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The South-West Region of the

PEOPLE'S REPUBLIC OF CHINA

INVESTMENT GUIDE



CHENGDU CITY

CHONGQING CITY

GUIZHOU PROVINCE

SICHUAN PROVINCE

TIBET AUTONOMOUS REGION

YUNNAN PROVINCE



PREPARED FOR UNIDO BY CORPORATE LOCATION

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THE SOUTH-WEST REGION OF THE PEOPLE'S REPUBLIC OF CHINA

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Chengdu is the capital city of Sichuan province. Its hub status and burgeoning economy mean it looks set to become one of China's most important urban areas. Main opportunity sectors for investors include tourism, basic industries and services.

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A former war-time capital of China, Chongqing is an industrial city with a high profile internationally. The city's government is engaged in some deep-rooted market-oriented reforms following its designation as an "experimental" city in 1983.

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Guizhou, situated close to the booming coastal areas, looks set to benefit from a foreign investment boom through mineral wealth, basic industries, tourism, and preferential treatment for investors which includes three major economic development zones.

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Sichuan is the largest province within the south-west region and to date has attracted the most foreign interest. The regional powerhouse, Sichuan's strong industrial base and natural resources are the main targets for investors.

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Tibet is a mountainous and remote region which has been undiscovered by foreign companies despite its abundant natural resources. Tourism, agro-processing, energy production, textiles and handicrafts are the main opportunity sectors.

GUIDE SIX

Yunnan Province

The strategically positioned province of Yunnan is close to some of Asia's emerging markets. To take advantage of this the provincial government plans a platform of new transport and communications projects, it is also targeting three key industry sectors



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China's new investment player

The south-west region of China has been left relatively untouched as foreign investors have preferred coastal areas. Recent liberalisation measures, coupled with abundant natural resources, mean things could be about to change.

SOUTH-WEST CHINA comprises the inland provinces of Yunnan, Sichuan and Guizhou; the autonomous region of Tibet and the city municipalities of Chongqing and Chengdu.

The region represents a large part of China with a total population of 180m people. The south-west region is mountainous. Around 94% of Yunnan is mountains and plateaus, Guizhou is 80% mountains and Tibet, known as the "roof of the world" has only 0.18% of its surface area under cultivation. The region has a comparatively low population density level.

FALLING BEHIND

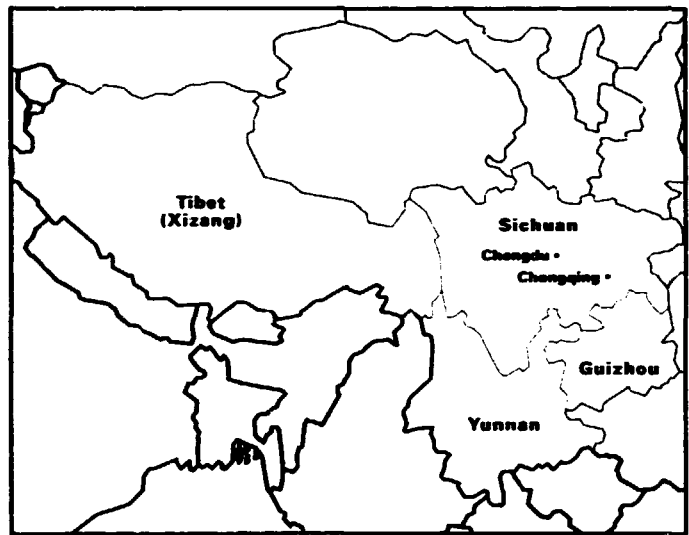
South-west China has not kept up with the pace of development seen in the fast-growth coastal areas. As these areas have become richer and attracted large quantities of international business, the provinces in the south-west, landlocked and isolated from the West, have not figured in many Western investors' plans for China.

The region has had little trading contact with the outside world. Few people understand Western business culture or speak Western languages. Even the Westernised neighbouring areas Hong Kong, Macao and Taiwan, have had limited contact with the inland south-west region.

The widening gulf between the south-west and coastal areas can also be attributed to the open door policy that has existed in coastal areas for 10 years. Not until 1992, when Deng Xiaoping announced new economic reforms for inland China, was there any significant amount of foreign investment seen in the south-west region.

In Guizhou, up to 1991, only 106 projects had been attracted to the province producing contracted capital investment of \$75m. In 1992, there were 210 projects signed. Contracted capital increased to \$187m.

This phenomenon has been repeated in all areas of the south-west region. In Yunnan province, between 1984 and 1991, only 73 projects had been signed from overseas companies. In 1992, over 200 were attracted, and in the first nine months of 1993, 370 were signed. In Chongqing, prior to 1992, the



average size of an investment project was \$530,000. In 1992, this increased to an average of \$856,000 per project. In Sichuan, foreign investment grew by 600% in 1992 compared to 1991 figures.

Investment interest in the south-west region has rocketed since Deng's announcement.

Following this, in July 1992, leaders of the south-west provinces and cities met in Chengdu, capital city of Sichuan province. They discussed how to open the south-west economy to outsiders. Anxious to get a slice of the success in the coastal provinces, they agreed to form a common development strategy. The main thrust of this was to strengthen business relations with the outside world.

CO-OPERATION

The Kunming Trade Fair was held in August 1993 with participants coming particularly from neighbouring Asian and Indo-Chinese countries.

The co-operation has gone further. A new "South-west Investment Promotion Centre" has been set up in Kunming, capital of Yunnan province. This will promote and administer investment projects into the region on a one-stop-shop basis.

The advantages of the south-west match the needs of basic, heavy industries from the west seeking lower labour costs.

Also, in November 1994, a South-West China Investment and Business Forum is to be held in Kunming. Sponsored by the United Nations Industrial Development Organisation (UNIDO), the United Nations Development Programme (UNDP) and the Ministry of Foreign Trade and Economic Co-operation (MOFTEC), the event aims to kick-start foreign-backed investment projects in the region.

The problem is that few Western businesses consider inland China because it has been almost inaccessible in the past. Apart from the initiatives underway in south-west China, a number of reforms have been proposed by UNIDO experts to increase the attractiveness of the region to Western investors. These include:

- Allowing equity stake investments as well as joint ventures in some heavy basic industries.
- Greater access for foreign banks.
- Currency reforms so that foreign exchange can be carried out at market rates.
- Rationalisation of local enterprises into larger industrial groups.

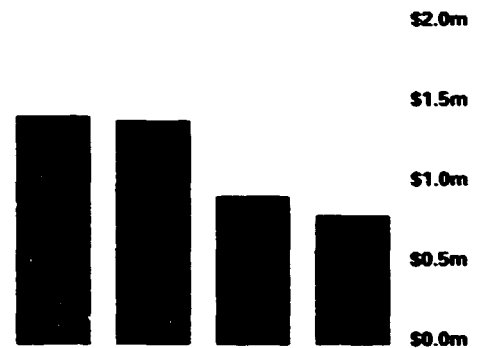
The signs are that these sort of reforms broadly fit in with central government plans. In January 1994, Beijing announced that use of the artificial Foreign Exchange Certificate (FEC) exchange rate was to be discontinued.

DEPENDENCY

The region is over-dependent on investment from neighbouring countries. Around 80% of all investment in the region comes from Hong Kong and Taiwan. US and European businesses account for less than 10%.

It has been pointed out by UNIDO experts that

Average sizes of 'Joint Ventures' (to September 1993)



this situation ought to change in the future. The advantages of the south-west match the needs of basic, heavy industries from the West seeking lower labour costs.

The south-west has the right conditions - low labour costs and rich natural resources - to develop what has been referred to as a "heavy" development strategy. This contrasts with the strategy used in coastal areas. The so-called "two-heads outside" strategy focuses on developing light processing industries. A "heavy" strategy for the south-west means the region would concentrate its attention on attracting heavy industries - typically some form of basic processing of natural resources. This allows the south-west to develop a strategy which is both independent of and able to co-exist with the coastal areas as different types of industry are being sought. It also suits the existing industrial profile of the region which is strongly oriented towards the heavy sector. Heavy industry in the three provinces of Yunnan, Guizhou and Sichuan accounts for 64.7% of total industrial employment and 53% of GDP. These figures are respectively 6.3% and 2.6% above the national average.

There are a number of examples of natural resources that present this type of opportunity. These include the steel-making industry, minerals processing, coals, bottling and brewing, timber and paper processing and food processing.

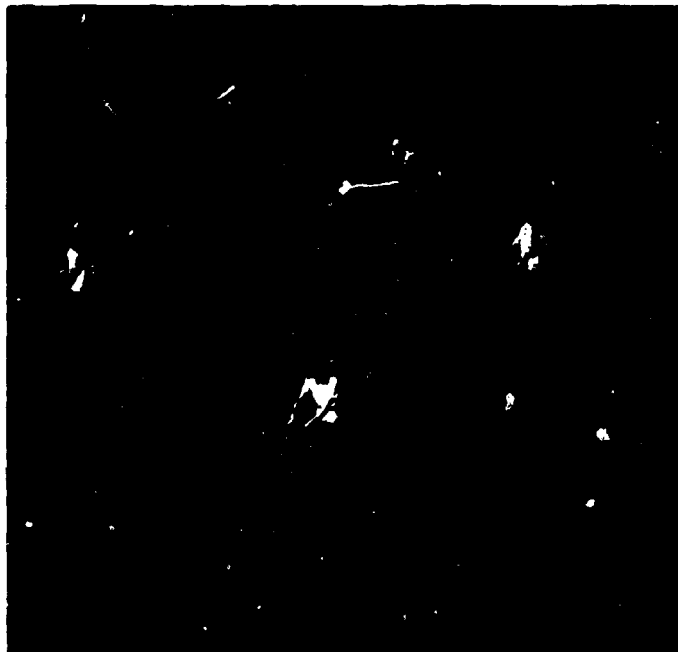
Another natural resource that needs developing in the region is tourism. South-west China is a beautiful region. Its appeal ranges from Himalayan mountains and Buddhist temples in Tibet to fossilised dinosaurs in Sichuan and the mesmerising stone valley in Yunnan.

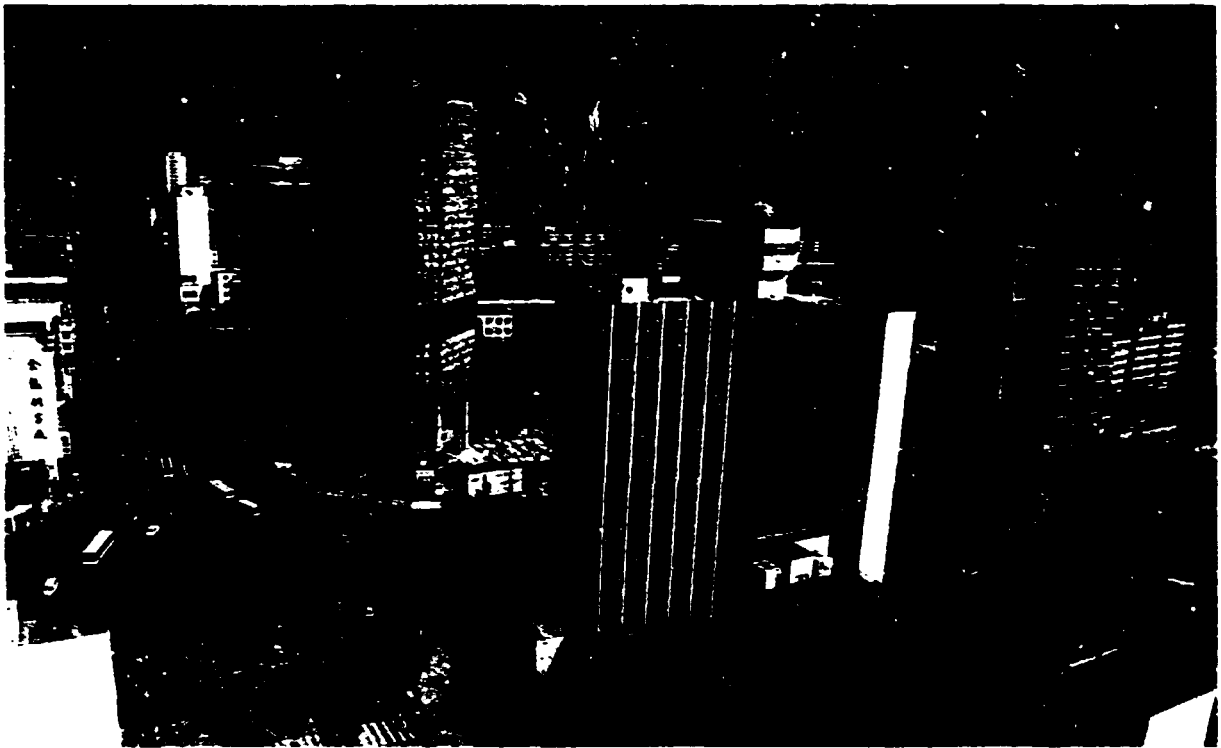
INDUSTRY

Aside from the natural resource advantages, the south-west offers foreign companies the opportunity to develop existing industrial resources. The industry which presents the best potential is probably the former defence industry. Developing the converted industries is a major priority in the south-west.

These converted defence industries represent a huge chunk of the regional economy. In the provinces Yunnan, Guizhou and Sichuan, it accounted for 0.5m employees in 1985. In addition, the industry received RMB12m (\$1.38m) of investment. The huge investments in the industry in the 1980s created a relatively highly skilled workforce

Tea plantation in Chongqing.





capable of manufacturing quality products. Around 10% of the defence workforce are scientists and engineering technicians.

Over 50% of workers in converted industries in Chongqing are classified as skilled workers.

Chongqing presents a good example of successful conversion to civilian industry. In 1980, civilian production accounted for only 8% of total GDP of the defence industry; by 1992 it was 86%. Civilian production is increasing at a rate of 34% a year in the city.

This has led to a burgeoning automotive sector in Chongqing which has already attracted foreign interest. One of China's largest motorcycle factories, China Jialing, is based in Chongqing and has a collaborative agreement with Japanese motor giant Honda. It was converted from one of the arms factories in the Norinco Group. The automotive industry is a fast emerging one in south-west China. Sichuan, Yunnan and Guizhou, as well as Chongqing, all have motor assembly plants.

An essential requirement for most investments in these areas is the need to add significant value to

*Kunming,
capital city of
Yunnan
province.*

the processed product. The south-west China region is landlocked and is often a large distance from many of the key markets. Higher value-added products reduce the importance of the region's disadvantage in terms of geographical position.

INFRASTRUCTURE

However, the need to improve infrastructure links currently is being addressed by the south-west provinces. A new RMB1bn (\$115m) airport is being built at Longdonghao, Guizhou province whilst Yunnan plans two new civil airports. Airports at Kunming, Yunnan province and Chengdu, Sichuan province are being improved or expanded. And Tibet and Chongqing both have had new airports built in the last few years.

