

Shandong Province of China

Introduction



Shandong is located on the eastern edge of the North China plain and was considered the eastern frontier of Chinese civilization. It's one of China's many peninsulas. The province is bordered by the Bohai Bay to the north, Hebei to the northwest, Henan to the west, Jiangsu to south and the Yellow Sea to the southeast.

In terms of commodities, Shandong is a major production center of wheat, sorghum, cotton and maize as well as precious metals such as gold and diamonds. The province has petroleum deposits in the Dongying area of the Yellow River.

Shandong is also the base for a number of China's most well-known consumer brands, Tsingtao beer

named after the old Chinese postal mark for the city in which it is brewed – Qingdao -- and Haier appliances both have their corporate and manufacturing headquarters in the province.

These manufacturing services have helped contribute to making Shandong a prosperous province. The annual per capita income in Shandong is RMB 10,744.

Culturally, Shandong is the home province of the country's most famous philosopher, Confucius, whose temples are all through out China – the most prominent in his hometown of Qufu.

Qingdao, however, is the province's most well known city. Besides being the home of the Tsingtao Beer Company and Haier as mentioned above, the city has also been a colonial possession of both Germany and Japan. The two former great powers developed much of the city's modern infrastructure between 1897 and 1922 when it reverted to Chinese control under the then Republic of China. Since 1984 when China started opening up policy, Qingdao has been a growing city of industries.

Other important cities in Shandong include Weihai, Yantai and Zibo, which have been hubs of fishing, clocks and silk respectively.

Industries:

Beer:

One cannot accurately write about Shandong province without mentioning the beer company in its commercial city Qingdao, Tsingtao Beer.



Founded in 1903, Tsingtao Beer was originally a British-German managed enterprise and then taken over by the Japanese in 1915 until 1945.

After Japan's defeat in World War II, the brewery came under control of the Chinese Nationalist government. In 1949, control was ceded to the communists. The company was privatized in 1990 and merged with other local breweries in 1993 to form the current Tsingtao Brewery Company Limited. Tsingtao is also one of the first Chinese brands to be sold overseas. The beer made its debut in the US in 1972.

The company currently markets its trademark Tsingtao Beer, a pilsner. Tsingtao Draft Beer; an unpasteurised pilsner is also available. These two products are also available outside of China.

The company also has two or three beers that it markets solely for the domestic market: Tsingtao Dark Beer and Tsingtao Spirulina Green Beer, which contain spirulina, a health supplement.

Tsingtao Beer holds an annual beer festival to market its products every year to attract foreigners and Chinese to drink the beer. Even though this festival is considered international, the purpose of the festival is to encourage more Chinese to drink the brand. The company's marketing has also taken on a similar slant with nationalistic and patriotic themes, a reoccurring approach.

Light Industries/Home Appliances:

Shandong is home to many light industry and home appliance companies, the most famous of these is probably Haier.

Haier was originally founded in the 1920's and became a state-owned factory when the Communists took over in 1949. It quickly became a quality and production nightmare. By 1984 the company was near bankruptcy. A new managing director was brought in to turn things around.

Zhang Ruimin was a Qingdao city official who had read Japanese and Western management techniques. Legend says that one day Zhang was walking through Haier's factory with a customer who wanted a replacement fridge for the defective one that he had purchased just recently. While checking through Haier's inventory, Zhang found that Haier's fridges had a 20% failure rate. Therefore, he took the defective fridges out of the factory and made employees smash them as a reminder to improve quality control.

In 1984, the Liebherr Group of Germany entered into a joint venture with Haier that allowed for the transfer of technology and know-how to allow it to improve the quality of its refrigerators. The company was profitable by 1986 and by 1988 Haier was buying out other Qingdao-area appliance companies. This allowed the firm to expand beyond refrigerators into microwaves and air conditioners. In 1992, Haier was incorporated into its current form as Haier Group.

