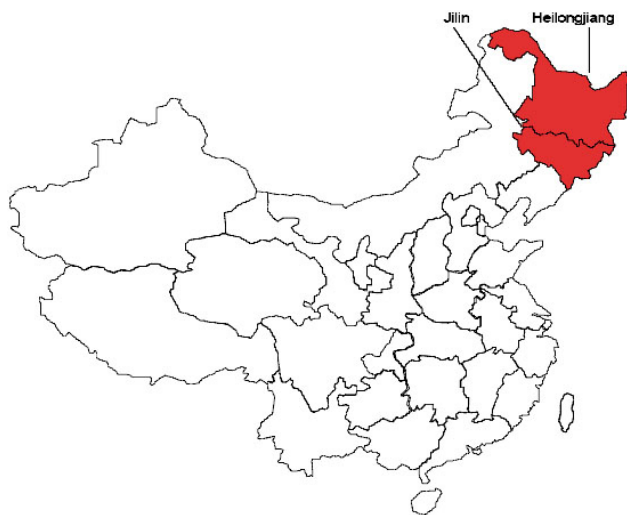


Jilin & Heilongjiang provinces

Introduction



Source: Fiducia Management Consultants

Located in Northeastern China bordering with Russia and the Democratic People's Republic of Korea (North Korea) are the provinces of Jilin and Heilongjiang. These provinces were part of the traditional ethnic home of China's Manchu minority, who later rose up and conquered China to form the Qing Dynasty, the last imperial rulers of China. No Han Chinese was allowed to settle in the region until the mid-19th century, but by the 20th century however, Han Chinese became the dominant ethnic group in the area.

Jilin and Heilongjiang were later incorporated into the Japanese-controlled government of Manchukuo that was ruled by China's last emperor Puyi until the end of the Second World War in 1945. The capital of Manchukuo was Changchun, the capital of Jilin today.

Under the government of the People's Republic of China in 1949, the region became part of the modernization of China and a heavy industrial belt developed in the Northeast part of the country. Today, many of these state-owned companies are struggling to survive and handle the social burdens of employee benefits that were handed down to them during the planned economy.

Geographically, Jilin and Heilongjiang are a mixture of mountains and flat plains. Heilongjiang has a number of rivers that run through the province. They include the Songhua River, the Nen River, and the Mudan River. These are all tributaries of the Amur River, which marks the border with Russia.

The weather in both provinces is cold and there are long winters contrasted with mild to warm short summers.

Both provinces are rich in forests and are considered two of China's principal grain production areas. Staple crops in both areas are rice, soybeans, maize, wheat and Sorghum.



Animal husbandry is also a major industry here with the focus being on horses, cattle and sheep.

These two provinces also have rich deposits of minerals. Gold, iron and copper can be found in Jilin and large coal deposits in both provinces. Heilongjiang is also known for its large supply of oil. The province is home to the Daqing Oil field – the largest oil field in China and one of the largest oil fields in the world.

Though the provinces are both rich in resources, their paths diverge at that point. Heilongjiang is considered a very developed province with a high education standard. Jilin, which borders Heilongjiang to the south, has a much lower standard of education and there are large differences in the level of education of people in urban and rural areas of the province.

The ethnic make up of Jilin and Heilongjiang are also diverse. Besides the Manchus and Han Chinese, the two provinces also have the following ethnic groups:

- Hui (Chinese Muslim minority)
- Mongols
- Daur (a Mongolian ethnic group)
- Xibe (a Northeastern minority group that is similar in culture to Manchus)
- Oroqen (a Mongolian ethnic group)
- Hezhen (Like the Xibe this is another minority group that has similarities in culture with the Manchus)
- Koreans
- Russians

Industries

Animal Husbandry

Heilongjiang is a province with a lot of wide-open spaces. It is a prime site for China's animal

husbandry industry. Currently, Heilongjiang handles 40% of China's national total for animal husbandry.

The animal husbandry industry in Heilongjiang is focused around the dairy industry – an area the province is particularly strong in. Production of meat and eggs is also strong in the province.

