

Hebei Province of China

Introduction



Hebei is a province located in Northern China. The province's name means "North of the River" because it is located to the north of the Yellow River. Geographically, the province has a total area of 187,700 km² and a population of 69 million as of 2006. Hebei shares a western border with Shanxi province, Inner Mongolia Autonomous Region in the north, Liaoning province on the northeast, Henan province in the south and Shandong province on the southeast.

It is in close proximity with the municipality of Tianjin and China's capital Beijing. In fact, the proximity with Hebei to Tianjin and Beijing has

cultural as well as economic significance. Many Beijing residents trace their ancestry back to Hebei. Tianjin was at one time the capital of Hebei province and many of the economic relationships that were established during that time still exist.

The province's location provides it many advantages that cannot be found in many other central Chinese provinces. Two main advantages include being a member of both the Bohai Bay Economic Zone and Jing-Jin-Ji Economic Zone that is made of Beijing, Tianjin and Hebei. This zone has 120 million consumers or about 10% of the total number of consumers in the country. Another is that the province is within a short drive from Tianjin's ports. This means many suppliers can save on logistics costs by being located in Hebei.

Main industries in the province include agriculture and related processing industries such as dairy products as well as heavy industry. The pharmaceutical and electronics industries are also seeing a fast expansion in the province. But despite this growth, Hebei is known as the second largest source of internal migrant workers in China after Sichuan province. It is not clear if the outflow of migrants from the province will drop due to the expansion of industries inside the province. The annual per capita income of Hebei residents in 2006 was RMB 9,107, 14th highest in the country.



Ethnically and culturally, Hebei reflects China nationally. Ninety-six percent of the province's population is ethnically Han, while the remaining 4% comes from 55 minority ethnic groups including Manchu, Hui, Mongolian, Korean, Zhuang, Miao and Tujia. In terms of religion, the province has the largest single group of Catholics found anywhere in the country. Hebei Catholics number almost 1 million and make up a quarter of China's national total.

Industry
Agriculture

Hebei is one of China's main grain and cotton producers. The major grain crops found in Hebei are:

- Maize
- Millet
- Peanuts
- Persimmons
- Sesame
- Sorghum
- Soybeans
- Walnuts
- Wheat

Hebei's abundant agriculture industry is being hit by a long draught this year. So far in 2008 only average rain fall in northern China (a region that includes Hebei, Heilongjiang, Jilin, Inner Mongolia, Liaoning, Beijing and Tianjin) has only been 5.5 mm. The drought is said to have affected up to 3 million hectares of farmland in Hebei alone. There are also reports that 120,000 wells in Hebei and Shanxi provinces have or almost have run dry. It is not sure how long this water shortage will last as Beijing has turned to

Hebei to help provide the capital with water supplies during the draught as well.

On top of this, there has been a 10%-rise in the cost of farm materials such as seed and fertilizer, which is bound to reduce profits of many small-scale farmers in Hebei.

As grain is an important staple food in China, security of the grain supply is considered essential for stability in the country. This has caused some academics and researchers to push for modernization of farming techniques in provinces such as Hebei, to ensure high grain yields. China currently consumes one-fifth of the world's total grain supply and produces about double the amount of all the other grain producing countries combined.

Automotive Industry

Hebei's auto industry is clustered around the cities of Baoding, Qinhuangdao, Tangshan and Langfang. As of 2006, the province had 54 foreign-invested automobile or automobile component manufacturing companies. Forty four of these companies were in the above-mentioned four cities.

Companies such as Hebei Zhongxing Automobile Co. Ltd and Great Wall Motor Company Limited, both located in Baoding, focus on producing Sports Utility Vehicles (SUVs) and pick-up trucks, but they also manufacture sedan cars. As the central government is now focusing its efforts on encouraging the light automotive industry and special-purpose vehicles such as SUVs, there is a great potential for these companies to grow inside China.

Construction has also begun on three automotive industrial parks in the province at Baoding Changcheng, Dingzhou Changan and Handan Yukang. Efforts are also being made to build the manufacturing bases at Tangshan and Langfang.