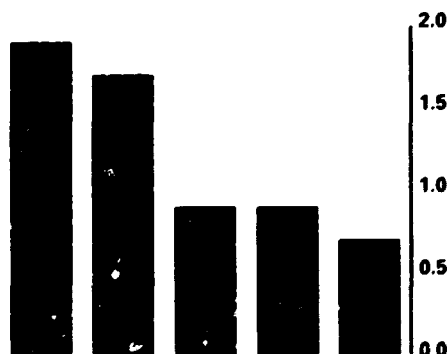
New motorways are also planned or being built. A new link between Chengdu and Chongqing is currently under construction. A new highway is also planned linking Chongqing with Guizhou province.

New railway projects include electrification and refurbishment of the line to the south of Guiyang. Also, an east-west rail link between Kunming, Yunnan province and Nanning is planned which will pass through Guizhou. A RMB10bn (\$1.15bn) railway improving connections within Sichuan province is to be constructed.

Fewer projects have been earmarked for waterways transport. However, the huge Three Gorges Water Control project will expand the capacity of vessels using the Changjiang (Yangtze) river, near Chongqing, to 10,000 tons.

Yunnan has made infrastructure development a major priority. All other areas of provincial government expenditure are to be stifled as RMB10bn (\$1.15bn) has been earmarked to develop transport links such as airports, railways and highways.

Comparison of heavy industry/light industry ratios



Infrastructure development is, itself, an opportunity for foreign investors. Whilst the need to improve links is readily understood by local governments, the means are not always available. There is a plethora of transport and communications projects seeking foreign involvement throughout the region. This is in addition to the bilateral and multi-lateral loans being granted from the West to fund these advancements.

Telecommunications links are basic but are being invested in and developed at rapid rates. New satellite links were installed in Chongqing by the end of 1993, computerised exchanges are being established on a wider level in Guizhou, and Yunnan plans to allocate 30% of all funds destined for infrastructure development towards improving international telecommunications links. International Direct Dialing is available to over 100 countries throughout the region. Even remote Tibet has widespread IDD connections in place.

One of the major infrastructure constraints in the region is energy. New power stations are planned throughout the south-west. In Tibet, where there are power shortages, the Government is aiming to build the world's largest hydro-electric power station and increase electricity generation output to between 550MW and 1600MW per year. At the moment, Tibet produces 170MW. Many power station projects have been identified in Yunnan province where surveys by the Chinese authorities have suggested that there is a potential generating capacity of 196bn KW hours in the Jinsha River and room for over 200 new power stations to be built in the province.

LABOUR

Labour costs are quoted as being between 30% and 50% lower than in the booming coastal areas.

Many enterprise reform schemes are taking place in the region. Out of these schemes, Chongqing's is probably the most well advanced. Declared an experimental city in 1983, Chongqing has had time to implement changes that have led to a liberalised labour market. Incentivised contracts, meritocratic bonus schemes and devolved managerial control have all been introduced successfully on

An essential requirement for most investments in these areas is the need to add significant value to the processed product.

Downstream manufacturing of natural resources is a major potential growth area.

The huge Sichuan province.

a large scale. Inefficient enterprises are being weeded out, rather than bailed out. Recently a 4,000 worker textile plant was closed in Chongqing for this reason.

INCENTIVES

Financial incentives for foreign investors are available. Tax breaks are available but enterprise zones, so prevalent in coastal provinces, are relatively few and far between. Chongqing, as an experimental city, has its own special economic zone with tax incentives available. However, Chengdu can only offer a hybrid Rural Enterprise Zone which offers preferential policies but not on the level seen in the coastal Special Economic Zones.

Heavily subsidised Tibet perhaps offers the best incentives. Tax holidays are available for up to five years for energy, agriculture and infrastructure projects. Tax breaks of up to four years are available for projects in the secondary and tourism sectors.

EXPORTS

The south-west region is landlocked but borders several countries including Laos, Myanmar (Burma), Vietnam, Nepal, Bhutan and India. Most of these are burgeoning consumer markets. For instance, Myanmar has a GDP growth rate of 8% and Vietnam is one of the fast emerging Asian economies. Border trade already occurs between the south-west region and its Asian neighbours. In some, the RMB Yuan is regarded as virtually hard currency.

The most important export market from the south-west is Hong Kong. It accounts for 36% of total export revenue in Sichuan province. Apart from neighbouring Asian countries, the fast growing export markets have been the US, Taiwan, Korea and Thailand.

The south-west of China is an undeveloped region with much potential. As overseas markets, infrastructure, business sense, investment incentives and the labour force develop, so will inward investment. Now that the veil has been lifted and investment almost fully liberalised, more foreign companies will look to exploit the resources the region offers. ■



CHENGDU



CITY REPORT

PEOPLE'S REPUBLIC OF CHINA

Chengdu

INVESTMENT GUIDE



INTRODUCTION

INFRASTRUCTURE

INVESTMENT OPPORTUNITIES

BUSINESS LOCATIONS

UNIDO PROJECTS



PREPARED FOR UNIDO BY CORPORATE LOCATION

Chengdu – heart of Sichuan province

Chengdu is the capital city of Sichuan province. Its hub status and burgeoning economy mean it looks set to become one of China's major urban areas.

CHENGDU IS THE capital city of Sichuan province. According to 1992 statistics, the total population is 9.37m, of which 2.88m live in urban areas.

The total area of the municipality is 12,390 sq km. The city itself is 88.9 sq km.

The Chengdu area is divided into seven districts, eleven counties and the city which is governed at the county level.

The city is situated on the western plain of the province. First established in 316 BC, the city has a history which extends back over 2,300 years. This is especially important for the tourism sector which offers one of Chengdu's strongest investment opportunities. Many of the attractions are based on ancient cultural appeal.

Annual sunshine is around 1,000 hours. This compares to 2,600 sunshine hours in the Western part of the province. Rainfall levels are generally well below those of Chongqing, the other major city in Sichuan.

Rainfall	spring	summer	autumn	winter
Chengdu	160.7	580.91	82.8	22.8
Chongqing	286.8	447.2	281.4	64.2

ECONOMY

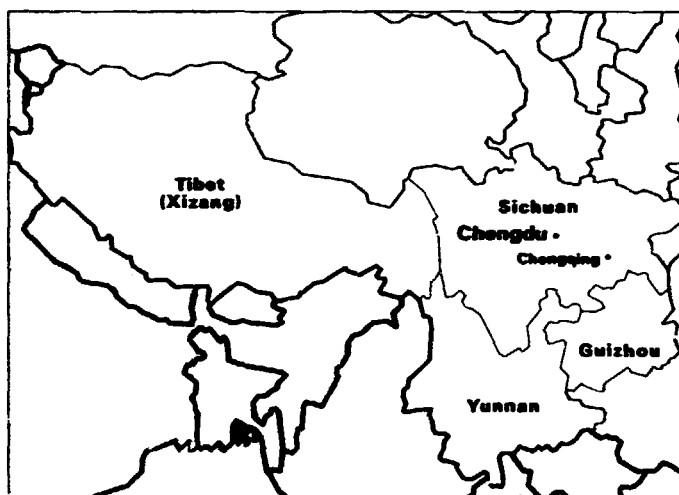
Chengdu is one of the fastest growing industrial cities in China. Local figures suggest that industrial output growth has been around 13% per annum over the last two to three years. In 1992, industrial output value rose by 25.2%.

This compares with an annual growth rate of 4.8% in agricultural output in the city.

The unemployment rate in the city is 1.8% (1993). Inflation is estimated to be 4.7% (1993). This compares favourably with other areas of China suffering from rampaging price rises.

GDP was around RMB26bn (\$2.99bn) in 1992 - just over 1% of the national total GDP. The growth rate was 17.2% in 1991-1992. This phenomenal expansion, coupled with the relatively low inflation, means Chengdu has ideal economic conditions for investment.

The area's national income was RMB20.3bn (\$2.3bn) in 1992. This grew at the rate of 20.2% from 1991-1992.



MARKET POTENTIAL

The Chengdu population has a strong market potential, particularly in urban areas. There are 116 television sets per 100 households in urban areas. The figure is less in rural areas - around 78 sets per 100 households. For colour TV sets, there is a wide disparity. 92% of households possess one in urban areas, and only 7% in rural areas. Most urban households possess one of the following: bicycles, sewing machines, electric fans, washing machines, refrigerators, tape recorders. Around 20% have a video recorder and 41% a camera.

The gap between urban and rural incomes has grown dramatically in recent years. In 1980, the gap was relatively narrow: income of RMB395 (\$45.4) per capita in urban areas as opposed to RMB223 (\$25.6) in rural areas. However, by 1992, this had increased to RMB2102 (\$241.6) to RMB903 (\$103.8). Increasing the rate of industrialisation is an important priority.

FOREIGN INVESTMENT

Foreign investment in the city amounted to nearly 1,200 projects up until September 1993. Contracted capital in this period was US\$1.05bn. This follows a slow initial start towards attracting investment.

In 1985, Chengdu hosted the first conference on International Economic and Technological Co-operation. It resulted in 170 foreign contracts worth around \$260m.

These projects were spread throughout the



whole of Sichuan, although the bulk were in the capital Chengdu and its environs.

The organisation which has been set up to attract investment is SCAFIC - the Service Centre of Administration for the Foreign Investment of Chengdu. SCAFIC is responsible for providing consultancy services to foreign investors.

SERVICE CENTRE

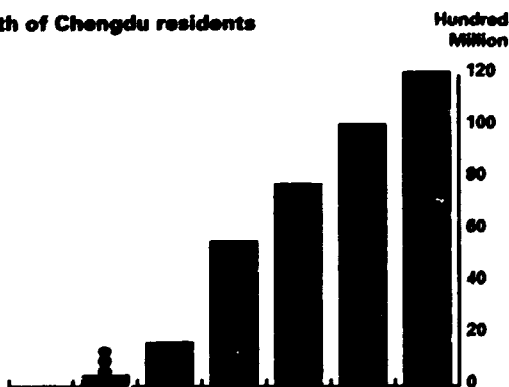
Chengdu is the administrative and political centre of the Sichuan province. With a larger population than the other major city, Chongqing, it has emerged as the natural services (tertiary sector) centre of Sichuan.

The service sector has grown at very fast rates. From 1978 to 1992, the industry grew by fivefold. The growth was particularly fast in 1990-1992. Evidence of this growth can be found on the busy streets of Chengdu. Joint venture hotels, such as the

The Chengdu area includes some of Sichuan's beauty spots.

Minshan in the city centre, large department stores and restaurants are all abundant in Chengdu. Most of the growth has been fuelled through domestic-owned service enterprises. Despite this, no technical barriers exist to prevent foreign-backed offices from being set up. In fact, property developers and real estate companies are being sought to assist with some of the new industrial sites in the city. ■

Savings growth of Chengdu residents



Labour force

Labour costs are comparatively low compared to coastal areas. Average wages range between RMB300 (\$34.5) and RMB400 (\$46) in Chengdu. Productivity in terms of cash generated per employee varies according to the sector.

In 1991, productivity per employee was RMB 25,500 (\$2,931) in machine building, RMB 26,400 (\$3,034) in electronics, RMB 44,900 (\$5,160) in metallurgy, and RMB 52,800 (\$6,068) in the food industry.

Labour force size in these sectors was as follows (1991):



Hub status for Chengdu

As the capital of Sichuan, Chengdu City has extensive transport links and is the provincial hub for all modes.

CHENGDU IS THE major hub within Sichuan for transport and communications connections.

RAILWAYS

Within the municipality there are 27 railway stations. Destinations available from Chengdu include the major Chinese cities of Beijing and Shanghai. Also available are direct links to Guiyang, Kunming, Xi'an, Lanzhou, Wuhan and Zhengzhou. Approximately 30 trains a day arrive and depart from Chengdu to other provinces.

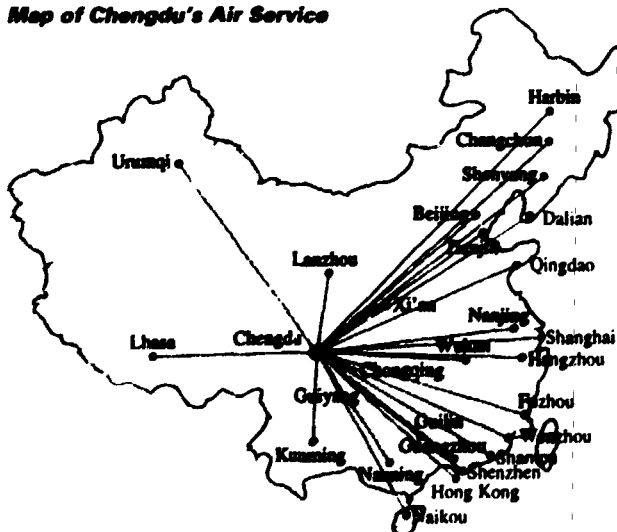
Freight services are centred at Chengdu East Railway Station. Freight services to neighbouring Sichuan city Chongqing are to be improved following refurbishment work to the Chongqing terminal. Annual capacity on this key route will now be around 13m tons.

The rail network is a combination of electric and diesel lines. On the major route to Kunming, some parts of the track have been upgraded and electrified. The line has been improved to meet the growing demand on the route as a result of the Panxi Iron Mining Project.

AIR

Chengdu airport is situated 20 km from the city centre. Around 10 airlines use the airport. Regular international links are available to Hong Kong

Map of Chengdu's Air Service



*Frequency of China South-West Airlines
(Departure from Chengdu)*

Arrival	Frequency	Arrival	Frequency
Beijing	Everyday	Xiamen	2,5,7
Shanghai	Everyday	Fuzhou	3,7
Guangzhou	Everyday	Hefei	
Lhasa	Everyday	Urumqi	2,5,7
Shenyang	2,4,5,7	Hangzhou	2,6
Haikou	1,4	Changchun	5
Kunming	Everyday	Dalian	1,2,7
Guiyang	1,2,5,7	Qingdao	4,7
Guilin	1,3,5,7	Harbin	3,7
Chongqing	1,2,4,5,6,7	Shantou	3,6
Changsha	1,5	Wenzhou	3,6
Wuhan	1,2,4,5,7	Shenzhen	1,2,3,4,5,7
Nanjing	4,7	Nanning	4
Xi'an	Everyday	Ningbo	1
Taiyuan	1,2,5,7	Tianjin	
Lanzhou	1,2,4	Hong Kong	1,3,4,6

through several airlines. These include state-owned China Southern Airlines as well as Hong-Kong based DragonAir. The Hong Kong route was introduced in 1989. At present (1993), there are nine international and 266 domestic flights from Chengdu airport each week. Cities served from the airport include Beijing, Shanghai, Guangzhou, Xi'an, Kunming, Nanjing, Wuhan, Changsha, Guilin, Guiyang, Lhasa, Taiyuan and Shenyang.

Capacity will be increased, and possibly more international flights added, in 1995 when the new runway, suitable for Boeing 767 aircraft is completed.

WATER

Nearly all freight goods are carried by rail to the ports as Chengdu rivers are too small to carry goods. The nearest seaport is Fangcheng in Guangxi autonomous region. Most of the freight is transported to Fangcheng via Guangzhou (2350 km from Chengdu).

