

## Ningxia Autonomous Region and Gansu & Qinghai provinces

### Introduction

The provinces of the Ningxia Hui Autonomous Region, Gansu and Qinghai are three of China's poorest provinces. They lie on two plateaus in China's Northwest -- Qinghai and Gansu on the Qinghai-Tibet plateau and Ningxia on the Loess Plateau.



The three provinces also share another fact in common. They are home to many of Western China's ethnic minorities including Tibetans, Hui and Mongolians. The provinces became part of China at distinctly different times. Gansu was the birthplace of the Qin state that later united China and Ningxia came under Chinese control in the

third century BC. But from 1914 the provinces merged and only separated in 1928, when Qinghai province was established. But from 1914 right up until 1949, the three provinces were collectively ruled by the Xibei San Mas (the three Northwestern Mas) a family of ethnic Hui warlords. The Mas' rule was ended after the establishment of the People's Republic of China in 1949.

The Hui are a minority found in China's Northwest, but concentrated in the Ningxia Hui Autonomous Region. The main characteristic that makes them distinct from China's Han ethnic group minority is their practice of Islam. They therefore do not eat pork, dog, horse or certain types of birds. Women also tend to wear head scarves and men wear white prayer caps.

Other Chinese ethnic minorities that can be found in the region of Qinghai, Gansu and Ningxia include:

- Bonan People: believed to be descendants of the Muslim Mongol soldiers stationed in Qinghai and Gansu during the Yuan (1271-1368 AD) and Ming (1368-1644 AD) dynasties.
- Kazakhs
- Mongolians



- Monguors/Tus: an offshoot of Mongolians
- Salars: a Turkic people who have intermarried with the Han, Hui and Tibetan peoples. Like the Hui they are practicing Muslims
- Tibetans
- Uyghur people: a Turkic people from Central Asia. Also found in Xinjiang. They also practice Islam
- Yugur: a group of people who are considered to be descendants of Uyghurs from Mongolia. They do not practice Islam

Economically, the three provinces make most of their income from resources, specifically coal, minerals, mining, hydroelectricity, oil and other forms of energy production. Qinghai also has some iron and steel works near its capital, Xining, and Ningxia is one of the primary producers of wolfberries.

Annual per capita incomes for the provinces are the three lowest in the country. Qinghai has an annual per capita income of RMB 8,058. Per capita income of Gansu and Ningxia is RMB 8,087 and Ningxia is RMB 8,094, respectively.

White-collar workers in the region are defined as those people making RMB 1,100 per month. In comparison, white-collar workers in the large metropolis of Shanghai are defined as workers making RMB 5,350.

## Industries

### Agriculture:

Ningxia has a strong agricultural industry and is one of eight provinces in China that has over 10 million hectares of arable land. Ningxia has approximately 19 million hectares of arable land in total.

One of the growing crops in Ningxia is wolfberry cultivation. The wolfberry is used as an ingredient in traditional Chinese medicine because of its natural supply of antioxidants that are said to fortify the eyes, liver and kidneys as well as strengthen a person's "qi" or life force.

With the growth of alternative medicines in the West, companies have taken advantage of Ningxia's wolfberry crop. One company is Young Living Essential Oils from the US. Young Living is a health supplement marketing company that launched its "Ningxia Red" wolfberry juice in 2005 to take advantage of the growing demand for this product.

### Coal:

Coal is a large energy source for much of Northwestern China and one of the big industries for the province of Ningxia.

Most recently in December 2007, miners began to excavate coal from the Ruqiguo coal field. The coal found in the area is Taixi coal. It is prized for being of high quality and low in pollutants – an important factor as China's central government is trying to clean up the country's environment.

The project is expected to yield up to 14 million tons. China's total reserves of Taixi coal reached 220 million tons.

Shell Gas invested US\$ 6 billion in a coal liquefaction plant in Ningxia in July 2006. One of few joint ventures of the province, the plant converts coal into crude oil. Sasol from South Africa is to build another US\$ 5 billion coal liquefaction plant in the province that is expected to be finished by 2012 or early 2013.

These coal-to-liquid projects (CTL) are appealing because China is rich in coal resources but is a net importer of oil. With oil hovering around US\$ 100/barrel, it looks as though these CTL projects



may become an important energy source for China and help to improve Ningxia's economy.

One of the domestic companies which is embarking on a coal-to-liquid project is Shenhua Ningxia Coal Industry Group. Shenhua Ningxia is purchasing a synthetic gas/recycled gas compressor train and a hydrocarbon compressor train as well as spare parts and training services from General Electric's Oil & Gas division based in Italy. The equipment is expected to be delivered in the third quarter of 2008 and the plant will begin production in 2009. At that time the company expects to be able to turn out 500,000 tons of polypropylene from coal annually.

