of people aged above 60 had reached 143 million by the end of 2004, accounting for 10.97% of the total population. This demographic trend was evident in 21 provinces, autonomous regions and cities in China, with ageing levels in 11 provinces and cities exceeding the national average (see Table 2-5).

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Table 2-5: Ageing Levels of Selected Provinces and Municipalities in China

<table>
<thead>
<tr>
<th>Locations</th>
<th>Proportion of the Elderly Aged above 60 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide</td>
<td>10.97%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>18.48%</td>
</tr>
<tr>
<td>Tianjin</td>
<td>13.75%</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>13.75%</td>
</tr>
<tr>
<td>Beijing</td>
<td>13.66%</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>13.18%</td>
</tr>
<tr>
<td>Chongqing</td>
<td>12.84%</td>
</tr>
<tr>
<td>Liaoning</td>
<td>12.59%</td>
</tr>
<tr>
<td>Shandong</td>
<td>12.31%</td>
</tr>
<tr>
<td>Sichuan</td>
<td>11.59%</td>
</tr>
<tr>
<td>Hunan</td>
<td>11.51%</td>
</tr>
<tr>
<td>Anhui</td>
<td>11.18%</td>
</tr>
</tbody>
</table>


The report also predicted that the ageing trend of China’s population in the 21st century will roughly go through three stages. The first stage, from 2001 to 2020, will see a stage of rapid ageing. During this period, China will see the ageing population increase by 5.96 million every year with the growth rate averaging at 3.28%. The second stage, from 2021 to 2050, will see a stage of accelerated ageing as the people born during the second baby boom in the 1960s and 1970s begin to age. China’s ageing population will experience accelerated growth during this phase, with an increase of 6.20 million every year. The third stage, from 2051 to 2100, will see a stage of severe ageing. By 2051, China’s ageing population will peak at 437 million, roughly double the young population. During this period, the elderly population will stabilise at between 300 and 400 million, and will account for around 31% of the population. At this time, the ratio of those aged above 80 to the total elderly population will reach between 25% and 30%, and China will enter a platform stage of highly ageing.

The ageing problem is a global issue in the 21st century. Right now, more than 70 countries have an ageing population and China has the largest number of elderly in the world. In fact, China’s ageing population accounted for...
one fifth of the world’s total ageing population in 1999\textsuperscript{49}. Therefore, China’s ageing problem will have global impact and, apart from the sheer number involved, China’s ageing population has other unique characteristics which will make it more difficult to grapple with. If these are poorly dealt with, they will have a seriously negative impact upon China’s hitherto promising development.

Firstly, a major problem that ageing will bring about is the rising support ratio (support ratio refers to the ratio of non-workers to workers). With the rise in the ageing population, the productive force in society also has to reach a corresponding level to ensure the survival of the whole society and its harmonious development. When developed countries began to age, their per capita GDP usually stood at between USD 5,000 and USD 10,000, while China’s per capita GDP has only just surpassed USD 1,000\textsuperscript{50}. However, official exchange rates are not so reliable, as calculated in terms of the World Bank’s or the State Development and Reform Commission’s PPP (Purchasing Power Per capita) standard, and the exchange rate of China’s Renminbi should greatly appreciate. This should mean that its GDP per capita will reach USD 5,000 accordingly, with development levels and GDP per capita in the coastal areas even higher. Undoubtedly, therefore, China has already entered the ageing stage.

Secondly, China’s pension system is still in tatters, especially in rural areas. In China, 75\% of the elderly population lives in the countryside. The statistics from the latest census (for the year 2000) put the ageing level in rural areas at 1.24\% higher than urban areas\textsuperscript{51}, which may be an underestimate as rural areas have been experiencing a mass exodus of adult peasant workers. The conflict between a backward pension system and a rising ageing population is highly likely to become a major source of social instability in the future.

Last but not least, since the inauguration of reform and liberalisation, China’s economic development has been largely dependent on labour-intensive industries. Although the Central Government has begun to emphasise the transformation of economic growth patterns, such changes cannot occur overnight. China’s accelerated ageing will see its abundant labour force strength soon compromised, and it is very difficult to foresee whether this reduction in labour will be accompanied by the simultaneous transformation of economic growth patterns.

\textsuperscript{50} Ibid.
\textsuperscript{51} “China’s ageing population gap widens between urban and rural areas, with the latter facing far more serious problems (我國老齡化城鄉倒置顯著,農村老齡問題突出)”, Xinhua Net, 12 October 2006, http://local.xinhuanet.com/jjsh/2006-10/12/content_10848.htm.
Although China faces a host of challenges and difficulties in dealing with the ageing problem, the situation is not completely pessimistic. The reason why China has become an ageing society so quickly is because the “one child” policy has caused the total population to fall too quickly. The proportion of children to the total population has fallen, and the proportion of the elderly has risen. Such a change will not have a significant impact on the support ratio in the short term. According to population estimates, an analysis of the Mainland points out that the support ratio will reach 0.54 by 2030, only 14% higher than in 1998\textsuperscript{52}. Until then, no significant social pressures are expected. Therefore, China has about 24 years to prepare itself before its ageing population peaks.

Ageing is a complex social phenomenon, a result of the long evolution of society as a comprehensive system, and a manifestation of human society’s comprehensive improvement in, among other things, medical science, technology and living standards. To a certain extent, ageing is a natural occurrence, although it can indeed bring about negative consequences to the whole society. As far as China is concerned, the major problem presently lies in the lamentable development of the pension system and the service industry for the elderly. In the Eleventh Five-Year Plan for the Development of Services for the Elderly which was formulated in June this year, the Central Government clearly stated that by 2010 the following should take place: firstly, a basically sound urban social security system for the elderly compatible with the socialist market economy should be established, and the possibility of establishing a rural pension system should be explored at the same time; and secondly, a sound service system combining family support and social support for the elderly should be set up, as well as an elderly products market which can meet the special demands of the elderly.

This shows that the Chinese Government has begun to address the most pressing issues brought about by the ageing problem. At the same time, the transformation of economic growth patterns proposed in the 11th Five-Year Plan is also seen as a response to the challenge of a declining adult labour force in the future. The general idea is aimed at increasing government revenue and personal income to deal with the pressures caused by the rising social support ratio. This could be achieved by reducing the proportion of low value-added, labour-intensive industries and improving the productivity, effectiveness and value-added of the whole economy.

However, the relations, and for that matter, the conflicts, between financing the pension system and government payments are still inconclusive. As to how to deal with the needs brought about by ageing in terms of community development and city planning, neither the Central Government nor the local governments like Nanning City have given much serious thought to this issue, and it has not occurred to them to do so either. Therefore, presently neither the Guangxi Autonomous Region Government nor the Nanning Municipal Government have any specific policy measures at their disposal to face the ageing trend.