ROADS

Chengdu's roads can be congested during the peak hours. New links have been recently opened between Chengdu and Deyang and Leshan. Construction of a 340 km motorway between Chengdu and Chongqing is underway. There is a total of 2,600 km of roads in the municipality. ■

Tourism, industry and tertiary sector

Opportunities for investors are defined amongst a number of sectors.

Chengdu has a comprehensive industrial base with an interrelated system of manufacturing and a functional establishment of advanced facilities and equipment. There are currently 14 types of industrial manufacturing in the area which are based on electronic, mechanical, metallurgical, and chemical production. There are more than 100 specialised trades and about 5,000 independent accounting enterprises.

Chengdu is one of the largest manufacturers of oil pipes and steel in the country: Chengdu Seamless Pipes Plant (CSPP). Founded in 1958, CSPP provides 25% of China's oil pipe ranging from 4mm to 630mm in diameter. The factory produces around 500,000 tons of steel and 400,000 tons of pipes per year. It employs around 16,000 people.

Steel production in the area is immense. Chengdu is situated within Sichuan province which is to become the south-west region's largest steelmaking complex following the establishment of new steelworks at Panxi. Around 10m tonnes of steel will be produced in the province by the year 2000. It is already one of the top four steel-producing provinces in the country, contributing 10% of the national output.

The mining and processing of precious metals is a fast-developing area. In late 1993, a large gold and silver refinery was set up near Chengdu by Australian engineering company, Signet Engineering.

Hand-spun silk



The province of Sichuan has 80 of the 137 minerals known to exist in China. Processing of these minerals forms an important part of the Chengdu economy.

Around 10 km from the city of Chengdu is Shuangliu Thermadite Plant (STP). The site is located within a 40 sq km deposit of Thermadite and manufactures the mineral for export.

TEXTILES

Chengdu is home to many of Sichuan's important textiles firms. Silk is one of Sichuan province's major export earners, producing 6.5% of all revenue. Sichuan Silk Corporation exports much of the silk products made in the province and is based in Chengdu. The main products in this sector are cocoons, white filature silk, mulberry spun silk, silk goods, fabric made from waste silk, silk garments and tapestries and silk embroidery.

The cotton industry is also well represented as its raw material is abundant in Sichuan. Over 1m tonnes of cotton cloth and yarn are produced in the province every year. The textiles industry, which is centred in Chengdu, received 29% of all investment projects between 1979 and 1992.

Another textiles industry with investment opportunities is glass-fibre manufacture. Chengdu Glass-fibre Factory (CGF) produces 1,500 tons of glass-fibre and over 10m metres of glasscloth a year. Raw materials are not supplied from within the province though. Powdered sandstone, the main raw material, is imported from Yunnan and Shaanxi provinces.

BUILDING AND CONSTRUCTION MATERIALS

Chengdu Bricks and Tiles Manufactory No 1. has launched an expansion that is based on the nearby availability of raw materials. The Chengdu region has a large enough supply of basalt, dolomite, calcite and coke to enable the enterprise to produce 70m units of low weight rocksil blocks. The expansion is likely to take up an additional 5,000 sq m and 17 ha at the 500-worker plant in Chengdu. The expansion also requires high levels of electricity which is available in Chengdu. A new railway line is also being built for the project.

The building industry in the province is well regarded. Sichuan construction workers are used in other Chinese provinces and abroad. In Chengdu, several new large-scale construction projects are underway, including the building of the new rural enterprise city.



*The Jinjiang
Hotel,
Chengdu*

TOURISM

The numbers of foreign arrivals is increasing generally in the south-west region following the openness policy that has been pursued since 1992.

Chengdu is well placed to take advantage of this. Its airport has many of the region's international flights and acts as a transport hub within the south-west. Visitors from overseas going to Tibet will probably hub through Chengdu. This means increased opportunities for Chengdu to develop its tourism industry.

At the moment, the international class hotel stock is limited to a few joint venture hotels in the centre. Major hotels suitable for foreign visitors and which serve as a good example of how the sector has developed in the city include: the Jinjiang hotel, Minshan Hotel, Chengdu Hotel (all four-star), the Sichuan Hotel (three-star), the Tibet hotel, Zhufeng Hotel, Jinhe Hotel (all two star) and the Guangming Hotel, A'ba Hotel and Jiatong Hotel (all one-star).

A number of national, provincial and city tour operators are based in the city including: Sichuan Overseas Travel Company, Chengdu Overseas Travel Company, the Chengdu branch of China International Travel service, Sichuan China Travel Agency, Chengdu China Travel Agency, Sichuan Company of China Youth Travel Group, Chengdu Company of China Youth Travel group, Chengdu Merchants International Travel company.

Chengdu is developing into a major tourism destination for shopping with four major retail centres - specialising in different cultural products. These include the Sichuan Antiques shop, the Chengdu Paintings Shop, Chengdu Arts and Crafts Company, Chengdu Friendship Store.

Chengdu can be used as a base for daytrips to the more picturesque areas of Sichuan with its rivers and mountains. To the east is the Three Gorges.

Attractions in and around Chengdu - most needing more commercial development - include the Thatched Cottage of Du Fu, Wuhou Temple Museum, the Tomb of Wang Jian, Wangjiang Tower park, Dujiangyan Dam, Baoguang Temple, Wenshu Temple, Qingyang Temple and Zhaojue Temple. Almost all of these have an ancient history few other tourist destinations can match.

The Thatched Cottage of Du Fu is located on the banks of the Huanhua Stream in the western suburbs of Chengdu. It was home to a Tang Dynasty

poet and is around 1,000 years old.

Also in the Western suburbs is the tomb of Wang Jian. Around 1,000 years old, it is one of China's best preserved tombs. It is 15 m high and 80 m in diameter.

Wuhou Temple Museum is in the southern suburbs of the city. The Temple was first built around 1,700 years ago. The museum is 3.7 ha and also houses the tomb of Liu Bei.

Wangjiang Tower Park is on the bank of the Jinjiang river to the east of Chengdu. Built in memory of a famous female poet during the Tang Dynasty, the park is around 12 ha and includes over 140 varieties of bamboo.

Further from Chengdu are the Baoguang temple (around 18 km), containing many Buddhist artefacts, and Dujiangyan Dam (around 55 km from the city). The Dam is located at the mouth of the Minjiang River and is an irrigation project built over 2,000 years ago.

Even further out is E'mei Mountain (160 km). A famous international tourist attraction, the mountain has more than 20 temples on it and is one of the most famous of all Buddhist shrines in China.

MACHINE TOOLS AND

MEASURING INSTRUMENTS

Chengdu has a number of leading enterprises and its own research institute in the tools industry. The Chengdu Tools Research Institute (CTRI) is affiliated with China's Machine Engineering Commission which is charged with the task of developing tool manufacture in the country.

The 1,500 worker plant carries out research into areas such as theory and design of cutting tools, manufacturing techniques, new equipment, new materials, and the development of measuring instruments.

CTRI does not only research, it also distributes the products it makes at home and abroad. These include: cutting tools, measuring tools, instruments, high-precision measuring elements and special equipment. Chengdu also has one of the country's leading welding machine manufacturers. Chengdu Electric Welding Machine Works is China's second largest arc welder maker.

Chengdu Measuring and Cutting Tools Works (CMCTM) is not only one of the largest factories of its type in China, but was one of the first to export its products overseas. Employing nearly 6,000 people, the company produces 35m units a year and has won prizes on both a provincial and national level for the quality of its products. These include: general measuring tools, cutting tools, precision instruments and hard alloy tools.

Chengdu Measuring Implements and Cutting Tools Plant (MICTP) is among the top four Chinese makers of measuring implements, instruments and cutting tools (including hard-alloy cutting tools). Over 35m units are produced each year and are sold both domestically and to 20 regions and countries overseas. ■

***Chengdu is developing into a major
tourism destination for shopping with
four major retail centres - specialising
in different cultural products.***

Chengdu Rural Enterprise City

Chengdu has its own high-incentive industrial area. It is one of only three such cities throughout the whole of China.

CHENGDU BOASTS ITS own rural enterprise city. Designed to encourage companies to locate out-of-town, the rural enterprise city is a new Chinese concept aimed at stimulating the private sector by offering a business park environment close to major centres.

China Chengdu Rural Enterprise City is one of only three of its kind in China. The other two are in capital city Beijing and Guangxi. The 3.5 sq km site aims to shift the business emphasis from the centre of Chengdu to the suburbs.

BENEFITS

There are a number of benefits attached to companies locating to the enterprise city rather than the centre of Chengdu or its coastal rivals. Labour costs are up to 50% cheaper than in coastal areas. Also, a series of preferential policies has been implemented which will mean investors can qualify for fiscal incentives. The main advantage to companies is that they can qualify not only for the special incentives that apply to companies located in rural enterprise cities, but also for the municipal and district government incentives that are available.

The Rural Enterprise City is run by a Chengdu-based development company. It is responsible for co-ordinating the project, developing and constructing the site and also attracting companies from overseas to the city.

The Rural Enterprise City is located in the Qinyang district of Chengdu, which is between old and new parts of the city. It is situated between two of the city's major highways. This means that to the east, it is connected to the main city artery, and to the west it has access onto Chengdu city's ring road.

A railway station is to be built within the Enterprise City in 1995. This will link it into the main rail lines in the city of Chengdu itself. Being located along the ring road also means companies located within the city will have good access to Chengdu airport.

Chengdu is an important banking centre for South-west China. Financial institutions include 14 branches of the People's Bank, 84 branches of the Bank of China, 202 branches of the Construction Bank of China, 22 branches of the Communications Bank of China and 355 branches of the Agriculture and Farming Bank of China. There are also

33 insurance institutions, six trust companies, 21 stock exchanges and three futures companies. Recently the Chinese United Bank of Singapore has set up a foreign investment financial agency in Chengdu.

The city's ideal location, with access to important roads and the new station, is an important part of its marketing strategy.

Money has been invested into providing good telecommunications links. Two thousand lines are already in place within the city. In addition, other essential infrastructure requirements have been put in place. These include water, electricity and drainage utilities.

INVESTMENT

The Rural Enterprise City has attracted BCC, the fourth largest paper making company in the US. The 100-worker \$5m investment was made as the company seeks to gain a market advantage over its

Japanese competitor. Chengdu's status as the provincial capital of Sichuan and the communications and transport hub was an important factor in the decision to locate there.

The company is expected to move in during 1994. The investment will transfer new overseas technology to Chengdu.

The City, when completed, will be composed of three, very different, districts. Each has distinct and separate functions. The four districts are:

- A high-tech industrial district
- A standard industrial estate
- A trade and commercial recreation district
- A residential district ■

The Rural Enterprise City has attracted BCC, the fourth largest paper making company in the US.

Chengdu Rural Enterprise City.



UNIDO Investment Promotion projects In Chengdu City

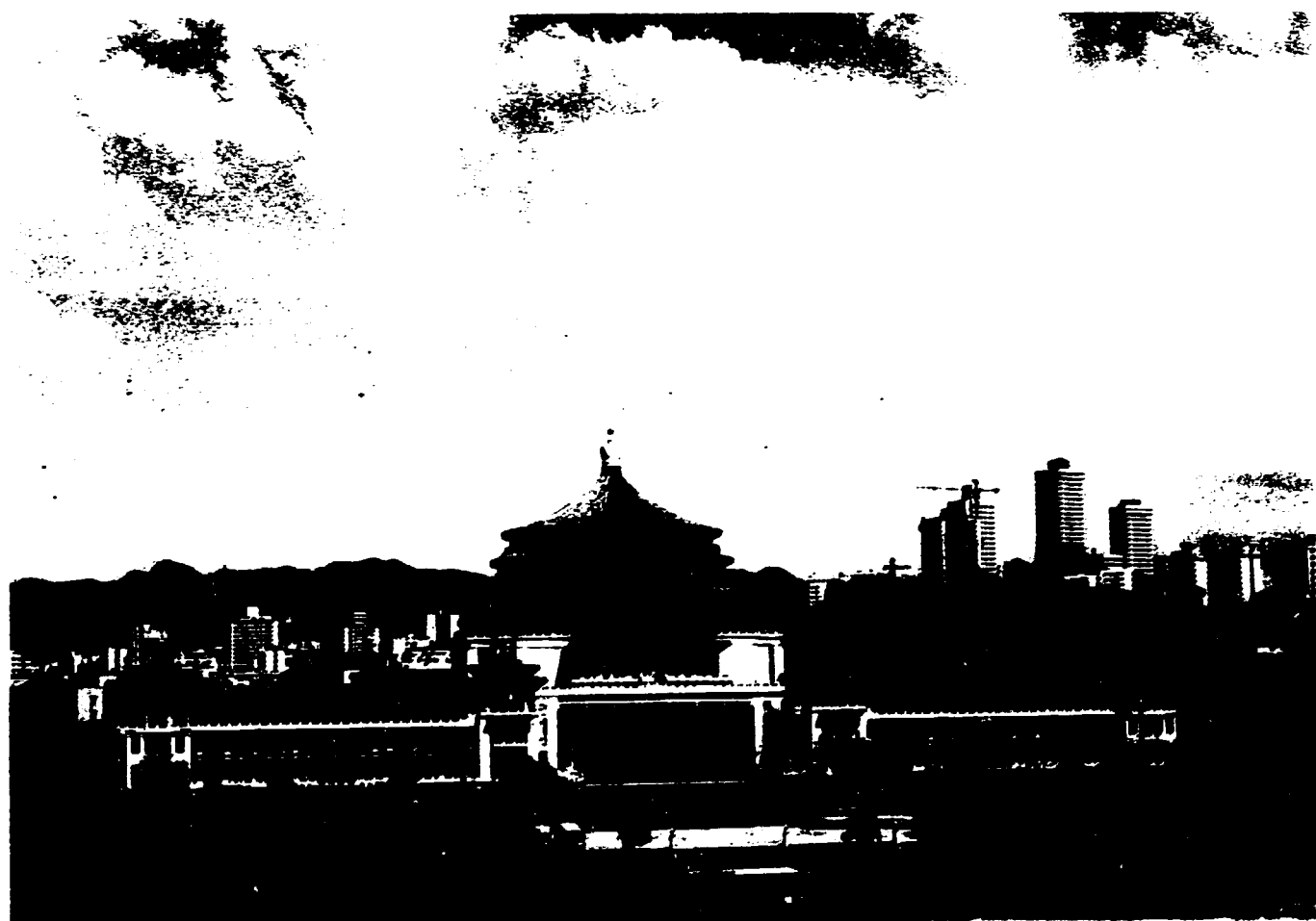
- Project Number** **Textile, wearing apparel and Leather Industries**
- CPR/SIC/001** **Products:** Weaving, Dyeing and Finishing of Fibre (Crepe, Satin, Woolnet); **Quantity:** 1m m; **Location:** Chengdu, Sichuan; **Total investment:** \$30m; **Foreign Resources Required:** Technology acquisition, Equipment, Joint Venture.
- CPR/SIC/002** Fiberglass Asphalt Felt, waterproof material used for construction, 2m rolls; Chengdu, Sichuan; \$4.2m; Equipment, Barter, Joint Venture.
- Manufacture of chemicals and chemical, petroleum, coal, rubber, plastic products**
- CPR/SIC/008** Potassium Hydroxide, 10,000 Tons, Potassium Carbonate, 12,000 Tons; Chengdu, Sichuan; \$24.56m; Managerial Expertise, Equipment, Joint Venture.
- CPR/SIC/012** Medicines: Pancreatin, 32 Tons; Kalikrein Elastase, 9 bn iu; Chondroitin Sulfate, 10 Tons; Cytochrome C, 140 kg; Chengdu, Sichuan; \$5m; Technology Acquisition, Equipment, Market Access, Joint Venture.
- CPR/SIC/014** Pharmaceutical Capsules, 500m pcs; Chengdu, Sichuan; \$2.5m; Technical Expertise, Technology acquisition, Equipment, Market Access, Joint Venture.
- Manufacture of Non-Metallic Mineral Products**
- CPR/SIC/015** Glass, clear & coloured (thickness 2-19 mm), 2,730,000 cases; Chengdu, Sichuan; \$74.9m; Technology acquisition, Equipment, Joint Venture.
- Manufacturing of Basic Metal Industries**
- CPR/SIC/018** Steel Rounds, 60,000 Tons; Spring Wires, 20,000 Tons; Pre-stressed Steel Wires, 20,000 Tons; Chengdu, Sichuan; \$155m; Joint Venture, Loan.
- CPR/SIC/019** Galvanised Steel Wires, 7,000 Tons; Spring Wires, 2,000 Tons; Strand Wires, 1,500 Tons; Chengdu, Sichuan; \$4.19m; Managerial Expertise, Equipment, Market Access, Technology Acquisition, Joint Venture.
- CPR/SIC/021** Raw copper, 10,000 Tons; Electrolysed Copper, 10,000 Tons; Sulfuric Acid, 47,000 Tons; Gold, 4440 kg; Silver, 2,000 kg; Chengdu, Sichuan; \$28.77m; Equipment, Market Access, Joint Venture.
- CPR/SIC/022** Copper plated Steel belts 3,500 Tons, Copper plated Pipe 3,000 Tons, Copper heating Pipe 100,000 m; Chengdu, Sichuan; \$2.5m; Equipment, Market Access, Technology acquisition, Joint Venture.
- Manufacturing of Fabricated Metal Products**
- CPR/SIC 024** Aluminium Alloy and Stainless Steel Materials; 12,000 Tons; Chengdu, Sichuan; \$240m; Technical Expertise, Equipment, Joint Venture.
- CPR/SIC/025** Metal Houseware Products; 300,000 Sets; Chengdu, Sichuan; \$2.2m; Technical Expertise Equipment, Market access Joint Venture.
- Manufacturing of Machinery and Equipment**
- CPR/SIC/029** Diesel Engines for Agricultural Trucks, 80,000 Units; Chengdu, Sichuan; \$43m; Technical/Managerial Expertise, Technology acquisition, Market access, Joint Venture Equipment.
- CPR/SIC/030** Carbide Threading Tools, 500,000 pcs; Carbide Form Tools, 20,000 pcs; Chengdu, Sichuan; \$3.3m; Managerial Expertise, Technology acquisition, Equipment Joint Venture.
- CPR/SIC/031** Deep Hole Drilling Tools, 60,000 Sets; Chengdu, Sichuan; \$1.1m; Technical/Managerial Expertise, Equipment, Market access, Technology acquisition, Joint Venture.
- CPR/SIC/034** Measuring Instruments for Gears and Hobs, 68 Sets; Chengdu, Sichuan; \$2.3m; Managerial Expertise, Technology acquisition, Equipment, Market access, Joint Venture.



