

Henan Province



Source: Fiducia Management Consultants

Introduction

Henan is an agricultural province that is considered the ancestral home of China's Han majority ethnic group and the starting place of the Chinese civilisation. The name Henan means "south of the river" referring to the province's location south of the Yellow River.

Henan is known for being a major transportation hub in central China, particularly its capital Zhengzhou where a number of the China's major railways meet. These include the Longhai railway line (running east-west across China) and the

Jingguang railway line (running north-south). Nearly every train on route to Beijing, Shanghai or Xi'an passes through Zhengzhou.

Geographically, Henan is a flat province as the central and eastern parts of the province sit on the North China Plain. Mountain ranges are located in the west and far south. The Yellow River travels through the north of Henan and later splits off into the Hai River watershed to the north and the Huai River watershed to the south.

Henan is a rich agricultural province with a large number of commercial crops like cotton, tobacco, peanuts, mushrooms and fruit. It also has large mineral reserves of molybdenum, marble, iron, asbestos, aluminium and natural gas.

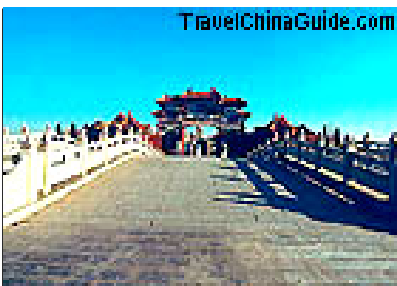
The province is the producer of half of China's aluminium oxide and has one of the largest oil fields in the country. It also has a large coal reserve, which serves as one of the key sources of power generation in the country. Pingdingshan, Yima, and Jiaozuo are considered key coal production areas in the province.

Industries

Agriculture

Henan is one of the main sources of agricultural products for China. The main crops in the province include:

- Cotton



- Peanuts
- Mushrooms
- Tobacco
- Fruit

Processed Food

The province has developed a strong food processing industry that manufactures variety of products such as biscuits, frozen foods, instant noodles etc.

One company from Henan that has become quite successful in this field is Zhongpin Inc. It specialises in producing fresh and frozen meat as well as fruits and vegetables. The company also has 2,960 retail stores to sell their products. Zhongpin not only sells its products in China but also exports to the European Union, Russia, South Africa and Southeast Asia. This company is listed on the NASDAQ stock exchange.

The Zhongpin Inc. uses a cold-chain logistics system to transport its products. Its manufacturing processes have passed Hazard Analysis & Critical Control Point (HACCP) and Exportation Sanitation Registration from China's food inspection authorities. All of its exported products meet US Food and Drug Administration standards.

Coal

Henan is one of the important coal production centres of China, but many of its mines are small in scale. At the same time the province has one of the largest mines in China, the Pingdingshan coal mine. Henan province turns out about 145 million tonnes of unsorted coal every year.

The Henan provincial government laid out in its five-year plan for the coal industry that it would increase the province's production capacity by 3 million tonnes to keep output at a steady 150

million tonnes annually. There are also plans to increase the amount of coal recycled in the province to more than 60% and to establish five coal-based chemical industry bases to make use of this recycled coal.

The number of coal mines in Henan may soon be reduced. The central government is trying to cut the number of small coal mines in China in response to the large number of accidents that have been happening since early October 2008. Many of the country's small coal mines ignore safety procedures and simply try to extract as much coal as possible in an attempt to make profit while coal prices are high. According to China Daily, the number of coal mines with annual production capacities of less than 300,000 tonnes will be cut to 10,000 by 2010.

Central China is also facing transportation problem in getting much of the region's coal to market in order to keep up with the demand. To fix this problem, the governments of Henan, Shanxi and Shandong have agreed to jointly build a railway to increase the Chinese rail system's coal transportation capacity. The plan is to have the rail line running from Luliang in Shanxi province to Dongjiakou in Qingdao in Shandong province. It is expected to have a capacity of 100 million tonnes. The transportation capacity would further be increased to 200 million tonnes.

