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COVERING GUANGXI, YUNNAN, GUIZHOU, SICHUAN

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Abstract

1 The Impact of the Chengdu-Chongqing Economic Zone on the Four Southwestern Provinces/Region and Pan-Pearl River Delta (PRD) Co-operation

1.1 In March 2007, the State Council issued the 11th Five-Year Plan for the Western Development Programme, in which the Chengdu—Chongqing Economic Zone was listed as one of the key regional development programmes. The Chengdu—Chongqing Economic Zone, with Chengdu and Chongqing as its backbone, covers 33 cities across Sichuan. Its future economic development will be driven mainly by the three major city clusters around Chengdu, Chongqing and southern Sichuan.

1.2 Chengdu and Chongqing coordinated their transport planning systems, when it came to devising their own respective 11th Five-Year Plans. Newly constructed roads and railways will be connected with their counterparts’ routes leading out of the province, and related projects are scheduled to be finished by the end of the 11th Five-Year Plan period. By then, Sichuan and Chongqing will possess the most advanced transportation network in western China. Meanwhile, the Cuntan International Container Terminal in Chongqing is strengthening waterway co-operation along the Yangtze River between Sichuan and Chongqing, and is bestowing benefits to the southwestern provinces in the PRD region.

1.3 Chengdu and Chongqing will push forward the transfer of national defence technology from the military to civil sectors. This will raise the technological development of the two cities well above Guangzhou, the core city in the Pan-PRD region, and stimulate the development of their knowledge industries.

1.4 Sichuan may be less keen to engage in Pan-PRD regional co-operation now that the Chengdu—Chongqing Economic Zone has been brought into the Western Development Programme. The development of transportation systems in Chengdu and Chongqing has made Sichuan a
passenger and cargo distribution centre as well as a regional centre in southwestern China, which may draw Yunnan and Guizhou closer to them. Meanwhile, Guangxi intends to speed up the development of the Pan-Beibu Gulf Region. Therefore, the latest developments in the southwestern region are likely to impact on Pan-PRD co-operation.

1.5 Hong Kong should work together with different provinces in accordance with their distinctive features. For instance, it should help Guangxi and Yunnan develop their international service industries, and co-operate with Sichuan and Guizhou on specific industries. The transference of Sichuan’s national defence technology, from the military to the civil sector, may present Hong Kong with an opportunity. Hong Kong public institutions may collaborate with their counterparts in Sichuan on technology transfer and applications.

2 Trends and Updates on the Four Southwestern Provinces/Region

2.1 Sichuan Province-Sichuan Attracts Investments from High Quality Foreign Business

2.1.1 With its abundant natural resources, low production costs, advantageous geographical position and preferential policies, Sichuan has attracted investment from world-class corporations, including Intel, Toyota, Nokia and Citibank. This has spurred growth in its manufacturing, information technology, financial and logistics industries and boosted foreign trade.

2.1.2 Hong Kong’s investment in Sichuan is largely concentrated in the real estate industry. Recently, the Central Government released a series of policies to cool down the over-heated real estate industry, which require local governments to regulate the local real estate market and curb excessive price surges. Therefore, investment by Hong Kong enterprises in the Mainland real estate industry is unlikely to receive encouragement from the Central and local governments.
2.1.3 Hong Kong enterprises should diversify their investments on the Mainland into areas such as finance, insurance and logistics services, rather than focus excessively on the real estate industry.

2.2 Guangxi Zhuang Autonomous Region - Guangxi Becomes a Heavyweight Auto Producer

2.2.1 Led by its foremost automaker, Liuzhou Wuling Motors Co. Ltd, Guangxi has transformed itself into one of the most important auto production bases in China by targeting the mini-vehicle market. Guangxi accounts for a significant share of China’s mini-vehicle market, and also exports vehicles and invests abroad. Guangxi’s auto industry is well positioned in the market, but has experienced some problems, such as the scale of small enterprises, a far from optimised vehicle product structure, lesser competence in the auto parts sector and independent technology development.

2.2.2 Hong Kong’s technological capabilities could be integrated into Guangxi’s mini-vehicle supply system. Hong Kong could work with Guangxi’s enterprises on environmental protection, and on energy and power engineering devices, by introducing foreign technologies.

2.2.3 Hong Kong may send students on work placements in Guangxi, and allow staff from Guangxi’s enterprises to train in Hong Kong at the same time.

2.2.4 Hong Kong enterprises, and the appropriate technology research and development agencies should conduct research on Guangxi’s auto industry, and seek business opportunities.

2.3 Yunnan Province - Yunnan Strengthens Port Construction

2.3.1 The Yunnan Provincial Government plans to upgrade seven ports, including Pianma (片馬), Yingjiang (盈江) and Zhangfeng (章鳳), from category-2 to category-1 status. International airlines are also likely to
start servicing Lijiang. Local governments have been accelerating port construction with the support of the Central Government, in the hope that the upgraded ports will strengthen their external ties and stimulate imports and exports. They have been developing service industries and the overall economy in the border areas as well.

2.3.2 Hong Kong enterprises could seize on this opportunity to invest in Yunnan’s port construction, and try to create footholds in the related logistics industry, financial consultancy, project contracting and other service industries.

2.3.3 Lijiang will soon become an international airport, and Hong Kong could use this development to strengthen co-operation with Yunnan with respect to aviation and tourism. It could provide guidance to Hong Kong aviation and tourism industries to enable them to develop related flight schedules and tourist routes as soon as possible.

2.3.4 Since there are enormous flows of people and goods into the port area, Hong Kong could consider developing the “Port Service Economy”. Hong Kong should consider developing a diversified business servicing centre in areas with commercial, trading, retailing and professional service industries.

2.4 Guizhou Province - Japanese Government Loans for Environmental and Social Development Projects in Guizhou

2.4.1 In February 2007, the Japanese Government launched a loan project for environmental and social development in Guizhou, which is by far the largest foreign project for poverty alleviation in Guizhou. The province largely depends on foreign assistance for poverty alleviation, and Japanese loans are an important source. However, these loans are not grants, and China has to repay them with interest and assume the risk of exchange rate fluctuations. These loans will bring profits to Japan, boost the international profile of the Japanese environmental industry, and create many other opportunities for them.
2.4.2 Hong Kong should consider providing assistance loans to the southwestern region for environmental protection. This would not only strengthen Hong Kong’s ties with every province and region on the Mainland, but it would also improve the image of Hong Kong. The Government should also help Hong Kong’s environmental enterprises participate in related projects in order to accumulate experience.

3 Regional Co-operation – Beibu Gulf Economic Co-operation Boosts Guangxi’s Status

3.1 Under Guangxi’s “M Strategy”, the “Beibu Gulf Rim Economic Zone” has become the “Pan-Beibu Gulf Economic Co-operation Zone”. The new initiative has been expanded to include Vietnam and other neighbouring countries across the sea such as Malaysia, Singapore and Indonesia. The mode of co-operation has accordingly evolved from the single concept of “Continental Co-operation” to “Marine and Continental Co-operation”. This has greatly boosted business and trade between Guangxi and the ASEAN countries, and promoted the development of the regional economy. The Pan-Beibu Gulf Economic Co-operation Zone has also obtained approval and support from the Central Government, and has been listed as one of the key development areas in western China.

3.2 Guangxi has adopted the so-called “Little Beibu Gulf” approach in order to promote Pan-Beibu Gulf co-operation. It has established the Beibu Gulf Management Committee with the vice-chairman of the Guangxi Zhuang Autonomous Region in charge, and brought Beihai, Qinzhou, Fangchenggang and Nanning into a unified planning program. This plan was expanded later to incorporate Chongzuo and Yulin, and thus formed the Beibu Gulf (Guangxi) Economic Zone (“4 plus 2”).

3.3 Hong Kong enterprises may study and invest along the China—Vietnam border areas, and in due time transfer Hong Kong processing industry enterprises in the PRD region to these special zones with Vietnam as their target market.
1. The Impact of the Chengdu-Chongqing Economic Zone and Regional Economic Co-operation

On 1 March 2007, the State Council Office of the Leading Group for Western Regional Development formally promulgated The 11th Five-Year Plan for the Western Development Programme. The Plan will have a great impact on the four southwestern provinces/region over the next five to ten years, as they are part of the western regional development project.

The Plan calls for the establishment of three economic zones: the Chengdu-Chongqing Economic Zone, the Guanzhong-Tianshui Economic Zone, and the Pan-Beibu Gulf Economic Zone. The fact that the Chengdu-Chongqing Economic Zone has come first demonstrates its importance.

Not only will the Chengdu-Chongqing Economic Zone affect the development of Sichuan, it will also affect neighbouring Guizhou and Yunnan. The new highways and railways, either under construction or being planned, will connect the Zone with Hunan. Consequently, the rise of the Chengdu-Chongqing Economic Zone is likely to create a challenge to Pan-PRD economic co-operation which is Guangdong-oriented.

1.1 The Chengdu-Chongqing Economic Zone: An Introduction

1.1.1 Background

The Chengdu-Chongqing Economic Zone includes not only Chengdu and Chongqing, but also their neighbouring cities.

The relationship between Chengdu and Chongqing is a complex one. Since the establishment of the PRC in 1949, Chongqing has been one of the few municipalities to come under the direct jurisdiction of the Central Government. In

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1 Included in this economic zone are several cities in Shaanxi (陕西省) including Xi’an (西安), Xianyang (咸阳) and Baoji (宝鸡).
1954, however, Chongqing was downgraded to a city under the jurisdiction of Sichuan. Chengdu, on the other hand, being the provincial capital of Sichuan, enjoyed a privileged and dominating position within Sichuan as far as resources were concerned. In 1997, Chongqing again became one of the municipalities (the fourth) under the direct jurisdiction of the Central Government and formally separated itself from Sichuan. Administratively, Chengdu is on the sub-provincial level, and is therefore lower than Chongqing. Now it is Chengdu which finds itself less privileged in terms of resource distribution. Ever since 1997, Chengdu and Chongqing have been in a state of competition in both governmental and non-governmental sectors.

While Chongqing was still under its jurisdiction, the Sichuan Provincial Government adopted the strategy of the “Chengdu-Chongqing Axis” for economic development. Now that Chongqing has separated itself from Sichuan, the old strategy can hardly be expected to work. The Sichuan and Chongqing governments did try to maintain their economic ties, for instance, by continuing to hold conferences on economic coordination among the “four southwestern provinces and five sides” (Sichuan, Yunnan, Guizhou, Guangxi and Chongqing), but there has been no substantial breakthrough.

Since 1997, in order to gather new momentum for economic development, Chengdu has been actively cultivating the Chengdu-Deyang (德陽)-Mianyang (綿陽) city belt and created the Chengdu High-tech Zone. The result has been remarkable. Chongqing, on the other hand, has only seen mild industrial development since 1997. Furthermore, Chongqing has had to bear the burden of settling migrants from the Three Gorges Reservoir area (三峽庫區) and finds it difficult to tap economic momentum from Sichuan-controlled areas. The administrative fissure between Chengdu and Chongqing has not only upset provincial economic coordination in Sichuan, which has led to duplicated industrial investment and economic wastage, but it has also slowed down the progress of western regional development.

### 1.1.2 The Birth of the Idea of Chengdu-Chongqing Economic Zone

The National Development and Reform Commission is fully aware of the conflict between Sichuan, Chengdu and Chongqing and in response it commissioned a policy research project known as the Proposal for the
Development Strategy of the Chengdu-Chongqing Economic Zone, when it drafted the 11th Five-Year Plan. A research team, composed of the Sichuan Provincial Academy of Social Sciences, the Chongqing Municipal Academy of Social Sciences and the Industrial and Commercial University of Chongqing, undertook the project. The project was one of the 56 projects selected by the Commission from more than five hundred projects, and was the only one on the western region.\(^2\) According to Ma Kai (馬凱), Director of the Commission, the Chengdu-Chongqing Economic Zone will become one of the “policy favoured zones”, together with those of the Yangtze Delta, the Beijing-Tianjin-Hebei and the northeast region.\(^3\) The Central Government will provide guidelines for the economic development of these inter-provincial zones.

The Chengdu-Chongqing Economic Zone research team has analysed the economic situation and potential of Chengdu and Chongqing, and drawn the boundary of the Chengdu-Chongqing Economic Zone. The Chengdu-Chongqing Economic Zone has thus been brought into being and is composed of several Sichuan cities and Chongqing.

The proposed Chengdu-Chongqing Economic Zone (the “Sichuan-Chongqing Economic Zone” to be more exact) has its two poles set in the large cities of Chengdu and Chongqing. Filling in the area around the 350 km-long belt between Chengdu and Chongqing are the 16 prefecture-level cities including Mianyang, Yibin (宜賓), Luzhou (瀘州), Neijiang (內江), Jiangjin (江津), Hechuan (合川) and Yongchuan (永川), and 17 county-level cities. The Chengdu-Chongqing Economic Zone claims 37.5% of the total administrative area of Sichuan and Chongqing, 80% of its population, and 90% of its GDP. Its total economic output value is a quarter of the total for the 12 western provinces, whilst its industrial output value accounts for more than half of the southwestern region. With 64 tertiary institutions, 200 science and research institutes and more than 100,000 senior researchers in science and technology, the Zone is among China’s most important R&D and production bases for heavy industrial machinery, military aircraft, cars, the nuclear industry, and other heavy and chemical industries. Its R&D and production capacity is the best within the western region.

\(^2\) “Chengdu and Chongqing join hands to build an economic corridor during the 11th Five-Year Plan” (“成渝“十一五”攜手打造經濟走廊”), Yunnan Daily, 1 November 2005.

\(^3\) “Ma Kai, Head of the National Development and Reform Commission, presents the 11th Five-Year Plan” (“國家發改委主任馬凱在介紹“十一五”規劃時透露”), Chongqing Chenbao, 29 November 2005.
The Chengdu-Chongqing Economic Zone research team has compared major economic indicators in the four economic zones of Chengdu-Chongqing, Yangtze River Delta, Beijing-Tianjin-Hebei and the PRD. It realises that Chengdu-Chongqing has the largest geographical area and population, but its major economic indicators are the most backward among the four. The proportion of agriculture in its industrial structure is high, the extent of urbanisation low and foreign trade (in terms of foreign investment and total value of imports and exports) poorly developed. Such differences are mirrored between the eastern and western regions in terms of economic and social development (see Table 1-1).

Table 1-1: Major Economic Indicators of the Four Economic Zones (2002)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Chengdu-Chongqing</th>
<th>Yangtze River Delta</th>
<th>Beijing-Tianjin-Hebei</th>
<th>Pearl River Delta (PRD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (10,000 square km)</td>
<td>20.3</td>
<td>10.0</td>
<td>3.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Population (10,000)</td>
<td>9,898</td>
<td>7,571</td>
<td>2,762</td>
<td>2,625</td>
</tr>
<tr>
<td>GDP (RMB 100 million)</td>
<td>6,268</td>
<td>19,125</td>
<td>6,552</td>
<td>9,565</td>
</tr>
<tr>
<td>GDP per Capita (RMB)</td>
<td>6,332</td>
<td>25,262</td>
<td>23,721</td>
<td>36,440</td>
</tr>
<tr>
<td>Economic Density (RMB10,000 per square km)</td>
<td>309</td>
<td>1,912</td>
<td>2,010</td>
<td>4,347</td>
</tr>
<tr>
<td>Urbanisation Rate (%)</td>
<td>30</td>
<td>44</td>
<td>39</td>
<td>50</td>
</tr>
<tr>
<td>Total Value of Imports and Exports (USD 100 million)</td>
<td>62.6</td>
<td>1,752.2</td>
<td>820.3</td>
<td>2,118.7</td>
</tr>
<tr>
<td>Actual Foreign Direct Investment (USD 100 million)</td>
<td>12</td>
<td>178</td>
<td>92</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Lin Ling, *In search of mutual prosperity: a proposal for the development strategy of the Chengdu-Chongqing Economic Zone* (Beijing: Jinghj kexue chubanshe, 2005), p. 15

The research team presented seven proposals for the development of the Chengdu-Chongqing Economic Zone. Details are as follows:

- The Chengdu-Chongqing Economic Zone is to be divided into five sub-zones: Chongqing, Chengdu, southern Sichuan, northeastern Sichuan and the Three Gorges Reservoir Area.