PEOPLE'S REPUBLIC OF CHINA

Chongqing

INVESTMENT GUIDE



INTRODUCTION

FOREIGN TRADE

INVESTMENT OPPORTUNITIES

INFRASTRUCTURE

UNIDO PROJECTS



PREPARED FOR UNIDO BY CORPORATE LOCATION

Industrial capital of Sichuan province

A former capital of China, Chongqing is an industrial city with a high profile engaged in some deep-rooted reforms.

CHONGQING is a major Chinese industrial city situated at the confluence of the rivers Yangtse and Jialing. The city is located in the eastern part of the Sichuan basin and is one of the province's two major cities, along with provincial capital Chengdu. It is often described as the economic centre of the upper reaches of the Yangtse River.

The city is surrounded by the neighbouring provinces of Guizhou, Yunnan, Hunan and Hubei. Total area of the city is 23,000 sq km, and the population was, at the end of 1992, 14.97m. Chongqing is divided into nine administrative districts and 12 surrounding counties.

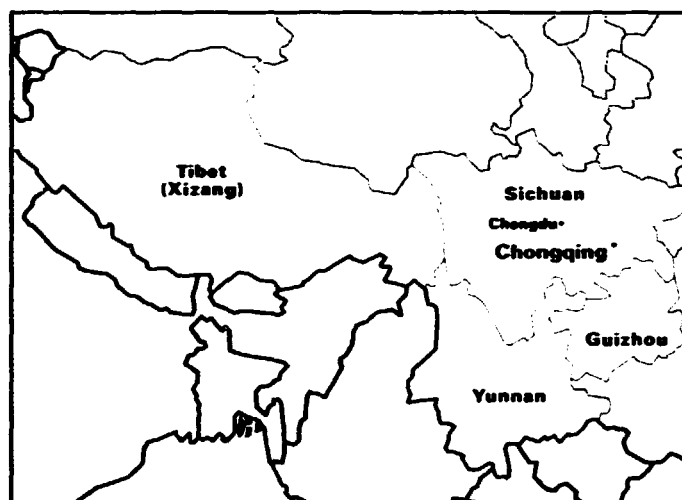
HISTORY

The city has had a prominent history. During the last century it has benefited from three major events. It was one of the first Chinese cities to open its doors to the West in the late 19th century. The influx of western missionaries and representatives led to initial industrialisation moves.

During World War Two it became the emergency capital of China when puppet governments were established by the Japanese in Beijing and Nanking. This meant a number of businesses moved to the city. And, in 1983, Chongqing was given the status of experimental city.

The city government was conferred the same status as a provincial government. This has meant that within south-west China, Chongqing probably has the highest overseas profile.

Being an "experimental city" means Chongqing can offer preferential policies to inward investors. It also means the city has gone further than others in south-west China with its enterprise reform.



In 1983, Chongqing was given the status of experimental city. The city government was conferred the same status as a provincial government. This has meant that within south-west China, Chongqing has the highest overseas profile.

ECONOMY

Employment is mainly in the primary sector, although the secondary sector makes the highest contribution to the city's GNP (see chart opposite).

The value of products made in the city is RMB60bn (\$6.9bn) per

annum. Out of this, agriculture accounts for RMB10.2bn (\$1.1bn) and manufacturing RMB45bn (\$5.17bn). Unlike most other south-western provinces, Chongqing is heavily reliant on industry rather than agriculture.

The main industry is chemicals. It produces RMB16bn (\$1.84bn) per year. Of other industries, the emphasis is on heavy manufacturing. Main sectors include: machine building, electronics, instrument manufacturing, automobiles, shipbuilding, textiles and food processing.

The city has developed an industrial enterprise modernisation plan it has dubbed "six-twenty-three". "Six" refers to the six main growth industries, these are:

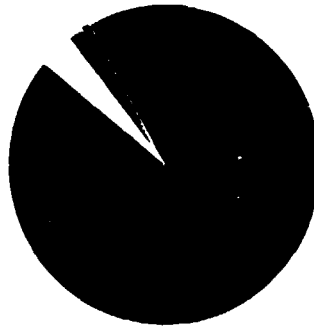
- Machinery
- Electronics
- Chemicals

Five main advantages of investing in Chongqing

- 1 Rich natural resources
- 2 Large population and market
- 3 Labour costs are up to 50% less than coastal areas
- 4 An advanced trading centre
- 5 Developed financial infrastructure

Percentage of total investment in Chongqing

■ Hong Kong, 54%	■ Taiwan, 21%
■ US, 11%	■ Japan, 3.5%
■ Singapore, 1.7%	■ Macao, 1%
■ Others, 7.8%	



- Metallurgy
- Textiles
- Food processing

"Twenty" represents the 20 leading products made in the city. And, the "three" represents the main strands of provincial policies which are:

- Reduction of energy consumption
- Better quality products
- Increasing exports

FOREIGN INVESTMENT

In 1983, rules on foreign participation in Chongqing were revised. Less than 900 foreign investment projects had been attracted by the end of 1992. In 1993 there were 1,316 projects.

Chongqing has a much higher rate of delivered capital than the rest of Sichuan or its south-west rival provinces. From 1979-1993, 1,613 projects were approved with a total contracted capital of \$2.46bn. To date, about \$1.39bn has been delivered, a delivery rate of about 56%.

Entry methods are mainly by joint venture. Some 1,142 foreign investments were by this method—81% of all investments.

However, the delivery rate on joint ventures is below average. The 1,142 joint-venture projects were contracted to produce \$1.13bn. To date, only \$280m (25%) has been delivered.

However, some of this can be attributed to the wave of recent investment. It usually takes a period of a few years for joint ventures to become operational in China. Out of the 1,142 joint venture projects in the city, 949 (83%) were agreed in the last two years.

Approval procedures are relatively quick. Since Chongqing's appointment as an experimental city in 1983, the city's government (with provincial status) has been able to give approvals for foreign investment projects. Local authorities estimate an average of two weeks for each application. It is possible to have applications rushed through in two to three days.

The majority of joint-venture investment (68%) has been in the secondary sector. Between 1979 and 1993, processing and assembly accounted for 138 FDI projects producing \$55.67m. In total, 887 joint venture projects were in the secondary sector.

During the same period, the tertiary sector accounted for 416 projects (31%). Out of these, 194

were in the real estate sector. Only 13 (1%) projects have been in the primary sector.

Investors have mainly been from surrounding south-east Asian nations (see chart opposite). Hong Kong accounts for 54% of all investment. However, the US is strongly represented as the third largest investor in the city (10.6% of projects).

The average size of foreign investment projects has grown quickly in Chongqing since the 1992 reforms. In 1991, the size of an average project was \$530,000. By 1992, the average was \$856,000. For the first nine months of 1993, the average was \$1.05m.

REAL ESTATE

The real estate sector produces the largest average investments. From 1991-1993, around 163 projects were in real estate (15% of the total). Contracted capital from the real estate projects was, however, \$583m (55% of the total).

Most of the inward investment funds still come through indirect investments. By the end of 1993, indirect investment had produced \$972m with a delivery rate of 95.4%.

This consisted of government grants and loans (\$628m), commercial loans (\$188m), loans from

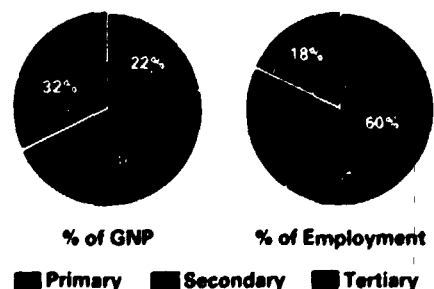
Chongqing is seen by the Chinese government as an important part of foreign investment strategy. City authorities claim China, as an investment region, can be seen as a dragon. Southern coastal areas Guangdong and Shanghai are at the head of the dragon with Chongqing the tail.

international financial institutions (\$89m), and export credit (\$66m).

Chongqing is seen by the Chinese government as an important part of the national foreign investment strategy. City authorities claim China, as an investment region, can be seen as a dragon. Southern coastal areas Guangdong and Shanghai are at the head of the dragon with Chongqing the tail.

Foreign investment policy revolves around the need to develop Chongqing as an international and metropolitan city. Over the next 10 years the development priorities will be oriented towards strengthening primary industry, infrastructure, technology, and financial and real estate markets. ■

Primary, Secondary and Tertiary Industries as a percentage of GNP and Employment



Open to the outside world

Chongqing's status as an experimental city and former capital means it boasts strong trade links to overseas markets in a variety of sectors.

BETWEEN 1949 and 1983, Chongqing was closed to the outside world and prevented from doing business in overseas markets. The 1983 reforms which made it an experimental city changed all that. Foreign trade began when the city sent a delegation to the Canton Fair that year.

The city has forged business contacts with 110 countries all over the world. Over 3,000 varieties of products are exported. The main exports are chemicals, minerals, machineries, textiles. These products together account for over 80% of total export value.

In 1983, total exports amounted to around \$28m. By 1990, total value of exports had risen to \$370m. In 1992 it was \$500m and in 1993, \$600m.

The city now runs a trade surplus. In 1993, total imports were \$533m. The local government plans to increase the surplus. Export targets have been set until the year 2000. By 1995, the government expects \$800m-worth of goods to be exported. By the year 2000, this is expected to have reached \$2bn. In 1993, Chongqing's share of the national export figures was less than 1%. By 2000, this is planned to be nearer 3.5%.

Growth in exports is still well below levels being recorded in coastal areas, although the planned growth is in line with the national growth average.

VALUE-ADDED

In order to boost trade, city authorities hope value-added processing of raw materials will be a major growth area. Larger enterprises in the city are to be encouraged to be more export-oriented.

Five key export commodities have been earmarked by the foreign trade department: silk; machinery and electronics; pharmaceuticals, textiles and metallurgical products.

Enterprises dealing with these commodities are to be encouraged towards more downstream activities. The policy is also to see more materials imported to be used in value-added processing.

Other products with market potential are automobiles, motorcycles, machine tools, diesel engines and high-tech products.

Some 91 products made in Chongqing have export values over \$1m. Seven products have an export value which exceeds \$10m. These include:

- steel (\$70m)
- motorcycles (\$41m)

- silk & satin (\$16m)
- mulberry silk (\$15m)
- drawnwork raw materials (\$11m)
- silk costumes (\$10m)
- clothing (\$10m)

RELATIONSHIPS

Foreign trade relationships have been developed with over 137 countries and regions. Around 112 of these have regular trading relations with Chongqing. Major export markets are shown below.

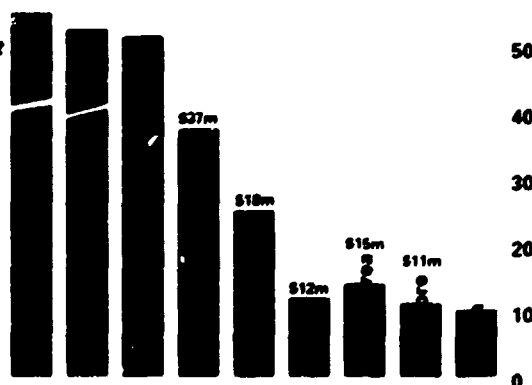
The city's strategy is to strengthen the south-east Asian market. Chongqing has representative offices in Singapore and Thailand whose policy is to encourage exports of machinery and electronics, machine products, metal products, mechanical tools, and textiles.

Links with the African markets are being developed. Chongqing Economic and Technical Co-operation department has offices in Togo, Burundi, Zaire, Algeria and Liberia. Growth export products to the African markets are likely to be refrigerators, motorcycles, agricultural products, foodstuffs, light textiles and building materials.

Motorbikes manufactured by the China Jialing joint venture with Honda are sold in Latin American markets. Trade is to be expanded to also develop sales of Chongqing-made black-and-white and colour televisions.