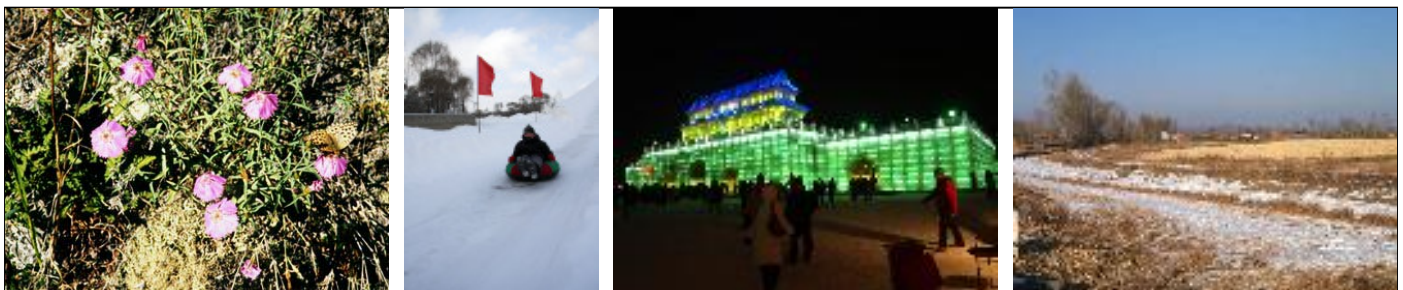
In 2006, the World Bank gave Heilongjiang US\$ 100 million loan to help develop its dairy industry. The provincial government planned to open seven farms with a capacity of 1,000 cows each and 125 farms with a capacity of 500 cows each by 2011. No information on the progress of these projects was available at the writing of this report. In 2007, State Council also offered further aid to dairy farmers in Heilongjiang.

One of the famous local dairies in the province is Wondersun Dairies. Founded in 1998, Wondersun is part of the Beidahuang Group and is based in Harbin. It currently has seven subsidiaries and 41 processing plants. It also has 24 sales offices throughout China. The company is one of China's domestic leaders in the production of milk, soy products, cereals and soft drinks. According to Wondersun, its revenue for 2006 was more than RMB 26.8 billion.

Automotive

Automotive manufacturing is a major industry of Jilin province. Its capital, Changchun is home of First Automotive Works (FAW) – China's oldest and largest car manufacturer. The company was founded in 1953 and for more than 30 years produced two vehicle lines, the Jiefang CA-10 medium truck and the Hongqi (or Red Flag) sedan cars for government officials. It wasn't until 1988 that the second generation CA141 truck rolled off the assembly line.

In 1991, things really changed for FAW. That year the company set up its first joint venture with



German car manufacturer Volkswagen. To day, the JV manufactures VW's Jetta, Bora, Sagitar, Audi A4 and Audi AL6 in FAW's hometown of Changchun. The Audi quickly became one of the leading luxury cars in the country. FAW has formed many joint ventures with major foreign automotive producers across the country. They include:

- FAW Jiefang Automobile Company
- FAWER Automobile Parts Company
- FAW Car Company
- FAW Haima Motor Co (a joint venture with Mazda in Hainan province)
- Changchun FAW Sihuan Automobile Company
- Tianjin FAW Xiali Automobile Company
- Tianjin FAW Toyota Motor Company

FAW has also gone overseas. It has a joint venture with Hebei Zhongxing in Russia to produce a local version, the Zhongxing Admiral Sports Utility Vehicle. The company is also planning to set up a factory in Mexico with Grupo Salinas that is supposed to be completed in 2010. However, construction has not even begun on the plant. It is speculated that the Chinese government has not given permission to FAW to export its vehicles. Should FAW receive permission to export its vehicles, Grupo Salinas would exhibit them in its Elektra dealerships in Mexico.

Chemicals

Chemical production is one of Jilin's core industries. Most of the producers in this area are state owned. They include the Jilin Chemical Industrial Company owned by PetroChina and the Jilin Petrochemical Company owned by oil giant China National Petroleum Corporation (CNPC).

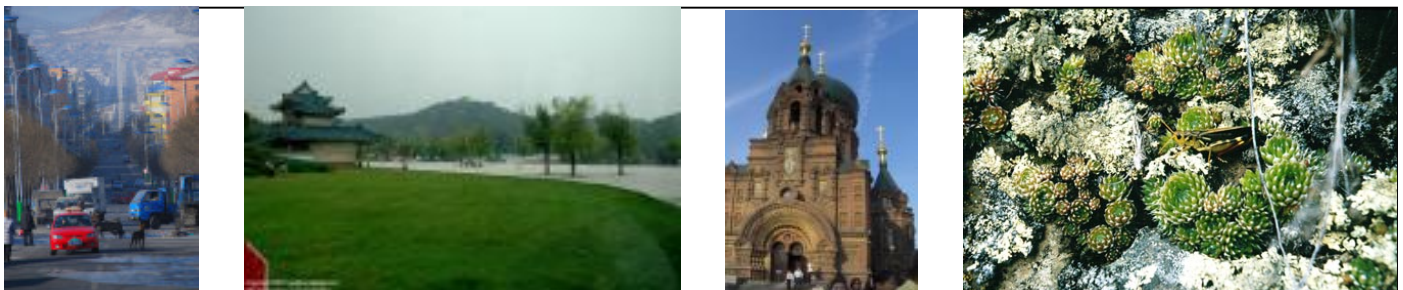
The Jilin Chemical Industrial Company is one of the largest producers of chemical raw materials in China – it manufactures up to 10% of the country's ethanol output. It also turns out synthetic rubber, chemical fertilizers and inorganic chemical products.