Foreign investors with joint ventures or wholly owned foreign enterprises in the province include:

- Volvo Penta
- Michelin Group
- Okamoto Glass Co Ltd
- TMD Friction International GmbH
- Industrial and Trade Inc
- W.E.T. Automotive Systems AG
- ZI Druckguss Schelklingen GmbH

'Great Wall' is known not only as a leader in China's domestic marketplace for its SUVs and pick-up trucks but also a growing force overseas. Since early this decade, the company has been exporting its vehicles to the Middle East, South America and North Africa. Currently, its website states that it exports its products to more than 50 countries.

Hebei Zhongxing Automobile has had a growth strategy that is similar to that of Great Wall. Its products are not only sold in China, but also in South Asia, the Middle East, Africa and South America.

Auto parts produced in the region include brake and drive axle assemblies, seat heaters, steering wheel temperature modulators, gaskets, oil seals and engine transmissions.

Biodiesel/Clean Energy

In an effort to help reduce pollution in China, the central government has designated Hebei as a region that will start developing sources of biodiesel. The province will plant up to 870,000 hectares of biodiesel-producing trees by 2050. These include *Pistacia chinensis* Bunge, *Jatropha L*, *Cornus wisoniana* and *Xanthoceras sorbifolia*. It is expected that the trees will yield up to 5.5 million tons of seeds that can be refined into

biodiesel. Other provinces participating in the project include Hunan, Anhui, Sichuan, Yunnan and Shanxi provinces and the Inner Mongolia Autonomous Region.

The Hebei biodiesel project is part of a wider movement by the central government's National Development and Reform Commission (NDRC) to move China from a consumer of non-renewable fossil fuels, which can be heavily polluting such as coal and oil, to cleaner forms of energy, especially as the country's thirst for Energy grows. The NDRC's goal is to have 10% of China's total energy consumption to come from biodiesel or other clean energy sources by 2010 and 20% from clean energy sources by 2020.

Medicine

The trading of traditional Chinese Medicine has a history in Hebei of over 1,000 years. It is centered in the city of Anguo, which is near Baoding. The city grows more than 300 types of Chinese medicinal herbs. In 1995, the city developed a modern exhibition hall called Eastern Medicine City where companies can have stalls to display their products. The hall has attracted companies from across the mainland to set up stalls in the area as well as Taiwan, Hong Kong, South Korea and the US. Currently there are more than 4,000 stalls in the hall.

Eastern Medicine City also has an e-commerce trading hall where Chinese and international buyers can purchase medicine herbs in volume from accredited suppliers. Logistics companies that have offices within the exhibition hall handle logistics and documentation. Payments can be made in cash, by bank transfer or by credit card. There is also warehousing, packaging and processing zones for shipment on-site.

Eastern Medicine City is also home to the Medicines Trade Fair, which is held every May in Anguo.



Smelting and Rolling of Ferrous Metals

Smelting and rolling of ferrous metals is one of the main industries of Hebei. It made up a 29.9% share of Hebei's value-added industrial output in 2006.

Companies such as Hebei Minmetals smelt ferrous metals and develop them into products such as different types of iron wire and wire mesh as well as fasteners and fencing. Cast-iron hardware is also a popular export item. Other cast-iron items include motorcycle engine cylinders.

Steel

Hebei is China's largest steel producer. This is a growing industry of Hebei, as Shougang Group will be moving its production facilities out of its hometown of Beijing to Hebei in order to reduce pollution in Beijing. The movement of its production facilities is projected to cause Shougang's 2008 production capacity to drop by as much as 4 million tons from its current capacity of 13 million tons annually.

The move will also keep the company from engaging in many of the mergers and acquisitions that are currently taking place in China's steel industry. These acquisitions are encouraged by the central government that is pushing for a modernization of China's steel industry and a reduction in the excess capacity of low-quality steel that currently exists in the industry.

The NDRC also gave approval to Shougang in early 2007 to enter into a joint venture with Tangshang Iron and Steel Group to set up a new steel project in Hebei. Named the Jingtang Iron and Steel Project, it is located in Hebei's Caofeidian deep-water port. At the launch of the project, the companies projected that the joint venture would be producing 8.98 million tons of iron and 9.7 million tons of steel a year. It would

also make 9.13 million tons of steel products, according to the China Daily. In order to accommodate this expansion in capacity, Hebei's steel producers will be reducing their total steel capacity by 7.3 million tons.