Eastern Europe is another target market. Several Chongqing-based companies have established offices in former Soviet Bloc countries. Increased joint ventures with these countries are expected to emerge in the near future.

Chongqing's major export markets (1993)



Autos drive opportunity sectors

The thriving automobile and engines sector complements pharmaceuticals and chemicals, textiles and infrastructure projects as investment areas of potential in one of China's most industrialised cities.

MANUFACTURING industries that have been priorities for investment are automobile production, electronics, petro-chemicals, metallurgy, communications equipment, instruments and meters, pharmaceuticals, silk products, developed raw materials, and value-added processing.

INDUSTRY

More than 8,000 industrial enterprises are located in the city. In 1992, industrial output was RMB45bn (\$5bn). In 1993, it was RMB58bn (\$6.7bn).

The main products with investment potential are steel, automobiles and motorcycles.

Nc. of units	1992 output	2000 targets
Automobiles	48,000	210,000
Motorbikes	820,000	2,000,000

A new oil refinery, the first in south-west China, is to be set up in Chongqing. Foreign capital seems likely to be involved in the new plant.

The conversion of former military production to



The assembly line in Chongqing Changan Machinery Factory

civilian industries has been successful in Chongqing.

Local planners expect component production to be the main recipient of investment. A plan to set up foreign-backed joint ventures to build chassises, gearboxes and engines is underway. The success of this will depend on the degree of enterprise reform achieved.

Case Study: Glaxo

UK PHARMACEUTICAL company Glaxo has a production plant in Chongqing. Having signed an agreement with the local partners in 1988, start-up was in 1991.

The plant produces anti-asthmatic drugs entirely for the Chinese market. Obtaining foreign currency is not regarded as a problem. Despite not earning foreign currency through exports, Glaxo offers trade arrangements to company needing to access the Chinese market. This activity allows the company ample opportunity to earn sufficient levels of hard currency.

Products are distributed by air and rail. Transportation links are not considered a bottleneck although the expatriate plant manager reports difficulties importing spare parts as there is no direct link from the UK to Chongqing.

Labour recruitment has been relatively easy. Only one expatriate is employed at the plant now. At start-up four to five were needed. However, Glaxo has had difficulties recruiting adequate management-level employees.

AUTOMOTIVE

Automotive manufacturing is one of the sectors that has been earmarked for development by the local authorities. The motorcycle industry has been the most successful area of the sector in Chongqing. The city accounts for around one-third of total Chinese production.

Former military industries in the city have been successfully converted to civilian industries. One of the arms factories in the huge Norinco group has been converted into China Jialing, a large motorcycle production plant in Chongqing. Around 12,000 employees produce 18% of the total Chinese output of motorcycles. The plant has a trade agreement with Japanese motorcycle manufacturer Honda.

China Jialing plans to double output to 1m bikes by 1997. However, despite the foreign involvement, little of the enterprise reform that is being implemented in the city has reached the company. The company is nevertheless understood to be in profit.

INFRASTRUCTURE PROJECTS

Transport infrastructure projects are available for foreign investors, although to date, most of the investment has come through loans. The World Bank provided a loan for the construction of a highway between Chengdu and Chongqing. More plans exist to build new highways from the city and a RMB1bn railway line is planned, with the help of foreign backing.

CHEMICALS AND PHARMACEUTICALS

Pharmaceuticals and chemicals are additional important sectors. Chongqing's chemical industry produces around 25% of the south-west region's total chemicals output.

The city has around 17 different types of chemical industries. These include: chemical mining, coal chemistry, acid and soda, inorganic salts, chemical fertiliser, farm chemicals, organic materials, synthetic resin and plastics, synthetic rubber,

Cotton is one of the city's major export earners

Cash crops are growing in Chongqing's agricultural areas



sensitive and magnetic recording materials, dye, coating and paint, chemical reagent, catalyst and flux, new chemical materials.

More than 90% of the rogor powder produced by the Chongqing Farm Chemical Plant is exported. Other chemical products that are exported from Chongqing include naphthalence powder, indigo, sodium hydrosulphite, potassium permanganate and reactive dye.

TEXTILES

The textiles sector is one of Chongqing's leading export earners (see foreign trade). Raw and processed silk, wool, flax, knitwear and cotton products are the main products. ■

Case Study: Briggs & Stratton

US ENGINE manufacturer Briggs & Stratton has had a joint venture in Chongqing with two local enterprises since 1986. Manufacturing four types of multipurpose engine products, the company makes 50,000 units a year. It has plans to expand the range.

The US company has invested around \$7m in the joint venture. It holds 52% of the shares. The two local partners hold 24%. Production started at the Chongqing plant in 1987. The joint venture recorded losses until 1990 and since 1992 has made a profit.

The total number of employees at the plant is 152. No permanent expatriates have been needed on-site since the initial months after the start-up. The plant is in constant communication with its US parent by fax. Sales revenue is RMB46.5m (\$5.3m) and around 80% of products are exported to south-east Asian markets.

The plant received a two-year complete tax break. In addition, tax is only payable at 50% of the usual rate for a further three years. The normal rate would be 24%, but this was reduced to 15% because the Briggs and Stratton plant is located within a special economic zone. With the 50% reduction still in effect, the company is paying an effective income tax rate of 7.5%. The usual 10% withholding tax is not applicable as the company exports its products. The investment return is estimated to be 17-18% - slightly below predicted levels.

The productivity level is RMB300,000 (\$34.5m) per worker. Wages are incentivised similarly to the US system and recruitment has not been a problem since 1990 when the local authority set up a manpower centre. Absenteeism is low. The average salary is RMB700-800 (\$80.40-\$92.00) per worker.

The company has negotiated a low fixed rate for energy costs and reports that the supply is efficient. However, the plant is not a big user of electricity: as only around 800KW is required.

Distribution costs are also low. Railways and inland waterways are used to transport goods. The company reports some lingering difficulties with telecommunications and transportation links.

Hub status for Chongqing

Situated at the junction of two rivers, Chongqing has been designated a transport hub for south-west China.

TWO HIGHWAYS are under construction through the city. These are funded by the central government as part of the scheme to develop the city as a hub.

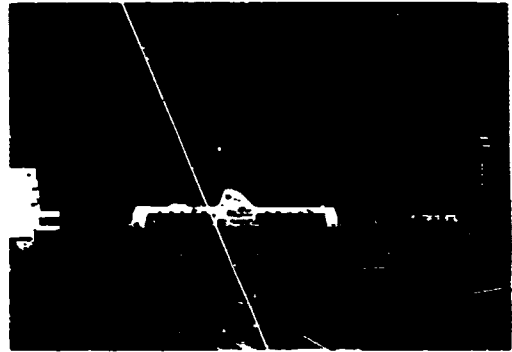
The city has three national highways and eight trunk roads. These link the city to all parts of Sichuan and neighbouring provinces. The roads are generally good quality and surfaced. Around 28% of freight is carried by road.

Congestion is a problem around the city centre. The steep, hilly roads hinder transport by bicycle. As a result cars are a more prevalent mode of transport than in other Chinese cities. The municipal government is planning construction of new ring roads to alleviate the constant traffic jams.

National highways are planned to Nanning and the northern bay. A new RMB10bn (\$1.15bn) railway improving links within Sichuan is also to be constructed.

There are three main railways that converge in the city. These link the city with Guizhou, Chengdu and Xiangyang. These lines are being elec-

Chongqing Jiangbei airport



trified. When complete this will double capacity on the railways from 17m to around 35m tons. Just over 50% of goods are transported by railway.

AIR AND WATERWAYS

Chongqing has good air and water links. The two airports, Jiangbei and Baishiyi, are served by 29 airlines and have an international chartered service to Hong Kong. Cities served by the airport include Beijing, Shanghai, Guangzhou, Wuhan, Nanjing, Changsha, Kunming, Xi'an, Guiyang, Chengdu and Guilin. Jiangbei is a new airport with wider runways and capacity for larger planes. More international routes are likely.

Preparatory work is being carried out by one of the Chinese airlines on the possibility of establishing international routes to Japan and Singapore.

The city has the largest port in the upper reaches of the Yangtze River. Destinations served from the harbour include Japan and Hong Kong. It is the only inland waterway port serving foreign markets. Annual capacity of the port is 10m tons. The capacity of the two rivers varies. The Chongqing river can accommodate vessels of up to 3,000 tons during flood season and 1,000 tons during the dry season. The completion of the Three Gorges water control project expands the capacity of vessels to 10,000 tons.

Telecommunications links need development. International Direct Dialling (IDD) is available to over 100 foreign cities. New satellite links are to be installed by the end of 1993.

Public utilities are well advanced. Adequate supplies of gas, water and electricity are available in Chongqing. There is a total capacity of 4bn cubic metres of natural gas. Electricity produced is 2.1m kW with a capacity of 9m kW.

Enterprise reform

CHONGQING's status as an experimental city means enterprise reform has gone deeper than in other south-west provinces or cities. Administrative control of some of the larger enterprises has been devolved to the local level.

The devolved control introduced during the 1980's as part of the experiment was in five areas: production and management, pricing policy, staffing, distribution and R&D.

This is likely to be extended over the 1990's to include a form of privatisation and rationalisation. The Chongqing government plans to weed out the loss-making enterprises. A 4,000 worker textile plant in the city was recently closed as a result of this initiative. There are also plans to transform smaller enterprises into limited liability companies. The next stage of the plan is to privatise the medium and larger-scale enterprises. Recruitment issues are to be transferred from government to the enterprises. This means appointments can be made on ability, and contracts with the workers are agreed at the enterprise level.

Employees can be assessed according to their position within the company not cadre. Enterprises can effectively decide salaries. Enterprises are also to be given control over investment decisions. Incentives are available to enterprises which reinvest. Reinvestment funds are not subject to tax for three years. However, to qualify, these investments need to be approved by government.

UNIDO Projects in Chongqing

MANUFACTURE OF CHEMICALS AND CHEMICAL, PETROLEUM, COAL, RUBBER, PLASTIC PRODUCTS

Project No.

- CPR/SIC/004** Products: Solid Sodium Cyanide (97% purity); Quantity: 2,000 tons; Location: Chongqing, Sichuan; Total investment: \$2.85m; Foreign resources needed: Equipment, Market access, Joint Venture (JV).
- CPR/SIC/005** Stearic Acid, 8,000 tons; Oleic Acid, 5,000 tons; Glycerol, 1,200 tons; Chongqing, Sichuan; \$9.03m; Technical Expertise.
- CPR/SIC/006** Citric Acid, 5,000 tons; Chongqing, Sichuan; \$14.58m; Equipment, Market access, JV.
- CPR/SIC/007** Lead Oxide, 10,000 tons; Chongqing, Sichuan; \$4m; Equipment, Market access, JV.
- CPR/SIC/013** Soap, 5,000 tons; Stearine, Glycerine, Olein, 10,320 tons; Chongqing, Sichuan; \$7m; Equipment, JV.

MANUFACTURE OF NON-METALLIC MINERAL PRODUCTS

- CPR/SIC/016** Ceramic Tiles, 10m pcs; Chongqing, Sichuan; \$17.35m; JV, Loan.

MANUFACTURING OF BASIC METAL INDUSTRIES

- CPR/SIC/017** Steel (corrosion proof), Microalloyed Steel, 300,000 tons; Chongqing, Sichuan; \$25.5m; Equipment, Market access, JV, Barter.
- CPR/SIC/020** Copper Plates, Tubes, Strips, Rods and Wires, 5,500 tons; Chongqing, Sichuan; \$1.38m; Equipment, JV.
- CPR/SIC/023** Aluminium Ingots, 40,000 tons; Aluminium alloys, 20,000; Diecastings, 15,000 tons; Wires, 25,000 tons; Chongqing, Sichuan; \$170m; Equipment, Market Access, JV.

MANUFACTURING OF FABRICATED METAL PRODUCTS

- CPR/SIC/028 Steel** Cylinder Jackets, 360,000 units; Chongqing, Sichuan; \$12m; Technology acquisition, Equipment, JV.

MANUFACTURING OF MACHINERY AND EQUIPMENT

- CPR/SIC/032** Glass Lined Equipment: Distillers, Reactors, Storage Vessels etc., 2,410 tons; Chongqing, Sichuan; \$2.5m; Technical Expertise, Market access, JVs.
- CPR/SIC/036** Diesel Engine Pumps, 10,000 units; Chongqing, Sichuan; \$2m; Technical Expertise, Technology acquisition, Equipment, JV.

MANUFACTURING OF ELECTRICAL MACHINERY APPLIANCES AND SUPPLIES

- CPR/SIC/037** Vehicle Instrument Control Panels, 800,000 units; Chongqing, Sichuan; \$1.5m; Technology acquisition, Equipment, JV.
- CPR/SIC/038** Solid State Relays, 1.5m units; Chongqing, Sichuan; \$6.05m; Technical/Managerial Expertise, Technology acquisition, Equipment, Market access, JV.
- CPR/SIC/039** Laser Marking machines, 500 units; Chongqing, Sichuan; \$1m; Technology acquisition, Equipment, JV.
- CPR/SIC/040** Trunking Mobile Communication System, 50,000 subscribers; Chongqing, Sichuan; \$6m; Technology acquisition, Equipment, JV.
- CPR/SIC/041** Mobile Trunking Communication System, 10 sets; Chongqing, Sichuan; \$5m; Technology acquisition, Equipment, JV.
- CPR/SIC/042** Hybrid Integrated Chips, 2m units; Chongqing, Sichuan; \$5m; Technical Expertise, Technology acquisition, Equipment, Market access, JV.

MANUFACTURING OF TRANSPORT EQUIPMENT ACCESSORIES

- CPR/SIC/043** Hydraulic Disk Brakes, 350,000 sets; Chongqing, Sichuan; \$3.5m; Technology acquisition, Equipment, Market access, JV.
- CPR/SIC/045** Anti-lock Braking System, 400,000 units; Chongqing, Sichuan; \$6m; Technical Expertise, Technology acquisition, Equipment, Market access, JV.
- CPR/SIC/046** Aluminium Wheels for Cars and Motorcycles, 550,000 pcs; Chongqing, Sichuan; \$22m; Equipment, Market access, JV.
- CPR/SIC/047** Friction Material for Brakes, Clutches and Industrial Machinery, 3,000 tons; Chongqing, Sichuan; \$3.61m; Managerial Expertise, Technology acquisition, Equipment, JV.
- CPR/SIC/049** Heavy Duty Trucks (8.20 ton payload cap.), 2,000 units; Chongqing, Sichuan; \$15.56m; Equipment, Market access, JV.
- CPR/SIC/050** Light Duty Trucks, 10,000 units; Chongqing, Sichuan; \$14m; Technology acquisition, Equipment, JV.
- CPR/SIC/051** Die cast Plastic parts for Motorcycles, Cars, Instruments etc., Chongqing, Sichuan; \$2.4m; Technology acquisition, Equipment, JV.