- In terms of strategic positioning, the Chengdu-Chongqing Economic Zone intends to create “five bases and one sanctuary” for energy production, heavy industrial machinery, the defence industry, the information industry and special agricultural
products. An ecological sanctuary in the upper stream area of the Yangtze River will be established also.

- In terms of industrial structure, emphasis will be given to the car and motorcycle sectors, natural gas and chemical industries, equipment manufacturing, electronic industries, aviation, mining and electricity. In terms of the geographical location of the industries, three axes are proposed including Panzhihua (攀枝花)-Yichang (宜昌), Chongqing-Chengdu-Mianyang and Chongqing-Guiyang (贵阳).

- Infrastructure construction standards should be standardised and carried out jointly by Chengdu and Chongqing. Foremost on the list is transport infrastructure. By 2010, Sichuan and Chongqing will be connected by numerous highways and railways, and boast the most developed transportation network in the western region.\(^4\)

### 1.1.3 The Chengdu-Chongqing Economic Zone and the National and Regional 11th Five-Year Plans

The National 11th Five-Year Plan

In the chapter “Realising the Grand Regional Development Strategy” in the first draft of the Programme for the 11th Five-Year Plan, the National Development and Reform Commission named 10 urban belts, of which the Chengdu-Chongqing Economic Zone was one. In 2006, during the “two conferences” (Conferences of National People’s Congress, National Committee of the Chinese People's Political Consultative Conference), it was rumoured that the Chengdu-Chongqing Economic Zone would become one of the “regions with a major role”. However, quite to the surprise and dismay of officials and scholars in both Chengdu and Chongqing, the formal version of the 11th Five-Year Plan did not mention the “Chengdu-Chongqing Economic Zone” at all, but placed Chengdu

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\(^4\) “Creating a genuine economic community—on-line with the economist Lin Ling”, *Sichuan Daily*, 14 March 2006.
and Chongqing under the heading of “key infrastructure construction projects for transportation”.

Probably in order to clarify doubts, Yang Weimin (楊偉文), Director of the drafting group for the 11th Five-Year Plan and Director of the Department for Development Planning at the National Development and Reform Commission, visited Chongqing and delivered a speech. According to Yang, it is true that the 11th Five-Year Plan did not explicitly mention the “Chengdu-Chongqing Economic Zone”, however, in the section on “Enhancing the development of the western region”, the Plan calls for “the development of key economic regions around central cities and main transportation routes; the connection of these ‘points’ with ‘lines’; and the expansion of these ‘points’”. Chengdu and Chongqing and its neighbouring cities together form a key economic region. According to Yang, the fact that the 11th Five-Year Plan no longer explicitly promises any “special favours” to any particular region represents great progress. It means that the Central Government will no longer give its blessings to specific regions by “proclaiming” them explicitly, but “will only support those that are qualified”.

The Regional 11th Five-Year Plan

The Sichuan, Chengdu and Chongqing governments had high expectations that the “Chengdu-Chongqing Economic Zone” would be adopted into the 11th National Five-Year Plan, and they have all presented this idea in their own regional 11th National Five-Year Plans. The Chengdu 11th Five-Year Plan, for instance, even has a chapter on the Chengdu-Chongqing Economic Zone in which policies and construction projects are discussed in detail. On the whole, these proposals are intended to design the future of the Chengdu-Chongqing Economic Zone in terms of long-term planning for urbanisation and transportation networks (see following chapter). Consequently, even without the Central Government’s support, as long as the three local governments carry out their own regional 11th Five-Year Plans, the idea of the Chengdu-Chongqing Economic Zone will have materialised by the end of the 11th Five-Year Plan period.

5 “The Chengdu-Chongqing corridor is still the focus of western regional development” (“成渝走廊仍是西部大開發重點”), Chinese Economic Net, 31 March 2006. It must be pointed out that Yang Weimin was only making an excuse. The discrepancy between the drafts and the formal version of the 11th Five-Year-Plan was the result of lobbying by local governments. For instance, the Fujian government was eager to create the “Western Shore Economic Zone of the Taiwan Strait”. The proposal was sometimes mentioned but sometimes omitted in various drafts of the Plan. Thanks to the success of the Fujian government’s successful lobbying activities, the proposal finally made its way into the formal version of the Plan.
However, as far as the regional 11th Five-Year Plans for Chengdu and Chongqing are concerned, both have similar natural endowments and industrial structures, and both aim to develop similar, high value-added industries. Consequently, duplicated investments are likely to occur in both regions.

The 11th Five-Year Plan on Western Regional Development

The 11th Five-Year Plan on Western Regional Development, promulgated on March 2007, formally established the Chengdu-Chongqing Economic Zone as the first of three key economic zones in the western region. This is significant for two reasons. Firstly, it shows that the Chengdu-Chongqing Economic Zone is indeed vital to the development of the western region. Secondly, the Sichuan, Chengdu and Chongqing governments were frustrated by the absence of the Chengdu-Chongqing Economic Zone in the 11th Five-Year Plan, and the Central Government has tried to pacify them.

1.2 Urban Planning and Transportation Networks in the Chengdu-Chongqing Economic Zone

Regional urban planning and transportation networks reinforce each other. Modern comprehensive transportation systems, especially the high-speed inter-city ones, greatly improve and transform the urban landscape. The transportation system is not the only service infrastructure in the city, but it is a strategic means for moulding the urban landscape and even establishing regional industrial structures.

1.2.1 The Urban Landscape in the Chengdu-Chongqing Economic Zone

According to the Proposal for the Development Strategy of the Chengdu-Chongqing Economic Zone, the future urban landscape of the Zone will be structured by “one river and three axes”.

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(1) The Yangtze Riverside Urban Axis. This axis centres on Chongqing and includes the cities of Yibin, Luzhou, Jiangjin, Chongqing and Wanzhou along the Yangtze River.

(2) The Baoji (寶雞)-Chengdu and Chengdu-Kunming Urban Axis. This axis centres on Chongqing, the Baoji-Chengdu and Chengdu-Kunming Railways, and the Chengdu-Mianyang and Chengdu-Leshan (樂山) Highways. The cities along these railways include Jiangyou (江油), Mianyang, Deyang, Chengdu, Meishan (眉山) and Leshan.

(3) The Chengdu-Neijiang-Chongqing Urban Axis. This axis starts from Chengdu and ends at Chongqing and includes cities along the Chengdu-Chongqing Railway and the Chengdu-Chongqing Highway. The cities include Chengdu, Ziyang (資陽), Neijiang, Yongchuan (永川) and Chongqing.

(4) The Chengdu-Suining-Chongqing Urban Axis. This axis also starts from Chengdu and ends at Chongqing, and incorporates the Chengdu-Chongqing and Suining (遂寧)-Chongqing Railways and the Chengdu-Nanchong and Suining-Chongqing Highways. The cities include Chengdu, Suining, Nanchong (南昌), Hechuan and Chongqing.

This “one river three axes” urban landscape centres on Chengdu and Chongqing, and is intended to strengthen the three urban clusters of Chengdu, Chongqing and southern Sichuan. Such a design will enhance regional economic spin-offs and integration.

Of the three urban clusters, Chengdu has its axis along Chengdu, Deyang and Mianyang, which connects its neighbouring cities. Meanwhile the Chongqing cluster is composed of cities, areas and counties within its municipality and the southern Sichuan cluster centres on Neijiang, Yibin, Luzhou and Zigong (自貢). Connected by railways and highways, the three clusters will form urban and economic belts stretching from Chengdu to Neijiang and Chongqing. Eventually, Chengdu and Chongqing will become the growth engine that brings rapid urbanisation and economic integration across the entire region.
1.2.2 The Transportation Network of the Chengdu-Chongqing Economic Zone

Sichuan and Chongqing will greatly increase their investment in the transportation network during the 11th Five-Year Plan. More highways will be built, and many existing railway lines will become double-tracked. Many of the newly constructed highways and railways, as well as the newly opened coach services, will run between Chengdu and Chongqing but some will connect neighbouring provinces as well.

1.2.2.1 The Highway Network

The Chengdu-Chongqing Highway is one of the Sichuan government’s key highway construction projects during the 11th Five-Year Plan. It is composed of highways in Yibin, Luzhou and the Sichuan-Chongqing border and will create three new routes connecting Chongqing (see Map 1-1).
Of particular interest to us is the fact that these new highways will not only improve transportation within Sichuan, but will also connect Chongqing with Wuhan in Hubei and Changsha in Hunan. In other words, Sichuan will have access, via Chongqing, to the middle stream of the Yangtze River and to Hunan, one of the provinces within the Pan-PRD economic zone. Meanwhile, the newly constructed Chongqing-Luzhou Highway, once it is connected to the Yibin-Shuifu (水富) and the Naxi (納西) –Dahuadi (大花地) Highways, will join Sichuan with Yunnan and Guizhou (see Map 1-2).

The Sichuan and Chongqing governments will work closely together as strategic partners when it comes to planning and constructing the new highways.
Not only will their highways connect with each other, they will also connect to each other’s inter-provincial highways. In this way, the networking effect of the highways is enhanced, and the two governments will have genuinely demonstrated their partnership.

Map 1-2: Highway Construction in Chongqing during the 11th Five-Year Plan

Source: Chongqing 11th Five-Year Plan

1.2.2.2 The Railway Network

All inter-provincial railways constructed by Sichuan during the 11th Five-Year Plan have their terminals located at Chongqing. These include the
second Xiangfan (襄樊)-Chongqing Railway, the Lanzhou (兰州)-Chongqing Railway and the Second Suining-Chongqing Railway (see Map 1-3).

The Chongqing-Lichuan (利川) Railway, the Chongqing-Huaihua (懷化) Railway (which will run between Chongqing and Fuling (涪陵)) and the second Suining-Chongqing Railway are to be constructed by Chongqing. These railways will connect with each other and form part of the Shanghai-Nanjing-Wuhan (武汉)-Chongqing-Chengdu Passenger Express Line. This will be a new railway to join Sichuan with Shanghai and the Yangtze River Delta (see Map 1-4).

Currently, the train journey from Shanghai to Chongqing takes 40 hours or more, and from Shanghai to Chengdu, it takes at least 30 hours. When the Chongqing-Lichuan Railway is put into service in 2010, with a high speed of 200 km per hour, the Shanghai-Nanjing-Wuhan-Chongqing-Chengdu express will shorten the journey time to 10 hours.
Map 1-3: Sichuan’s Railway Construction Projects during the 11th Five-Year Plan

Source: Sichuan 11th Five-Year Plan
More importantly, the Chongqing-Lichuan Railway is designed for double-decked container transport. Chongqing and Sichuan will therefore form part of the Shanghai-Wuhan-Chengdu railway cargo transport network, and cargoes from Sichuan and Chongqing will be delivered to Shanghai by rail. In so doing Sichuan and Chongqing will become the economic hinterland of the Yangtze River Delta.

1.2.2.3 Waterway Transport

Chongqing is now actively building the Cuntan International Cargo Terminal (寸灘頭國際集裝箱碼頭). The annual container throughput is expected
to reach 700,000 TEU (Twenty-foot Equivalent Unit), with Phase I reaching 280,000 TEU and Phase II 420,000 TEU. Phase I was put into service in January 2006 whilst the construction of Phase II is being prepared and is expected to be finished in 2009.6

Before 2005, the capacity of Chongqing’s waterway transport was under utilised. According to Lu Guoji (盧國紀), Managing Director of Minsheng Shipping, his company alone claims 65% and 55% of the cargo imports and exports, respectively, at the Chongqing Port. Starting in 2005, Changhong, one of China’s largest domestic electronic appliance manufacturers, started to co-operate with Minsheng Shipping and began shipping its goods through the waterway. Although it takes seven days for Changhong to ship its goods by water to Shanghai, which is two days more than that by rail, the transportation costs are 20% lower! Suning, another one of China’s biggest domestic electronic appliance manufacturers, is poised to follow suit. According to Hou Enlong (侯恩龍), its Chongqing Branch Manager, the company is ready to invest in Guiyang thanks to the opening up of the southwestern transportation route. “With Chongqing as the transportation nexus, our bases in Yunnan, Guizhou and Sichuan will all benefit from using the same transportation network.”

Consequently, by jointly developing waterway transport, not only can Sichuan and Chongqing save time and money, the southwestern provinces in the Pan-PRD Region Cooperation zone can benefit also.

1.3 Chengdu and Chongqing as Central Cities

It is beyond doubt that central cities play a vital role in regional economic co-operation on the Mainland and in the world. For instance, it is Shanghai that leads the regional economy in the Yangtze River Delta, and Guangzhou in the PRD. The Chengdu-Chongqing Economic Zone is special in that both Chengdu and Chongqing act as its central cities. Individually, Chengdu and Chongqing are weaker than Shanghai or Guangzhou in terms of urban economic planning, value of industrial output, and gross retail sales. Combined together, however, Chengdu and Chongqing have an economic strength that is

6“Logistics are improving in the Western region” (“西部物流在博弈中漸入佳境”), Zhongguo Shuiyunbao, 27 March 2006.
equivalent to that of Guangzhou, whilst their gross investment value in fixed-assets is twice as much as that of Guangzhou (see Table 1-2).

Table 1-2: Major Economic Indicators of Shanghai, Guangzhou, Chengdu and Chongqing

<table>
<thead>
<tr>
<th>Economic Indicators</th>
<th>Shanghai</th>
<th>Guangzhou</th>
<th>Chengdu + Chongqing</th>
<th>Chengdu</th>
<th>Chongqing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional GDP (RMB 100 million)</td>
<td>9,154</td>
<td>5,116</td>
<td>5,441</td>
<td>2,371</td>
<td>3,070</td>
</tr>
<tr>
<td>Gross Fixed-asset Investment (RMB 100 million)</td>
<td>3,510</td>
<td>1,445</td>
<td>3,391</td>
<td>1,457</td>
<td>1,933</td>
</tr>
<tr>
<td>Industrial Value-added (RMB 100 million)</td>
<td>4,155</td>
<td>1,868</td>
<td>1,781</td>
<td>757</td>
<td>1,023</td>
</tr>
<tr>
<td>Total Retail Sales of Consumer Goods (RMB 100 million)</td>
<td>2,973</td>
<td>1,899</td>
<td>2,215</td>
<td>999</td>
<td>1,216</td>
</tr>
<tr>
<td>Actual Foreign Direct Investment (USD 100 million)</td>
<td>68.5</td>
<td>28.41</td>
<td>10.66</td>
<td>5.5</td>
<td>5.16</td>
</tr>
<tr>
<td>Total Value of Imports and Exports (USD 100 million)</td>
<td>1,863.7</td>
<td>534.9</td>
<td>88.3</td>
<td>45.4</td>
<td>42.9</td>
</tr>
<tr>
<td>Population (10,000)</td>
<td>1,778</td>
<td>751</td>
<td>4,178</td>
<td>1,360</td>
<td>2,798</td>
</tr>
<tr>
<td>Area (square km)</td>
<td>6,341</td>
<td>7,474</td>
<td>94,790</td>
<td>12,390</td>
<td>82,400</td>
</tr>
</tbody>
</table>

Source: China Statistical Yearbook 2006 and the Annual Statistical Digests of the four cities in 2005

That Chengdu and Chongqing enjoy more advanced capacity in high-tech R&D is due to the presence of the defence industry in Chengdu. In the 1960s and 1970s, the Central Government adopted the national defence strategy of “third-line construction”, and Sichuan was chosen as one of the inland provinces in which to install a defence industry. Today, more than ten professional scientific research institutes at national level, the Chinese Academy of Engineering Physics for instance, are all located in Chengdu. Consequently, Sichuan and Chengdu are the most advanced in the country for the nuclear industry, aviation and astronautics, information technology and bio-engineering.