A new conventional coal bed of approximately 56.5 million tons was found in Wuzhong, Ningxia in April of 2007 according to China Daily.

#### **Oil:**

Gansu is rich in oil. The province is the Ordos Basin, one of China's largest sources of energy. The West-East Gas Pipeline Project that connects oilfields in Xinjiang to Shanghai on China's eastern coast also runs through Gansu. A pipeline from the city of Xifeng Gansu province also carries 400 to 450 tons of oil into neighbouring Sichuan province.

In Gansu's capital, Lanzhou, Lanzhou Petrochemical Company, a subsidiary of PetroChina has been refining oil and ethylene since 2006. The company currently produces 10 million tons of oil refining and 700,000 tons of ethylene per year, making it the largest refining operation for PetroChina in the western half of the country. In Jinchang Gansu, there is also a privately owned joint stock enterprise formed by six non-governmental bodies called Gansu Xinchuan Chemical Co. Ltd. It was expected to acquire up to 200,000 tons of oil annually.

Gansu was also chosen in 2006 as a province with 10-million ton oil reserve, making it the largest in China.

Qinghai is also a site of an oilfield in the Qaidam Basin. The province hoped to have an output of 4.85 million tons in 2006 and 10 million tons by 2010.

#### **Clean Energy Projects:**

A number of clean energy power projects can be found in Gansu province. Under the Clean Development Mechanism of the Kyoto Protocol, China has created a large number of clean energy projects through out the country.

One of the projects being undertaken in Gansu province is the Gansu Wen County Qilinsi 111 MW Hydropower project. Like most clean energy projects in China this is a Sino-Japanese joint venture between Datang Gansu Bailongjiang Hydropower Development Co., Ltd and Sumitomo Corporation.

One of the clean energy projects that is up and running in Gansu province is the Xiaogushan Hydropower Plant project.

Xiaogushan is a 98-megawatt run-of-river hydroelectric plant located on the Heihe River near Zhangye, Gansu. It is expected to produce 360 gigawatt hours electricity for Zhangye and have a lifetime of 30 years. The project was funded in part by the World Bank.

The unique consequence of this project is that the carbon emission savings from the project will be purchased by Prototype Carbon Fund. The Fund, managed by the World Bank, is a public/private partnership made of six governments and 17 companies such as the Belgian industrial company SUEZ. It is committed to reducing carbon emissions and educating companies and the public on how to do it.



**Food:**

With 35% of Ningxia's province being Muslim, it is a natural source for export Halal food. According to the commerce department of Ningxia, Malaysia and Indonesia are major purchasers of Ningxia's Halal food to the extent that the companies are almost unable to keep up with the demand.

For Ningxia, Halal food is also one of the province's growth industries. The industry is constantly gaining new companies every month to meet the large demand for Halal food.

**Tourism:**

As the home of the Hui culture, Ningxia is home to a growing tourism industry. Some of the tourism sites in the region include Sand Lake and Shapotou, Mount Liupan, Shuidongguo Relic site (the site of a prehistoric people) and the mausoleums of the Western Xia dynasty.

In Gansu, Lanzhou is a key stop on the Silk Road. The road connects the famous historic sites such as Dunhuang Grottoes, Bingling Temple Grottoes, Labuleng lamasery and Maiji Mountain Grottoes. Other tourist sites include Jiayuguan Pass at the western-most end of the Great Wall and Tulu Gully.

Gansu also has two tourism zones at Yitang Lake in Dunhuang. The area covers 5 square km and has preferential policies for domestic and foreign investment.

Qinghai is a paradise for nature tourists. The province has 408 scenic tourist spots including 11 that are of international level. Some of these sites include Qinghai Lake, Mount Sun & Moon, Longyang Gorge and Gold & Silver Meadow.

Cultural sites in the province include sites that show the folk customs of the Tu and Sala minorities.

**Wool:**

In Qinghai, Xining is considered the home of Tibetan carpets. The ancient city on the Silk Road is known for its White Xining Wool, which is considered one of best types of wool for making Tibetan carpets.

One of the most famous Tibetan carpet manufacturing companies is The Qinghai Tibetan Sheep Carpet (Group) Company. It has branches in Tianjin, Ningxia, Gansu, Shandong, Germany and Japan. The company also has 14 different carpet models in 75 styles. Qinghai Tibet Sheep Carpet has exported its products to 22 countries such as Japan, the US and the European Union countries.