MANUFACTURING OF MEASURING/CONTROLLING EQUIPMENT

- CPR/SIC/052** Portable Gas Measuring Instruments: Carbon Monoxide Alarm, 4,000 units; Oxygen Alarm, 6,000 units; Hydrogen Sulfide Alarm, 2,000 units; Chongqing, Sichuan; \$1.58m; Technical Expertise, Technology acquisition, Equipment, Market access, JV.

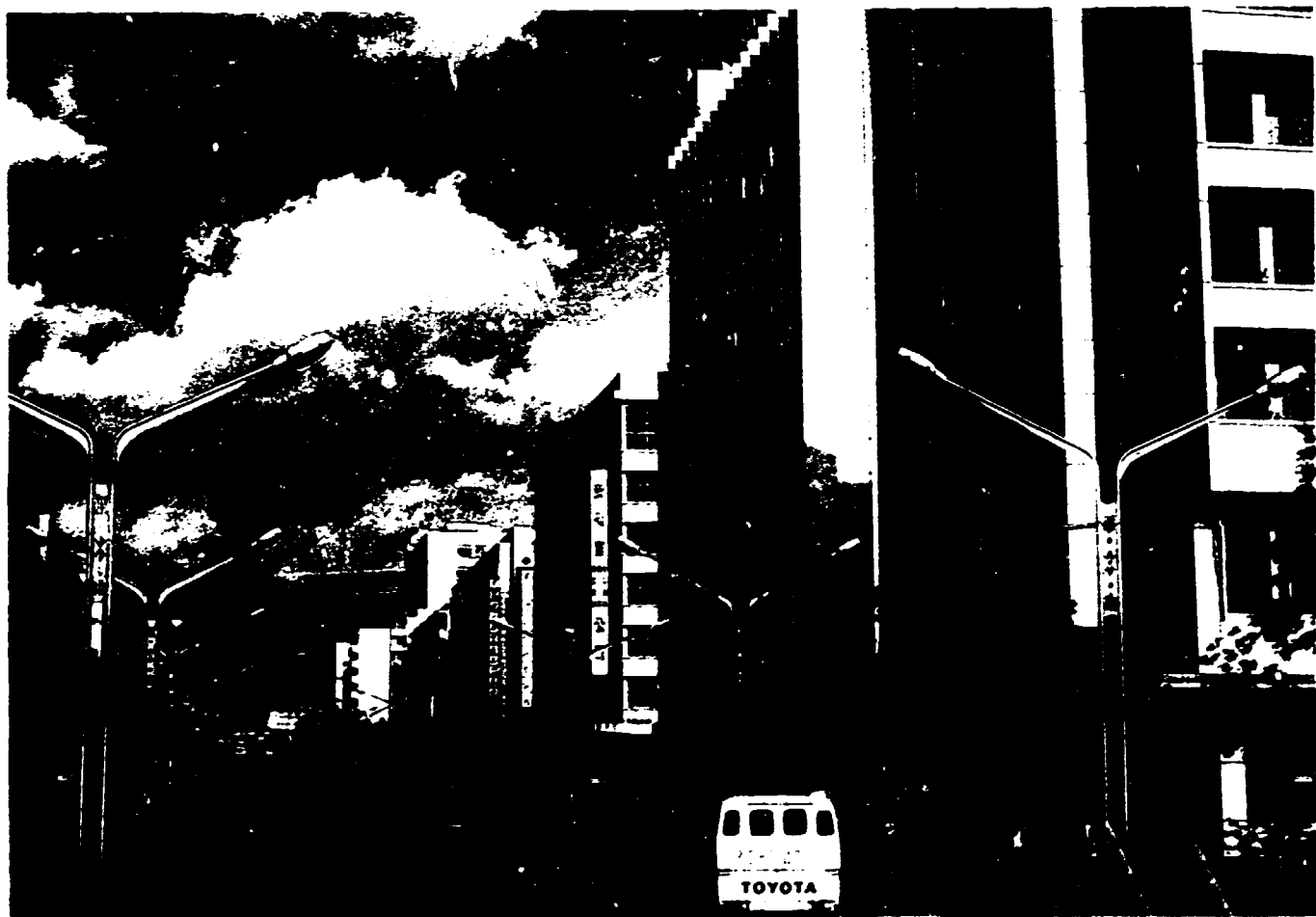


PEOPLE'S REPUBLIC OF CHINA

Guizhou

PROVINCE

INVESTMENT GUIDE



INTRODUCTION

INFRASTRUCTURE

INVESTMENT OPPORTUNITIES

UNIDO PROJECTS



PREPARED FOR UNIDO BY CORPORATE LOCATION

Southern boomtime beckons

Guizhou, situated close to the thriving coastal areas, looks set to benefit from a foreign investment boom.

WITHIN SOUTH-WESTERN China, Guizhou is situated in the south-east. It is bordered by Sichuan to the north, Yunnan to the west, Hunan to the east and coastal province Guangxi to the south. Guizhou is one of the lesser developed provinces, but with a good development potential. Primary agriculture still drives the economy of a province that is 80% mountains. Developing this is the priority of the provincial government. However, it also has abundant natural resources and the considerable advantage of being the closest south-west Chinese province to booming southern coastal areas such as Guangdong.

Guizhou is one of the smaller provinces in China covering around 176,000 sq km and is the smallest province in south-west China. However, Guizhou is also one of the most densely populated provinces in the region with 180 people per sq km. Only Sichuan is more densely populated at 190 people per sq km. Its 33.6m population is the second smallest in the region although Guizhou and Yunnan have similar numbers of inhabitants. The population comprises a mixture of 17 different nationalities. There appears to be little inherent ethnic tension within the province.

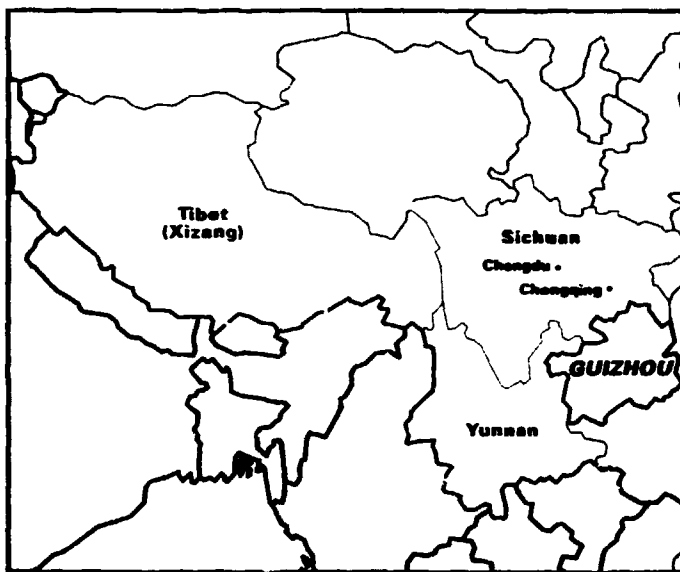
Guizhou has no borders with other countries although it is only around 100 miles from northern Vietnam.

The province is divided into seven prefectures (including three autonomous prefectures), two secondary level municipalities and 86 counties, cities and special districts. There are six major cities in the province, the largest of which is capital city Guiyang. The others are: Liupanshui, Zunyi, Anshun, Duiyun and Kaili. The largest two cities, Guiyang and Liupanshui, are both administered at the provincial level whereas the others are managed at the lower prefectural level.

FOREIGN INVESTMENT

Guizhou's investment attraction performance to date mirrors that of much of the rest of the south-western China region. In 1992, following Deng's decision to open up the region's economy to the outside world, investment boomed. This followed a modest performance in previous years.

Before 1991, only 106 foreign investment projects had been established in Guizhou with contracted capital of just \$75m. Out of this \$27m was

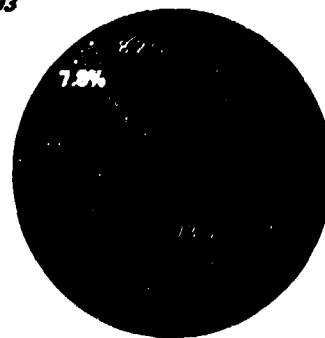


realised by 1993. In 1992, the number of projects almost doubled to 210 signed agreements. Contracted capital amounted to \$187m of which \$19.8m has actually been delivered. In 1993, this performance was further improved upon. New projects totalled 500 and capital committed was around \$645m. Out of this \$42.94m has been delivered.

The most important investment sector is industry which has attracted 42% of all inward investment. In total, there have been 480 foreign-backed signed industrial projects which have produced \$390m (contracted capital).

Real estate is the second most important sector - but only in terms of numbers of projects. Only 133

Investment into Guizhou 1992/93



projects have been signed. However, contracted capital is \$289m (32% of all investment in the province). When rules on real estate investment were relaxed in 1993, provincial authorities reported an upsurge in real estate investment levels. In July 1993, central government tightened real estate investment laws in an attempt to shift some of the foreign funds towards industrial investment.

The remaining 26% of foreign cash has mainly been committed to tertiary sector projects. Little investment has been seen in the agricultural sector so far.

Investment trends since the open door policy was introduced have been mixed. In 1992, industry increased its share of foreign investment to 49% of all committed cash. Local planners expect industrial investment levels to recover to pre-1993 levels as a result.

Industrial investment is dominated by machine building and light industrial sectors. These have accounted for 32% of all inward investment and around two-thirds of industrial investment. Other less-important sectors are chemicals (5% of all investment), metallurgy (5.3%) and electronics (2.4%).

NATURAL RESOURCES

Much of Guizhou's investment advantage relies on a rich base of natural resources.

The most important is energy. There are two major rivers in the province which are utilised for hydro-electric power. Also there are large deposits of coal. It has been proven that coal deposits are as high as 50bn tonnes which is the fifth largest provincial total in China. Reserves are estimated at 267.9bn tonnes.

The province is the coal centre of southern China. Most of the deposits are concentrated close to the Nanpanjiang River, Beipanjiang River and the upper and middle reaches of the Wujiang River.

In a country where electricity supply is often a problem, Guizhou is well placed. It boasts a surplus and the potential to generate much more. In fact, electricity is exported to other provinces. Booming coastal area Guangdong has been the main recipient so far. More exporting is planned when additional power stations have been constructed. Thermally-produced electricity is still the largest generator above hydropower. However, the estimated potential supply from hydropower is 13.25m KW - the sixth highest in China. The new power stations will be both thermal and hydropower based. Local authorities are looking for foreign involvement, particularly in the hydropower sector. Opportunities for exploiting water power from the Wujiang river are particularly good. It is estimated that 11 more power stations could be built along the river,



The Wujiangdu Hydropower station.

nine of which fall on the borders of Guizhou and have an installed capacity of 6.39m KW.

Investors looking to set up energy-intensive industries may find Guizhou an ideal destination because of its abundant supply and relative low costs.

MINERALS

Mineral resources are diverse and widespread. At the moment around 73 different minerals are being exploited in the province. Out of the 73, 27 are in China's top five largest deposits. The major minerals available are aluminium, phosphorous and heavy metals such as iron ore.

However, the proven bauxite reserve is 406m tonnes (2nd largest provincial reserve in China), phosphorous reserves are around 2.65bn tonnes (third in China), manganese reserves total 84.56m tonnes (15% of national reserves), whilst mercury and antimony reserves are 39% and 30% of national reserves respectively.

AGRICULTURE

Flora and fauna are also important resources. Although industry has now overtaken agriculture as the most important sector in the Guizhou economy (provincial output is divided into the ratio 4:6 between agriculture and industry), its tobacco, rape, tea, tung oil, raw lacquer, palm fibre and timber products make important contributions to the national economy.

There are more than 600 varieties of industrial plants, over 500 edible plants and 200 ornamental crops. Plants high in vitamin C (kiwi fruit etc), fungi high in protein (dried mushrooms) and tannin plants (Chinese gall) are all major agricultural products. There are over 3,700 kinds of medicinal plants in the province - covering 80% of total Chinese varieties. Pastoral farming accounts for 4.29m ha of land and encompasses 30 kinds of livestock and poultry. ■

New links planned for Guizhou

Investment in infrastructure is a priority for the province. This will both improve links and create opportunities for investors.

Geographic proximity to China's booming south-eastern coastal areas is one of the province's major advantages. Rail links in northern Guizhou are particularly well-developed. The three northern lines, which link to Sichuan, Yunnan and Hunan, are electrified and good quality. As a result, Guizhou has the highest rate of railway electrification in China. This contrasts with the situation in the south of the province which has one line. The southern line needs development and is still not electrified. Plans exist to upgrade the southern line in the future. Also more local lines are to be added to the network. Guizhou's geographic position makes this an appealing possibility.

RAIL

Rail is the most important mode for freight transport. It accounts for around 85% of all freight carried in the province.

Provincial capital Guiyang is the hub of the 1,481 km Guizhou railway network. The city boasts the largest marshalling yard in the south-west China region in addition to a large international freight terminal. The major new east-west rail link between Kunming and Nanning is due to pass through Guizhou. The project will be completed in 1997.

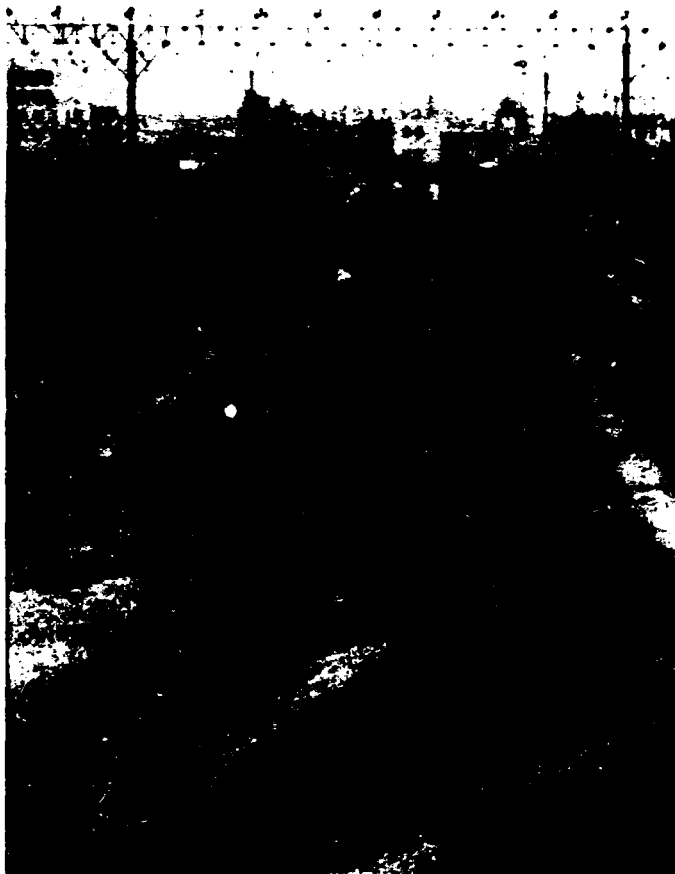
AIR

Air links are from Guiyang airport which has 24 airlines offering domestic flights. International flights are available to Hong Kong only. Air travel is to be boosted by the construction of a new airport at Guiyang. The development of Longdongbao airport is estimated to cost around RMB1bn (\$114.9m). The high expense involved is partially due to mountainous terrain in the province. As Guizhou had no suitably large flat area for an airport, site preparation has involved flattening mountainous terrain.