Shanghai's Baosteel is also investing in a joint venture in Hebei with Handan Iron & Steel to form a joint venture that is expected to produce 4.6 million tons of steel annually. The world's largest steel producer, ArcelorMittal also tried to acquire China Oriental Group in late 2007. China Oriental Group has a production plant in Hebei province as well as one in Guangdong.

Hebei is home to more than 200 steel mills, but most of these are small privately owned operations. The province's two largest steel operations Tangshang Iron and Steel Group and Handan Iron & Steel each produce less than 8 million tons annually. Both companies are state-owned. As described above, many steel companies in the province are consolidating or forming joint ventures with companies outside the province in order to modernize operations without raising costs. The consolidation process isn't without conflict however, as many of the small steel plants are the main source of income for many local governments. They may not want to allow for their small plants to be purchased by another company or closed. These closures will lead to the loss of some jobs within Hebei that would possibly add to unemployment and unrest for local governments.

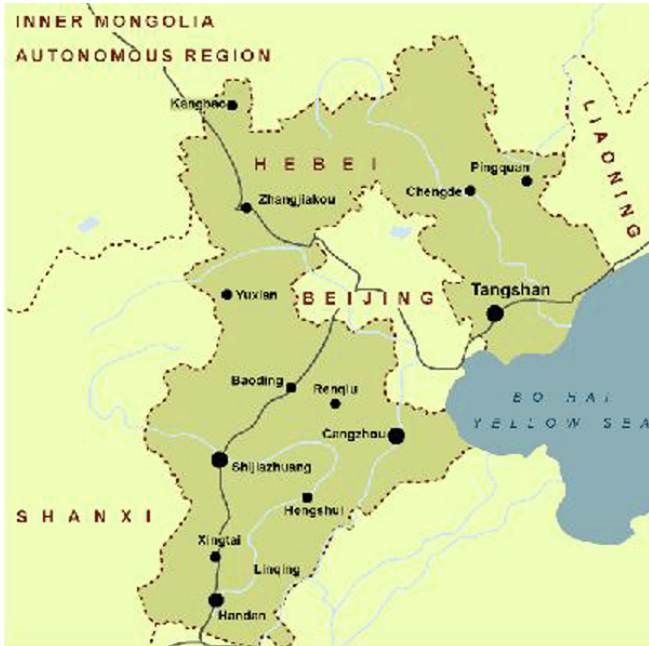
Tourism

Hebei is also seeing a growth in the tourism industry. The province has many major tourism sites such as the Chengde Summer Resort, the Shanhaiguan Pass portion of the Great Wall, the Beidaihe Summer Resort and the Eastern and Western Tombs of the Qing Dynasty rulers.



About 10% of the tourists that Hebei received in 2006 came from Hong Kong, Macao and Taiwan while the rest came from inside Mainland China.

Transportation



Source: Fiducia Management Consultants

As Hebei surrounds Beijing, many of the capital's major railways run through the province. These include:

- The Beijing-Guangzhou Railway
- The Beijing-Kowloon Railway
- The Beijing-Shanghai Railway
- The Beijing-Harbin Railway
- The Beijing-Baotou Railway

The province also has a lot of travel options by road as well. There are 2,000 km of expressways inside the province that link every major city in the province together except for Chengde. The total

length of regular highways in the province is about 40,000 km.

There are three major ports in Hebei along the coast of the Bohai Sea. They are Qinhuangdao – the second busiest in China with a capacity of over 100 million tons, Huanghua and Jingtang. The major source of air transport is the Zhengding Airport in the provincial capital Shijiazhuang. The airport has flights to all major cities in China as well as to Russia.