According to international experience, the defence industry has always been the cradle of high-tech industry. The USA’s technological edge over the world in aviation and the information industry, for instance, is largely due to the transference of military technology in astronautics and information processing to civil use. Given the current international and diplomatic situation and the instability in the Taiwan Strait, the Central Government intends to enhance the
development of defence technology, and Chengdu is one of the key R&D bases for the defence industry in the inland region.

One of the key co-operation strategies between Chengdu and Chongqing is “to integrate the development of the economy and the defence industry, and to utilise the technological edge of the defence industry.” In other words, Chengdu and Chongqing will benefit from the “spin-off” and transfer of defence technology to civil purposes (“military-civil transfer”). Sichuan and Chengdu will see its science and technology level taking over Guangzhou and even Shanghai, and this will drive the development of the knowledge industry across the entire southwestern region.

1.4 The Impact of the Chengdu-Chongqing Economic Zone on the Southwestern Region and Pan-Pearl River Delta (PRD) Regional Co-operation

1. Sichuan gives the Pan-PRD the cold shoulder

The Chengdu-Chongqing economic zone is an inland-oriented development model relying mainly on the local economy, and in terms of regional economic links it is more attached to the Yangtze River. In fact, when the Guangdong government initiated Pan-PRD economic co-operation, it sent out an invitation to the Chongqing government. However, the Chongqing government declined because of its own status as a municipality under the direct jurisdiction of the Central Government and also because of other considerations. Sichuan is not enthusiastic about Pan-PRD regional co-operation because it is not part of the Pearl River basin. In as early as 2004, while Zhang Zhongwei, the Sichuan Governor, made the vague statement that a certain province should not necessarily be confined to a certain economic region, Zhang Zhongwei, the Sichuan Provincial Party Secretary, made it clear that Sichuan’s priority was to strengthen its economic ties with Chongqing. These comments were made after the agreement on Pan-PRD regional cooperation but before the existence of the Chengdu-Chongqing Economic Zone. They speak much of Sichuan’s interest, if any, in Pan-PRD economic co-operation. Now, with the Chengdu-Chongqing Economic Zone formally installed in the 11th Five-Year Plan for the Development of the Western Region, Sichuan will be less inclined to warm towards the Pan-PRD.
2. Chengdu-Chongqing to become the southwestern regional nexus, and integrate with areas in Yunnan and Guizhou

Although the Chengdu-Chongqing Economic Zone has just been adopted into national economic planning, the Chengdu-Chongqing transportation network is already part of the 11th Five-Year Plan and is well under way. This network aims to connect Sichuan and its neighbouring provinces in order to turn Chengdu and Chongqing into tourist and logistics centres in the western region. The highly intensive flows of population and logistics will trigger the development of the service industry and further consolidate the already well-developed local economy. As a result, Chengdu-Chongqing is poised to become the nexus of the southwestern region.

Yunnan is equally not enthusiastic about Pan-PRD economic cooperation. The reason is simple: Yunnan intends to secure itself as China’s gateway to ASEAN and southern Asia and is therefore not keen about using the PRD and Guangdong as gateway to the world. With the opening of the Yibin – Shuifu (水富) Highway in November 2006, Sichuan’s highway network was extended to Shuifu, the northern gate of Yunnan. From Chengdu, it now takes just over three hours to get to Shuifu, and just over ten hours to get to Kunming. This means that northern Yunnan is now more under Sichuan’s economic influence than that of Kunming.7

Guizhou’s northwestern part including Zunyi has long been economically attached to Chongqing. Once the Chengdu-Chongqing Economic Zone starts to operate, not just the northwestern area but other parts of Guizhou will become economically closer to Chongqing.

3. Guangxi stands alone

The Pan-Beibu Gulf Economic Zone is one of the three key economic zones named in the 11th Five-Year Plan for the Development of the Western Region. Consequently, Guangxi will strengthen its internal development in order

7 “Sichuan’s highway network reaches Shuifu, Yunnan’s northern gate, and it now takes only three hours to travel to Chengdu” (“四川高速路網修到雲南北大門水富至成都僅需 3 小時”), Chuncheng wanbao, 21 November 2006.
to attract both national and international investors, and will find itself less dependent on resources and investment from the Pan-PRD region and Guangdong.

Overall, therefore, the four southwestern provinces/region will come under the new spell of the Chengdu-Chongqing Economic Zone and the 11th Five-Year Plan for the Development of the Western Region. Their interests and intentions with regards to Pan-PRD economic co-operation will begin to cool. More alarmingly, in the last two years, Guangdong has not provided adequate support or demonstrated strong enough commitment despite being leader of Pan-PRD economic co-operation. With drastic changes in both regional economic structures and individual provincial strategies, Pan-PRD economic co-operation is likely to face great challenges.

1.5 Suggestions

Of the four southwestern provinces/region, Guangxi and Yunnan have international borders. Hong Kong could play a part in encouraging international co-operation projects that are service industry oriented.

Sichuan and Guizhou, on the other hand, are inland provinces and regions. Hong Kong’s co-operation with them should be focused on industries like those of energy, new raw materials and environmental conservation.

In the near future, Sichuan will greatly enhance its defence industry and a massive transfer of relatively non-sensitive military technology to civil purposes is expected. This might represent a golden opportunity for Hong Kong. Japan’s economic revival after World War II was largely the result of the civil application, commercialisation and globalisation of military technology from the USA. Hong Kong’s publicly funded research institutes may cooperate with their counterparts in the PRD, Shenzhen and Sichuan. The transference and application of technology through such co-operation will save Hong Kong the time and costs associated with investing in science and technology, and technology upgrades.
2 Trends and Updates on the Four Southwestern Provinces/Region

2.1 Economic Performance of the Four Southwestern Provinces/Region

At the moment, economic data for the four southwestern provinces/region for January 2007 is not available on the websites of the national and various local Statistics Bureaus. This is because the Chinese New Year holiday has shortened the number of working days and all the Bureaus are busy preparing their annual figures. Consequently the section concerning the economic performance of the four southwestern provinces/region will not be available in this report. The research team will add this section to the report once the data has become available.

2.2 Trends and Updates on Sichuan Province - Attracting High-Quality Foreign Investment

In 2006, high-quality foreign investment continued to flow into Sichuan, leading to robust growth in foreign trade. Table 2-1 shows that actual Foreign Direct Investment (FDI) in Sichuan grew by 23.4% year-on-year to USD 1.47 billion. Of the world’s biggest 500 enterprises, 125 have invested in or set up representative offices in Sichuan. Sichuan’s exports reached USD 6.62 billion in 2006 with year-on-year growth of 40.9% whilst imports grew to USD 4.4 billion, an increase of 37.4%. In terms of foreign trade generated by foreign investors alone, the growth was even more remarkable. Foreign investors in Sichuan registered an export value of USD 1.17 billion which represented year-on-year growth of 71.3% and imports stood at USD 1.73 billion, an increase of 114.4%! Sichuan’s total value of imports and exports grew by 39.5% year-on-year to USD 11.02 billion, making Sichuan the first province in the western region to breaks through the USD 10 billion threshold for foreign trade. In terms of export product structure, the value of high-tech products exports increased by 64% year-on-year to USD 970 million. In particular, the value of integrated circuits and microelectronic components exports, which were insignificant in 2005, increased by 20 folds year-on-year to USD 370 million, making them the third largest export item from Sichuan, after clothes and steel. The imports of integrated circuits and microelectronic components, the fourth largest import item into Sichuan in 2005,
became the largest in value in 2006, and imports increased by 428.8% year-on-year to USD 790 million for these products alone.8

<table>
<thead>
<tr>
<th>Table 2-1: Major Foreign Trade Indicators of Sichuan (2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicators</td>
</tr>
<tr>
<td>-----------------------------------------------------------</td>
</tr>
<tr>
<td>Total Imports and Exports</td>
</tr>
<tr>
<td>Total Exports</td>
</tr>
<tr>
<td>Total Imports</td>
</tr>
<tr>
<td>Total Exports of Processing Trade</td>
</tr>
<tr>
<td>Actual Foreign Direct Investment (FDI)</td>
</tr>
<tr>
<td>Total Exports of Integrated Circuits and Microelectronic Components</td>
</tr>
</tbody>
</table>

Source: Statistics supplied by the Sichuan Provincial Department of Commerce

<table>
<thead>
<tr>
<th>Table 2-2: Foreign Trade in Sichuan 2001-2006 (USD 100 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>2001</td>
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<tr>
<td>2002</td>
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<tr>
<td>2003</td>
</tr>
<tr>
<td>2004</td>
</tr>
<tr>
<td>2005</td>
</tr>
<tr>
<td>2006</td>
</tr>
</tbody>
</table>

Source: China’s Customs Statistics (monthly), various issues

**Sichuan: Attracting High-Quality Enterprises**

In recent years, Sichuan has become a favourite investment site for high-quality enterprises like the world’s largest 500 corporations. Many global enterprises have made their presence felt in Sichuan either through direct investment, mergers and acquisitions, or the establishment of branch offices, branch companies and R&D centres. Investment and development by these enterprises brings economic growth, employment, advanced technology and new

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8 Statistics taken from the Sichuan Provincial Department of Commerce’s website, http://www.sccom.gov.cn/xxfb/page/
ideas on management and operations, and Sichuan’s economy is now vibrant as a result.

In the manufacturing industry, Intel, Toyota, Unisem, Taiwan’s Ton Yi, and Lafarge among others have invested in numerous projects in Sichuan and their factories and production lines are now operating in Sichuan. These enterprises have brought with them advanced management and operational skills and effectively enhanced industrial upgrading and reforms in big and medium-sized state-owned enterprises. Intel is by far the biggest foreign investor in Sichuan. In August 2003, Intel decided to build a chipset assembly and testing factory in Sichuan. Construction of the factory began in 2004 and Phase I was operating by the end of 2005. Consequently, Intel has become Sichuan’s biggest exporter and Chengdu in turn has become one of the most important manufacturing bases for processors in the world. This is also why Sichuan saw a 20-fold increase year-on-year for exports of integrated circuits and microelectronic components in 2006. Intel’s investment not only filled the IC industry vacuum in Sichuan, but also attracted other global IC manufacturers to Sichuan as well. Unisem, SMIC and MPS have already set foot in Sichuan, while the On Semiconductor Corporation and Taiwan’s Powerchip Semiconductor Corporation have also expressed their interest in Sichuan.

Chengdu will soon see the formation of an IT industry cluster. Furthermore, Chengdu is home to the R&D world's big five communication corporations including Nokia, Ericsson, Motorola, Siemens and Alcatel all of whom have established R&D centres there. Microsoft has also set up a technology centre in Chengdu. The research institute of Lenovo China in Chengdu dates back as early as 2004 and Huawei, Neusoft and Zhongxing Telecom Equipment (ZTE) have all invested in Sichuan. With the presence of these enterprises, Sichuan will be able to achieve economies of scale and industrial clustering effects in the IT, software and telecommunication manufacturing industries. Following semiconductor manufacturers, the next batch of investors to Sichuan is likely to be wafer fab manufacturers. A complete industrial production chain will therefore be formed in Sichuan, with greater efficiencies and a reduced reliance on imported wafer fabs. Wafer fabrication will in turn enhance the development of the semiconductor industry. The Cension Semiconductor Manufacturing Company from Chengdu is the first eight-inch wafer fab manufacturer in China’s western region. The company is testing its production equipment and just started pilot manufacturing in March 2007.
In the service industry, Citibank, HSBC, Allianz Life, Ernst and Young, KPMG, Wal-Mart, Carrefour, Ito Yokado, Maersk, UPS and Nippon Yusen Kaisha have all set foot in Sichuan. Their investment has significantly enhanced the development of the modern service industry in finance, insurance, consultancy, commerce, trade and logistics in Sichuan. By servicing the market and enterprises in Sichuan, they will further improve the investment environment of Sichuan, making it more attractive to future investors.

Features of Foreign Investors in Sichuan

- The world’s biggest 500 enterprises are very enthusiastic about Sichuan, especially Chengdu. In 2006, 14 more enterprises from the world’s biggest 500 invested in Sichuan including Wal-Mart, UPS, Allianz Life, Fujitsu, Johnson Controls and Pfizer. Old investors like Intel and Shell are also increasing their investment profiles in Sichuan. While early foreign investors tended to specialise in the sales of their products, recent foreign investors are concentrating on production and R&D and are investing more in finance, insurance, logistics, services and trade. Citibank, UPS and Nokia, for instance, are no longer content with setting up branches and selling their products or services in Sichuan, especially in Chengdu. Foreign investment in Sichuan has therefore shifted from marketing to manufacturing.

- Foreign investment in Sichuan comes from a relatively concentrated source. Table 2-3 shows that in 2006, both in terms of contracted and realised FDI, the top two investment countries/regions were Hong Kong and the British Virgin Island (mainly Taiwan investors). Realised FDI from these two regions amounted to USD 830 million, or 66% of Sichuan’s total. In terms of contracted FDI in Sichuan, that from Hong Kong alone accounted for 47.7% of the total, amounting to USD 1.319 billion.
Table 2-3: Origins of Foreign Investors in Sichuan in 2006 (USD 10,000)

<table>
<thead>
<tr>
<th>Countries (regions)</th>
<th>Number of Projects</th>
<th>Year-on-year Variation (%)</th>
<th>Contracted Foreign Direct Investment</th>
<th>Realised Foreign Direct Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Value</td>
<td>Year-on-year Variation (%)</td>
</tr>
<tr>
<td>Virgine Island</td>
<td>55.0</td>
<td>-1.8</td>
<td>57,779</td>
<td>+26.8</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>160.0</td>
<td>+36.8</td>
<td>131,863</td>
<td>+62.3</td>
</tr>
<tr>
<td>Taiwan</td>
<td>53.0</td>
<td>-</td>
<td>11,109</td>
<td>+305.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>49.0</td>
<td>75.0</td>
<td>25,221</td>
<td>+88.5</td>
</tr>
<tr>
<td>US</td>
<td>47.0</td>
<td>-20.3</td>
<td>9,575</td>
<td>-63.1</td>
</tr>
<tr>
<td>Total</td>
<td>490.0</td>
<td>+16.7</td>
<td>276,231</td>
<td>+34.4</td>
</tr>
</tbody>
</table>

Source: Statistics supplied by the Sichuan Provincial Department of Commerce

- Real estate and manufacturing are the main industries that attract foreign investment. In 2006, contracted FDI in the real estate industry reached USD 1.187 billion and that of realised FDI reached USD 549 million, which both surpassed those in the manufacturing industry. Combined together, the real estate and manufacturing industries claimed an overwhelming 76.34% and 81.79% of Sichuan’s contracted and realised FDI, amounting to USD 2.071 billion and USD 988 million, respectively. Of Hong Kong’s total investment amount in Sichuan, 49.73% was in the real estate industry. China Resources Land and Hutchison Whampoa, for instance, have massively invested in Sichuan’s real estate industry. Of the 11 foreign investors that increased their contracted investment by more than USD 25 million, five were from Hong Kong including Shangri-La, China Resources Land, Long Mao Real Estate (a Wharf Holding investment), Longrun Real Estate (a Longrun Group investment whose subsidiary Long Far is a listed company in Hong Kong) and Xin Yi Real Estate (a New World Development investment).9

Why Do Foreign Investors Choose Sichuan?