Local planners are currently seeking foreign involvement in the project which, when complete, should attract new international services.

Local airports at Tongren, Anshun, Zunyi, Xingyi, Dushan and Bijie are to be expanded or constructed as a dense provincial air network is developed in Guizhou.

Highways and roads are also to be developed. For-



Guiyang South Railway Station, the largest marshalling station in China's southwest area.

eign capital is being sought for a new highway linking Chengdu, capital city of the Sichuan province, and Guizhou. Already parts of the northern section of the highway have been completed. The southern section requires additional funding before it can be finished.

Also, plans exist to extend the highway between Guiyang and Huangguoshu, south of Guiyang, southwards through Kunming and across the border offering a direct route to overseas markets.

Approval for the Guizhou section of the highway from Guiyang to Nanning has been rubber-stamped.

In total, there are 31,900 km of highways in Guizhou province. However, only around 274 km

are classified as first or second grade. Density of highways is above the national average with 18.12 km per 100 sq km. The roads account for only around 13% of all goods transported within the province.

WATERWAYS

Guizhou has 1,922 km of navigable rivers. Despite good links to the East China and South China Seas, comparatively small amounts of freight are transported by water. Only around 1% of all provincial freight is carried in this way.

COMMUNICATIONS

Telecommunications in Guizhou are still developing. Not all areas have long distance dialling although it is available in the seven prefectures and two municipalities. Mobile phones and fax machines are widespread in capital city Guiyang.

Guizhou has International Direct Dialling (IDD) links with 169 countries and areas. Computerised exchanges are used in Guiyang, Duiyun and Zunyi. This service is being extended to the other prefectures and municipalities and should be completely in place by July 1994.

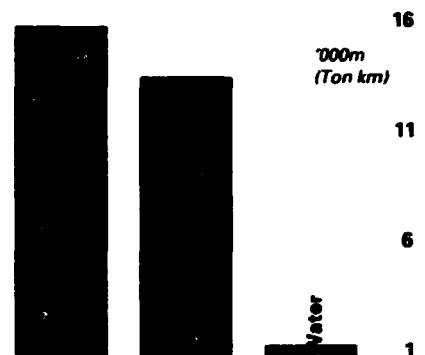
UNIDO has earmarked a number of projects in Guizhou, suitable for foreign investment in the higher-tech communications areas - mainly satellite and TV. These include products such as satellite TV-antennas, satellite TV receivers, antennas (satellite, microwave, short wave, radio wave), railway communication warn and safety devices, Multiplex Microwave Distribution Systems (MMDS), decoding devices. Basic telecommunications equipment is not as necessary as the links are reasonably developed. (For further information see list of UNIDO projects on page 8).



Guiyang-Huangguoshu Highway - a newly built super highway.

The postal system enables letters and parcels to be sent anywhere in the world from Guizhou. Guiyang is the centre of the postal network. No private international couriers operate from the airport. The nearest couriers are based in coastal provinces or Hong Kong. ■

Mode of Freight carried in Guizhou



Doing Business

There are two main strands to location development policy in Guizhou. The first is to develop provincial capital Guiyang city and to spread its economic influence to surrounding areas. The second is connected to the infrastructure improvements that are planned. Local planners aim to improve southern highway links and thus access to coastal and foreign markets. The plan is that businesses, induced by the better road links, will choose to locate to sites along the key southern link. In addition, setting up industry clusters around the key rail links is planned.

Preferential treatment for businesses is on the same level as coastal areas in capital city Guiyang. Mountain areas and the national autonomous regions also receive preferential treatment.

There are three major economic development zones in Guizhou. These are the Panxi-Liupanshui Development Zone, the Hongshuihe Hydropower Industry Development Zone and the Wujiang River Trunk Stream Development Zone.

Panxi-Liupanshui is to the west of Guiyang bordering Yunnan province. Industries currently contained within the zone include hydropower plants, chemicals and minerals (bauxite, coal, iron ore and pyrite). Further exploitation of mineral deposits in the zone are actively being sought by local authorities.

Hongshuihe Development Zone is south of the capital. Much of its appeal lies in natural resources with several gold deposits, as well as coal and bauxite.

Wujiang is the most important of the three zones. It contains Guiyang and extends northwards towards Sichuan province. Industrial strengths in the zone include machinery and electronics, phosphorous chemicals processing, ferroalloy and aluminium industries. Most joint ventures and other foreign investments in Guizhou have taken place in this zone.

Guizhou economic zones have a significant policy difference with the special economic zones that are so prevalent in coastal areas. Enterprises are permitted to be registered in the preferential area even if the factory is outside the zone.

Also in the province is the new Guiyang Xintian High- and New-Tech Development Zone; a development zone in Zunyi, north of Guiyang, for light automobile production; and a provincial zone for small car production. Not all the province's zones are located within Guizhou. The 100 ha Guizhou Development Field is in Beihai - a port city in the coastal province Guangxi. These development zones with their special policies and services provide favourable conditions for both local and foreign investors.

Opportunities for foreign investors

Guizhou possesses competitive advantages across a range of sectors.

GUIZHOU'S LARGE MINERAL deposits have led to a considerable secondary metal processing industry. The province boasts the largest aluminium plant in the country - Guizhou Aluminium Plant. Total capacity at the plant is nearly 600,000 tonnes of aluminium products a year. The plant has recently been expanded to increase production.

Zunyi has one of China's largest ferro-alloy production plants. Annual production exceeds 100,000 tonnes of ferroalloy - 11.11% of the country's total production.

Steel is also a major player. The Guiyang Steel plant accounts for 70% of all foreign exports of special drill steel.

CHEMICALS

The chemicals industry in Guizhou is well-developed. The province's large deposits of minerals such as phosphates and coal have led to a considerable secondary industry.

Guizhou has the third largest reserve of phosphorous in China. Central government recently approved the construction of a new phosphate plant in the province. Now being built, the plant is expected to produce 7.2m tonnes of phosphate ore and 1.2m tonnes of fertiliser a year.

Over 200 types of chemical products are manufactured in the province including: phosphorous ore, fertiliser, synthetic ammonia and calcium carbide.

UNIDO recommended projects in the chemicals sector include the manufacture of phosphoric acid (based on the abundant supply of phosphor), caustic soda, hydrochloric acid, chlorine, and barite powder. Carbon dioxide and oxygen concentration are also listed projects (See list of page 8).

MANUFACTURING

The main opportunities stem from the region's former defence industry. There are three military industrial bases in Guizhou which have potential for conversion to higher tech industry.

In 1993, around 80 new enterprises had been converted from former military installations. These have mainly been in what might be termed the "heavy electronics" sector: integration of electronics and machinery activities. Only around 10% of the former defence industry remains with the rest now converted to civil purposes.



Defang Lacquerwares, one of the thriving products from Guizhou.

Although not versed in private sector values, the existing labour force in these former defence industries has strong research and development, design and production skills. The new enterprises employ around 150,000 people with 50,000 specialists and technical personnel. However, at the moment, only 60 out of the 3,000 products made are being exported.

Manufactured products in the province are well regarded in China for their technological element. The following product sectors are among the most prevalent: abrasives, grinding tools, bearings, low voltage electrical appliances, precise optical instruments, industrial instruments and meters, precise machine tools.

Exported products remain limited. The main market is Hong Kong. The existing major exported products are textile and alcohol products (wine, liquor etc). However newer, higher added value industries are being encouraged to develop export markets. Precise machine tools, grinders, hydraulic excavators, diesel engines, abrasives, grinding tools and bearings are the best regarded products with more market potential - both overseas and domestic.

AUTOMOTIVE

The automotive sector has grown in Guizhou following conversion from defence industries. The military-run space industry has largely been successfully converted to automobile production and the defence aircraft industry to component manufacture. Some of the new enterprises have negotiated contracts to supply Western firms. Volkswagen, for example, has placed orders to buy components from Guizhou operations. At the moment though, none of the newly-established automotive enterprises export. This is an area which the local authorities are trying to develop.

As well as components, the finished products include mini cars, light trucks and re-equipped vehicles. Equipment services (spare part production) are provided for more than 50 different models of automobile manufactured throughout China.

Guizhou has a significant advantage as a location for automobile manufacture because of its generous supplies of raw materials. Aluminium resources are plentiful.

Some foreign investment has been recorded in the sector. A Hong Kong-owned company recently entered into a new joint venture in Guizhou to produce mini-vehicle frames.

AGRO-RELATED INDUSTRY

Guizhou has opportunities for investors in the tobacco industry. Although not as well-developed as the industry in neighbouring Yunnan (in Yunnan 4bn boxes are produced a year, whereas in Guizhou the figure is 2bn), the tobacco grown is of high quality in Guizhou.

Massively under-invested at present, the industry is looking to foreign investors to help provide the impetus behind a technology boost. New products are also being looked at together with better quality and more efficient production methods. Entry by joint venture with the foreign partner providing technology and know-how would seem an obvious opportunity in this area.

Agriculture as a whole has been earmarked as the number one priority for development by the regional authorities. The major push is on the staple crop side with cereal production the priority for an overpopulated province. However, there are also plans to expand the cash crops sector with potential for exports. This will enable local planners to encourage development of the rural villages - another key target.

Forestry, and the related timber sector, is to be developed. As more downstream activities progress, the export of paper products is reckoned to be another potential area.

TOURISM

The tourism industry is a growing one in Guizhou, although on a very small scale at the moment.

The province now has over 40 travel operators and more are setting up. There are 10 hotels which are up to standards required by foreign visitors. No major international chains are represented, although four of the hotels are in the two-three star range.

The travel infrastructure is still being upgraded (see infrastructure section). A new charter service to and from Hong Kong has boosted numbers of foreign arrivals. At present, the existing airport provides links to 18 other Chinese cities with 168 flights scheduled per week.

Domestic visitors are responsible for the main bulk of tourism in Guizhou. Over 10m Chinese tourists visit the province. The number of overall foreign tourists is still only measured in tens of thousands.

Despite this, some of the natural attractions in Guizhou, if better marketed, could have limited international appeal. There are five major tourist draws: Huangguoshu Waterfall, the Dragon's Palace Cave, the Zhijin Cave, the Wuyanghe River and the Hongfeng Lake. All are underdeveloped and require stronger marketing overseas.

The province also has four large nature conservation areas (the Fanjiangshan Mountains, the Maolan Forest, Chishui Virgin Forest and Caohai lake).

Historic products could also be developed. Two Guizhou cities, Zunyi and Zhenyuan, have been centrally earmarked as historic cultural cities. There are also ethnic villages such as Shanglangde, Gaopo and Huashishao where national cultures are preserved through festivals, ancient crafts, traditional buildings and local customs.

These products are serviced by tour operators based in Guiyang. Stays at the sites tend to be short as there is little on-site accommodation.

Tour trains are available from Guiyang-Anshun-Kunming, Guiyang-Zunyi and Guiyang-Yuping. ■

Doing Business

A NUMBER of preferential measures are in place to encourage foreign investments.

- Investors are given priority in finding property, labour and materials at subsidised costs. Special priority is given to investors in Guizhou's more remote areas.
- Income tax is reduced for export-orientated business. Companies that export over 70% of output qualify for a 50% reduction.
- Products can be priced in foreign currency (whole or in part) if the goods are not made in China, are needed in Guizhou and are imported.
- Foreign currency can be used to for short-term funding of successful foreign-exchange earning projects.
- Foreign enterprises can be included in state investment in fixed assets. This means priority in getting building materials and labour.
- Local tax is not applied apart from a small employee tax.
- Approvals are to be granted/refused for projects within six weeks.
- Foreign investment matters are overseen by the provincial-level authorities.