**Implications for Hong Kong**

Hong Kong has come under more and more pressure as a result of its relatively high ageing levels. According to the Census and Statistics Department of the Hong Kong SAR Government, the population aged above 65 will account for 27% of Hong Kong’s total population by 2033, which will exert a heavy toll on Hong Kong society, economy and labour force, and further lead to falling government tax revenues and increased social security spending. The Hong Kong SAR Government has taken various measures such as encouraging childbirth and attracting immigrants from the Mainland, but the results are not encouraging. The net increase of Hong Kong’s population in the 1990s was 100,000, and decreased to an average of 40,000 between 2001 and 2005. The original immigrant policy for the Mainland (including a 55,000 quota every year) seems to have been ineffective in stemming the decline in the net increase of Hong Kong’s population.

Although there is no such thing as the *Elderly Law* in Hong Kong as there is on the Mainland, Hong Kong could start by addressing specific issues with regards to the ageing problem. It could exchange experiences with the Mainland, to provide it with relevant policy measures, whilst learning the successful and unsuccessful policies from Europe and Japan.

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2.4 Trends and Updates on Yunnan

2.4.1 The Economic Performance of Yunnan

Between January and October, the overall economic performance of Yunnan fared quite well, with foreign trade expanding and the consumer market booming amid steady growth.

| Table 2-3: Major Economic Indicators of Yunnan (January to October 2006) |
|-----------------------------|-----------------|----------------|
| Items                       | Jan-Oct (100 Million Yuan) | Year-on-Year Growth |
| Total Retail Sales of Consumer Goods | 933 | 14.7% |
| Foreign Trade (US$, 100 million) | 51 | 30.9% |
| Government Revenue | 309 | 23.9% |
| Government Expenditure | 547 | 10.6% |
| Urban Disposal Income Per Capita (Yuan) | 8,370 | 8.5% |
| Foreign Exchange Revenue Through Tourism (US$, 100 million) | 5 | 23.2% |

Note: Local statistics represent preliminary data, which may be subject to adjustment in the future, and may differ from statistics published by the National Bureau of Statistics later on.


Urban disposal income per capita increased by 14% in October compared with the same period last year, which provided incentives for consumption during the holidays. Total retail sales of consumer goods reached RMB 12.1 billion, 14.8% higher than the same period last year. The rapid growth of the consumer market was mainly driven by the wholesale and retail industry, which saw retail sales jump to RMB 9.9 billion, an increase of 14.7%, and helped total retail sales grow by 12.1%. The catering industry also underwent a strong expansion, with retail sales reaching RMB 1.9 billion, 16.6% higher than the same period last year, and the highest growth rate of all the industries.

54 “Yunnan’s urban disposal income per capita increased by 14% in October (十月份雲南城鎮居民可支配收入增長 14%)”, Yuxi Website, 9 November 2006, http://culture.yuxi.gov.cn/xxxx_gy.asp?id=200611091343591506.

Although there were quite a few pieces of good news from Yunnan’s industrial sectors, including a 40% profit increase compared with the same period last year and a parallel improvement in profitability in light and heavy industries, the issue of industrial structure was more noteworthy. In October, the value-added to industrial enterprises above a designated size was RMB 10.8 billion, RMB 700 million less than in September. The reduction in value-added largely resulted from an RMB 901 million decrease in light industry, of which RMB 900 million was directly or indirectly related to a production cut in the tobacco manufacturing industry, in line with state requirements to strictly control production. The growth in other sectors of light industry can hardly offset the effect caused by the slump in the tobacco manufacturing industry, which shows the over-concentration of Yunnan’s light industry on the tobacco manufacturing industry and the weakness of other light industry sectors56. Since China is obliged to enforce the Framework Convention on Tobacco Control, a stronger control on tobacco manufacturing is expected. If Yunnan fails to adjust its industrial structure in time, in the long run, its overall industrial production may be dealt severe blows caused by the fluctuations of the tobacco manufacturing industry.

The total value of Yunnan’s foreign trade, imports and exports, reached USD 5.07 billion between January and October, setting a new high, which was 30.9% higher than the same period last year and 6.8% higher than the national average. The commodity structure continues to be optimised, gradually changing from a dual export structure centred on non-ferrous metallurgical and phosphorus chemical products to a plural one including non-ferrous metallurgical, hi-tech, agricultural, chemical industrial and mechanical and electrical products57.

2.4.2 Updates on Yunnan - Construction of the Nanning-Guiyang-Kunming Economic Zone

On 18 October, Lin Guoqiang (林國強), Deputy Secretary of the CPC Committee of Nanning City and Mayor of Nanning City, stated that Nanning would continue to strengthen cooperation with Kunming, and would establish a

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“Nanning-Guiyang-Kunming Economic Zone” together with Guiyang. The Western Development Program Office of the State Council proposed as early as on 10 July 2002 the construction of Nanning-Guiyang-Kunming Economic Zone in The Tenth Five-Year General Plan for the Western Development Program, in which it was stated that: “Along the southwestern sea-going passage and based on transport arteries such as the Nanning-Kunming Railway and the land route from Chongqing to Zhanjiang, the hub role of central cities like Nanning, Guiyang and Kunming should be fully exploited to support the economic development of Yunnan, Guizhou and Guangxi. …… Development around the area of Nanning-Beihai (北海)-Qinzhou-Fangchenggang in Guangxi, the area of Guiyang in Guizhou and the area of Kunming in Yunnan should be accelerated. The economic connections in South China and South East Asia should be strengthened to expand economic and technological exchanges and cooperation.”

The Nanning-Guiyang-Kunming Economic Zone is one of the three key areas in China’s Western Development Strategy (the other two areas are the Economic Belt along the Western Section of Lianyungang-Lanzhou Railway and the Lanzhou-Urumqi Railway (西隴海蘭新線經濟帶) and the Yangtze River Upper Reaches Economic Belt (長江上游經濟帶)). Moreover, since the Nanning-Guiyang-Kunming Economic Zone is situated in an area where Southeast Asia, South Asia, East Asia, Pacific Ocean and Indian Ocean meet, the idea of constructing the Nanning-Guiyang-Kunming Economic Zone originates from China’s strategic considerations to build the China-ASEAN Free Trade Area and create an even broader geographical space as far as economic development is concerned.

The first Nanning-Guiyang-Kunming Economic Zone Work Conference was held in Kunming between 12 and 14 October 2002. This conference signalled the first serious attempt by the Central Government and other organisations related to the Nanning-Guiyang-Kunming Economic Zone to research on the specific approach for cooperation in the zone. However, because of the many similarities in the natural resources, industrial structures and economic development level of Yunnan, Guizhou and Guangxi, little progress has been made so far on Nanning-Guiyang-Kunming economic cooperation. Economic cooperation between Yunnan, Guizhou and Guangxi has seen few highlights except for the West-to-East Electricity Transmission Project, cooperation on the development of electric power, and the construction of the southwest sea-going passage, which were largely driven by the Central Government. Besides, development between Nanning, Guiyang and Kunming in

58 “Nanning, Kunming and Guiyang will establish an economic belt together (南寧貴陽昆明將攜手打造經濟帶), Sina Net, 26 October 2006,
recent years has been more competitive than cooperative, especially between Nanning and Kunming.