- Sichuan is rich in natural resources like oil and natural gas, and boasts China’s biggest hydroelectric reserves whilst its real estate prices are still far cheaper than those in eastern China. Moreover, in order to enhance the development of the western region, the

Central Government greatly improved Sichuan's infrastructure, in addition to providing favourable policies for Sichuan. Consequently, comprehensive investment costs in Sichuan are lower.

- Sichuan has long been China’s hinterland, and is known as the “country of heavenly treasure”. The Chengdu plain is fertile and, as the provincial seat, it is the key nexus for communication, finance and commerce in the western region. It has a very strong influence over the economy of the southwestern region and the entire western region. With continuous and rapid growth in the national economy, and with the development of the western region, the market potential of the western region including Sichuan, is enormous. Sichuan and Chongqing together boast an economy with a population over 100 million. If this were combined with the northwestern and the southwestern regions this would create a huge economic community of 200 to 300 million people.

- Not only does Sichuan boast an abundant supply of labour, it also has a plentiful supply of skilled, high-tech labour. Sichuan was a vital base for the electronic industry in as early as the “third line construction” period and possessed a relatively well developed industry, especially in the military industry. Major enterprises in defence and civil technology in Sichuan included the Chengdu Aircraft Industrial Company, Sichuan Jiuzhou Electronic Technology Company and Changhong Electronics. Sichuan also has 184 science and research institutes, 15 laboratories of national standard, nine engineering technology centres and more than ten other professional research institutes, such as the Chinese Academy of Engineering Physics, the Chengdu Branch of the Chinese Academy of Science and the Xichang Satellite Launching Centre. Sichuan has 72 tertiary institutes, five of which are listed in the national “211 education project”, and boasts 1.05 million university students. Its capacity in R&D is high and the supply of high-tech labour abundant. Mianyang, a neighbouring city of Chengdu, is one of the major defence R&D centres. Consequently, Sichuan has a sound foundation in the electronic information industry and a strong capacity in manufacturing and R&D. Its production chain is long, coordination facilities are complete and high-tech labour is in abundant supply. It is these factors which

10 Sichuan’s foreign investment website http://www.sccom.gov.cn/wszs/html/zjsc.html#5
have drawn enterprises such as Microsoft, Nokia, Lenovo, Huawei and others to Sichuan.

**Implications for Hong Kong**

The rich natural endowment, well-developed industry, and favourable Central Government policies launched during the development of the western region, have attracted foreign investment into areas that conform to Sichuan’s targets in industrial development, restructuring and upgrading. Since transportation is the one area in which Sichuan is disadvantaged, most foreign investors are not intending to adopt the “exclave economy” strategy that is applied by many investors in the PRD, i.e., conducting processing trade by leveraging on short-term favourable policies and massive supply of cheap labour there. Foreign investors in Sichuan, such as Intel, Toyota, Nokia, Motorola, Citibank, HSBC and UPS will play a vital role in the long-term and stable development of Sichuan’s economy. Some of them will enhance and sustain the development of new industries whilst others will help improve the general business environment and provide expert training in response to endogenous growth, yet more will provide services in business consultancy, finance and logistics for both multinational corporations and local enterprises. Their presence means that Sichuan will continuously benefit with new economic momentum and dynamics.

Compared with other foreign investors in Sichuan, Hong Kong investors tend to concentrate on the real estate industry which indeed has a shorter investment cycle and easier profit transfers. However, in recent months, the Central Government has repeatedly issued warnings against rampant property price speculation and called for the regulation of the real estate market. It has promulgated a series of policies to “cool down” the property market and is expected to adopt more stringent policies in the real estate industry. Therefore, Hong Kong investors in the Mainland’s real estate industry will not receive encouragement from either the Central or local governments. Hong Kong enterprises should diversify their investments on the Mainland. For instance, instead of concentrating on the real estate industry, Hong Kong investors should invest in finance, insurance and logistics.
2.3 Trends and Updates on the Guangxi Zhuang Autonomous Region – Developing a Major Car Manufacturing Base

Guangxi is gradually becoming one of the country’s major car manufacturing bases with the Liuzhou Wuling Motors as its leading enterprise. SAIC-GM-Wuling, of which Liuzhou Wuling is a shareholder, has seen a certain level of success in small car manufacturing, thanks to Guangxi’s local infrastructure and technology in tractors and diesel engines.

SAIC-GM-Wuling Makes a Splash

SAIC-GM-Wuling, a joint venture between the Shanghai Automobile Industry Corporation, General Motors and Liuzhou Wuling, is a major automobile manufacturer in Guangxi. It was formally established on 18 November 2002, and its predecessor can be traced back to the Liuzhou Power Mechanical Factory which was formed in 1958. Currently, the 200 types of car that SAIC-GM-Wuling manufactures can be grouped into five categories: commercial vehicles, small passenger vehicles, mini trucks with single row seats, mini trucks with double row seats, and multi-purpose vehicles. SAIC-GM-Wuling’s products are exported to over 30 countries and regions in Southeast Asia, the Middle East, South America and Western Europe. Small MPVs have been the company’s main products. The “Light of Wuling” mini commercial vehicle series, developed by Wuling alone, is subjected to GM’s global manufacturing standards, and are therefore more advanced than their Chinese counterparts, and have been in hot demand ever since they were launched. Its Chevrolet Spark mini-car is also very successful, and has won acclaim as the “world’s most beautiful mini-car”.

In recent years, sales of SAIC-GM-Wuling cars have grown substantially. In 2002, its annual sales were 140,000, making it the fourth biggest automobile manufacturer, behind Changan, Changhe and Hafei. In 2004, a year of great significance in Guangdong’s car market, the company saw its production-sales break the 200,000 threshold, and stood at 235,000 which was 30% higher year-on-year. The company’s output value has grown by 27% year-on-year to 7 billion RMB, and its market share has grown by 3 percentage points to 25%.

11 SAIC website http://www.saicmotor.com/chinese/xsqy/shwl/112.shtml
12 Originally a Daewoo invention in the mid-1990s, known as Matiz, it was very popular in Europe. When General Motors acquired Daewoo, Matiz belonged to General Motors as well and became the future Chevrolet Spark. The QQ series of Wuhu Chery are an imitation of the Chevrolet Spark.
making it the second biggest automobile manufacturer.\textsuperscript{13} Only two years later, in 2006, SAIC-GM-Wuling had become the biggest automobile manufacturer in the country. In November 2006, Hu Jun, its General Manager, reckoned that production-sales would break through the 450,000 threshold, turnover would reach 15 billion RMB, and net assets would amount to RMB 18 billion or 4.5 times that before the merger.\textsuperscript{14}

The year 2006 was not good for small cars even though the government lifted the ban on low-emission cars and oil prices kept growing. The growth of small car sales slowed down, yet SAIC-GM-Wuling showed no signs of dropping off. In 2006, its annual sales grew by 36.5% year-on-year to 460,155. With its market share of mini commercial vehicles growing by 8 percentage points to 38%, SAIC-GM-Wuling became the biggest manufacturer in the domestic small car market, while the second trailed by 8 percentage points behind. The Chevrolet Spark mini-car, another highlight of SAIC-GM-Wuling, saw its annual sales grow by 48.8% year-on-year to 40,000, and firmly established itself in the domestic low-emission car market. In December 2006, J.D.Power, the world’s authoritative car consultancy, released the \textit{Initial Quality Study} for China, and Chevrolet Spark once again won the award for “China’s best compact car”.\textsuperscript{15} Demand for Chevrolet Spars far exceeded supply and had the company not been restricted by its production capacity, sales of Chevrolet Spars would have grown even more in 2006. The Light of Wuling was even more remarkable. Annual sales exceeded 300,000 in 2006 and its annual sales were the biggest in number and the fastest growing. It is unprecedented for a single model to achieve such results in the country’s domestic car market (see Table 2-4 and Table 2-5).\textsuperscript{16}

In 2006, GM sold 4.1 million cars in the North American market, or 9% less year-on-year. Although GM has yet to announce sales for its eight major models, it is estimated that GM will still be the world’s biggest automobile manufacturer, with total annual sales reaching 9.2 million. In China, GM’s production-sales grew by 31.8% year-on-year to 876,747, of which 460,000 were

\textsuperscript{13} “Mixed market performance” (”市場表現可圈可點”), SAIC-GM-Wuling website, http://www.sgmw.com.cn/index/index.jsp


\textsuperscript{15} “Mixed market performance” (”市場表現可圈可點”), SAIC-GM-Wuling website http://www.sgmw.com.cn/index/index.jsp

through SAIC-GM-Wuling and 413,367 through SAIC-GM. With an increase of 27% year-on-year in sales, not only was SAIC-GM China’s biggest car seller, but it was also the first automobile manufacturer to see production breaking through 400,000.¹⁷

**Table 2-4: Sales of SAIC-GM-Wuling in Recent Years**

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>18.0</td>
<td>23.5</td>
<td>33.5</td>
<td>46.0</td>
</tr>
<tr>
<td>Year-on-year Growth (%)</td>
<td>N.A.</td>
<td>30.0</td>
<td>43.0</td>
<td>36.5</td>
</tr>
<tr>
<td>Market Share (%)</td>
<td>21.0</td>
<td>25.0</td>
<td>30.0</td>
<td>38.0</td>
</tr>
</tbody>
</table>

Source:
1. SAIC website http://www.saicmotor.com/chinese/xsqy/shwl/112.shtml;

**Table 2-5: Sales and Market Share of China’s Major Small Car Manufacturers in the First Three Quarters of 2006**

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Sales</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wuling</td>
<td>316,225</td>
<td>39.2%</td>
</tr>
<tr>
<td>Changan</td>
<td>236,124</td>
<td>29.2%</td>
</tr>
<tr>
<td>Hafei</td>
<td>123,818</td>
<td>15.3%</td>
</tr>
<tr>
<td>FAW-Jiabao</td>
<td>51,931</td>
<td>6.4%</td>
</tr>
<tr>
<td>Changhe</td>
<td>45,501</td>
<td>5.6%</td>
</tr>
<tr>
<td>Dongfeng Xiaokang</td>
<td>34,806</td>
<td>4.3%</td>
</tr>
</tbody>
</table>


In January 2007, while sales of the entire Chinese small car industry grew modestly by 4.3% year-on-year to 112,100, those of SAIC-GM-Wuling remained robust. The sales of Wuling grew by 25.2% year-on-year to 57,461 and its market share was a staggering 51.3%, which was more than that of the total of the next five competitors including Changan and Hafei, and was also higher than the 48.2% share of July 2006, the highest monthly share in 2006. Sales of Chevrolet Sparks, however, eased by 3.3% year-on-year to 4,055. Nonetheless, SAIC-GM-Wuling’s

January total sales were above 61,000, or 23% more year-on-year, which is so far the highest monthly sales record in China’s domestic car market, driving SAIC-GM-Wuling towards the annual production-sales target of 520,000.\(^{18}\)

SAIC-GM-Wuling has tried to tap the overseas market. In 2003, it exported 815 cars to 16 countries and registered an export value of USD 2.7 million. In 2004, it exported 1,859 cars to 19 countries and the value of exports was worth USD 6.7 million. It exported 2,001 cars in 2005 and expected to export a further 3,600 in 2006. However, more intensive competition in the domestic small car market means that the market cannot expand indefinitely. Exports are where the new momentum is to be found. Although the general standards of the Chinese automobile industry still lags far behind the advanced ones in the world, the gap in small commercial vehicles is gradually shortening. Chinese automobile manufacturers are fully capable of tapping overseas markets for new development room. In April 2006, SAIC-GM-Wuling set its annual production-sales target for 2010 at 500,000 of which 10% would be exported.\(^{19}\) However, since annual sales in 2006 reached 460,000, the target was revised upwards to 520,000. It remains to be seen if the export target will be adjusted accordingly.

**SAIC-GM-Wuling Success Due to Good Strategic Positioning**

Why is SAIC-GM-Wuling so successful? It is because the company has excellent market knowledge and has positioned itself well. Instead of locating itself in Shanghai, Jilin, Hubei or Guangdong to compete in the middle- and high-end car markets, it chose Guangxi and specialises in the production of cheap but high-quality small cars. Shanghai, for instance, has seen the presence of Volkswagen from very early on and Volkswagen once dominated the market. Hubei is a province with a strong capacity for car manufacturing because it was the location for the formation of the Second Automobile Group (now renamed Dongfeng Automobile). In recent years Dongfeng has formed a joint-venture with Citroën and Nissan. Meanwhile Jilin, where FAW (First Automobile) is located, has seen the presence of Volkswagen and recently Toyota. Guangdong, a


relatively late comer in the car industry, has now become the production base of middle- and high-end Japanese cars for both domestic and overseas markets (Honda Jazz, for instance, is manufactured in Guangzhou and exported to Europe). Honda, Toyota and Nissan have either started or increased their investments in Guangdong’s car industry, and brought with them Japanese spare part providers. Chinese local enterprises find it very difficult to compete with them in either whole car or spare part manufacturing.

Located in Liuzhou of Guangxi, SAIC-GM-Wuling is blessed with its own manufacturing chain, especially where car engines are concerned. Liuzhou Wuling Mechanical Power, a whole subsidiary of Wuling Motors, was formed in 1928, then known as Liuzhou Mechanical, and was reputed to be “the cradle of Guangxi’s mechanical industry”. Liuzhou Wuling Mechanical Power now belongs to the Category II of large state-owned enterprises, and boasts a production capacity of 800,000 car engines annually. The turning point for the company came in 1996, when it merged with Wuling Motors. In 2005, thanks to robust demand from SAIC-GM-Wuling, engine production-sales for Liuzhou Wuling Mechanical Power reached 339,000, making it the second biggest manufacturer of small car engines and fastest in terms of sales growth. Liuzhou Wuling Mechanical Power is now the major manufacturing base for small car engines in southern China. In 2006, Liuzhou Wuling Mechanical Power once again broke its own record, with its production-sales growing by 42% to 480,000, and a market share of 40%, making it the biggest manufacturer of small car engines in the domestic market. Apart from supplying Wuling Motors, Liuzhou Wuling Mechanical Power also supplies four of the seven other major manufacturers of small cars. It manufactures more than 20 models of engines, including gasoline engines #462, #465, #474, #486 and #491, and the diesel engine #493. All these engines are equipped with electric fuel injection (EFI) systems, and conform to EU II and III standards on emission.20

Not only is the car industry in Liuzhou supported by Nanning’s service industry, it is creating its own one as well. In the newly established XinXing Industrial Zone in Liujiang County (under Liuzhou’s jurisdiction), 73 of the 99 enterprises are manufacturers of car spare parts and components, and they serve Liuzhou’s car manufacturing industry well. An organic link has been formed between these spare part manufacturers in Liujiang and car manufacturers in

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Liuzhou, with excellent economies of scale and industrial clustering effects. In 2006, the Xinxing Industrial Zone boasted a total industrial output of RMB 1.042 billion, and realised total profits and taxes of RMB 79.1 million. In September 2006, Liuzhou Wuling Mechanical Power established a factory in the Zone. The investment project cost RMB 1 billion and is expected to achieve an annual engine production of 200,000 and an annual output value of RMB 4 billion. The project also brought seven more enterprises into the Zone who specialise in servicing Liuzhou Wuling Mechanical Power. The Liujiang County government plans to have the number of enterprises in the Zone reach 200 with an annual total industrial output value of RMB 20 billion by the end of the 11th Five-Year Plan. This will provide a further boost to Wuling Motors.