By the late 1990s, Haier had moved into television segment and set up production sites in Indonesia and the Philippines. It also moved into the US market, at first just in the area of small compact bar fridges and electric wine cellars. As its success grew, the company began to compete against the big appliance manufacturers such as GE, Whirlpool and Frigidaire and Maytag. Haier launched a bid for Maytag in 2005, but lost out to Whirlpool.

Divisions of the Haier Group are listed on the Shanghai and Hong Kong stock exchanges though the company is still officially a state-owned enterprise. Officially it is classified as a "collective" meaning it is owned by its employees. These employees do not receive any dividends however, and they do not know how much of the company that each employee specifically owns.

Today Haier is the world's 4th largest white goods (home appliance) manufacturer and has production



plants and offices in the US, Europe, Japan and Australia. Its annual revenue in 2005 was RMB 103.4 billion (US \$13.9 billion). The company now also has over 50,000 employees worldwide.

Oil/Natural Gas Production:

Sinopec has a strong refinery operation in the province including operations in the provincial capital Jinan and a joint venture with Saudi Aramco. Sinopec has a chain of refineries going down China's eastern coast to service the heavy demand for oil in the booming region.

Natural gas is also in huge demand in Shandong. The requirement of the province is expected to reach 8 to 10 billion cubic meters per year before 2020. This has caught the eye of not only domestic companies such as Sinopec and PetroChina, but also foreign companies such as Shell.

To meet the demand for natural gas, Sinopec is constructing a 1,700 km-long pipeline to transport the gas from the Puguang Gas Field in Sichuan to Shandong to meet the demand. The Puguang Gas Field is expected to produce 4 billion cubic meters when it begins production in 2008. This will expand to 8 billion cubic meters by 2010.

Food Production & Processing:

Shandong province has a strong agriculture and food processing industry. The city of Yantai is an important export point for peanuts, fruits and vegetables.

Shandong also has a strong organic food processing industry. The province has a number of organic farms and food processing plants that supply items to the country's major grocery stores and food markets.

As of 2004, the province made food production and processing as one of its key industries. Encouraged areas include:

- Marine foods
- Cereals
- Cooking oil products
- Animal husbandry
- Fruit juice
- Wine
- Beer

The Shandong provincial government encourages foreign investment to help turn the province into an agricultural hub.

Kite Manufacturing:

The city of Weifang in Shandong is known as the international kite city because of its long history as a manufacturing base for kites.

Legend has it that kites were first manufactured during the 5th century BC. They were used during the times of war, for rescue missions and to measure distances and signaling. From the city of Weifang, kites spread all over China and all over the world.

Today Weifang is still a manufacturing hub for kites – the most popular type being the typical centipede kite. The centipede kites from Weifang usually take on a dragon design. In traditional Chinese mythology, the dragon embodies the qualities of wisdom and luck and the promise of good fortune.

Majority of Weifang manufactures are using high-tech means such as website marketing to sell their products all over the world. However, manufacturers still make their kites out of traditional materials such as split bamboo and silk.

Every year, the city of Weifang puts on a kite festival on the salt flats south of the city. It has become internationally renowned and attracts visitors from all over the world. You can learn more



about the festival by visiting its official website:
<http://weifangkitefestival.com/>

Transport Equipment & Machinery:

The provincial government is making an effort to promote auto industry in Shandong. They are taking a page from Japanese and Korean manufacturers whose companies were one of the first ones to set up manufacturing in the province during the early 20th century.

The focus on new items for manufacturing includes sedan cars, heavy-duty and special-purpose vehicles. Auto component manufacturing will continue to be promoted by the government. These include:

- Car engines
- Air conditioners
- Axles
- Crank shafts
- Connecting rods

The other area where manufacturing will be widely encouraged is shipping industry. Priorities in this area will be given to large oil tankers, container vessels, marine-engineering vessels, ocean-going fishing vessels and high-speed pleasure boats. Components for these vessels are also considered a preferential industry. Some examples of these components are diesel engines and power generators so as to develop a strong ship building production hub.