Competition between Yunnan, Guizhou and Guangxi has mainly concentrated on, among other things, the scramble for resources and ASEAN markets, preferential policies, grants and subsidies from the Central Government, benefits from economic radiation and industrial transference from the PRD region, and foreign investment. However, individually, any one of these three provinces/region could not have the whole cake, given their resources and capabilities. Instead the three provinces/region should be taken as a whole, and they should coordinate their development whilst competing and cooperating with each other, and broaden their common interests. This will enable them to strengthen their ability to absorb resources as a whole and to increase their market share. This is essential for the three provinces/region, because there are other competitors like Vietnam and Thailand. Perhaps this is why the leaders of Nanning, Guizhou and Kunming are still holding Nanning-Guiyang-Kunming Economic Zone Work Conferences to discuss and research on issues associated with economic cooperation in order to find opportunities, although the progress made so far is far from satisfactory.

**Implications for Hong Kong**

Although the construction of the Nanning-Guiyang-Kunming Economic Zone is supported by the central and local governments, it can not be implemented only through slogans and ideas. The Nanning-Guiyang-Kunming area also faces competition from inside and outside the area, and, if not carefully planned, the Nanning-Guiyang-Kunming Economic Zone will remain only an idea and the policies will not make any breakthroughs. In fact, the push to develop the West and rejuvenate the Northeast has encountered similar problems. Hong Kong could learn lessons from inaction on the construction of Nanning-Guiyang-Kunming Economic Zone.
2.5 Trends and Updates on Guizhou

2.5.1 The Economic Performance of Guizhou

Between January and October, the growth rates of Guizhou’s economy fell behind the other southwestern provinces/region and the national average in terms of various economic indicators, but kept growing steadily nonetheless.

Table 2-7: Major Economic Indicators of Guizhou (January to October 2006)

<table>
<thead>
<tr>
<th>Items</th>
<th>Jan-Oct (RMB 100 Million)</th>
<th>Year-on-Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Retail Sales of Consumer Goods</td>
<td>564</td>
<td>13.6%</td>
</tr>
<tr>
<td>Foreign Trade (USD 100 million)</td>
<td>13</td>
<td>19.9%</td>
</tr>
<tr>
<td>Government Revenue</td>
<td>186</td>
<td>26.3%</td>
</tr>
<tr>
<td>Government Expenditure</td>
<td>363</td>
<td>9.0%</td>
</tr>
<tr>
<td>Urban Disposal Income Per Capita (RMB)</td>
<td>7,615</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

Note: Local statistics represent preliminary data, which may be subject to adjustment in the future, and may differ from statistics published by the National Bureau of Statistics at a later date.


In October, the value-added to Guizhou’s industrial enterprises above a designated size reached 6.4 billion RMB, an increase of 17.8%, thanks to the not inconsiderable growth of the four major industries. These were power, non-ferrous metallurgy, beverages and ferrous metallurgy. The combined contribution rate of the four major industries to Guizhou’s total industrial growth stood at 78.2%, of which the power industry contributed the most, a total of 36.9%. Supported by the plentiful supply of power, the production of industrial silicon and ten categories of non-ferrous metals saw rapid growth, and increased by 65.5% and 38.2% respectively. Moreover, the production of raw steel, rolled steel and pig iron in the ferrous metallurgy also increased quickly, with growth rates standing between 21% and 42%.

Guizhou is the only province in the four southwestern provinces/region where growth rates for urban investment in fixed assets saw a consecutive increase from January to October, thanks to the robust investment expansion in October.

when the net increase reached RMB 10.2 billion. The investments in key industries and sectors kept increasing, and investments in coal mining and coal processing and beverage production industries grew by 39.4% and 56.2% respectively between January and October. It is especially noteworthy that the fastest growing investment in Guizhou’s transportation, storage and postal industries increased by 29.4%, which was actually 23.3% higher compared with same period last year \(^{60}\). This represents the breaking of bottlenecks in transportation and communications.

Consumer prices kept rising as a result of the smooth operation of the economy. Between January and October, overall household consumer prices for the whole province were 1.6% higher compared with the same period last year. Prices for products such as food and household appliances saw considerable rises\(^ {61}\), which put a lot of pressure on local residents.

### 2.5.2 Updates on Guizhou - “Branded” Agricultural Exports and the Development of Rural Brokers

Weining (威寧) is the production base for high quality potatoes in Guizhou province and is renowned for its large and tasty potatoes. In October this year, a journalist from the *Guizhou Business Newspaper* found in an investigation that potatoes from Weining could be sold at RMB 5 per kilo in the Thai market after being re-packed and branded with a certain label from Kunming. However, the same potatoes could hardly be sold for as little as RMB 0.5 in Weining during the harvest period\(^ {62}\). The reported findings received special attention from relevant leaders and departments in Guizhou province. Thereafter the journalist conducted a follow-up investigation on the exports of Guizhou’s agricultural products and found that Weining’s potatoes were not the only “branded” agricultural products that have been exported from Guizhou\(^ {63}\).

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\(^{62}\)“The price of Weining’s potatoes can shoot up by ten times, after they have been purchased by an intermediary for RMB 0.5 per kilo and exported as Yunnan’s brands (威寧土豆貼雲南品牌出口，中間商每公斤 0.5 元收購賣到泰國身價暴漲 10 倍)”, Jianqian Online, excerpted from Guizhou Business Newspaper, 27 October 2006: http://www.gog.com.cn/jq/j0603/ca1043506.htm.

\(^{63}\)“How many agricultural products are sold after changing name?—An analysis of the predicaments facing Guizhou’s agricultural products exports” (有多少農產品易名出嫁貴州農產品出口困局解析之一),
According to people from the Department of Agriculture of Guizhou Provincial Government, there are many examples of featured agricultural and sideline products in Guizhou, thanks to its unique geological and climate conditions. However, many of these products are “branded” by enterprises from other provinces and then exported, of which tea is the most typical. Tea is abundant in Guizhou and is of a high grade, but it is often branded and exported by distributors outside Guizhou since no famous brands have been established in Guizhou. In recent years, tea from Fanjingshan, Meitan and Qinglong has been purchased often by distributors outside Guizhou, given some well-known “Famous Tea in China” brands, and exported at a price ten times as high as the purchase price. Furthermore, Guizhou’s peppers, tomatoes and cucumbers are also among the favourite products of distributors from outside Guizhou.

Exports of Guizhou’s agricultural products like vegetables and fruits are often purchased by intermediary distributors as internal trade, and then exported through ports, according to Zhang Junsheng, Division Chief of Animal and Vegetable Inspection and the Quarantine Division of Guizhou’s Exit-Entry Inspection and Quarantine Bureau. Like Weining’s potato, these products are exported to foreign countries with brands from other provinces. Currently, there are no published statistics in China as to how many agricultural products from Guizhou are “branded” and then exported from other provinces, and it is also difficult to deduce the exact figures based on other statistics. However, it is estimated that every year around RMB 100 million worth of Guizhou’s agricultural products have become the raw materials by which other provinces earn foreign exchange, which shows Guizhou’s tremendous deficiency in the exploration of the agricultural product market.