Next Stage: “Going Global”

With competition in the domestic market becoming fiercer, China’s automobile manufacturers have all set their eyes on the overseas market and SAIC-GM-Wuling is no exception. One of its main strategic goals in the next stage will be to realise large-scale exports by establishing Knock Down (KD) assembly factories overseas.

In 2005, Rick Wagner, GM’s CEO, revealed that SAIC-GM-Wuling was poised to export its products to other countries either as cars or as materials. Thanks to the help of the Central Government, SAIC has been given permission to establish a joint-venture with Vietnam. According to SAIC’s plan, Vietnam will be the first overseas country to manufacture SAIC-GM-Wuling products.

Furthermore, through GM’s subsidiaries, SAIC-GM-Wuling is also looking for a strategic partner in Southeast Asia in order to cultivate its own production and sales chains. So far as exports are concerned, the ASEAN market is vital to SAIC-GM-Wuling’s international marketing strategy. Geely, another Chinese automobile manufacturer, was having difficulty in its Complete Knock Down (CKD) assembly project in Malaysia. Undaunted, SAIC-GM-Wuling still

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regards ASEAN as the plank for its international development. In 2004, car sales in ASEAN’s four biggest markets (Thailand, Malaysia, Indonesia and the Philippines) grew by 8% year-on-year to 1 million. Starting from 1 July 2005, tariffs for imported cars within the ASEAN Free Trade Area dropped to 5%. It is expected that by 2005 and 2010, car sales within ASEAN will reach 1.6 million and 2.3 million, respectively, making Southeast Asia the world’s fifth biggest market. These favourable factors provide SAIC-GM-Wuling with a golden opportunity for exports. Furthermore, economically Southeast Asia and China are more or less at the same development stage and culturally they are more or less similar also. Guangxi, home to SAIC-GM-Wuling, is in the best location for exporting to Southeast Asia. Not only can SAIC-GM-Wuling thus significantly cut down its export shipping costs, but it can reach its market and provide services faster. It is for these reasons that SAIC-GM-Wuling regards Southeast Asia as its most important export market and has now set up sales networks in Thailand and the Philippines.\(^{23}\)

Apart from cars, Wuling’s Guihua tractor has always enjoyed a good reputation in the ASEAN market. In 2006, more than 10,000 Guihuas were exported to Vietnam, Malaysia, Thailand and Myanmar, in addition to nearly 1,000 agricultural vehicles. It was the best record for Wuling so far. Wuling’s leisure and sightseeing cars have been exported to the Philippines and Vietnam as well.\(^{24}\)

**Guangxi Car Exports on the Rise**

Five-Years after China joined the World Trade Organisation (WTO), quite on the contrary to what was previously believed, China’s car industry has not been dealt any serious blows but has been given new opportunities for development. In accord with the country’s general trend, rapid growth has been seen in Guangxi’s car industry over the last Five-Years, with annual output values reaching RMB 40 billion. Exports of car products (cars, chassis and spare parts) were even better. According to customs statistics, in 2006, Guangxi’s car product exports amounted to USD 67,605 million, or 5.7 times more than that of 2002, and average annual growth in the past Five-Years was 54.5%. However state-owned

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enterprises still dominated the export of car products. In 2002, their exports amounted to no more than USD 10 million but by 2006, this had risen by 1.9 times to USD 27.656 million. Privately-owned enterprises have also developed fast. In 2002, their exports amounted to no more than USD 1 million but by 2006 this had grown by 35 times to USD 24.937 million. Foreign enterprises have been doing well also. In 2002, their exports amounted to only USD 1 million plus but by 2006 this had grown by 3 times to USD 6.426 million. In 2006, car products from Guangxi were exported to 51 overseas markets, 2.4 times more than in 2002. Southeast Asia, especially Vietnam, is the biggest market for Guangxi’s car industry and between 2002 and 2006; Guangxi’s car exports to ASEAN and Vietnam grew by 4.6 and 4.7 times in value, respectively. In 2006, Guangxi’s car exports to ASEAN amounted to USD 57.652 million, of which USD 56.535 million were derived from Vietnam alone. In fact, Vietnam claimed 83.6% of Guangxi’s car exports to ASEAN in value.

Statistics also reveal that the quality of Guangxi’s exported car products is improving fast. In 2002, Guangxi’s car product exports were dominated by spare parts and exports of Guangxi’s high value-added car products (whole cars or chassis) amounted to USD 4.343 million, or 36.6% of the total. In 2006, the figure grew by 11 times to USD 52.74 million whereas that for spare parts also grew and reached USD 15.272 million. Five-Years after joining the WTO, the total car products exports of Nanning (南寧) amounted to nearly USD 100 million, or 51.8% of the Guangxi total. In 2006, for the first time the value of car products exports of Liuzhou (柳州) broke through the 10 million threshold to reach USD 10.933 million, or 16.7 times more than that of 2002.25

Guangxi Customs Ports to Expand Their Role

Apart from being a car product manufacturer and exporter, Guangxi is also the main avenue through which car products from other parts of China are exported to Vietnam. According to statistics from Nanning Customs, in January 2007 alone, exports of cars, chassis and spare parts through Guangxi’s customs ports grew by 95% year-on-year in value to USD 6.5 million, most of which were bound for Vietnam’s market.

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Vietnam has a huge appetite for heavyweight self-unloader trucks, engineering vehicles, tow vehicles, cargo trucks and agricultural vehicles because it is experiencing rapid economic growth. Demand for large coaches and medium-size passenger vehicles is gradually increasing, as is that for small passenger vehicles which are extremely suitable for driving around small towns. Moreover, Vietnam’s government is reducing the number of motorcycle licenses and thus indirectly pushing up demand for small passenger vehicles, vans and cars. Currently, Japanese and Korean cars take the lion’s share of the market in Vietnam but exports of Chinese car products are increasing. In 2002, high value-added car products (cars or chassis) exported through Guangxi customs ports amounted to merely USD 4.343 million, or 36% of the total. In 2006, exports of cars and chassis grew by 11 times in value to just over USD 52 million.\(^{26}\) In fact, Vietnam is the main overseas market for Chongqing Lifan Motorcycle vehicles.

**Guangxi’s Car Industry and the 11th Five-Year Plan**

Thanks to a good performance in production, sales and exports, the car industry has become Guangxi’s “pillar industry” and harbours the strongest economic strength and growth potential. Some of the most powerful automobile manufacturers in the country are now located in Guangxi. For instance, there are 23 automobile manufacturers in Guangxi with individual asset values reaching RMB 100 million. SAIC-GM-Wuling and Guangxi Yuchai both scored annual sales revenues of over RMB 10 billion. On this basis, Guangxi reckons that by 2010, the annual total sales revenue of its car industry may exceed RMB 100 billion.

Currently, Guangxi’s car industry is the fourth biggest in the country. However, local experts worry about four negative factors that may impede the development of Guangxi’s car industry.

Firstly, although Guangxi’s automobile manufacturers are of considerable scale, their economic strength is still far too small compared to major international or domestic counterparts. Guangxi’s automobile manufacturers therefore cannot create a leading effect with their servicing industries and have yet to form a complete industrial chain. Limited by their scale and strength,

Guangxi’s automobile manufacturers cannot integrate with their spare part and component manufacturers.

Secondly, Guangxi’s car industry does not have a sound product structure. Currently, the ratio of cars, passenger vehicles and trucks is 6.9:73.8:19.3, with middle- and low-end products dominating. Therefore, Guangxi’s automobile manufacturers will find it difficult to upgrade themselves quickly.

Thirdly, compared with car and engine manufacturing, spare part and component manufacturing is the “soft rib” of Guangxi’s car industry. In 2005, the total sales revenue of Guangxi’s car industry was RMB 32.04 billion, of which 75.6% or RMB 24.233 billion was contributed by cars and engines, whilst other spare parts accounted for only 19.9%, or RMB 6.374 billion. According to an incomplete estimate, only SAIC-GM-Wuling manages to have 60% of spare parts supplied within Guangxi. For the other three major automobile manufacturers, the percentage is lower than 50%.

Fourthly, Guangxi’s car industry suffers from poor R&D capacity. Guangxi’s four major automobile manufacturers spend too little on R&D even though they work closely with international and domestic heavyweight players. Apart from SAIC-GM-Wuling, Dongfeng Liuzhou and Yuchai, most of Guangxi’s automobile manufacturers spend what amounts to less than 3% of their sales revenue on R&D, for some, the percentage is even lower than 1%. With weak R&D capacity and limited patented intellectual property, Guangxi’s automobile manufacturers have little core competitive strength. Not only do they lag behind their advanced international and domestic competitors, they also let down their spare parts and servicing industries.

Consequently, during the 11th Five-Year Plan, the Guangxi government devised a series of strategies for its car industry. These include “enhancing the development of the car industry, increasing its competitive edge, improving the product structure, encouraging industrial integration, strengthening R&D, increasing competitive strength, promoting exports and cultivating industrial niches”. It is hoped that by 2010, strategic adjustment in the car industry will be finished so that economies of scale and integration can be achieved, and momentum generated. The Guangxi government predicts that by the end of the 11th Five-Year Plan, investment in R&D in the car industry will reach RMB 15 billion; production-sales of cars will exceed 10 million, and that of the internal
SAIC-GM-Wuling and Yuchai are to achieve RMB 20 billion in total assets, respectively, putting them among China’s major domestic automobile manufacturers with a strong capacity for international competition.\(^{27}\)

It must be pointed out that a development strategy such as this is not new, but is typical of the traditional mentality of local governments in the inland region. The Guangxi government’s strategy, namely, to develop Guangxi’s car industry into a “big and complete” one, is similar to the development strategy which prevailed in the national car industries of Europe, the USA, Japan and Korea in the 1990s. However, in the age of globalisation and globalised competition, fewer and fewer car industries can be completely confined within a single country. Some European countries have already “lost” their national car industries. Car manufacturing has become centralised within multinational corporations and these corporations manufacture cars, assemble spare parts, and sell their products regardless of national borders. Even within China, in the age of the WTO, multinational automobile manufacturers operate not within but across provinces, and although Chery and Geely, for instance, did rise from individual provinces, they soon expanded their operations across provincial and even national borders. Consequently, the Guangxi government’s strategic guidelines for its car industry run contrary to the general trends in the car industry both inside and outside China.

Currently, Guangxi’s car industry has found its niche in the segmented nature of the market for mini-vehicles. Whilst most of the domestic automobile manufacturers have overlooked the market, Guangxi’s car industry has beaten other domestic competitors with its local technology expertise, low costs and high efficiency. However, Guangxi enjoys no advantage in the car and truck markets. The celebrated Chevrolet Spark produced by SAIC-GM-Wuling is controlled by SAIC and GM and not by the Guangxi government or by Wuling Motors, and this is why its production is limited and lags behind demand. SAIC-GM’s priority is not in low-emission cars and it might not be willing to invest more in Liuzhou to expand its production capacity. Should the Guangxi government develop car and truck models by itself, it will be a very risky move because the investment will be substantial, the linkage industry weak and market potential unknown. Furthermore, investment in this sector will necessarily reduce that in small cars, and will compromise the competitive edge that Guangxi currently enjoys.

Any Opportunities for Hong Kong?

Facing the highly segmented automobile market, Guangxi has devised a unique strategy that specialises in mini-vehicles and low-emission cars. In the near future, mini-vehicles and low-emission cars will be the dominant products in China’s car industry for two reasons. Firstly, Chinese consumers, whether living in rural areas and small towns and hitherto depending on coaches and vans for transportation, or living in cities earning middle-level salaries, will find mini-vehicles and low-emission cars relatively affordable. Secondly, the Central Government’s energy and environmental policy also encourages the development of mini-vehicles and low-emission cars. Guangxi’s government should regard environmental conservation as one of its priorities in the car industry. It should try to have its car products meet the EU IV or above standard on emissions, and try to explore non-gasoline sources of energy, such as ethanol.

Given its current R&D capacity, Hong Kong can hardly participate in the spare part and linkage industry in Guangzhou’s Japanese dominated automobile industry, nor that of German, American, French or Korean automobile manufacturers currently operating in China. However, Hong Kong is capable of playing a part in the spare part and linkage industry for Guangxi’s mini-vehicles. Hong Kong could co-operate with Guangxi’s local enterprises in developing energy saving and alternative energy technologies. Hong Kong could adopt the following measures:

1. Hong Kong’s tertiary education institutes or other education agencies could send Hong Kong students to work as trainees in Guangxi’s automobile enterprises while staff from Guangxi’s automobile enterprises could receive training in Hong Kong.

2. Hong Kong’s automobile spare part manufacturers and R&D institutes could cooperate with Guangxi’s counterparts in numerous forms and sectors.

3. Information about the latest situation and commercial opportunities in the automobile industry should be meticulously collected.
2.4 Trends and Updates on Yunnan - Expanding Customs ports

In February 2007, the Department of Commerce in Yunnan issued an important press release regarding its customs ports. With the permission of the State Council, seven Class II customs ports in Yunnan will be upgraded to Class I by 2010. They are as follows: Pianma (片馬), Yingjiang (盈江), Zhangfeng (章鳳), Nanshan (南傘), Menglian (孟連), Cangyuan (滄源) and Tianpeng (田蓬). Moreover, three new customs ports will be opened at Jiangcheng Mengkang (江城猛江), Maguan Dulong (馬關都龍) and Lijiang (麗江) Airport. The customs ports of Tianbao (天保) and Wanding (畹町) will be opened to Third Country Nationals also. With Class I customs ports, enterprises engaging in border trade will be granted the right of trade in general, and persons using these ports will not be restricted to residents of the border area. Consequently, China’s domestic enterprises will be able to engage in numerous forms of foreign trade with ASEAN and South Asia through Yunnan’s customs ports. Yunnan will therefore enter into a phase of vibrant foreign trade, with numerous players and diverse and rich products.

Geo-economy of Yunnan’s customs ports

Bordering Myanmar, Laos and Vietnam, Yunnan boasts a border of 4,060 km in length. The border between China and Myanmar alone is 1,997 km long, the border between China and Vietnam 1,353 km and that between China and Laos 710 km. The border areas are home to many ethnic groups who have close contact with each other. Yunnan has hitherto been China’s overland gateway to South Asia, the Middle East and Southeast Asia, and has a long history.
and solid foundation in border trading. Currently, there are twelve Class I customs ports in Yunnan, including seven highway ports, one railway port, two airports and two water ports. There are eight Class II customs ports, all of which are highway ports but seven of them will be upgraded soon to Class I. In addition, there are more than 90 border gates and over 100 border trading areas,30 most of which are located along the China-Myanmar border, including Class I customs ports at Ruili, Wanding, Tengchong (騰沖), Mengding (孟定), Simao (思茅), Jinhong (景洪) and Xishuangbanna (西雙版納). Class II customs ports at Pianma, Yingjiang, Zhangfen, Nanshan, Menglian and Cangyuan will soon be upgraded into Class I. These are all important avenues for Chinese-Burmese trade. However, Mohan is the only customs port that connects Yunnan and indeed China with Laos. Class I customs ports connecting Yunnan and Vietnam are situated in Jinshuihe, Hekou and Tianbao. Meanwhile, Tianpeng, which is currently a Class II port, will soon be upgraded to a Class I.