The Jilin Petrochemical Company is one of CNPC's main producers of raw materials needed for petrochemical production. Unfortunately, if one searches for Jilin Petrochemical Company on the Internet, it is more likely to come across pages of information about an explosion that occurred in the company's benzene production in 2005. In that accident, a worker failed to properly unblock a cooling tower at the plant. It caused an explosion that left five people dead and about 70 injured. More tragically, a 50-mile-long benzene slick was released into the Songhua River, which forced the capital of Heilongjiang province, Harbin, to cut off water supply to the city for 15 days. Cities just over the border in Russia were also affected. CNPC faced financial penalties over the event but the amounts were not disclosed.

Grain Industry

Heilongjiang is considered China's "grain silo". With 9.6 million hectares of farmland, much of that unpolluted black soil, the province is an ideal place for growing grain. The province's gross output of rice was 15.99 million tons in 2007, 25% of China's commercial rice output.

To ensure that there is an adequate supply of the staple food to the consumers, the government strictly controls the sale of grains like rice. The controls can sometimes cause a problem however. In 2007, farmers from Heilongjiang could not sell all of their crops because they were unable to get a fair price from the buyers. This is at a time when the international rice market is experiencing shortage and prices going up.



The central government also limits export of grain to a couple of large state-owned import and export companies. It also imposed temporary export taxes between 5% and 25% and removed the export rebates it had offered earlier. Since rice cannot be turned into biofuel the way other crops such as wheat or corn can be, excess supply will also lower the price. The effect on farmers in Heilongjiang province was that many could not afford to buy adequate amount of seeds and fertilizer for the 2008 crop. This factor combined with the drought that the region had experienced during the spring of 2008 could mean a lower crop turn out in 2008.

An academic from the Heilongjiang Academy of Agricultural Science proposed that the way to deal with excess harvest was to regulate the size of the planting areas and let rice-growing province export on their own. This would allow farmers to receive adequate returns for their rice crops in years of excess harvests while at the same time ensure that China had enough rice to feed its people.

Renewable Energy

With its large agricultural base, Heilongjiang has become a production site for biofuel. In November of 2007, Northeast China's first-ever biofuel power plant was opened in Wangkui County in Heilongjiang province. This plant has a capacity of 30,000 kilowatts, which is generated by burning plant and vegetable stocks. It received RMB 553 million (US\$ 74.17 million) in funding from the National Bio Energy Co. Ltd, a subsidiary of the State Grid Corporation of China. The plant will also sell carbon emission credits to Electricite de France under the Clean Development Mechanism of the Kyoto Protocol. The National Bio Energy Co. Ltd. has set a goal of having 55% of China's total power – approximately 3 million kilowatts – generated from biofuels by 2010. This would reduce carbon

dioxide emissions by 1.2 million tons. Jilin is also a major source of wind and solar power as well as biofuel.

Tourism:

In Jilin and Heilongjiang winter tourism is a big industry. Changchun and Harbin have winter ice festivals. Changchun's festival has a snow carnival, snow fireworks evening and a snow angel competition. The city hopes that these events along with its many privately owned ski hills will help to make it a popular winter resort with both domestic and foreign tourists.

The tourism industry is also expected to generate jobs in the city. A professor at the Tourism Institute of Changchun University stated in an interview with China Daily in 2007 that one tourism job in Changchun has a net effect of creating five other job opportunities in the city.

Harbin's ice festival is more well known of the two events. It was started in 1985 and is held during the month of January in the city. Unlike Changchun's festival, which is centered on winter sporting events, Harbin's festival focuses on traditional Chinese arts. Popular events in Harbin are the ice lanterns and ice sculptures that are craved every year in the city. In the past, the city had exhibited ice sculptures created to resemble the Great Wall of China and the Egyptian pyramids.



Transportation



Source: Fiducia Management Consultants



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Jilin province can be reached by air through four major airports in the province. They are at Changchun, Jilin city, Yanji and Tonghua. From Yanji, which is located in the Yanbian Korean Autonomous Area, there is easy access by road to Korea. Two highways lead into the country, the Yanji-Tumen Expressway and the Hunchun-Shucao Integrated Passage.

Changchun, Jilin City, Yanji and Tonghua are also the four main hubs of highway system. Railways also links Jilin to cities such as Harbin in Heilongjiang, Shenyang and Dalian in Liaoning, Qinhuangdao in Hebei and Tianjin.

Changchun will begin construction of a two-line subway and an over ground light rail system in 2010. This is expected to ease traffic congestion in the city and help to discourage people to buy private cars.

Travel in Heilongjiang is quite convenient by train and airplane. Heilongjiang was one of the first provinces to have its own provincial railway and is also connected to major cities such as Beijing. Internationally, the railway links up with the trans-Siberian Express that connects China to Europe.