The agricultural product market is extremely sensitive to product differentiation, and in order to improve the quality of products and develop new varieties, great efforts are needed to explore new markets. As far as market exploration is concerned, Yunnan is doing much better than Guizhou, although they are both situated in the southwest of China. For instance, as from this year, exports of Yunnan’s agricultural products to ASEAN countries have not been very promising and have fallen significantly, as demand from ASEAN has weakened. In addition, the agricultural products trade between Yunnan and ASEAN countries is not very complementary. In the first seven months of this year, Yunnan’s agricultural product exports to ASEAN countries stood at USD 89.82 million, a
fall of 2.5% compared with the same period last year\textsuperscript{66}. In the meantime, Yunnan has done splendidly in the exploration of the European agricultural product market. According to statistics from Kunming’s customs authority, the first seven months of this year saw Yunnan export 42,000 tons of agricultural products to the EU, and earned USD 91.63 million of foreign exchange, 38.7% higher than the same period last year. Belgium has also become Yunnan’s largest trading partner in terms of agricultural product exports\textsuperscript{67}.

Agricultural industrialisation is only in the infant stage in China, and production and sales of agricultural products in many areas are conducted on individual household basis, especially in the southwestern region where mechanised mass planting is not suitable to a large number of agricultural products because of geological constraints. Under such circumstances, any individual rural households cannot possibly shoulder the hefty costs of introducing new strains and new technologies to improve the quality of their products and differentiate them from others, and exploring foreign markets. Such a situation has placed a great restraint on areas without the convenient transport links such as Guizhou to fully exploit their comparative advantages in agricultural products. Perhaps having realised this restraint, Guizhou has started a campaign to develop rural brokers, in order to spur the development of the rural economy.

At present, the organisation of Guizhou’s rural brokers and their ways of conducting business are very diverse, and there is a need for regulation, but the value of their role as a bridge between agricultural production and the market is beyond doubt. By relying on market information and their own abilities, rural brokers can organise the purchase of agricultural products from tens of thousands of scattered rural households and sell them to foreign markets. In this way, sales costs incurred by individual rural households are reduced whilst sales of agricultural products are increased. Moreover, compared with ordinary farmers, rural brokers are more experienced, more adventurous, better-informed, more adaptable and more familiar with the changing markets. Since most of them come from rural areas, they are more trusted by their fellow farmers. In return farmers can obtain information on the agricultural product markets from rural brokers, arrange production according to this information, and adjust product quality and differentiation using planting or breeding improvements. This means that the production structure of agriculture can vary with changes in supply and demand, whilst the industrial structure of agriculture can be effectively adjusted.

\textsuperscript{66}“The EU replaces ASEAN as the biggest export market for Yunnan’s agricultural products (歐盟取代東盟成中國雲南農產品最大出口市場)”, \textit{All Net}, 1 September 2006, http://market.allnet.cn/Article/1168.html.

\textsuperscript{67}Ibid.
Local governments in Guizhou have invested a lot in the training of rural brokers, because most of the rural brokers come from the countryside and their brokerage skills are naturally raw. According to Wu Tingxian (伍廷憲), Deputy Chief of the Industrial and Commercial Bureau of Guizhou province, about 25,335 rural brokers and broker organisations have been developed so far, with a business turnover worth RMB 200 million, and they are playing a more important role in the development of the rural economy. Although the development of Guizhou’s rural brokers has yet to face such issues as legal recognition, quality, organisation and self-regulation, rural brokers are destined to help Guizhou better exploit its comparative advantages in agriculture, as the local governments are putting more emphasis on rural brokers and strengthening their efforts to developing rural brokers.

**Implications for Hong Kong**

Hong Kong is historically in a far more advanced position in the exploration of the Mainland market, and Hong Kong businessmen and women are also doing much better at grasping information and developments in the international market than those on the Mainland. The development of rural brokers in Guizhou undoubtedly represents a new opportunity for Hong Kong businesses. Before the emergence of rural brokers, Hong Kong businesses would have to overcome high costs and difficulties such as communication, in order to purchase Guizhou’s featured agricultural products and sell them to other places, as Guizhou’s agricultural production is quite scattered. Nowadays, as rural brokers in Guizhou are gradually developing and the local governments are also striving to organise their training, Hong Kong businesses could negotiate with those stronger rural brokers or local governments and, by leveraging on their marketing capabilities, cooperate with them to help explore markets and even establish featured brands.

However, the special features of Guizhou’s agricultural products lie in their differentiation, high quality and comparatively low prices. Therefore, the marketing methods for these products should not emulate those for manufactured products in mass markets, which are essentially characterised by mass selling at low prices. The key lies in how to maintain their special features and establish strong brands, targeting specialised markets or certain segments of the mass markets, and sell in small batches. For example, Weining’s potatoes should not be marketed and sold as ordinary potatoes. Rather, emphasis should be placed on

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fact that these potatoes are from “Weining”, thereby endowing these potatoes with local features and differentiating them from ordinary ones. This will constitute a new challenge for investors, enterprises and the advertising and marketing services in Hong Kong. If developed successfully, these tactics are not only applicable to agricultural products from Guizhou; they could also be employed on other featured products all over the country, and even on some industrial high quality, well-designed products.
3 Regional Cooperation—The “Greater Southwestern Economic Zone” Takes Shape

On 14 November 2006, the 21st session of the Economic Coordination Conference of the Six Provinces, Autonomous Region and Municipality in the Southwestern Region (hereafter known as the ‘Economic Coordination Conference’) was held in the city of Chongqing. Xu Jialu (許嘉璐), Deputy Director-General of the Standing Committee of the National People’s Congress, and Chen Jinhua (陳錦華), former Vice Chairman of the Chinese People’s Political Consultative Conference, were both delegates at the Conference. Up to 200 delegates from the Six Provinces, Autonomous Region and Municipalities in the Southwestern Region attended the Conference, as well as persons-in-charge of a number of organisations of the State Council, such as the National Development and Reform Commission, Ministry of Finance, Ministry of Land and Resources, Ministry of Railways, Ministry of Communication, Ministry of Information and Industry, Ministry of Water Resources, People’s Bank of China, State Administration for Industry and Commerce, State Environment Protection Administration, Civil Aviation Administration of China, China National Tourism Administration, Research Office of the State Council and the Western Development Program Office of the State Council. The attendance list showed that the Conference was a high-level meeting.

The theme of the Conference was “Striving for an affluent society in a co-operative and win-win way”, and covered topics on strengthening the common development of the southwestern region, accelerating the construction of transportation and energy systems, and exploring, utilising and protecting tourism resources. A co-operation agreement was also signed to establish a common open market. The Economic Coordination Conference has a regional mandate to coordinate economic issues over six provinces, autonomous region and municipality in the southwestern region, namely Sichuan, Yunnan, Guizhou, Guangxi, Tibet and Chongqing. The Conference was held to discuss and formulate major policies, principles and coordinating measures for regional economic cooperation in the southwestern region, so as to create favourable conditions for

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co-operation between different industries, enterprises and regions, and to promote their common development.