Table 2-6: A Comparison of Customs Ports in Yunnan and Guangxi (USD 100 million)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Yunnan</th>
<th>Guangxi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Import-Export Value</td>
<td>63.8</td>
<td>66.7</td>
</tr>
<tr>
<td>Total Import-Export Value</td>
<td>26.9</td>
<td>79.6</td>
</tr>
<tr>
<td>Through Customs ports</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Kunming Customs and Nanning Customs

However, when compared with Class I customs ports that connect Yunnan with Vietnam, such as Pingxiang (憑祥), Dongxing (東興) and Youyiguan (友誼關), Yunnan’s customs ports are fewer in number. To a certain extent, customs ports in Yunnan and Guangxi have their own foci and are complementary to, rather than in competition with, each other. According to Table 2-6, the total import-export value through customs ports accounted for only 42.2% of Yunnan’s total. This means that a large portion of Yunnan’s trade is conducted through customs ports in other provinces. By upgrading its customs ports Yunnan will be able to minimise its dependence on other provinces’ customs ports, such as those in Guangdong and Guangxi for instance and instead use its own more.

31 Starting from 8 April 2007, Simao will be formally renamed as Pu’er.
Table 2-7: A Comparison of Customs Ports in Yunnan and Guangxi

<table>
<thead>
<tr>
<th>Class</th>
<th>Yunnan</th>
<th>Guangxi</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Name</td>
</tr>
<tr>
<td>Air</td>
<td>2</td>
<td>Kunming, Xishuangbanna</td>
</tr>
<tr>
<td>Railway</td>
<td>1</td>
<td>Hekou</td>
</tr>
<tr>
<td>I Water</td>
<td>2</td>
<td>Simao, Jinghong</td>
</tr>
<tr>
<td>Highway</td>
<td>7</td>
<td>Ruili, Wanding, Mohan, Tianbao, Mengding, Tengchong, Jinshuihe</td>
</tr>
<tr>
<td>Water</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>II Highway</td>
<td>8</td>
<td>Daluo, Pianma, Yingjiang, Zhangfeng, Nanshan, Menglian, Cangyuan, Tianpeng</td>
</tr>
</tbody>
</table>

Source: Chinese Association of Customs Ports

In 2006, Yunnan’s total import-export value stood at USD 6.38 billion, of which exports amounted to 3.06 billion and imports amounted to USD 3.32 billion.32 The import-export value through customs ports grew by 28.2% to USD 2.69 billion, or 42.2% of the province’s total. The value of exports through customs ports grew by 55.2% year-on-year to USD 1.92 billion, or 62.7% of the provincial total. Steady growth was seen for all four indicators including import-export value, freight volume, border crossing time and mode of transport.33 Not only are customs ports vital channels for foreign trade in Yunnan, they also play an important role in enhancing co-operation and peace across the border. The Hekou Customs Port, for instance, sees massive imports of rubber, minerals, agricultural products and tropical plants from Vietnam every year. The Mohan Customs Port, the only port connecting China and Laos, on the other hand, sees exports of Chinese cement, batteries, diesel engines and TVs to Laos under China’s subsidy scheme for Laos. Customs ports are more than channels of trade; they are China’s gateways and links to the world, and information and service centres. They are very important for mutual investment, contracting international engineering projects and cultivating opium-poppy-substitution crops as well as border security and stability.

Recently, the Yunnan government announced an ambitious ten-year plan to transform Yunnan into a great network connecting China with Southeast

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32 Chinese Customs Statistics (monthly), Vol. 208 (December 2006), p. 19
and South Asia. Known as “five-in and three-out”, Yunnan should be connected to its neighbouring provinces (Guangxi, Guizhou, Sichuan and Tibet) in five directions and connected to neighbouring countries by land, water and air transport routes. The overland transport network is composed of railways and highways, and the Yunnan section of the Pan-Asia Railway is divided into three sub-sections. These are the eastern section (Kunming-Hekou (河口)), the middle section (Kunming-Mohan (磨憨)) and the western section (Kunming-Ruili (瑞麗)). The highway network includes the Kunming-Hanoi, Kunming-Rangoon and Kunming-Bangkok highways. The water transport network refers to the routes between the Lancang (瀾沧江) and Mekong Rivers, the Yuan (元江) and Red Rivers (紅河), as well as the Ruili River and Ayeyarwady River (伊洛瓦底江). In addition to air transport, these networks will connect Yunnan with Vietnam, Laos, Myanmar and beyond. After Harbin, Kunming will become the second inland railway customs port and the railway nexus connecting Yunnan with Southeast and South Asia. It will also join the Chinese railway network with Asian ones. To accommodate the expansion of its cross-border transportation network, Yunnan will need to expand its customs ports as a matter of urgency.

Most of Yunnan’s customs ports and those that will soon be upgraded lead to Myanmar. This shows that the Central Government is poised to enhance its ties and trade with Myanmar, and to secure a new sea route from southwest China to the Indian Ocean through Myanmar. In so doing China will strengthen its ties and trade not only with Myanmar, but also with Bangladesh and India. As a result, Chinese-Burmese transport, trade and co-operation will be continuously enhanced over the next few years.

Problems and Prospects

The rapid development of cross-border trade exposes the problems and limitations of Yunnan’s customs ports. Many of these ports do not have adequate infrastructure for foreign trade, their customs clearing procedures and equipment are backward, especially with regards to electronic platforms, and their transport networks have yet to be improved. Some ports simply do not have enough space for the purpose of customs clearance and inspection of goods, whilst others do not

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have even the most basic infrastructure for virus and disease inspections or quarantine facilities. A lot of goods pass the ports unchecked and this represents a glaring security loophole. With the rapid development of the China-ASEAN Free-Trade Area and the Great Mekong River Economic Zone, it is high time that Yunnan upgraded and improved its customs ports.

In view of this urgent situation, the State Council decided to upgrade many of Yunnan’s customs ports to Class I. This means that Yunnan will invest more in the construction of custom port buildings. Yunnan will have to improve the management and efficiency of customs ports in terms of personnel management, customs clearance for means of transportation, and inspection and quarantine of goods. With efficient and advanced customs ports, Yunnan and especially its border zone will be more open to the world, and trade and commerce between Yunnan and ASEAN will be enhanced. Furthermore, Yunnan’s local economy, per capita income and the living standards of the people will all be improved.

Yunnan’s 11th Five-Year Plan set two targets among others for the Yunnan government, firstly, the development of border towns and customs port infrastructure and, secondly, the development of joint inspection systems at customs ports. These two targets are part of the project known as “enlivening the border and enriching the people”. The opening of new customs ports and the upgrading of existing ones, as mentioned above, represent attempts by Yunnan’s government to acquire favourable policies and investment from the Central Government. According to the Yunnan government, by 2010, all of its customs ports will be included under a joint inspection system in which passport checking for personnel and customs clearing for goods can be processed in one go.

Customs ports provide more than just trade and border crossing services for personnel, they can also generate momentum for the local service industry. Joint inspection in customs ports necessitates professional services; the influx of tourists creates demand for local retail industries and the consumer market. Currently, Yunnan’s customs ports are mostly located in backward areas, and not only are they marked by low efficiency, but the local service and entertainment facilities are also poorly developed, making it difficult to attract major or medium-sized international and domestic investors. Scholars therefore suggest that the customs ports should be used as a triggering mechanism for developing the service industry, urbanising the border area, and improving the environment for investment.
Implications for Hong Kong

The State Council continues to increase the number of Yunnan’s customs ports and upgrade them, and Guangxi has increased the development pace of its custom port buildings. All this shows that China will further open up its southwestern region, enhance the development of the China-ASEAN Free Trade Area and the Great Mekong River Economic Zone, and prioritise border trade in its development strategy. Customs port building means more than an increase in infrastructure; it also generates enormous demand for the service industry. The massive flow of goods across the Yunnan and Guangxi borders presents excellent opportunities for the logistics industry. Hong Kong enterprises may invest in the service industry at Yunnan’s customs ports.

Yunnan is situated at one of China’s overland routes to the Indian Ocean, and is the essential platform for economic co-operation between China, Myanmar, Bangladesh and India and a bridge between China and South Asia. Since most of the countries in these regions are economically more backward than China, Yunnan will be taking up a lot of engineering services and contracting works in these countries, most of which come under infrastructure construction. Hong Kong’s engineering consultancies may participate in these projects, and Hong Kong’s financial institutions may take part in capital pooling for these projects.

Lijiang will become an air customs port, so it is likely to be further upgraded into Class I and opened to the international community. Lijiang, an ancient city, has been famous for its beauty for a long time and many famous tourist spots in southwest China, like Shangri-la (香格里拉) and the snowy mountains of Yulong, Lugu Lake (瀘沽湖), are within easy reach of Lijiang. Hong Kong should waste no time in co-operating with Yunnan’s air traffic authority to tap this tourism market. Hong Kong’s airlines and travel agencies should provide direct flights and travel packages to Hong Kong, Lijiang and Shangri-la, or to Hong Kong, Lijiang and Lugu Lake. In so doing, international and Hong Kong travelers could be offered more choice, and save time and money by flying to Lijiang directly from Hong Kong instead of via Kunming.

Customs ports involve massive flows of personnel and goods, and therefore are the cornerstone of the “port service economy”. Currently, Hong Kong’s custom port authorities mainly specialise in passport control, customs clearing, disease and virus inspection and quarantine, and only very recently has
this increased to offering commercial and service facilities. In stark contrast, Shenzhen has developed services, retail and real estate projects in its custom port area and made it a hotspot for Hong Kong consumers. In view of future integration between Hong Kong and Shenzhen. Hong Kong’s customs ports should be equipped with numerous forms of commerce, trade, retail and professional services and become the centre of the commercial service industry. Such customs ports would enable Hong Kong to provide better and quicker services to the PRD and would overcome the difficulty of coordinating traffic between Hong Kong and the Mainland.
2.5 Trends and Updates on Guizhou - Japanese Loans Pay for Environmental Conservation and Social Development Projects

On 13 February 2007, the Japanese Government formally launched its loan project for environmental conservation and social development in Guizhou. The project cost RMB 898 million, of which 674 million came as loan from the Japan Bank of International Co-operation (JBIC), and RMB 224 million from China. The project focuses on the Tongren Prefecture and the autonomous prefectures in southeastern Guizhou. This area is home to 12 counties which are classified by the Central Government as poverty-stricken, covering 200 townships and 3,399 villages, with a population of 3.67 million, or 890,000 households. The project has directly helped lift 196,000 people out of poverty. It covers six aspects: education, sanitation, community development, water supplies to small towns, urban waste management, and project management and consultancy services. These projects focus on various areas including natural gas pipeline installation, tree and forest cultivation, road improvements, medical equipment and high school facilities, etc. The purpose of the project is to improve the local environment and sanitation, to cultivate human resources and to enhance sustainable development.

This is the biggest foreign aid project in Guizhou concerning poverty reduction, after the World Bank project for poverty reduction in southwest China.

Guizhou’s Provincial Government has paid great attention to the project. Lu Zhiming (禄智明), Guizhou’s vice-governor and also director of the leading group on environmental and social development projects, praised the project for the new stage of poverty reduction and rural community development. He demanded officials in Guizhou’s various departments to try their best to raise the match funding and strengthen project management in order to guarantee the quality and success of the projects.

The Japanese loan to Guizhou was funded partly from the Yen loans of the Japan Bank of International Co-operation (JBIC) to China for the year 2005 and partly from the aid of the Japanese Government under the “Economic Co-operation Scheme with China”. It was the JBIC’s fourth biggest loan to China in

2005 (see Chart 2-1), and the terms and conditions of the loans varied according to the nature of the project. Loans for tree cultivation, installation of drinking water facilities and education have a repayment period as long as 40 years in addition to a grace period of 10 years, and the interest rate is lower, at 0.75% per annum. Loans for flood prevention, roads, schools and hospitals generally have a repayment period of 30 years, with an interest rate of 1.5% per annum.37

<table>
<thead>
<tr>
<th>Table 2-8: Loan Projects to China by the Japan Bank of International Co-operation (JBIC) in 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Project for environmental management and human resource training in Guizhou Province (Project for environmental and social development in Guizhou Province)</td>
</tr>
<tr>
<td><strong>2</strong> Project for the improvement of air quality in Hohhot (呼和浩特), Inner Mongolia Autonomous Region</td>
</tr>
<tr>
<td><strong>3</strong> Project for the improvement of water quality in Kunming, Yunnan Province</td>
</tr>
<tr>
<td><strong>4</strong> Projects for human resource training (Liaoning, Hebei and Hainan Provinces)</td>
</tr>
<tr>
<td><strong>5</strong> Project for tree cultivation in Henan Province</td>
</tr>
<tr>
<td><strong>6</strong> Project for comprehensive environmental management in Jilin (吉林), Jinlin Province</td>
</tr>
<tr>
<td><strong>7</strong> Project for the improvement of water quality in Harbin, Heilongjiang Province</td>
</tr>
<tr>
<td><strong>8</strong> Project for the improvement of water quality in Yulin (玉林), Guangxi Autonomous Region</td>
</tr>
</tbody>
</table>


Yen Loans to Guizhou: A History

To a large extent, Guizhou depends on outside aid to achieve economic development and reduce poverty and Yen loans are a vital source of foreign aid. So far, Yen loans to Guizhou have amounted to 133 billion Yen and are used for poverty reduction, human resource cultivation, environmental conservation and transport development.38

Yen loans not only enhance economic development and improve living standards in Guizhou, they also promote an exchange between the Japanese Government and Guizhou in economic and technological sectors. Since 1998, the Japanese Government has kept tendering loans aimed at providing aid for development. Examples of such projects include the “Demonstration city for environmental co-operation in Guiyang” and “Water management in Guiyang”.

These projects have improved industry and effectively curbed air and mercury pollution in Guiyang. For instance, Guizhou Cement, the biggest polluter enterprise in Guiyang, received Yen loans to install new production lines and pollutant-reduction facilities. Emissions of dust and sulphur dioxide have been reduced substantially, leading to a great improvement in air quality in Guiyang.39

Yen Loans and Recent Changes in Japan’s loan policy to China

Yen loans are a form of aid provided by the Japanese Government to China. With long repayment periods and low interest rates, these Yen loans form a part of Japan’s Official Development Assistance (ODA). However, when compared with direct aid, these Yen loans can be differentiated by their commercial element. China does not receive them free of charge, but has to repay the capital as well as the interest and bear the risk of fluctuations in the currency exchange rate. The interest rates, although low, guarantee a source of income for Japan. Moreover, some Yen loans require China to purchase expensive technology and facilities that are only available in Japan and bring huge economic benefits to Japan’s industry. Therefore, Japan’s Yen loans do not exclusively benefit China, rather, they benefit both China and Japan.

In the early years, Yen loans to China aimed at enhancing economic development and therefore concentrated on the construction of infrastructure like railways, ports, roads and energy. Since the 1990s, in view of the new Chinese economic situation and of the Chinese government’s emphasis on environmental protection, Yen loans to China have been diverted to environmental protection and the development of human resources.

Recently, as Japan has been experiencing relative economic decline while the Chinese economy is growing quickly, and under the influence of political factors, Japanese ODA to China, which peaked at RMB 13 billion in 2000, was cut down to RMB 5.2 billion in 2005. In 2008, Japan even announced that it would stop providing ODA loans to China. It should be pointed out, though, that Japan does not intend to simply stop all its aid to China, and will continue to

co-operate with China in some aspects. Takeshita Wataru (竹下亙), Japan’s Environment Minister, for instance, has said that Japan is willing to co-operate with China in dealing with environmental problems.  