Harbin, Qiqihar, Mudanjiang and Jiamusi in Heilongjiang have airports. Harbin is the largest of these airports and from here international flights are operated to Russia, Korea and Japan, while the others have only domestic connections to China's major cities such as Beijing, Shanghai and Guangzhou.

Industrial Parks

The Changchun Economic and Development Zone (EDZ) is focused on automotive components, photoelectric information, biopharmaceutical goods, building materials and food processing. It is located just 5 km from Changchun's downtown and central business district and 2 km from the railway station, which



makes it convenient for companies in the zone to ship their products. The Jilin City-Changchun and Harbin-Dalian Expressway run through the zone and the Dalian harbour is only a six-hour drive away.

Convenient transportation is not the only reason to set up the Changchun EDZ. Changchun has 25 universities and colleges and 102 independent research & development institutions. The zone also owns Changchun Senior Vocational Polytech Institute, China's largest vocational school. There are 469,000 people classified as professional technicians living in Changchun. So there is a large pool of talent for foreign companies to use in the city.

Harbin is also a major city in terms of academic research. There are 19 universities, colleges and training schools in the city. There are 400,000 technicians. The city is China's main source of technicians qualified in Russian production standards. This is due to the proximity of Heilongjiang with Russia.

One of the main industrial zones in Harbin is the Harbin Economic and Technological Development Zone. It has two main focus services, which include finance, food and beverage, travel, culture and recreation sectors and manufacturing. The manufacturing services that the zone focuses on include automotive components, medicine, electronics, textiles and food processing.

Harbin is easily accessible by the five trunk railways and seven highways that run through the city. The city's port also gives manufacturers in Heilongjiang direct access to four Russian cities.

Areas for Improvement

Jilin has seen significant improvement in the quality of life of its citizens, particularly in the capital Changchun. The city's Gross Domestic

Product doubled in 2007 to RMB 207.3 billion. Many of the city's state-owned enterprises have been reformed and they have adopted modern company structures. It has reduced a lot of the burden that had come from their previous wasteful spending.

The city has also completed a number of infrastructure and environmental projects that have helped make citizens' lives easier:

- 83% of the city's sewage, 85% of household-refuse and 98% of industrial waste is treated and recycled.
- Most of the city is heated with natural gas instead of coal that is making a significant difference in the quality of air.
- RMB 8.61 billion is being invested to improve the city's schools.
- Currently 95% of Changchun university students are successfully finding jobs after graduation.
- 470,000 new jobs have been created in the city over the last five years.
- Urban residents' per capita income reached RMB 12,720 while per capita income of rural residents was RMB 4,780 up 82.9% and 51.2% from 2002.

Heilongjiang is strong in natural resources such as grain and oil, but these natural resources are not being distributed properly to help modernize the province. Much of the province's income from projects such as the Daqing Oil Field goes to the central government. The Daqing city government keeps only RMB 2.5 out of every RMB 100 that Daqing produces. The rest goes to Beijing.

As the province is dependent on much of its income, enterprises tend to sell their products at a low price and then pay large amounts to purchase finished goods that are made out of



those materials. According to China Daily, many people in Heilongjiang are used to the status quo and therefore there is no strong growth of innovative products in the province.

For innovation, the provincial government must encourage a movement away from the planned economy towards the skills need of a market economy. Reforming the management structures of state-owned companies as has been done in Jilin can do this. It would help to change attitude about the nature of work in the province.

Conclusion

Jilin and Heilongjiang are both Northeastern Chinese provinces with a lot in common, such as rich natural resources and strong agriculture industries. But at the same time, they also have a lot of differences. Jilin seems to be striving and actively moving itself away from a planned economy towards a dynamic market economy. Heilongjiang on the other hand, is still stuck on a planned resource-driven economy and needs some push to move towards a market-driven economy. If Heilongjiang is able to reform its economy the province will have a bright future.



Confederation of Indian Industry



中国国际贸易促进委员会 中国国际商会
China Council for the Promotion of International Trade (CCPIT)
China Chamber of International Commerce (CCOIC)

Contact:

Ms Harshit Sehgal
Deputy Director

Confederation of Indian Industry

The Mantosh Sondhi Centre, 23 Institutional Area, Lodi Road, New Delhi-110003
Tel: +91-11-24616023; Fax: +91-11-24021298; Email: harshit.sehgal@cionline.org

CII China Office

Mr. Madhav Sharma,

Director & Chief Representative

Confederation of Indian Industry

Room No 11A47/49, Shanghai Mart, 2299 Yan'an Road (West), Shanghai 200336, China
Tel: +86 (21) 62360969; Fax: +86 (21) 32283510; Email: madhav.sharma@cionline.org; Website: www.cii.in

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