Textiles:

Shandong has 200 textile and many garment manufacturers. As majority of them are former state-owned companies, they have large production capacities. They are, therefore, able to handle large export orders. Some of these factories also have integrated cotton-spinning, garment-weaving,

dyeing, embroidery and garment production all on one site. These all-in-one production facilities can greatly help to reduce the production costs for buyers that wish to source garments from these factories.

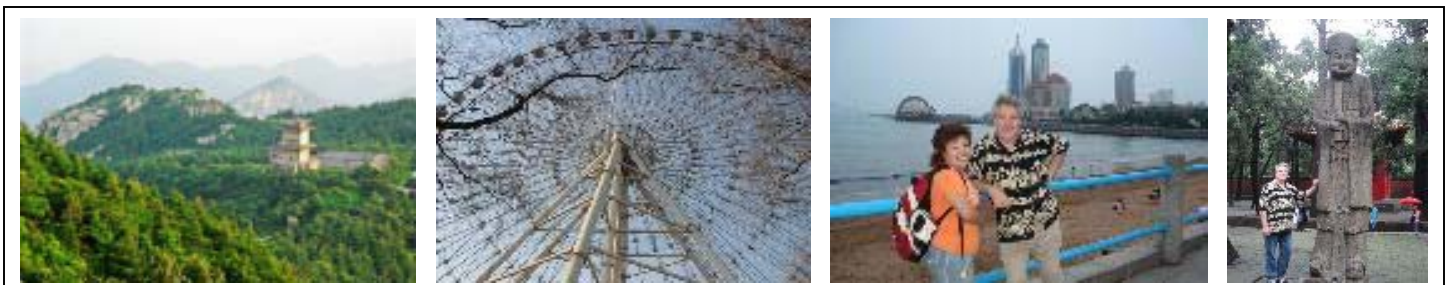
The government's main goal for the textile industry in Shandong is to encourage companies in the province to improve the quality of their garments. This is particularly important after the made-in-China recalls that occurred in the summer of 2007. Most of the recalls were of toys. But as the issues of quality appeared over and over again in many news reports, it is important that textile manufacturers in the province raise the quality of their products. To ensure this, some suppliers are applying for Oeko-Tex 100 approval, which certifies that products are free of toxic substances.

Prices for home textiles in the province are determined by thread count. Lower end textiles are those with thread counts below 200, mid-range between 200 and 300. Higher end textiles are those with thread counts above 300.

Electronics:

The Shandong government is currently trying to create an electronics hub in the province. It has encouraged the following items:

- Computers and computer parts and components
- Industrial automation equipment and control systems
- High-performance digital programme-controlled exchanges
- Base station equipment
- Optic fibre communications and system-support equipment
- Mobile communications equipment



Other items that are produced in Shandong include rechargeable and lithium batteries for home electronics and electronic bicycles.

Chemicals & Pharmaceuticals:

Chemicals and pharmaceuticals are the areas of growth in Shandong province. The different segments include:

- Refined chemicals
- Rubber
- Marine biological drugs
- Genetically engineered drugs and plant drugs.

Shandong is also home to major petrochemical companies such as Qilu Petrochemicals, Jinan Oil Refinery, Qingdao Oil Refinery and Weihai Rubber Plant. The petrochemical industry is also an area that is open and welcoming foreign investment.

Transportation:



Source: Fiducia Management Consultants

Shandong has one of the best transportation networks in all of China. With 3,000 km of expressways, it has the most extensive network in China. The two most important expressways in the province are the Jiqing Expressway (Qingdao-Jinan) and Jingfu Expressway (Beijing-Fuzhou expressway passing through Shandong).

Shandong being a peninsula also does well in terms of ports. Qingdao, Yantai, Weihai Rizhao and Longkou are the major harbours in the province. Most of the ports here are the sites of former Chinese and colonial naval bases.

