

# China

## Provincial Update



Confederation of Indian Industry

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### Yunnan Province of China

#### Introduction:



Yunnan province lies in the southwest of China. It has an area of 394,000 square kilometers and a population of 44.504 million at the end of 2005, including 13.129 million urban population, which accounts for 29.5% of the total population, and 31.375 million rural population, 70.5% of the total population. The province lies on the Yungui Plateau. It is 93% mountains and 6% of its area is a basin. Yunnan is mostly in the subtropical zone and has a humid and moist monsoon-style climate.

Yunnan is home to eight autonomous prefectures:

Dali Bai Autonomous Prefecture, Honghe Hani-Yi Autonomous Prefecture, Dehong Dai-Jingpo Autonomous Prefecture, Chuxiong Yi Autonomous Prefecture, Wenshan Zhuang-Miao Autonomous Prefecture, Nujiang Lisu Autonomous Prefecture and Diqing Zang Autonomous Prefecture; and five other prefectures: Simao (with the largest size in land area), Zhaotong, Baoshan, Lijiang and Lincang.

The province is also rich in natural resources such as plants, animals and minerals. It particularly has strong reserves of hydropower and coal.

According to the GMS Business Forum, Yunnan's gross domestic product is the 17<sup>th</sup> largest in China. The growth in the province's economy has been attributed to the rapid industrialization of the province between 1991 and 1995. Its main industries are tobacco, machinery, metallurgy, agricultural products, chemicals and building materials.

Yunnan has also benefited from the opening up of China in terms of international trade. Most of this was with Myanmar – totally 80% of border trade. Laos and Vietnam make up the remaining amount of border trade with 10% each. In terms of non-border international trade, Yunnan also trades with the US, UK, Singapore, Thailand, Japan, France and Canada.



## Natural Resources and Industries:

### Wood:

24% of Yunnan is covered with forests, and 39% of that forest is pine. This provides approximately 1.2 million tons of pine resin for different industrial uses.

### Flowers:

Flower exports from Yunnan reached a record high in 2006 – totaling US \$10.45 million. Japan imported the most flowers – US \$2.75 million followed by Hong Kong with US \$2.7 million. Members of the Association of Southeast Asian Nations (ASEAN) accounted for US \$3.62 million. Singapore and Thailand are also large purchasers of flowers from the province.

### Coffee:

Known as a tea-growing region, Yunnan is now making money by growing Arabica coffee beans. As coffee consumption rises in China, specialty shops such as Starbuck and Illy of Italy are taking notice. This is due in part, to the assistance that food giant Nestle has been providing for Yunnan coffee growers since the mid-1990s.

Coffee providers overseas are paying attention too. China exported 6,484 tones of coffee during the first quarter of 2007. More than four thousand tones of that went to Germany and Japan.

Even though consumption of Yunnan coffee is on the rise, the province still has a long way to go before becoming a coffee giant. Though no official figures exist, it is estimated that 24,000 to 28,000 tones of coffee is harvested in the province each year. The region's big coffee players such as Indonesia and Vietnam harvest about 400,000 and 900,000 tones respectively.

### Tobacco:

Yunnan is the hub of Chinese tobacco production.

The area has about a 1,000-year record of tobacco plantations, but modern production of tobacco for cigarettes began in 1914. The first cigarette factory in the province was set up in Kunming in 1922. Today, the province has 13 cigarette brands that are known nationwide and also exported to the Middle East and Japan.

The Yuxi Hongta, Honghe and the Kunming Cigarette are the three largest cigarette producers in the province. They are also significant source of income for Yunnan's provincial government – in 1997 more than 70% of the province's taxes were from the tobacco industry. The province supplies one-third of China's flue tobacco crop and one-fifth of its total production of cigarettes.

Most of the tobacco grown is of strains originally imported from the US, but the fourth most popular strain is Yun85, which was bred by the Yunnan Tobacco Science Institution.