3.1 The Conference Agenda

Two major topics dominated the agenda of this year’s Economic Coordination Conference. The first topic covered the construction of transportation and energy systems and, by focusing on the construction of road, railway, waterway and airway transportation networks in the six provinces, autonomous region and municipality, promoted transport construction in the southwestern region. The second topic related to the exploration, utilisation and protection of tourism resources. By integrating resources and development, the six provinces, autonomous region and municipality will establish a Greater Southwestern Tourism Economic Circle, including the Shangri-La Ecological Tourism Zone of Sichuan, Yunnan and Tibet, the Ecological Tourism Zone of Sichuan, Chongqing and Guizhou, the Gallery of Wujiang River in Chongqing and Guizhou, the Ecological Tourism Zone along the river basins of Sichuan and Chongqing, and the Red Tourism Zone of Sichuan, Shaanxi and Chongqing. In addition, the “Agreement on the Establishment of a Common Open Market” will also be signed by the six provinces, autonomous region and municipality. The main points of the Agreement are summarised as follows:

1. Tourism

Despite the fact that 26.2% of the key national tourist sights are located in the six southwestern provinces, autonomous region and municipality, the international tourists they received and the foreign exchange earned through tourism in 2005 only accounted for 4.1% and 5.5% of the national totals respectively. The favourable tourism resources in the southwestern region contrast unfavourably with the economic benefits they are supposed to generate. In light of this, the Opinions of the Six Southwestern Provinces/Region/Municipality on Jointly Strengthening the Protection, Development and Utilisation of Tourism Resources, which were deliberated and passed during the Conference, proposed the joint production of a tourist map and guide, and set up uniform standards and clear transport signposts for tourists at the entrances of inter-provincial highway
sections. From now on, tourists will find all the tourist sights in the six provinces, autonomous region and municipality included in one map\(^\text{71}\).

**Entry Restrictions on Tour Vehicles Cancelled and Tolls Reduced**

The six parties held discussions on the “establishment of a barrier free tourist zone, and the establishment of a green passage for tourists”. The major measures included: the cancellation of restrictions on the entry of the other party’s tour buses and the reduction and exemption of tolls for tour vehicles (including organised tours of self-driven cars). Furthermore, it was also agreed that well-established travel agencies could provide a one-stop tour organisation and tourist reception service without having to receive the mandatory services of local travel agencies.

**Promotion of “Through Tickets” for Tourist Sights**

The six provinces, autonomous region and municipality considered adopting a “through ticket” for inter-provincial travellers to facilitate ticket purchasing and maximise the advantages of integrated tourism resources. It was reported that they will also consider opening up the markets. By then, tourist sights and travel agencies could both set up ticket offices, and sell online tickets for different places. At the same time, they are also planning to release travel packages and “through tickets”.

**Strengthening Tourism Co-operation with Neighbouring Countries**

For tourism in the Greater Southwest Economic Zone to further develop, the six provinces, autonomous region and municipality are prepared to conduct a comprehensive plan, in addition to implementing a promotional strategy. The Economic Coordination Conference proposed to further strengthen tourism co-operation with neighbouring countries, and stated that it will “actively seek the approval of the Central Government to adopt a visa upon arrival program, a 72-hour convenient visa program and streamlined entry and exit procedures in the capital cities of the six provinces, autonomous region and municipality and border ports, especially those bordering Cambodia, Vietnam, India and Nepal.”

2. Transportation

The Establishment of a Highway Network

According to preliminary plans, the six provinces, autonomous region and municipality will speed up the construction of a large international highway network connecting ASEAN. To realise this goal, all the six parties will jointly construct a national highway network, which mainly includes highways from Baotou to Maoming (包頭－茂名), Shanghai to Chengdu (上海－成都), Xiamen to Chengdu (廈門－成都), Shantou to Kunming (汕頭－昆明), Beijing to Kunming (北京－昆明), Ruili to Hangzhou (瑞麗－杭州), Shanghai to Kunming (上海－昆明), Kaiyuan to Hekou (開遠－河口), and the Chongqing to Kunming via Luzhou, Yibin, Zhaotong (重慶－瀘州－宜賓－昭通－昆明) Highway.

Plans to Construct a New Sea Passage

The six parties also plan to construct another sea passage in the southwest. The preliminary plan involves constructing a highway from Baise (百色) of Guangxi to Guangzhou. The highway will be divided into two sections, one of which will connect Baise of Guangxi with Xingyi (興義), whilst the other will connect Suining with Guangzhou, through Neijiang (內江), Yibin (宜賓), Shuifu (水富), Guiyang, Doujun (都勻), Guilin and Guangzhou, among other places.

Construction of a Chengdu to Chongqing Ring Highway Network

According to preliminary plans, a Chengdu to Chongqing ring highway network will be established between Chongqing and Sichuan. It will consist of four highways, Chongqing to Mianyang (綿陽) via Suining (遂寧) in between, Chongqing to Nanchou(南允), Linshui (鄰水) to Dianjiang (墊江), and Dazhou (達州) to Shaanxi.

According to preliminary plans, many new railways and sub-lines will be built over the coming years, including the Weining to Jishou railway, the Chongqing to Guizhou railway, and the Hunan to Chongqing railway. The construction of branch lines to airports, like Leshan airport, will also be accelerated.
3. Energy

**The Establishment of a Power Grid Network Connecting Yunnan, Sichuan and Guizhou**

This network will focus on the exploration of hydroelectric power along three rivers, namely, Jinshangjiang River, Lancangjiang River and Nujiang River. The construction of large hydroelectric power stations such as Xiluodu (溪洛渡), Xiangjiaba (向家壩), Jinping (錦屏), Pubugou (瀑布溝) and Jinghong’s Jinshajiang (景洪金沙江) will also be speeded up.

The construction of large and medium-sized cascade hydroelectric power stations along Wujiang River, Qingshuijiang River and the Sichuan to Tibet section of the upper reaches of Jianlingjiang River will also be accelerated, and new hydroelectric power stations in Pengshui (彭水) and Gushui (古水) will be built as soon as possible. The construction of large capacity thermal power plants at Xishui’s Erlang (習水二郎), Xingyi (興義) and Luzhou (瀘州) will be started at an appropriate time.

The preliminary work for the construction of the Zhuyangxi (朱楊溪) hydroelectric power station, and Weixin (威信) and Zhaxi (紮西) power plants should be pushed forward. The power grids of Yunnan and Guizhou will be connected with that of Sichuan, and the construction of the 500 KV power transmission lines between Guang’an (廣安) and Wanzhou (萬州), and between Ziyang (資陽) and Beipei (北碚) will be accelerated also.