Industrial Parks

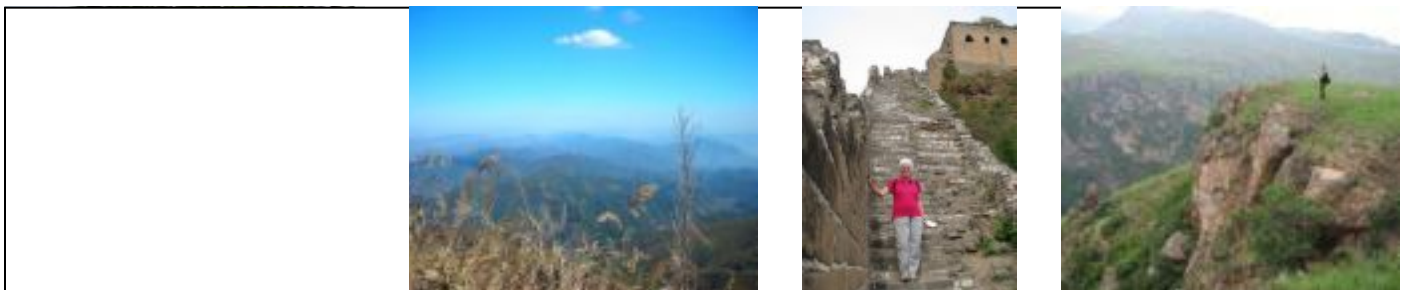
The Qinhuangdao Economic and Technical Development Zone (QETDZ) was established in 1984, making it one of Hebei's oldest development zones. It is also the only national level development zone that is located in Hebei. It was developed to support companies in the food processing, metallurgy, machinery, electronics, fine chemicals and auto parts industries. It has an area of 111.76 km².

The park added an export-processing zone (EPZ) in 2002 and currently has companies from 27 countries. Famous names include Capital Steel, Itochu, Fujitsu, LG, Chia Tai and Mannesmann. The foreign companies located in the QETDZ account for 70% of the foreign investment in the Qinhuangdao region.

In terms of facilities, the park provides all the necessities like power and telecommunications. It also has expatriate housing and international schools on site for companies' foreign staff and their families.

The park has a list of specific encouraged industries that it is trying to promote on top of the ones listed above. These are:

1. Cereals, oils and foodstuffs processing
2. Paper making and paper products
3. Medicine manufacturing



4. Chemical fiber manufacturing
5. Nonmetallic mineral products
6. Metal rolling and processing
7. Metal products
8. Mechanical manufacturing
9. Special equipment manufacturing
10. Transportation equipment manufacturing
11. Electronics and telecommunication equipment manufacturing
12. Apparatus & instrument and office equipment manufacturing
13. Construction and operation of communal docks
14. International Container multi-containerization industry
15. Regular and irregular international shipping industry
16. Sewage and waste treatment plant/ construction and operation of pollution control facilities
17. Information and consultation industry

Areas for Improvement

As mentioned before, drought has been a big problem for Hebei this year. It has also been a big problem for Beijing as well. With the Olympics coming to the capital this year, the Beijing government has turned to Hebei for water.

This would make complete sense in years when there are ready supplies available, but in a year when there are shortages in Hebei as well as Beijing -- more than 100,000 wells are dry or nearly dry -- it does not make sense to take water from Hebei. According to Hebei's water authority

300 million cubic meters of water will be transferred to Beijing from three reservoirs inside Hebei and used only as an emergency supply. But from what information the provincial and central governments have released about the drought in the province it seems that water should go to farmers that need it in Hebei.

The effects of this can be far reaching than just the crop shortage. As mentioned in the introduction, Hebei is China's second biggest source of internal migrants. Situations caused by draughts tend to lead people to migrate. With many of Chinese major cities trying to cope with infrastructure and social costs of the influx of migrant workers, while at the same time needing their labour, draught in Hebei does not look like it will do anything to stop the surge of migrant workers leaving the province.

The only way to do that is to create the types of jobs in the province that migrant workers usually travel to Beijing, Eastern and Southern China to do. With Hebei's location as a central Chinese province that is on the Bohai Sea, the provincial government is in a good position to do that. As the province is not in the Yangtze or Pearl River Deltas, it can offer lower labour costs without raising the logistics and raw material importing costs that can occur if a factory locates itself farther in-land. This makes the province a good location for manufacturers who are still engaged in somewhat labour intensive manufacturing.

Some foreign companies have already located their operations to the province and are enjoying the benefits of production there. Hebei is also a great province to sell products to as Hebei combined with Beijing and Tianjin provides a ready market of 120 million consumers.



Conclusion

Hebei province, due to its location, expects a lot of foreign investment. It is away from China's east coast and can therefore offer lower prices but it still has access to the Bohai Sea that can help to lower logistics costs for many suppliers. Many of the industries in the province however, are traditional manufacturing and agricultural industries that need to be streamlined and modernized. Bringing in foreign manufacturers with advance production technology may be the force necessary to cause this to happen.



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