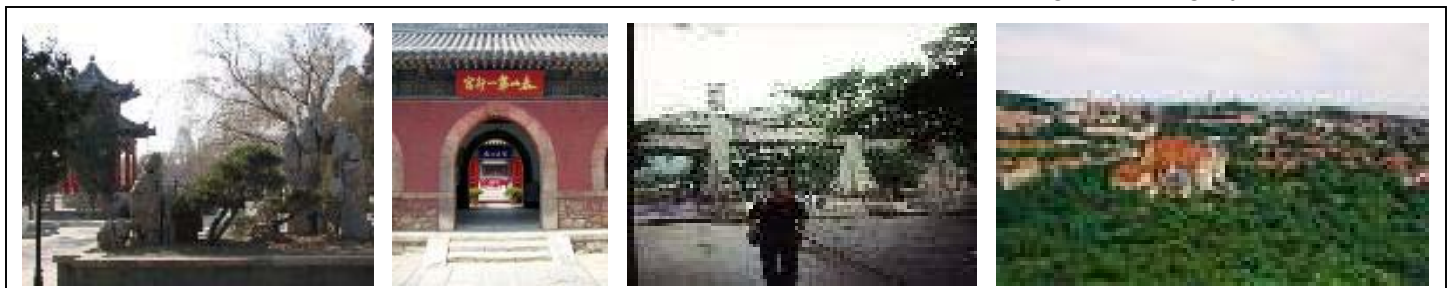
The Jingjiu (Beijing-Kowloon) and Jinghu Railways (Beijing-Shanghai) pass through the province providing an economical way for residents to travel to China's major cities as well as to major cities in the province. The province's biggest intra-provincial railway is the Jiaoji Railway, which connects the capital of Jinan to the province's economic hub, Qingdao.

The province's important air hubs are in Jinan and Qingdao.

Industrial Parks:

Shandong has many industrial parks that support its different industry hubs. One of these is the Shandong Dongying Shengli Industrial Park. It is a provincial development zone established for the development of Shengli Oil Field. The park mainly serves the oil field and the development of the petroleum industry. It is spread over an area of about 20 km².

By the end of June 2006, RMB 450 million had already been invested in the construction of the industrial park's infrastructure. 80 enterprises have settled in the park and the actual realized investment in fixed assets has reached RMB 2.28 billion. With the increase in the number of the enterprises in the park, the park is now in the process of developing a heating system to ensure



that the enterprises can continue working all year around.

The city of Yantai also has the China APEC Yantai (Fushan) Science & Technology Industrial Park. The park occupies 31km² area. There are about 400 businesses in the park, of which 60% are foreign. They include Intel and Honda. There are also many other auto parts, IT, food processing, textiles and garment manufacturers.

Areas for Improvement:

Currently the major focus in Shandong is on improving the environment around the Yellow River basin, of which Shandong is a part. The Consultative Group on International Agricultural Research (CGIAR) is implementing an agriculture conservation program in this area. It is tackling problems such as soil erosion, which has become a big problem in the region due to erosion both by wind and water.

The CGIAR's program is based around using techniques such as zero tillage, mulch retention, crop rotations and cover crops to prevent erosion while providing farmers subsistence income.

The Shandong provincial government also acknowledges the water shortage as well the fact

that industrial growth has caused a lot of air pollution in the province. It claims that it has developed environmental programs that will tackle these problems. One program includes pilot cities such as Yantai in cleaner industrial production and technology program that will strive to create clean industrial technologies.

Conclusion:

Shandong is a province with a strong opportunity for growth. It has a number of established industries such as home appliances industry, textile manufacturing industry and beer industry. But it also has many rising industries such as auto manufacturing and computer and electronic industries. It is in these developing industries where Shandong's growth really lies. This drive for growth must be balanced with the demands of the province's environment to ensure sustainable economic growth with an environment that the province's citizens can live in.



www.fiducia-china.com



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@ciionline.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@ciionline.org; Website: www.cii.in

Disclaimer:

The information contained herein has been obtained from sources believed to be reliable. CII / CCPIT/ Fiducia Management Consultants disclaims all warranties as to the accuracy, completeness or adequacy of such information. CII/CCPIT/Fiducia Management Consultants shall have no liability for errors, omissions or inadequacies in the information contained herein or for interpretations thereof.