**Pushing Forward Approval Procedures for the China—Cambodia Oil and Gas Pipeline Project**

It was agreed that the process of geological exploration for coal and overall planning for mining areas, the construction of coal bases in Yunnan and Guizhou, and the exploration of coal and gas in Yunnan should be accelerated. The exploration of natural gas in the Sichuan Basin focusing around Dazhou, Guang’an and Kaixian county (開縣), should be speeded up also, as well as the construction of the oil and gas pipelines and relevant processing bases. Meanwhile the six parties intend to energetically push forward the approval process for the China—Cambodia oil and gas pipeline project, and strive for the establishment of national bases for finished oil products.
The Development of Renewable Energy

The six provinces, autonomous region and municipality agreed to develop and utilise wind and solar power according to local conditions. They will try to win the support of the Central Government to launch the associated pilot projects, attract top-class enterprises to develop biomass energy, and encourage the use of industrial and daily waste to generate electricity.

4. Opening the Market

The “Agreement on the Establishment of a Common Open Market” signed during the Economic Coordination Conference included the establishment of systems for regional markets, multi-level capital markets, human resources, and market safeguards, among ten other areas.

Enterprises Blacklisted by Authorities will be Exposed

According to the Agreement on the Establishment of a Common Open Market, the six provinces, autonomous region and municipality will establish an information sharing mechanism on enterprise credit records. Most importantly, it is stipulated that “a warning and exposure system for blacklisted enterprises will come into effect; any enterprise that has received a warning from an authority for bad credit records will be exposed, and any enterprise that has been banned from the market should be forced to cease all its business activities in the region.”

It has been reported that the so-called “warning and exposure system on blacklisted enterprises” is mainly intended to collect information on enterprises which manufacture and sell substandard products, and register the information in an enterprise credit records network system. Enterprises will find themselves banned from the market and exposed by the credit system if the number of records begins to accumulate.

Currently, Sichuan, Chongqing and Guizhou have taken the lead on this. According to Sichuan’s delegation, Sichuan, Chongqing and Guizhou had already jointly launched the exposure system before the Conference. Information on enterprises in Sichuan, Chongqing and Guizhou is exchanged through a network platform, thus realising information sharing among them. If an enterprise from Sichuan is found blacklisted, it cannot register in Guizhou, as stipulated in their agreement.
The exposure system as agreed in this Economic Coordination Conference is in effect an extension of the original agreement to include Tibet, Yunnan and Guangxi, and will enable enterprise credit information to be shared among them. With the establishment of this information platform, blacklisted enterprises in any of the six provinces, autonomous region and municipality will be prohibited from operating in the other five members. In other words, once an enterprise is blacklisted because of poor credit records in any of the six provinces, autonomous region and municipality, the other five members are entitled to know about it.

**The Establishment of a “Green Passage” for Agricultural Products**

Prior to this Conference, Sichuan and Chongqing had successfully established a “green passage” for the transportation of agricultural products, along which any vehicle delivering agricultural products will be exempted from tolls. According to the agreement, the “green passage” between Sichuan and Chongqing will evolve into a common “green passage” among the six provinces, autonomous region and municipality.

With regard to investment in agricultural projects, any party engaged in investing in agricultural development zones and/or agricultural production and processing trades are entitled to enjoy local preferential policies conferred by the local agricultural development zone. Those enterprises sharing the high standards of leading local industrialised agricultural product enterprises will take precedence, and will benefit from the relevant preferential policies.

Finally, all the parties agreed to strengthen co-operation on removing market barriers, establishing regional law enforcement co-operation mechanisms and protecting intellectual property rights, among other areas.

### 3.2 The Implications of the Conference

#### 1. The “Greater Southwestern Economic Zone” Takes Shape

The developments of this Economic Coordination Conference show that the idea of establishing a “Greater Southwestern Economic Zone” has developed...
more substance. After many years of co-operation, the overall framework of the Greater Southwestern Economic Zone in the six provinces, autonomous region and municipality is gradually taking shape, and the great international passage connecting various areas of the greater southwestern region with Southeast Asia and South Asia is also being realised. The fact that Sichuan and Guizhou will jointly construct coal and chemical industrial bases, Yunnan and Sichuan are co-operating to cultivate a greater tourism market and Chongqing plans to become “the second air passage entering Tibet” indicates that the Greater Southwestern Economic Zone is becoming more of a reality.

Regional co-operation has been developing for many years in the southwest, especially in the case of the Western Development Strategy. In fact, as far back as 1984, Sichuan, Yunnan, Guizhou, Guangxi and Chongqing held the first Economic Coordination Conference of its kind, then entitled the “Economic Coordination Conference of the Five Parties of the Four Provinces/Autonomous Region in the Southwestern Region”, which aimed at jointly “developing the southwest and constructing a modernised base”. In 1987 and 1990, Tibet and Chengdu also joined the conference. In 2005, the conference was formally renamed the “Economic Coordination Conference of the Six Provinces, Autonomous Region and Municipality in the Southwestern Region”. With China’s ongoing reform and opening up policies ever deepening, especially in the face of economic globalisation and regional economic competition, the areas of co-operation covered by the Economic Coordination Conference have gradually changed from the exchange of goods and materials in the early stage to the current co-operation on goods, materials, funds, capital co-operation and resource allocation. The Economic Coordination Conference is researching an ever broader range of subjects and covering more projects, and the coordination efforts are producing practical results.

By the end of 2005, Sichuan, Yunnan, Guizhou, Guangxi, Tibet and Chongqing had together launched over 10,000 economic co-operation projects on a medium and large scale, invested more than RMB 300 billion, organised trade fairs yielding transactions in commodities worth up to RMB 50 billion, reconstructed 64 disused inter-provincial roads, established 20 neighbouring economic co-operation areas, implemented hundreds of agricultural technology co-operation projects, and also helped with the completion of the Neijiang to Kunming railway, the Nanning to Kunming railway and the Qinghai to Tibet railway as well as the ‘Great Sea-Going Passage of Roads in the Southwest’. These represent just a sample of these key projects.

It has been reported that the governments of the six parties will make these projects their priority over the next five years. This includes pushing forward the planning and construction of the key road network in the southwestern region,
constructing new major railways, and expanding the capacity of, and reconstructing, existing railways and hubs, renovating inland waterways and constructing major ports, improving the layout of civilian airports, and optimising the logistics market system. The six parties will push forward the construction of the cross-regional transportation infrastructure simultaneously. The overall objective is to establish a comprehensive transportation system with highways, high-quality roads and railways as the backbone. The common development of these multiple transport modes should meet the demands of economic and social development in the southwestern region73.

2. The “Sichuan—Chongqing Economic Zone” Competes to Become the “Fourth Pillar” of China’s Economic Growth

The Pearl River Delta Region and the Pan-Pearl River Delta Region were not even listed in the national 11th Five-Year Plan. On the contrary, the Yangtze Delta, Beijing—Tianjin—Hebei Area, Chengdu—Chongqing Area, and the Northeastern Rust Belt became key regional planning areas. Obviously, the purpose of including the Chengdu—Chongqing Area into the 11th Five-Year Plan was to accelerate western development and coordinate regional development, and the Area will accordingly benefit considerably. To be more precise, the Chengdu—Chongqing Economic Zone should be termed the Sichuan—Chongqing Economic Zone. It is an area centred on Chengdu and Chongqing, two of the largest central cities in the West and 350 kilometres apart, covering many neighbouring regions, cities and counties.