### Medicinal Herbs:

Yunnan is also known for its medicinal herbs. These include Yunnan Baiyao, Chongcao, Tianma and Sanqi. They are known to assist in relieving pain and help ease complications from asthma.

### Energy:

#### Hydropower resources:

Yunnan has six major river systems containing over 600 rivers. The total annual hydropower resources reached 222.2 billion cubic meters and the theoretical reserves of hydropower resources stand at 103.64 MW, of which the exploitable installed generating capacity is over 95,700 MW and annual power generation can reach 450 billion kilowatt-hours. As of December 2002, the generating capacity of power stations, which had been constructed or were still under construction, had reached around 11,000 MW. The predicted capacity of the hydroelectric power stations, which



will be constructed in the future, is expected to be about 90,000 MW. According to the province's commerce department, the goal over the next 20 years is to make Yunnan one of the most important production bases for clean energy in China.

Yunnan is a good location for hydropower. First, the proportion of major hydroelectric power stations, which can be constructed, is high. Second, the hydropower resources are more or less concentrated, so there are many suitable sites where power stations could be constructed. Third, the power stations can be built at low cost and the submersion of surrounding land can be kept to a minimum because of the lie of the land.

Yunnan is such a good site for electricity production that Vietnam is also going to purchase electricity from Yunnan province to get its northern provinces through the hot summer this year. According to the China Daily, Vietnam will purchase 50 million kwh of electricity through transmission lines in the county's northern Lai Chau province. This is the second time Vietnam has purchased electricity from Yunnan. The country originally signed a three-year deal with Yunnan Electric Power Group Co., Ltd. in 2004 to purchase power. Yunnan Electric Power Group supplied the country's Power Company No. 1 with an annual output of 180 to 200 million kwh until the end of 2006.

**Coal resources:**

Yunnan has one of the largest coal reserves in Southern China. Prospected reserves exceed 70 billion tons and proven deposits total 34.469 billion tons. Reserves in 2001 were 26.9 billion tons. Of the proven deposits, 63% are reserves of lignite, which is especially suitable for use in power generation. This represents a total of 15.5 billion tons, just below that in Inner Mongolia, the highest in China. The prospected ratio of coal resources in Yunnan is 8.298 billion tons, accounting for 34% of the proven deposits, higher than the national

average.

Yunnan also possesses rich geothermal resources. There are 654 hot spring areas in the province. Their annual thermal diffusion is equal to that of burning 1.18 million tons of standard coal. In addition, there is great potential for the development of solar, thermal, geothermal energy and wind power in the province.

**Machinery:**

Machinery production in Yunnan is mostly for other industries in the province such as the sugar, paper-packaging, beer / alcohol and hydropower production sectors. It is centered in the capital city of Kunming. The total output of the industry in 2003 was valued at US \$1.29 billion.

The industry faces hurdles in its development due to the fact that Yunnan is an inland province and does not have any ports. It makes up for this however, by working with neighbouring countries such as Vietnam to help develop its production industries and therefore create an easy access to market for Yunnan-made machinery.

**Chemicals/Minerals:**

The province is a large producer of chemical fertilizer, sulfuric acid, phosphorous, ammonia and salt.

It is also China's major production base for copper, lead, zinc and tin. The province's Geiju city is known as the "Kingdom of Zinc" and has the more reserves than any other place in China.

**Service Sector:**

According to the April 2007 issue of Insight, the Journal of the American Chamber of Commerce in Shanghai, the area where Yunnan has the most potential for growth is in the service sector. The capital city, Kunming, currently does not have any international banks, insurance companies or consulting firms – all companies that are necessary



to help foreign enterprises set up in the city. Once these businesses are set up in the city, it's likely more foreign business will enter.

### Tourism:

One area where the service sector has built up is tourism. Yunnan receives the more tourists than any other province in Western China. It is the number one tourist spot for Chinese nationals. It also has the more star-grade hotels and resorts in the region.