**The Environmental Conservation Industry and its Prospects**

Both Japanese enterprises and the Japanese Government share the same goal in tendering loans to China’s environmental industry, namely, to profit themselves from China’s efforts to improve environmental conservation. For instance, these loans can help Japan fulfill its requirements to reduce emissions as stipulated by the *Kyoto Protocol* and establish a partnership with China that is more equal and has greater strategic significance. Indeed, the commercial interest generated by China’s emphasis on environmental protection cannot be ignored.

An environmental conservation industry will help the Chinese government reduce pressure on natural resources and the environment. Although still in its infancy, China’s environmental conservation industry is estimated to be growing by 15% annually during the 11th Five-Year Plan, higher than the growth rate of GDP. By 2010, the total output of the environmental conservation industry is expected to account for 3.4% of the GDP, or RMB 880 billion, of which 75%, or RMB 660 billion, is generated from the comprehensive utilisation of resources. Currently, China simply does not have the right equipment to develop environmentally friendly energy and aquatic technology and systems. Here, therefore, lies an enormous market for suppliers of environmental conservation facilities. Moreover, the 11th Five-Year Plan requires the government to invest RMB 1,400 billion in environmental conservation, of which RMB 260 billion will be used for engineering projects related to the disposal of dangerous waste, the construction of protective zones for important ecological functions and natural conservation zones, and the management of waste.

The development of the environmental conservation industry is particularly important to the southwestern provinces/region, including Guizhou. The four southwestern provinces/region are located in the upper and middle

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42 Ibid.
streams of many major rivers. Ecological management in these areas will have a great impact on countries and provinces lower downstream. An environmental conservation industry would enhance both prevention and containment of pollution, and will therefore be very welcomed by local governments.

**Suggestions**

In recent years, Guizhou has actively sought co-operation and aid from international organisations, and has so far established 30 or more such projects. Hong Kong could tender loans to the southwestern provinces/region for their environmental management. There are four good reasons to recommend this course of action:

- Firstly, Guizhou, Yunnan and Guangxi are located in the middle and upper streams of the Pearl River. Should Hong Kong tender loans to them for environmental improvements, not only will these areas benefit, but the PRD and Hong Kong will benefit also.

- Secondly, Hong Kong’s environmental conservation industry is weak and lacks economies of scale. If Hong Kong’s enterprises participate in local environmental conservation projects, they may profit from these projects; but more importantly, they could gain valuable experience and thus enhance the development of Hong Kong’s environmental conservation industry. By providing assistance to Guizhou, Hong Kong could expand the market and scale of its own environmental conservation industry.

- Thirdly, such assistance loans from Hong Kong will improve the relationship and enhance co-operation between Hong Kong and the Mainland provinces and regions. Hong Kong has been looking for commercial opportunities in the Mainland regions but does not provide them with any in return. Assistance loans are a completely new idea for Hong Kong and these are very important to the western region. In the future, the western region will be

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Hong Kong’s market and partner. Hong Kong should establish communication channels with it and demonstrate good will so as to lay down the foundations for future co-operation. Moreover, for developed countries and regions, assistance loans are not charity but are commercial decisions which represent opportunities to enhance local industry.

- Fourthly, since the handover to China, under the protection of the “one country, two systems” policy, Hong Kong does not pay tax to the Central Government. In times of economic difficulty, Hong Kong has asked for favourable policies from the Central Government. The Mainland’s developed provinces and cities, including Shanghai, have long provided one-to-one development assistance to poverty-stricken regions. However, as the most economically advanced city in the country, Hong Kong has been taking more and giving much less in return, and the Mainland residents find hard to take. With assistance loans, Hong Kong could improve its tarnished image and prove itself a genuine member of the “one country”.
3  Regional Co-operation: The Pan-Beibu Gulf Economic Zone and Rise of Guangxi

In late June 2006, Liu Qibao was promoted to be Guangxi’s Party Secretary-General (previously he was the deputy). Liu immediately launched a propaganda campaign for his “M strategy”, also known as the China-ASEAN M-shape regional economic co-operation, or “one axis, two flanks”. The alphabet “M” refers to the combination of the two economic zones of the Pan-Beibu Gulf and the Great Mekong River, in addition to the Nanning-Singapore economic corridor. The one corridor and two zones are therefore known as the “one axis, two flanks”. The strategy calls for economic co-operation over sea, land and the Mekong river area. Details are as follows:

(1) Establishing the Pan-Beibu Gulf Economic Zone

Centred on China and Vietnam, the Zone will be extended to include Malaysia, Singapore, Indonesia, the Philippines and Brunei. It advocates not so much a geographical idea but more of a geo-economic one and aims to strengthen economic co-operation with maritime ASEAN. Members of the Zone should enhance co-operation in port logistics, the division and coordination of labour, and the development of trade and investment. Guangxi should actively develop an industry along its coastline, jointly capitalise on marine resources, and enhance the development of coastal urban clusters. In short, Guangxi intends to build ports, industries and cities that are unique but also complementary.

(2) Establishing the Nanning-Singapore economic corridor

The corridor is the key component of the “M strategy” as it will enhance the construction of overland transport networks and the development of a transport network economy in China’s Pan-PRD Economic Zone and in ASEAN. With highway and railway networks connecting China and Indochina, an economic corridor will be created and economic co-operation within the region will be enhanced. Approved by the UN Committee on Asian-Pacific Economic and Social Affairs, both the Inter-governmental Agreement on the Pan-Asia Railway and the Inter-governmental Agreement on Asia’s Highway Network have pointed out that the railway and highway between Nanning and Singapore are the most convenient and efficient avenues connecting China’s Pan-PRD Economic Zone.
with Indochina. Guangxi’s “M strategy” calls for the construction and improvement of railways and highways connecting Nanning, Hanoi, Phnom Penh, Bangkok, Kuala Lumpur and Singapore. These major cities will become key areas for the integration of industries, logistics and special markets and for cross-border economic co-operation. Furthermore these areas should be expanded, hopefully, into an economic zone and merged finally into an economic corridor running from Nanning to Singapore.

(3) Enhancing economic co-operation in the Great Mekong River sub-region

According to the *Kunming Declaration*, the key mission for regional co-operation in the Mekong River area is poverty reduction. To reduce poverty means to create opportunities for investment and development through the interaction between the rich and relatively poor regions. Although the Great Mekong River sub-region has become a model of China-ASEAN sub-regional economic co-operation, it is so far a case of singular economic co-operation and is confined to land and river transport. The “M strategy”, on the other hand, thinks in terms of maritime economic co-operation, and will include more Chinese provinces and enterprises, especially those in the developed east, for investment, industrial co-operation, agricultural development and contracting of engineering projects in the sub-region. In short, the “M strategy” will foster closer and more comprehensive economic co-operation between China and ASEAN in the Mekong River sub-region.44

Beibu Gulf Rim to Pan Beibu Gulf Zone

On 20 May 2004, Phan Văn Khải (潘文凱), the Vietnamese Premier visited China. During his meeting with the Chinese Premier Wen Jiabao (溫家寶), Phan raised the idea of “two corridors and one rim”, meaning that the two countries should co-operate over the construction of an economic corridor. The first part would join Kunming, Lào Cai (老街), Hanoi, Hải Phòng (海防) and Quảng Ninh (廣寧), whilst the other would connect Nanning, Lang Sơn (諒山), Hanoi, Hải Phòng and Quảng Ninh, in addition to the development of the Beibu Gulf Rim Economic Zone. On 8 October 2004, China and Vietnam promulgated a joint declaration which called for the establishment of an expert group within the

framework of the two countries’ committee for economic and trade co-operation. The expert group will study the feasibility of the plan for “two corridors and one rim”.

Compared with the three major economic zones along China’s coastline, i.e., the Yangtze River Delta, the PRD and the Bohai Bay Rim, the Beibu Gulf Rim Economic Zone is new, but has an international and sub-regional dimension. It represents a novel phenomenon in the new age of reform in China. According to Liu Qibao (劉奇葆), Guangxi’s Party Secretary-General, this new zone is very likely to become China’s fourth growth engine. With the rise of the Beibu Gulf Rim, China’s coastal area will see the formation of a new economic structure characterised by “two deltas” (the Yangtze River and Pearl River), “two rims” (Bohai Bay and Beibu Gulf) and “two coasts” (the Mainland and Taiwan).

Conventionally, the concept of the “Beibu Gulf Rim” refers to Hainan, Guangdong and Guangxi in China and Vietnam’s part of Beibu Gulf. The Vietnamese Premier Phan Văn Khải’s idea of “two corridors and one rim” in the Beibu Gulf Rim is therefore restricted to economic co-operation between China and Vietnam only. Guangxi’s “M strategy”, however, seeks to expand such bilateral co-operation into a multi-lateral one, so that not only China and Vietnam, but also Malaysia, Singapore, Indonesia, the Philippines and Brunei could be involved.

In terms of names, the change from “Beibu Gulf Rim” to “Pan Beibu Gulf Zone” seems trivial. In terms of substance, however, the change is fundamental. Not only has the geographical size been expanded, but the pattern of economic co-operation has been transformed also from one that is bilateral and landlocked into one that involves more countries across land and sea. Broadly speaking, the Zone might become a new growth engine in the Western Pacific Rim and could be further expanded on the basis of China-ASEAN economic co-operation.45

Cooperation Progress between China and Vietnam

The Beibu Gulf is located in the northwestern part of the South China Sea. Guangxi is at its north, the Leizhou Peninsula (雷州半岛) and Hainan in the east, and Vietnam in the south. In the past, because of historical events, conflict has broken out between China and Vietnam and this dispute has extended to the South China Sea. Now both countries are carrying out economic reforms and the bilateral relationship is rapidly improving. In July 2004, the two countries signed the *China-Vietnam Agreement on the Demarcation of the Border along the Beibu Gulf* and the *China-Vietnam Agreement on Co-operation in the Fishery Industry in the Beibu Gulf*. This was the first time that China has drawn a border around its territorial waters and co-operated in the fishery industry with its neighbour. As of July 2006, the two agreements came into effect for two years, during which time China has been demonstrating its commitment to “befriending, pacifying and enriching its neighbours” and working hard to have the agreements realised. China hopes that such agreements might set a precedent for settling disputes over territorial waters with other countries.

Furthermore, with the opening of the highway between Nanning and the Youyiguan, and with increasing sea freight, the two countries’ tourism industry is the first among others to become integrated. Nine cities in the two countries, namely, China’s Qinzhou (欽州), Fangchenggang (防城港), Beihai (北海), Zhanjiang (湛江), Maoming (茂名), Yangjiang (陽江), and Vietnam’s Hải Phòng (海防) and Halong (下龍) have jointly signed the *Declaration on Co-operation in the Tourism Industry in the Beibu Gulf* which calls for the establishment of a barrier-free tourism market.

The next stage of China-Vietnam economic co-operation, and also the most important issue, has to do with co-operation over oil and gas exploration in the South China Sea. In October 2005, in Hanoi, representatives from the two countries signed a framework agreement on jointly exploring oil and gas in the Beibu Gulf. Co-operation between the two countries in oil and gas began.46

A win-win situation for China, local governments and neighbours

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In view of the strategic importance of China-ASEAN economic cooperation, Hu Jintao, the Party Secretary-General, has been very concerned about the coastal development of Guangxi. As early as April 2002, during his official inspection trip to Guangxi, Hu Jintao visited Beihai, Qinzhou and Fangchenggang. He wished to carry out a field survey to see how Guangxi might make use of late-comer advantages and realise development in leaps. In August 2006, whilst listening to Guangxi’s progress report, Hu Jintao emphasised that development was the priority and that Guangxi should further open up, fully exploit its coastal edge and turn its coastline into a new growth engine. On 31 October 2006, Premier Wen Jiabao spoke at the third China-ASEAN Commerce and Investment Summit. Wen formally called for a feasibility study of Pan-Beibu Gulf economic co-operation and wished that China-ASEAN economic co-operation might find new highlights in the Beibu Gulf.

At the same time, in the 11th Five-Year Plan for the development of the Western Region, the Office of the Leading Group for Western Regional Development of the State Council clearly listed Beibu Gulf (Guangxi) as one of the three economic zones in the western region.  

In early January 2007, journalists from China’s 14 major media companies, including the China News Agency, New China News Agency, People’s Daily and CCTV visited the Beibu Gulf and reported what they had found out. Such high profile exposure of the Beibu Gulf spoke loudly of the Central Government’s emphasis and how Pan-Beibu Gulf economic co-operation has become China’s strategic concern.

In fact, not only is Pan-Beibu Gulf economic co-operation beneficial to local interests in Guangxi it also conforms to China’s diplomatic policy, and will generate five major advantages for China. It works well with China’s strategy of developing the western region, China’s energy policy, the China-ASEAN Free

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Trade Area, China’s reform agenda, China’s co-operation with neighbouring countries and development along the border area.  

Moreover, Pan-Beibu Gulf sub-regional co-operation is characterised by maritime economic co-operation between China and ASEAN. It conforms to the general trend of development from “singular” to “pluralistic”. Not only does the Chinese government hugely support such an idea, but ASEAN’s government leaders have all expressed their support also.

Pan-Beibu Gulf Cooperation Supported by “Small Beibu Gulf”

Closer economic ties with ASEAN

ASEAN has been Guangxi’s biggest trading partner for seven consecutive years and is its second biggest investor, and trade between the two parties is growing by 20% annually. In 2005, trading between Guangxi and the six countries in the Pan-Beibu Gulf region grew by 25.1% year-on-year in value to USD 1.16 billion, and accounted for 95.2% of Guangxi’s total foreign trade. From 2005, joint equity ventures, co-operative joint ventures and wholly foreign owned enterprises from ASEAN amounted to 387, with contracted and realised FDI values amounting to USD 1.25 billion and USD 720 million, respectively. Meanwhile, Singapore and Malaysia, two members of the Pan-Beibu Gulf region, were the biggest and third biggest investors, respectively.

In recent years, with its transportation and customs ports system, Guangxi has become the most convenient avenue for China-ASEAN trade. In 2006, China-ASEAN trade accounted for one-third of the total import-export value through Guangxi’s customs ports, reaching USD 2.73 billion, an increase of

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51 Office for the Management of Planning and Construction in the Beibu Gulf (Guangxi) Economic Zone, “An introduction to the opening and development of the Beibu Gulf (Guangxi) Economic Zone” (北部灣(廣西)經濟區規劃建設管理委員會辦公室:“北部灣(廣西)經濟區開放開發情況介紹”)，photocopy version supplied by Guangxi government officials.
In Fangchenggang alone, in 2006, cargo throughput increased by 25% year-on-year, and that bound for ASEAN increased by 60%. Ports in Beibu Gulf have made a strong case for the expansion of their function with regard to China-ASEAN economic co-operation (see Table 3-1 and Table 3-2).