During the 10th Five-Year Plan period, Chongqing’s utilisation of Sichuan’s capital was as high as RMB 7 billion, ranking it second nationwide. It is predicted that the GDP of the Sichuan—Chongqing Economic Zone in 2010 will reach more that RMB 1.4 trillion, doubling the current amount. If Sichuan and Chongqing hope to compete to become “the fourth pillar of China’s economic growth”, multilevel and sophisticated co-operation will be needed.

Since Chongqing became China’s fourth municipality in 1997, Sichuan and Chongqing formally parted at the administrative level. The two governments have spared no effort in strengthening economic co-operation between Sichuan and Chongqing, which is in fact based on the “Sichuan—Chongqing Economic Co-operation”. The “Sichuan—Chongqing Economic Co-operation” took shape

during the “Economic Coordination Conference of the Five Parties of the Four Provinces/Autonomous Region in the Southwestern Region” held in April 1984.

In other words, “Sichuan—Chongqing Economic Co-operation” was incorporated into the agenda of the two governments as far back as 22 years ago. In that era of planned economy, the power to coordinate economic affairs lay with the Sichuan Provincial Government. As the Economic Coordination Conference is held every two years, Sichuan and Chongqing have accumulated plenty of experience in economic co-operation. In fact, Sichuan and Chongqing are historically tied, and their economic and social developments are highly complementary. Before it became a municipality, Chongqing had always been an integral part of Sichuan. That Sichuan and Chongqing are working together to push forward western development and are jointly cultivating an economic belt at the upper reach of the Yangtze River demonstrate the inexorable trend towards regional economic competition.

Until now, Sichuan and Chongqing have successfully constructed the Chengdu to Suining and Chongqing Express Railway and the Chengdu to Suining and Chongqing Highway. They intend to speed up the construction of the following three highways: the Linshui (鄰水) to Dianjiang (墊江) Highway, the Jiangjin to Yibin via Hechuan, Luzhou (江津—合川—瀘州—宜賓) Highway and the Nanchong to Chongqing Highway. In addition, they plan to jointly push forward the construction of the Lanzhou to Chongqing via Guangyuan and Nanchong (蘭州—廣元—南充—重慶) Railway and the Xi’an to Chongqing via Dazhou (西安—達州—重慶) Railway, whilst accelerating preparatory work on the construction of railways along the upper reaches of the Yangtze River.

According to Cheng Yiju, Vice Chairman of the Central Committee of the China National Democratic Construction Association, Deputy Director of the Standing Committee of Chongqing Municipal People’s Congress, and Director of Chongqing Municipal Committee of China’s National Democratic Construction Association, the “fourth pillar” is a term denoting regional economic status, and represents the fourth largest growth pole in China’s future economic development which will see the expansion of the regional economy. The Yangtze Delta Region, the Pearl River Delta Region and the Bohai Rim Region comprising of the Beijing—Tianjin—Hebei Area, the Central and Southern Liaoning Province and Shandong Peninsula (yet to integrate completely), all located in the developed regions along the Eastern coast, are destined to become the three largest growth pillars in China’s future economic development. Apart from these three, the other influential growth pillars mainly include the Chengdu—Chongqing Area, the Guanzhong Area centred around Xi’an, the Nanning—Guiyang—Kunming Area, the Greater Wuhan Area along the middle reach of the Yangtze River, the Central
Plain Region centred around Zhengzhou (鄭州) and the Changsha—Zhuzhou—Xiangtan (長沙-株洲-湘潭) Area. Almost all of these are located in central and western China. Judging from various economic and other indicators, the Chengdu—Chongqing Area is the strongest among the growth pillars in the western region, while the Greater Wuhan Area is the most competitive in the central region. Hence one of them is most likely to become the fourth largest growth pillar in the future.

Co-operation between Sichuan and Chongqing covers a wide range of issues, and has seen some success. Apart from co-operation under the traditional frameworks of the Economic Coordination Conference of the Six Provinces, Autonomous Region and Municipality in the Southwestern Region and the Chongqing Economic Cooperative Zone, the governments of Sichuan and Chongqing also signed a bilateral co-operation agreement entitled “1+6”\(^74\) in 2004 to conduct co-operation on energy, transportation, tourism, broadcasting, culture, agriculture, and police matters under the framework of economic development in the upper reaches of the Yangtze River. After signing the agreement, co-operation between the two parties produced considerable results in road, railway and power grid construction, among other infrastructure construction works, which saw the completion (some are still under construction) of many highways connecting the Chongqing Municipality with a variety of cities and counties in Sichuan Province. Co-operation over cultural exchange, industrial development and inter-investment, either governmental or civilian, is also picking up momentum.

The Chongqing Municipality and Sichuan Province both have their own characteristics with regards to their dominant industries. While Chongqing boasts a powerful industrial foundation with a sophisticated modern manufacturing system, Sichuan’s hi-tech industry, agriculture and service industries are quite advanced. Chongqing’s geographical position is becoming more of an asset and the municipality will play a key role in economic co-operation with Sichuan to jointly cultivate an economic highland in China’s West, and to promote the common development of Sichuan’s and Chongqing’s economies. In fact, Chongqing shows plenty of potential in the 11\(^{th}\) Five-Year Plan period. Firstly, the administrative privileges accrued to municipalities have yet to be fully enjoyed by Chongqing, and Chongqing should try to gain the “first-mover advantage” from the Central Government. Secondly, Chongqing could make use of its sophisticated manufacturing industry and co-operate with other cities such as Chengdu to establish a modern manufacturing base in the West. Thirdly, backed by the development of Sichuan and its industries, Chongqing could cultivate a modern

\(^74\) In the so-called “1+6” agreement, “1” refers to the terms of the general agreement, while “6” refers to co-operation on transportation, energy, tourism, broadcasting, agriculture and police matters. The agreement was signed on 3 February 2004.
logistics centre in the West by taking advantage of its transportation hub status formed by roads, railways, airways and the prime waterways of the Yangtze River.\textsuperscript{75}

\section*{3.3 Effects on Hong Kong}

If the “Greater Southwestern Economic Zone” finally takes shape in the future, the Pan-Pearl River Delta “9+2” arrangement will be weakened. Yunnan and Guizhou are more than likely to move closer to Chengdu and Chongqing. The “Greater Southwestern Economic Zone” is more compact geographically, and members in this region have much in common culturally, economically and socially. The agreements from the Economic Coordination Conference are more detailed and appropriate than those of the “9+2” arrangement. Guangdong Province will receive the severest blow from the weakening of the “9+2” arrangement. However, Guangdong has yet to pronounce its position with regards to the Economic Coordination Conference.