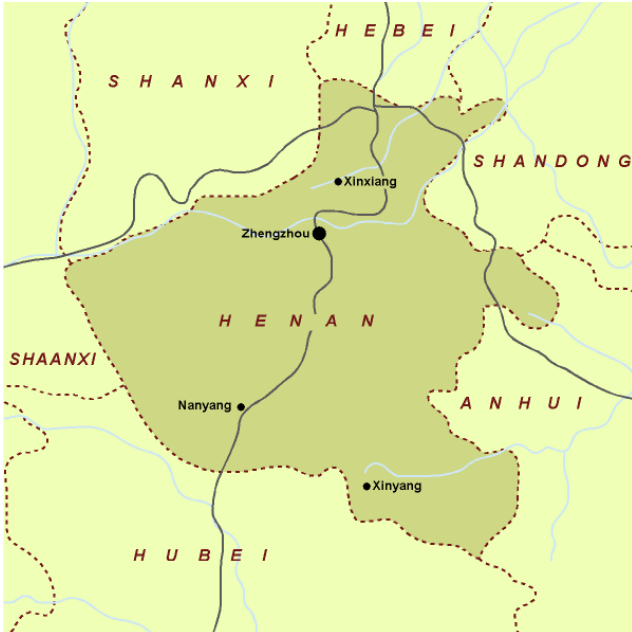
Garments

Henan is known for producing women's trousers in the country. However, these products tend to be low quality, but they are still in high demand. According to the South China Morning Post, Yalida, one of the trouser manufacturers of Henan, saw a 25% increase in output in 2007 to 1.5 million pairs. This increase in output has enabled the company to build a new factory that is 12 times the size of its current facility. It would be completed by the end of 2008. The new



factory will allow Yalida to meet the orders for overseas companies and create 1,000 new jobs.

Infrastructure



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As mentioned above, Henan's capital Zhengzhou is a major rail transportation hub. The Zhengzhou Xinzheng International Airport is also an important trunk airport in Central China. The airport is capable of handling 3.8 million passengers per year. There are flights out of Zhengzhou to over 60 domestic and international destinations. International destinations include Hong Kong, Macau, Japan and Singapore.

Besides the railway lines listed in the 'Introduction' section of this report, there is also the Zhengzhou-Xinxiang line, which travels through the province from north to south.

Travel by long-distance buses and cars is quite convenient as Henan is connected to the rest of China by an extensive network of highways. One

of the major highways that runs through the province is the Jingshen Highway, which runs from Beijing to Shenzhen on the border with Hong Kong.

Industry Parks

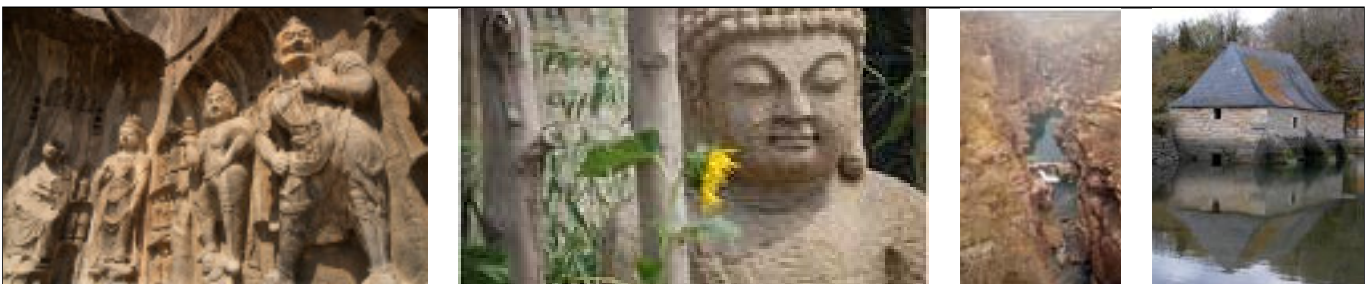
The Henan Xinxiang Industry Zone is considered as a magnet for industry in Henan. The provincial level park has 11 administrative villages or sections and a total planned area of 33 km². Over 100 companies have set up their operations in the park to this date.

The plan is for the zone to focus on the chemical fibre textiles, auto parts, machinery manufacturing, fine chemical engineering and logistics industries. The industrial zone is quite innovative in its technical training facilities, which can provide companies that set up their operations in the zone with up to 10,000 trained migrant workers and an additional 10,000 trained technicians each year. The park is located just 8 km away from Xinxiang's downtown area and just 70 km from Zhengzhou the provincial capital. Two provincial expressways and one national highway surround the park. It is also just about 45 minute drive from the nearest airport. These factors make it very convenient for companies to ship their products from Zhengzhou to the rest of China.

Areas for Improvement

Henan has been known as one of poorest provinces of China, but as with many provinces in Central China, the shift of companies moving west brings benefits such as investment. But Henan will have to shake off one unfortunate label that it has acquired over the years to ensure that it can enjoy that investment – the label of manufacturing low quality products.

Many companies in Henan, except for the ones mentioned in the Industries section of this report,



are known for turning out low-quality products in volume. That will become a barrier to the province if its factories want to move beyond serving the domestic market. It may also become a barrier to investment from abroad if investors assume that the companies' goods cannot meet the international quality standards or if their workers are not skilled enough to manufacture quality products.

There are two ways to tackle this issue: first by training the workers and second by raising the quality assurance standards. By doing so, Henan would be able to shrug off its low product-quality label.

Conclusion

Henan is an agricultural province that is trying to move away from farming and create a better life for its citizens. It is succeeding in some areas but still has a few hurdles to overcome. If it can achieve goals such as raising the quality of its manufactured goods, the province is bound to succeed.



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