Table 3-1: Guangxi-ASEAN Trade in Recent Years

<table>
<thead>
<tr>
<th>Trade</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006(1-6)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports to</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brunei</td>
<td>12</td>
<td>16</td>
<td>19</td>
<td>52</td>
<td>54</td>
<td>45</td>
</tr>
<tr>
<td>Cambodia</td>
<td>153</td>
<td>193</td>
<td>227</td>
<td>319</td>
<td>301</td>
<td>107</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2,529</td>
<td>1,982</td>
<td>2,775</td>
<td>4,874</td>
<td>5,437</td>
<td>2,579</td>
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<td>Laos</td>
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<td>37</td>
<td>4</td>
<td>44</td>
<td>181</td>
</tr>
<tr>
<td>Malaysia</td>
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<td>2,450</td>
<td>4,529</td>
<td>3,123</td>
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<td>177</td>
<td>75</td>
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<td>870</td>
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<td>Singapore</td>
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<td>1,481</td>
<td>1,841</td>
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<td>Thailand</td>
<td>1,976</td>
<td>2,622</td>
<td>3,262</td>
<td>5,499</td>
<td>4,026</td>
<td>2,272</td>
</tr>
<tr>
<td>Vietnam</td>
<td>17,134</td>
<td>34,062</td>
<td>44,025</td>
<td>45,437</td>
<td>64,388</td>
<td>34,286</td>
</tr>
<tr>
<td><strong>Export Total</strong></td>
<td>26,065</td>
<td>44,242</td>
<td>55,243</td>
<td>63,620</td>
<td>83,061</td>
<td>44,484</td>
</tr>
<tr>
<td><strong>Imports from</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brunei</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>139</td>
<td>21</td>
<td>64</td>
<td>72</td>
<td>12</td>
<td>60</td>
</tr>
<tr>
<td>Indonesia</td>
<td>347</td>
<td>250</td>
<td>558</td>
<td>1,681</td>
<td>1,015</td>
<td>1,427</td>
</tr>
<tr>
<td>Laos</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>23</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,180</td>
<td>1,268</td>
<td>2,516</td>
<td>3,216</td>
<td>1,104</td>
<td>970</td>
</tr>
<tr>
<td>Myanmar</td>
<td>3</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
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<td>Philippines</td>
<td>325</td>
<td>426</td>
<td>27</td>
<td>278</td>
<td>63</td>
<td>595</td>
</tr>
<tr>
<td>Singapore</td>
<td>770</td>
<td>555</td>
<td>305</td>
<td>443</td>
<td>1,432</td>
<td>523</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,780</td>
<td>1,408</td>
<td>1,374</td>
<td>984</td>
<td>1,352</td>
<td>700</td>
</tr>
<tr>
<td>Vietnam</td>
<td>11,592</td>
<td>14,561</td>
<td>22,536</td>
<td>29,816</td>
<td>34,354</td>
<td>30,464</td>
</tr>
<tr>
<td><strong>Import Total</strong></td>
<td>16,136</td>
<td>18,499</td>
<td>27,380</td>
<td>36,490</td>
<td>39,345</td>
<td>34,767</td>
</tr>
</tbody>
</table>

Table 3-2: Foreign Direct Investment (FDI) in Guangxi at the end of 2005 (USD 10,000)

<table>
<thead>
<tr>
<th>Countries and Regions</th>
<th>Number of Projects</th>
<th>Contracted FDI</th>
<th>Actual FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>7,742</td>
<td>1,156,406</td>
<td>564,316</td>
</tr>
<tr>
<td>---Hong Kong and Macau</td>
<td>6,081</td>
<td>881,657</td>
<td>403,992</td>
</tr>
<tr>
<td>---Taiwan</td>
<td>1,048</td>
<td>117,885</td>
<td>63,302</td>
</tr>
<tr>
<td>---Japan and Korea</td>
<td>220</td>
<td>31,587</td>
<td>25,486</td>
</tr>
<tr>
<td>---ASEAN</td>
<td>387</td>
<td>125,126</td>
<td>71,514</td>
</tr>
<tr>
<td>Africa</td>
<td>16</td>
<td>8,478</td>
<td>8,095</td>
</tr>
<tr>
<td>Europe</td>
<td>213</td>
<td>163,369</td>
<td>115,776</td>
</tr>
<tr>
<td>---EU</td>
<td>194</td>
<td>161,767</td>
<td>115,439</td>
</tr>
<tr>
<td>Latin America</td>
<td>139</td>
<td>100,767</td>
<td>74,542</td>
</tr>
<tr>
<td>North America</td>
<td>589</td>
<td>142,402</td>
<td>57,556</td>
</tr>
<tr>
<td>Australia and New Zealand</td>
<td>153</td>
<td>37,245</td>
<td>12,410</td>
</tr>
<tr>
<td>Others</td>
<td>135</td>
<td>20,408</td>
<td>3,423</td>
</tr>
<tr>
<td>Total*</td>
<td>8,987</td>
<td>1,629,075</td>
<td>836,118</td>
</tr>
</tbody>
</table>

* From January 1985 to December 2005

Vibrant trade with ASEAN has forced Guangxi to increase the development pace of its own economy in the Beibu Gulf. Since the regional economy of the Beibu Gulf involves foreign countries, there are elements of competition in addition to that of co-operation. To maintain its competitive edge, Guangxi’s strategy is to develop its own “Little Beibu Gulf”. On 22 March 2006, the Guangxi government set up the Planning, Construction and Management Committee of the Beibu Gulf (Guangxi) Economic Zone. Headed by Guangxi’s vice-governor, the Committee will coordinate the development of the Beibu Gulf (Guangxi) Economic Zone. Initially, the Committee meant to include the administrative areas of the four cities of Beihai, Qinzhou, Fangchenggang and Nanning. Later on the two cities of Chongzuo and Yulin were included in the Zone because of their important roles in logistics and easy access to Guangdong. Hence, by July 2006, the Committee had produced a blueprint known as “4+2” for the Zone. With the participation of Chongzuo and Yulin, the Zone will be composed of ports and central cities and hopefully become the regional hub for logistics, commerce and trade, the processing industry and information exchange.

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54 Guangxi’s customs ports are playing a bigger and bigger role as China’s southwestern gateway to the ocean. According to Customs statistics, in 2006, the import-export volumes of Chongqing, Sichuan, Guizhou and Yunnan through Guangxi’s customs ports grew by 56.4% year-on-year and accounted for 65.6% of the total import-export volumes by non-Guangxi domestic regions. See Zheng Shengfeng, Yu Meng and Pang Geping, “Series report on Beibu Gulf Economic Zone (I)”(鄭盛豐、于猛、龐革平:“北部灣經濟區系列報道之一：風生水起北部灣”), Xinhuanet Guangxi Channel, 19 January 2007, http://big5.xinhuanet.com/gate/big5/www.gx.xinhuanet.com/misc/2007-01/19/content_9081872.htm.
The new function and positioning of Guangxi means that its transportation network will be thoroughly transformed. The first highway connecting China with ASEAN, the Nanning-Youyiguan Highway, has been in service for more than one year. Nanning’s highway network is characterised by “one ring and six offshoots” which connect Guangdong, Hainan, Guangxi, Hong Kong and Macau, as well as Hải Phòng and Quảng Ninh in Vietnam. In terms of air traffic, airports in Nanning and Beihai will be upgraded to provide international flights to ASEAN. With regard to railway traffic, the Ministry of Railways has decided to move its Guangxi regional bureau from Liuzhou to Nanning. The Ministry vowed to substantially improve its service within the next few years. Its targets include cutting the rail journey time between Nanning and Guangzhou to three hours, and that between Nanning and Beijing from 30 hours to nine. With an additional railway that is between 300 and 500 km in length, the entire railway connecting Beijing and Singapore, totaling 3,900 km in length, will be brought into being. Construction to meet these targets is already well under way.55

Building Beibu Gulf (Guangxi) Economic Zone

Huge amounts of cash are being poured into Guangxi for the development of the Beibu Gulf (Guangxi) Economic Zone. Electricity plants have been built in Beihai, Fangchenggang and Qinzhou. Qinzhou has been given permission to go ahead with its 10-million-ton oil refinery and steel plant projects, and its proposal for a nuclear electricity plant is under review. The Central Government seems to treat Guangxi with special favours and never turns down its project applications. According to the 11th Five-Year Plan, the investment value in Guangxi’s coastal area will amount to RMB 260 billion.

To achieve the economies of scale and for the ease of centralised management, the Guangxi government is forming the Guangxi Beibu Gulf International Ports Corporation. Guangxi has also submitted proposals to the Central Government for the formation of the Bank of Beibu Gulf.

At the same time, general planning for the Beibu Gulf (Guangxi) Economic Zone continues. The Committee for the Planning, Construction and

Management of the Beibu Gulf (Guangxi) Economic Zone is in charge of devising plans for urban clusters, ports, comprehensive transportation networks, coastal industrial zones and a regional hub for international logistics. Apart from the Committee, municipal governments within the Zone also devise their own plans for urban and economic development.

Nanning, for instance, is transforming itself into an international hub within the region. The Wuxiang District, 175 square km in size, is located in the south of Nanning’s old city and is to become a “new Nanning”. Beihai will have its Lianzhou Bay and Tieshangang Bay connected together to create a new urban pattern of “two bays in one reach”. Qinzhou will renovate its city centre in addition to building the new port area so as to score victories in the two “main battlegrounds” of urban development and coastal industrial development. Fangchenggang will move its government complex out of the old city area to make room for the development of ports and port-bound industry. Yulin will become a city of 100 square km in size and an urban population of 1 million within the 11th Five-Year Plan. Chongzuo will develop its urban belt and corridor economy along the Nanning-Youyiguan Highway and the Nanning International Airport.

**Opportunities for Hong Kong**

Guangxi is playing the central role in the development of the Beibu Gulf Economic Zone and the “M strategy” which calls for regional economic co-operation within “one axis and two flanks”. Since this strategy works in harmony with China’s diplomatic and strategic policies towards ASEAN, the Central Government has given Guangxi more support and endorsement than it does to Guangdong-centred Pan-PRD regional co-operation. Guangxi’s Beibu Gulf project does create a lot of economic opportunities but it will also deal a blow to Pan-PRD regional co-operation.

Hong Kong should keep working closely with Guangdong over Pan-PRD regional co-operation. Meanwhile Hong Kong could join hands with Guangxi to enhance the development of the Pan Beibu Gulf economy. In terms of economic strength, Guangxi still lags behind Guangdong. It will be easier for Hong Kong to take the initiative and play a bigger role when co-operating with Guangxi. Exploring new roles in Guangxi is also of great significance for Hong Kong’s position in China’s economic development.
What are the benefits?

1. Hong Kong could use its globalised economic strength and make an important contribution to China’s globalisation in areas other than the Pan-PRD and CEPA frameworks.

2. Hong Kong could win over the Central Government’s support and take part in China-ASEAN free trade.

3. Ports and airports in Guangxi’s Beibu Gulf and in the entire Pan-Beibu Gulf region are of great benefit to Hong Kong’s cargo freight. They could become Hong Kong’s regional hub for cargo freight and logistics and help Hong Kong offset the competition from Guangzhou and Shenzhen in terms of logistics facilities.

4. Enhancing co-operation with Vietnam will be beneficial to Hong Kong enterprises in terms of industrial transference.

How to participate?

Preliminary tasks:

1. Hong Kong could join hands with Guangxi and carry out feasibility studies on Beibu Gulf (Guangxi) and Pan-Beibu Gulf economic co-operation.

2. Hong Kong’s tertiary education institutions could provide Guangxi with training for professional and international experts.

3. Hong Kong could organise fieldtrips to the Beibu Gulf region not only for Hong Kong enterprises, but also for overseas ones. These activities will demonstrate Hong Kong’s globalisation capacity and
bring in overseas enterprises specialising in industries that are unavailable in Hong Kong.

Mid-term targets:

1. Hong Kong’s tertiary education institutions could provide training courses and even become training bases for the international expertise that Guangxi urgently needs. Such co-operation with Guangxi is well in accord with the Pan-PRD framework.

2. Hong Kong could provide special scholarships for officials from the Southeast Asian countries within the Pan-Beibu Gulf region enrolled in postgraduate courses at Hong Kong’s tertiary education institutions. Not only would it enhance the extent of globalisation of Hong Kong, but it could also cultivate personal connections with Southeast Asian officials in Hong Kong.

3. Hong Kong’s tertiary education institutions and other training institutions could provide tailor-made education and training courses for the “4+2” cities (Nanning, Beihai, Fangchenggang, Qinzhou, Yulin and Chongzuo) within the Beibu Gulf (Guangxi) Economic Zone. These courses could be provided through co-operation with Guangxi’s local institutions.

4. In response to rapid development in trade with Vietnam, Pingxiang in Guangxi is now building its cross-border industrial and logistics zone and is targeting at Vietnam’s market for the products of its processing industry. Today’s Vietnamese market, in terms of commodity structure, resembles the PRD in the early 1990s, but is developing at a faster rate.\textsuperscript{56} It is time for Hong Kong enterprises currently still operating in the PRD to move to Pingxiang and tap the Vietnamese market. Currently, the Vietnamese market harbours huge demand for Chinese consumer goods. Hong Kong enterprises may transfer from the PRD to Guangxi. Guangxi’s

\textsuperscript{56} In the early 1990s, the PRD market was dominated by ordinary consumer goods such as domestic electrical appliances, clothing and toys. Many Hong Kong enterprises invested in the processing production in the PRD and a considerable amount of products were allowed to be sold to the domestic market, but many enterprises did so regardless of the law, and the volume and value of this was not shown in official statistics.
Autonomous Region Government and the municipal governments of Chongzuo and Pingxiang have warmed to the idea. They have all expressed their support and are willing to provide land and other types of concessions. These efforts, should they materialise, will demonstrate Hong Kong’s support for the Central Government’s policies on China-ASEAN free-trade, Pan-Beibu Gulf economic development, the development of the Guangxi border zone, and Pan-PRD development. Not only could Hong Kong improve its reputation and image on the Mainland, but Hong Kong could also upgrade its industries and services overseas.

57 Interview with local officials by the author during a visit to Guangxi in February 2007.
Appendix:

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

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

Table 1: Total Value of Foreign Trade for the Four Southwestern Provinces/Region, January to July 2006

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Value of Foreign Trade</th>
<th>Total Value of Foreign Trade by Foreign-Invested Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan (USD 100 million)</td>
<td>Proportion to National Total</td>
</tr>
<tr>
<td>Sichuan</td>
<td>9.3</td>
<td>0.6%</td>
</tr>
<tr>
<td>Guangxi</td>
<td>5.9</td>
<td>0.4%</td>
</tr>
<tr>
<td>Yunnan</td>
<td>5.2</td>
<td>0.3%</td>
</tr>
<tr>
<td>Guizhou</td>
<td>1.5</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Source: China’s Customs Statistics (Monthly Exports and Imports), Series No. 209, January 2007.
## Appendix II: English-Chinese Glossary

<table>
<thead>
<tr>
<th>English</th>
<th>Chinese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviation</td>
<td>航空</td>
</tr>
<tr>
<td>Beibu Gulf Rim Economic Zone</td>
<td>環北部灣經濟圈</td>
</tr>
<tr>
<td>Chengdu-Chongqing Economic Zone</td>
<td>成渝經濟區</td>
</tr>
<tr>
<td>Class I Customs ports</td>
<td>一類口岸</td>
</tr>
<tr>
<td>Continental Co-operation</td>
<td>陸上合作</td>
</tr>
<tr>
<td>Cuntan International Container Terminal</td>
<td>寸灘國際集裝箱碼頭</td>
</tr>
<tr>
<td>Economic Hinterlands</td>
<td>經濟腹地</td>
</tr>
<tr>
<td>Industrial Transformation</td>
<td>產業轉型</td>
</tr>
<tr>
<td>Knowledge Industry</td>
<td>知識型產業</td>
</tr>
<tr>
<td>Little Beibu Gulf</td>
<td>小北部灣</td>
</tr>
</tbody>
</table>
“M Strategy”

Pan-Beibu Gulf Economic Co-operation Zone

Port Service Economy

Poverty Alleviation

Marine and Continental Co-operation

Mini-vehicles

The 11th Five-Year Plan for the Western Development Programme

The Association of Southeast Asian Nations, ASEAN

The Planning, Construction and Management Committee of the Beibu Gulf (Guangxi) Economic Zone

The State Council

Vice-chairman of the People’s Government of the Guangxi Zhuang Autonomous Region