Under “One Country, Two Systems” and with the support of the Central Government, Hong Kong and the Mainland still have much potential for economic and trade co-operation. When seeking co-operation with the Mainland, apart from those arrangements at the central level such as CEPA, Hong Kong could consider other levels of co-operation, such as directly communicating and co-operating with local governments at the provincial or prefecture-city levels. For example, the “9+2” agreement has actually enabled the Hong Kong SAR Government to extend the range of direct co-operation beyond Guangdong. It could use this as a base from which it could spread all over China.

Appendix :

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

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

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

<table>
<thead>
<tr>
<th>Region</th>
<th>Industrial Growth</th>
<th>Industrial Product Sales</th>
<th>October Urban Investment</th>
<th>October Urban Disposable Income Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>October (RMB 100 million)</td>
<td>Compared with the Same Period Last Year (%)</td>
<td>October (RMB 100 million)</td>
<td>Compared with the Same Period Last Year (Percentage Points)</td>
</tr>
<tr>
<td>Nationwid</td>
<td>7,601</td>
<td>14.7%</td>
<td>98.44%</td>
<td>0.61</td>
</tr>
<tr>
<td>Guangdong</td>
<td>990</td>
<td>20.0%</td>
<td>98.05%</td>
<td>0.40</td>
</tr>
<tr>
<td>Sichuan</td>
<td>230</td>
<td>22.0%</td>
<td>99.85%</td>
<td>3.54</td>
</tr>
<tr>
<td>Guangxi</td>
<td>88</td>
<td>27.3%</td>
<td>103.45%</td>
<td>4.25</td>
</tr>
<tr>
<td>Yunnan</td>
<td>108</td>
<td>10.4%</td>
<td>96.81%</td>
<td>1.99</td>
</tr>
<tr>
<td>Guizhou</td>
<td>64</td>
<td>17.8%</td>
<td>95.94%</td>
<td>-0.80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Retail Sales of Social Consumption Goods in September (RMB 100 million)</th>
<th>Urban Per Capita Disposable Income</th>
<th>Urban Per Capita Consumption Expenditure</th>
<th>Resident Consumption Price Index (January to September)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>January to September (RMB)</td>
<td>Compared with the Same Period Last Year</td>
<td>January to September (RMB)</td>
</tr>
<tr>
<td>Sichuan</td>
<td>304</td>
<td>6,955</td>
<td>9.9%</td>
<td>5,583</td>
</tr>
<tr>
<td>Guangxi</td>
<td>137</td>
<td>7,487</td>
<td>10.0%</td>
<td>5,128</td>
</tr>
<tr>
<td>Yunnan</td>
<td>107</td>
<td>7,507</td>
<td>7.9%</td>
<td>5,508</td>
</tr>
<tr>
<td>Guizhou</td>
<td>56</td>
<td>6,866</td>
<td>11.3%</td>
<td>5,209</td>
</tr>
</tbody>
</table>

Source:
Table 3: Foreign Trade in the Four Southwestern Provinces/Region (January to September 2006)*

<table>
<thead>
<tr>
<th>Region</th>
<th>Imports and Exports by Regions</th>
<th>Imports and Exports by Foreign Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>January to September (USD 100 Million)</td>
<td>Compared with the Same Period Last Year</td>
</tr>
<tr>
<td>Sichuan</td>
<td>79.7</td>
<td>42.4%</td>
</tr>
<tr>
<td>Guangxi</td>
<td>47.2</td>
<td>25.3%</td>
</tr>
<tr>
<td>Yunnan</td>
<td>46.5</td>
<td>31.2%</td>
</tr>
<tr>
<td>Guizhou</td>
<td>11.6</td>
<td>16.1%</td>
</tr>
</tbody>
</table>

* Enterprises engaging in foreign trade are registered according to the places in which they operate.

** Negative means trade deficit.

Source:
Table 4: Finances of the Four Southwestern Provinces/Region (January to September 2006)

<table>
<thead>
<tr>
<th>Region</th>
<th>Budgetary Income (Funds Not Included)</th>
<th>Budgetary Expenditure (Funds Not Included)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>January to September (RMB 100 million)</td>
<td>Compared with the Same Period Last Year</td>
</tr>
<tr>
<td></td>
<td></td>
<td>January to September (RMB 100 million)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Compared with the Same Period Last Year</td>
</tr>
<tr>
<td>Sichuan</td>
<td>430</td>
<td>27.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>698</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21.6%</td>
</tr>
<tr>
<td>Guangxi</td>
<td>244</td>
<td>22.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>441</td>
</tr>
<tr>
<td></td>
<td></td>
<td>16.6%</td>
</tr>
<tr>
<td>Yunnan</td>
<td>272</td>
<td>25.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>491</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.1%</td>
</tr>
<tr>
<td>Guizhou</td>
<td>164</td>
<td>27.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>325</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Source:
# Appendix II: Glossary

<table>
<thead>
<tr>
<th>English</th>
<th>Chinese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Plain Region</td>
<td>中原地區</td>
</tr>
<tr>
<td>China-ASEAN Free Trade Area</td>
<td>中國－東盟自貿區</td>
</tr>
<tr>
<td>Examination and Approval Rights</td>
<td>審批權</td>
</tr>
<tr>
<td>Final Report on Building Up the Capabilities of the Electricity Monitoring Authorities in China</td>
<td>《中國電力監管機構能力建設最終報告》</td>
</tr>
<tr>
<td>Greater Mekong Sub-Region</td>
<td>大湄公河次區域</td>
</tr>
<tr>
<td>“Grid-to-Grid” Approach</td>
<td>“網對網”模式</td>
</tr>
<tr>
<td>Law of the PRC on the Protection of Elderly Rights and Interests</td>
<td>《中華人民共和國老年人權益保障法》</td>
</tr>
<tr>
<td>Nanning- Guiyang- Kunming Economic Zone</td>
<td>南貴昆經濟帶</td>
</tr>
<tr>
<td>Opinions of the Six Southwestern Provinces/Region/Municipality on Jointly Strengthening the Protection, Development and Utilisation of Tourism Resources</td>
<td>《西南六省區市關於進一步聯合加強旅遊資源保護與開發、利用的意見》</td>
</tr>
<tr>
<td>Opinions on Deepening the Reform of the Electricity System during the 11th Five-Year Plan Period</td>
<td>《關於“十一五”深化電力體制改革的實施意見》</td>
</tr>
<tr>
<td>Policies on the Reform of the Electricity System</td>
<td>《電力體制改革方案》</td>
</tr>
<tr>
<td>Preferential Re-employment Certificates</td>
<td>《再就業優惠證》</td>
</tr>
</tbody>
</table>
Pricing Rights

Rural Broker

The 10th Five-Year General Plan for the Western Development Program

The 11th Five-Year Plan for the Development of Services for the Elderly

The Control Agreement Scheme

The Economic Coordination Conference of the Six Provinces, Autonomous Region and Municipality in the Southwestern Region

The Greater Southwestern Economic Zone

The Labour and Social Security Bureau of Chengdu Municipal Government

The Three Gorges

The Western Development Program Office of the State Council

West-to-East Electricity Transmission Project