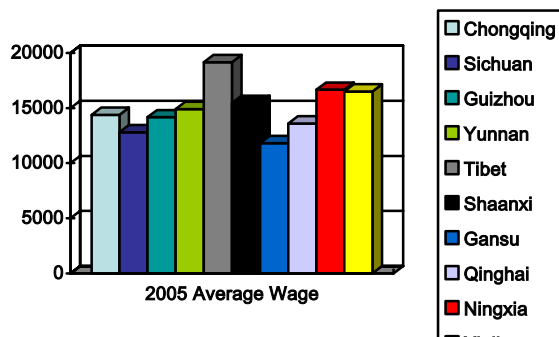
Kunming, Dali, Lijiang, Xishuangbanna and Shangri-la are all considered famous tourist spots. In 2005, the province's tourism revenue reached RMB 43 billion representing about 40% of the province's GDP for that year.

### Wages:

The average wage in Yunnan for private sector workers is much lower than what you would find in first tier areas such as Shanghai or Beijing. According to the 2006 China Statistical Yearbook, the average wage in the province is RMB 14,894. This is less than half of the average wages in Shanghai or Beijing and about 70% of wages in Guangdong.

Among the Western Chinese provinces, Yunnan ranks fifth in terms of wages after Tibet, Ningxia, Xinjiang and Shaanxi.

Average Wages for 2005 in Western China



### Industrial Parks:

Covering six square kilometers the Kunming Economic and Technological Development Zone (KETDZ) currently plays host to companies in the tobacco, IT, electronics manufacturing, biopharmaceuticals and food processing. The zone is currently placing priority on investment from the integrated optics-electronics-mechanical industries, high-efficiency agriculture and food processing companies.

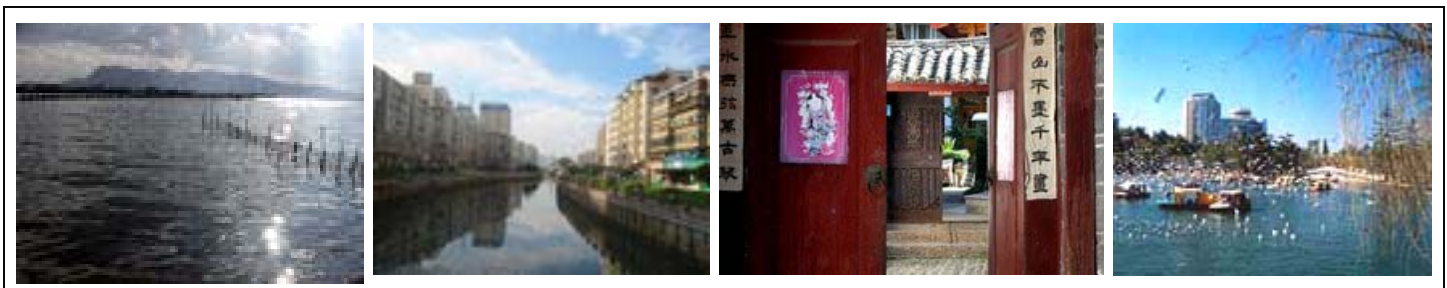
The KETDZ is just 4 kms away from downtown Kunming. It provides an excellent location for supplying products to ASEAN countries from China. The border towns in Laos, Vietnam and Myanmar are all reachable by highways. There is also easy access to Kunming airport and the Beihai and Fangcheng Ports in Guangxi via the Nanning-Kunming Railway. Access to Zhanjiang Port in Guangdong is available via the Guiyang-Kunming Railway and Haiphong Vietnam by the Yunnan-Vietnam Railway.

### Transportation:

There is 8,000 km of waterways in Yunnan, but due to lack of advanced technology, at present, only 1,324 km of it can be navigated. The Yangtze and Mekong Rivers both run through the province and connect it both with the rest of China and the ASEAN countries. On the Lancang River (the upper Mekong River), there are state-level trading ports in Simao and Jinghong.