Ningxia's Tongxin County is produces 70% of China's cashmere wool. The county's industry park can manufacture 2.5 million cashmere dresses and 1.8 cashmere sweaters annually.

**Transportation:**



Map of Ningxia and Gansu courtesy of Fiducia Management Consultants





Map of Qinghai courtesy of Fiducia Management Consultants

Qinghai has quite strong transportation links. The Lanqing Railway runs through Gansu province and into Lanzhou and Xining. It was completed in 1959 and has become a major link for Qinghai to the rest of China.

An extension of the Lanqing Railway is the Qinghai-Tibet Railway. It is 1,956 km-long and was completed in 2006. Since it went into operation in the second half of that year, it has become a major source of transport for the region. Currently 75% of the goods that are transported between Tibet and the rest of the country are sent via the Qinghai-Tibet Railway.

But goods are not the only item that the railway carries. It also carries people, including the tourists going to Tibet. The Tibet tourism authority had forecasted that approximately 1.6 million passengers were expected to travel the railway by the end of 2007.

### Industrial Parks:

As the Chinese government is trying to develop the country's western region, many of the industrial parks in the region are focused on bringing electronics manufacturing, financial services, biotechnology and natural gas.

One of those zones is the Xining Economic and Technological Development Zone in Qinghai. The Xining ETDZ is developing new technology and information technology, but it is also committed to preserving the environment around the park. As most of Qinghai's resources are land or ecologically based this is a good policy to follow.

In Ningxia, the Yinchuan Economic and Technological Development Zone is looking to develop Ningxia as a mini-Silicon Valley. In 2006, they had 11 and 17 R&D enterprises entering the park. That may not seem like a large number but considering that Ningxia is not seen as a technological centre. This is a good achievement.

The capital of Gansu province is Lanzhou. Lanzhou National New & High Technology Industrial Development Zone is also trying to encourage high-tech enterprises – particularly foreign ones – to enter the zone. The zone administrators are offering high-tech companies a 16% corporate tax rate incentive in line with the central government's tax incentives for high-tech companies.

### Areas for Improvement:

When looking at areas for improvement in the region of Ningxia, Gansu and Qinghai two issues stick out: investment in the economy needs to be improved and the environment in the region needs to be improved.

In terms of income, it was mentioned in the introduction to this report that the annual per capita income in Ningxia, Gansu and Qinghai are the three lowest in China. This is due to a couple of reasons. One is lack of investment in the region both by Chinese and foreign companies.

The Chinese government has tried to address this through its Opening Up the West policy. Under the policy the central government is committed to investing in infrastructure (hydropower, transport and telecommunications) to help bring in foreign investment and education



to keep educated workers from leaving the poorer western provinces and heading to the richer provinces in the east of the country.

This project is good on paper and it has brought a lot of investment into the region, but more needs to be done. According to China's agriculture ministry, income for rural residence is growing but at the same time the gap between rural and urban salaries is widening. In 2006, the ratio was 3.28:1, compared to 3.23:1 in 2003.

This creates a very bad chain reaction. If rural residents can't make a living at home on their farmland, they head to wards the urban areas and the richer provinces where they can make more money as labourers. That will cause a labour shortage in their home provinces. It may sound like a bit of a disaster scenario, but labour shortages are a major issue in China at the moment. It may just keep foreign companies from investing in Ningxia, Gansu and Qinghai provinces that really need foreign investment to help improve their economies.

The other area where work is needed is the environment. Ningxia, Gansu and Qinghai are all under going desertification. Desertification can impact seriously on agriculture based livelihood of many rural residents as well put an end to many industries such as tourism that are thriving in the province.

Local governments in the region have been at a

loss at times on how to address this issue. Some of China's non-Communist political parties – which cooperate with the Communist Party of China, but have no political power – such as the Jiu San Party have developed ecological plans to address desertification. However, more know how by industry – particularly foreign industry needs to be involved. Many of the local governments in Ningxia, Gansu and Qinghai are concerned about bringing development into the region and trying to catch up with the prosperous east coast. Foreign investment that comes into the region with the intent to clean up the environment allows conservation which is so necessary to protect people's livelihood while at the same time giving the officials the foreign investment that they need to show to their superiors in Beijing.

### Conclusion:

The provinces of Ningxia, Gansu and Qinghai are poor. They are building their economies through niche industries and some foreign investment. But they still have a long way to go. This may seem like a very glum assessment, but it should be seen as an opportunity. For companies engaged in the environmental protection or clean energy industries as well as high-tech industries that would like to be based in Western China, Ningxia, Gansu and Qinghai may be the places to locate their companies.



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