The province also has 10 airports including Kunming, Simao, Lijiang, Baoshan and Zhongdian. Through Kunming, flights leave Yunnan for regional centers such as Rangoon, Bangkok, Chiangmai, Ventiane, Singapore and Kuala Lumpur.

The railway has helped goods travel from Yunnan into Vietnam since the turn of the last century. There are also four trunk lines that provide service between Kunming, Guiyang, Chengdu, Nanning



and Hekou.

A network of highways covers the entire province. The biggest news, though when it comes to Yunnan's highway network, is the restoration of the Sitwell Road that runs between Yunnan's capital Kunming and Ledo in India's Assam state. Other announced upcoming projects include links between Hanoi and Bangkok.



### Cooperation with ASEAN Members:

Due to its proximity to Myanmar, Laos and Vietnam, Yunnan has frequent trade and cooperation with ASEAN countries. There is also a plan to open a China-ASEAN Free Trade Zone by 2010 that is expected to give Chinese companies access to up to 1.8 billion customers.

One example of Yunnan's close work with ASEAN members is its relationship with Cambodia, where China Yunnan Corporation for International Techno-Economic Cooperation and Yunnan Southeast-Asia Economy and Technology Investment Industrial Co. Ltd. have entered into agreements in real estate construction and hydropower projects in the country.

Both companies will work to develop Phnom Penh's

Boeng Kak Lake area and an eco-garden in Sihanoukville for tourism and commercial use. The same two firms will be working with the Cambodian government to jointly construct the Stung Roessei Hydropower Plant in Koh Kong province.

### Trade Relations with India:

Trade with India is also booming. According to the Department of Commerce for Yunnan Province, trade with India has grown from US \$11.34 million in 1996 to \$125 million in 2005. In 2005, Yunnan imported US \$91.93 million worth of goods from India and exported US \$32.71 worth of goods to the country.

### Areas to Encourage Foreign Investment:

The provincial government of Yunnan welcomes foreign investment in the following areas:

#### Infrastructure:

- Construction and operation of highways, railways, civilian airports (Chinese partner must have a majority share), hydropower and thermal power stations.

#### Agriculture:

- Development of regional flowers and plants species.
- Cultivation of cash crops.
- Establishing crops of tropical plants and plants from subtropical zones.
- Development of natural perfumes and edible mushrooms.
- Development of valuable crops that can be used in pharmaceuticals, functional proteins, castor and palm products.
- Production of animal by-products.

#### Minerals:

- Production of high-density phosphorous



compound fertilizers, food and food additives and phosphoric chemicals.

- Development of the province's iron and steel industry including iron ore, smelting of stainless steel, cold-rolled and hot-rolled sheets.
- Development of mono- and polycrystalline silicon.
- Mining of lead, copper and zinc.
- Production of tin resources.

### Building Materials:

- Research and design into new types of building materials.
- Development of technology for intensive plate-glass processing.
- Production of inorganic, nonmetallic materials and related products such as quartz glass and artificial crystal used in building production.
- Mining and processing stone (excluding government-protected areas).
- Cement production using the dry-revolving kin process.

### Environmental Protection Industry:

- Recycling of industrial waste.
- Production of sanitation equipment.
- Improvement of the province's environment and related construction projects.
- Pollution-treatment technology.

### Others:

- Development of the province's high-tech industry.
- Continue to nurture growth in the province's tourism industry.

### Conclusion:

Yunnan is a province in transition. It is moving away from the agricultural economy that has been its economic driver for so long towards an economy centered on international and regional trade and services. The central and provincial governments see Yunnan as China's – and potentially many foreign investors' – gate to Southeast Asia. Therefore, expect to see a lot of infrastructure improvements in Yunnan in order to attract both foreign and domestic investment to the region.



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