List of UNIDO Investment Promotion projects in Guizhou

Project Number	Texiles weaving apparel, leather industries
CPR/GU/M/01	Products: High-count Combed Yarn. Quantity: 600 Tons. Location: Guiyang, Guizhou. Total investment: \$8m. Foreign resources required: Equipment, Joint Venture.
CPR/GU/M/02	Nylon 6 Chips, 5,000 tons: Partially oriented and full draw Yarn, 4,195 Tons: Guiyang, Guizhou: \$44.5m; Equipment, Joint Venture.
CPR/GU/M/03	Export Poplin Cloth, 4.9m sq.m; Guiyang, Guizhou: \$4.93m; Equipment, Market access, Joint Venture.
CPR/GU/M/04	Plate Screen Printed Cloth, 3m sq.m; Guiyang, Guizhou: \$1.25m; Equipment, Market access, Joint Venture.
CPR/GU/M/05	Denim Cloth, 4.5m sq.m; Denim Clothing, 690,000 sets: Guiyang, Guizhou: \$10m; Equipment, Joint Venture.
CPR/GU/M/06	Manufacture of chemicals, and chemical, petrochemical, coal, rubber, plastic products
CPR/GU/M/07	Carbon Dioxide, 800 Tons: Guiyang, Guizhou: \$0.56m; Equipment, Joint Venture.
CPR/GU/M/08	Phosphor, Phosphoric Acid, 25,000 Tons: Guiyang, Guizhou: \$21m; Joint Venture.
CPR/GU/M/09	Oxygen Concentrator, 15,000 Units: Xishui, Guizhou: \$20m; Techn. Acquisition, Joint Venture. Market access, Subcontracting.
CPR/GU/M/10	Causic Soda, Hydrochloric Acid, Chlorine, 12,000 Tons: Guiyang, Guizhou: \$10m; Equipment, Joint Venture.
CPR/GU/M/11	Calcium Carbonate, Light and Heavy, Barite Powder, 16,000 Tons : Dingyan County, Guizhou: \$1.5m; Equipment, Market access, Joint Venture.
CPR/GU/M/12	Manufacturing of fabricated metal products
CPR/GU/M/13	Vehicle Locks, Motorcycle, Ignition Locks, Various Industrial Locks, 600,000 Sets: Guiyang, Guizhou: \$3m Technical/Managerial Expertise, Equipment, Joint Venture.
CPR/GU/M/14	Cast Iron Blanks for Hydraulic and Pneumatic Valves, 2,500 Units : Guiyang, Guizhou: \$3m; Technology Acquisition, Equipment, Joint Venture.
CPR/GU/M/15	Manufacturing of machinery and equipment
CPR/GU/M/16	Three and four-wheel Agricultural Transport Vehicles (500-1500 kg loading capacity resp.), 100,000 Units: Guiyang, Guizhou: \$25m; Technology acquisition, Technical Expertise, Equipment, Joint Venture.
CPR/GU/M/17	Drawing, Wrapping, Caking Machines for Steel Cord, 300 Sets: Xijiaermen Zhuanyi, Guizhou: \$8.65m; Technical/Managerial Expertise, Technology acquisition, Equipment, Joint Venture.
CPR/GU/M/18	Steel Wire Drawing Machines (Computer controlled), 120 Sets: Zunyi, Guizhou: \$5m; Technical/Managerial Expertise, Equipment, Market Access, Joint Venture.
CPR/GU/M/19	Various Parts for Hydraulic Excavators, Motors, Pumps, Control Valves, 18,000 Sets: Guiyang, Guizhou: \$18m; Technical Expertise, Technology acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/20	Cigarette Packing Machines (8000 pcs/min), 25 Units: Pingba County, Guizhou: \$5m; Equipment, Joint Venture.
CPR/GU/M/21	Hydraulic Excavators (20-40 tons), 2,000 Sets: Guiyang, Guizhou: \$51.25m; Technical Expertise, Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/22	Precision Mini-Ballbearings for various Electronic Instruments, 2m Units: Guiyang, Guizhou: \$4.6m; Technical Expertise, Equipment, Joint Venture.
CPR/GU/M/23	Gas Springs for Swivel Chairs, Car Seats, Industrial Furniture, 1m Units: Anshun, Guizhou: \$7m; Technology Acquisition, Equipment, Joint Venture.
CPR/GU/M/24	Conveyor Pumps for Concrete Transport, 200 Units: Guiyang, Guizhou: \$2.5m; Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/25	Automatic Vehicle Wash Device, 300 Units: Zunyi, Guizhou: \$4m; Equipment, Joint Venture.
CPR/GU/M/26	Manufacturing of electrical machinery appliances and supplies
CPR/GU/M/27	Electric Vehicle, Development and Manufacturing Four seat Minicar, 12 seat passenger car, 20,000 cars: Zunyi, Guizhou: \$20m; Technology acquisition, Technical Expertise, Equipment, Joint Venture.
CPR/GU/M/28	Temperature Transmitter, Instrument and Meter Corp, 100,000 Sets: Guiyang, Guizhou: \$1.5m; Technology Acquisition, Technical Expertise, Equipment, Joint Venture.
CPR/GU/M/29	Metal: T and pre-payment Electricity Meters, 400,000 Units: Duiyun, Guizhou: \$5m; Technical Expertise, Equipment, Market access, Joint Venture.
CPR/GU/M/30	Power Transformer, Shell type, cap 5,000 MV/year: Guiyang, Guizhou: \$10m; Technical/Managerial Expertise, Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/31	Satellite TV-antennae (size 0.75 M), 200,000 Sets: Zunyi, Guizhou: \$3m; Technical/Managerial Expertise, Equipment, Market access, Joint Venture.
CPR/GU/M/32	Satellite TV-receivers, Tuners and LNB, 120,000 Units: Duiyun, Guizhou: \$3m; Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/33	Outdated Zinc Voltage-surge Protectors (5-24 mm diam; range 6-1800V), 50m Units: Kaiji, Guizhou: \$4.5m; Technology Acquisition, Equipment, Market access, Joint Venture, Managerial Expertise.
CPR/GU/M/34	Satellite, Microwave, Short-wave, Radio-wave Antennae, 500,000 Sets: Duiyun, Guizhou: \$10m; Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/35	Railway Communication Worn and Safety Device, 10,000 Sets: Guiyang, Guizhou: \$1.2m; Technical/Managerial Expertise, Equipment, Market access, Joint Venture.
CPR/GU/M/36	Multiple Microwave Distribution System (MADS) Open transmission of TV-programming via microwave, 100,000 Units: Duiyun, Guizhou: \$5m; Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/37	GPS Monitor & Alarm System to track and locate targets from a distance, 20,000 Units: Duiyun, Guizhou: \$3m; Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/38	Video Camcorder Tapes, 10m sets: Guiyang, Guizhou: \$8m; Technical/Managerial Expertise, Equipment, Market access, Joint Venture.
CPR/GU/M/39	Decoding Device to receive scrambled TV-signals, 100,000 Units: Duiyun, Guizhou: \$10m; Technology Acquisition, Equipment, Market access, Joint Venture.
CPR/GU/M/40	Manufacturing of transport equipment accessories
CPR/GU/M/41	Vertical, single Cylinder, air-cooled jet diesel engine, 200,000 Sets: Guiyang, Guizhou: \$20m; Technical Expertise, Technology Acquisition, Equipment, Joint Venture.
CPR/GU/M/42	4-cylinder Gasoline Engine (2.3 hp base) up to 3 ton), 150,000 Units: Guiyang, Guizhou: \$80m; Technology Acquisition, Equipment, Joint Venture.
CPR/GU/M/43	Assembly-union Alloy Ingot for car-chassis, 100,000 Tons: Dingyan, Guizhou: \$145m; Equipment, Market access, Joint Venture.
CPR/GU/M/44	2-cyle and 4-cyle Motorcycle (80-125cc resp), 200,000 Sets: Guiyang, Guizhou: \$28m; Technical Expertise, Technology Acquisition, Equipment, Joint Venture.



PEOPLE'S REPUBLIC OF CHINA

Sichuan **PROVINCE**

INVESTMENT GUIDE



INTRODUCTION

INFRASTRUCTURE

INVESTMENT OPPORTUNITIES

UNIDO PROJECTS



PREPARED FOR UNIDO BY CORPORATE LOCATION

A giant start to liberalisation

Sichuan is the largest province in the south-west and has attracted the most foreign investor interest in the region.

NEARLY 10% of China's population is located within the huge land-locked Sichuan province. Made up of 110m people, it is China's largest province in terms of population. Sichuan produces 6.5% of GNP.

Within south-west China, Sichuan is the economic powerhouse. It accounts for just over half the population of the region and contains two of its major cities: Chongqing and Chengdu. In terms of surface area it is the region's second largest province (only Tibet is larger) with 570,000 sq km. It also has over half the number of state enterprises in the region (781 out of a regional total of 1,401). Composed of 11 provincial cities, seven prefectures and three autonomous prefectures, Sichuan is known as the "Land of Abundance" and is the birthplace of Chinese premier Deng Xiaoping.

Around 84% of Sichuan's huge population are peasants. As a result development strategies centre around the need to encourage industrialisation and boost urban populations.

SHIFT

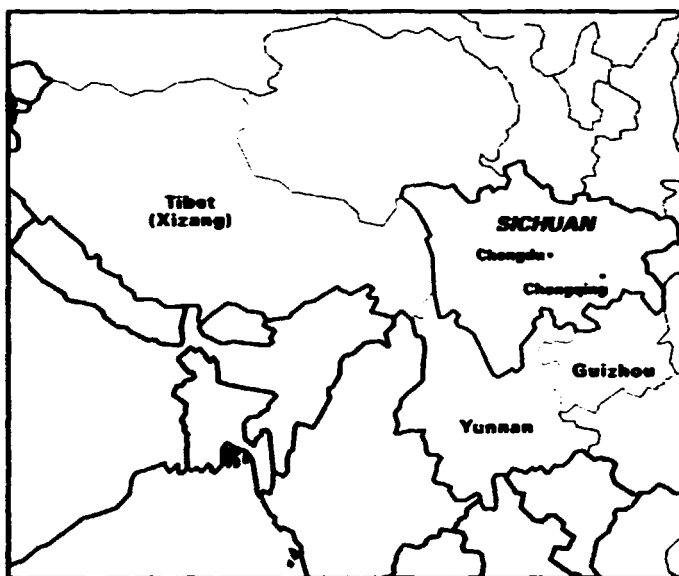
One of the first aims is to shift the population emphasis away from rural areas. Only 25m people live in urban areas.

The governor of Sichuan province, Xiao Yang, has pledged to double the number of urban dwellers by the end of the century. The plan is also to double provincial GDP per capita and reach annual GDP growth of 7-8%.

These figures were achieved in 1992 as new liberalisation policies led to an initial influx of investment. GNP grew by 11.9% and gross industrial and agricultural output value rose by 15.4%. Most of this growth has come in light and heavy industrial sectors - registering output growth of 18.9% and 24.7% in 1991 and 1992, respectively. By contrast, agricultural output grew by just 2.5%.

More cash to upgrade inefficient state enterprises is required. The provincial government has earmarked some RMB25bn (\$2.87bn). However, the rest is planned to come from foreign investments.

Coastal areas have monopolised the low tax Special Economic Zones throughout China. However, similar schemes in Sichuan are now in place. In the "experimental" city of Chongqing, there is the Chongqing Economic and Technological Development Area which has attracted some \$360m in con-



Sichuan is China's most populous province

tracted foreign investment. Provincial capital Chengdu boasts the Chengdu Rural Enterprise City, a 3.5 sq km zone which offers preferential tax policies.

FOREIGN INVESTMENT

Along with much of the rest of south-west China, foreign investment in Sichuan had been scarce up until 1992. Following the reforms introduced that year, foreign direct investment has increased quickly. In 1992, investment grew by nearly 600% from 1991. Over 1,000 new enterprises opened with committed foreign investment totalling \$859m. Since 1979 (excluding the major cities of Chengdu and Chongqing), just 551 foreign investment projects had been established. In 1992 alone there were some 335 projects outside the two major cities.

To date, much investment has been committed with relatively small amounts delivered. In 1992, 17% of committed investment had been realised by the end of the year. The average delivery rate for Sichuan throughout the period 1979-1992 was around 21%.

ENTRY METHODS

The vast bulk of foreign investment has come through joint ventures. In 1992, these accounted for 75% of all foreign projects committed to the

province. In 1979-1992, joint venture was the method of entry chosen by 76% of all direct investments by foreign companies.

Joint ventures have the best record of all entry methods in terms of producing hard results. On average, around 25% of committed investment in joint ventures is delivered.

Co-operative or contractual joint ventures, which account for 5% of projects, have delivered 13% of committed investment. Foreign start-ups - 15% of projects - have delivered 21% of committed investment.

These figures suggest that joint ventures are the most successful form of investment.

Joint ventures are likely to yield an immediate and usable site with a workforce up and running.

TAXATION

Taxation policy in Sichuan is still determined by the central government. New taxation policies announced by the Chinese Government in the second half of 1993 redeemed some of the devolved fiscal powers from the provinces in an attempt to halt the widening development gap between coastal areas and provinces such as Sichuan. From January 1994 a uniform corporate tax rate of 33% has been applied and tax breaks currently only available around the coastal areas will also be available in Sichuan.

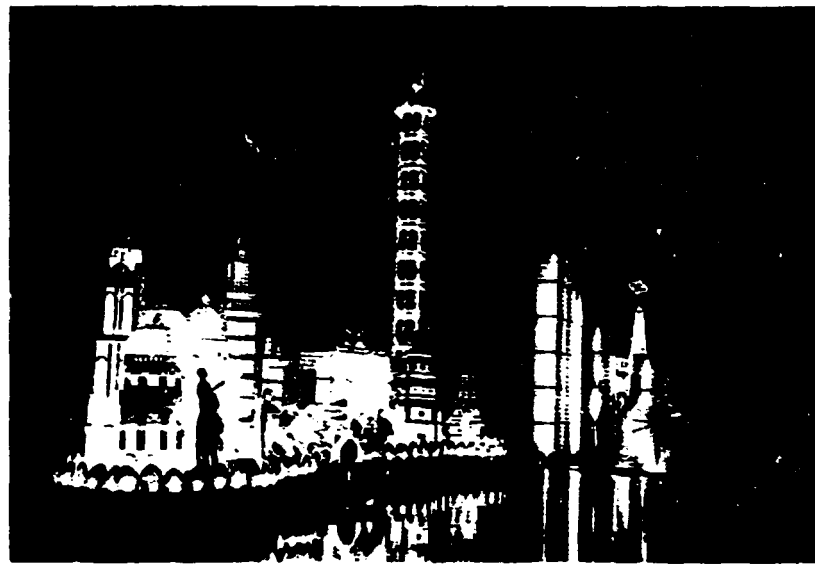
INVESTOR NATIONALITY

By far the most important investor in the province is Hong Kong, which accounted for 67% of all new foreign investment projects from 1979-1992. But Hong Kong was only responsible for around 26% of cash invested during this period - a total of \$367m. This suggests Hong Kong investors tend to enter in a smaller way than their overseas counterparts.

The trend is clear when analysing average cash committed per project. For Hong Kong investors the average amount is \$600,000 (1979-1992), while Japanese companies average almost \$2m per project, and France (which is the second largest investor behind Hong Kong) averages around \$51m per project.

Hong Kong's dominance of the foreign investor market shows no sign of waning. In 1992, the Hong Kong share of foreign investment projects declined slightly to 60% but its share of contracted capital increased to over 50%.

Officials are aware of the need to diversify the stock of overseas investors and to target the US, Japanese and European markets more effectively.



Sichuan has glamour as well as size

Total investment by US, Japan and Europe from 1979-1992 was around 9% of all foreign-backed projects. However, the share of capital committed was 46%. In 1992, the US, Japan and European companies backed 13% of projects and committed 17% of all capital.

US investment is the fastest growing. Nearly 10% of all foreign investment into Sichuan came via the US. This compares with an average from 1979-1992 of just 2.5% of all foreign capital.

OVERSEAS MARKETS

The export potential of a product is the first issue any investor should address before even considering establishing a joint venture. In 1992, the value of exports from Sichuan grew by 12.56%.

Hong Kong is the main export market for Sichuan products. The territory provided 36% of the province's total export income and received \$535m of goods in 1992. Japan (\$185m), Germany (\$92m) and the US (\$86m) are the next most important markets accounting for 12.47%, 6.16% and 5.79% of Sichuan export value respectively.

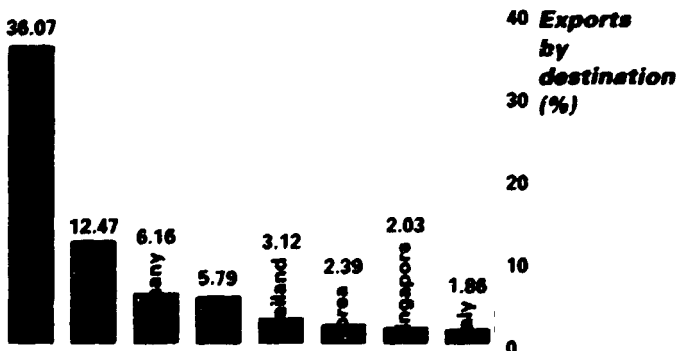
The US market is growing quickly for Sichuan exports. It expanded by 55% in 1992.

The largest market growth is in neighbouring Asian countries. The Indian market, whilst accounting for only around 1% of exports, registered 70% growth in 1992. Exports to Taiwan grew by 88%, South Korea 42% and Thailand 43%.

Looking to the future, export growth in nearby countries could be instructive as these markets are likely to expand rapidly.

Whilst Sichuan does not actually border any foreign country, its south-western frontier is close to North Myanmar (formerly known as Burma). Myanmar is expected see high growth in the future. Other potential markets for Sichuan are Laos and Vietnam. However Laos's 4m domestic market is 85-90% agrarian and very poor. Vietnam is already one of the growth phenomena of the region.

The European export market is also a high growth area. Exports to the UK grew by 75% in 1992, to Italy by 44% and to Germany by 16.79%.



Growing networks

Sichuan's infrastructure continues to develop at a fast pace.

SICHUAN is served by China's largest provincial network of roads (around 97,000 km). This is broken down into nine main national trunk routes, 39 provincial trunk routes, 1,508 county-owned roads and 3,000 roads belonging to the townships. Roads leading to and around city centres are generally wide and well-surfaced. Congestion can be a problem in the larger cities - especially hilly Chongqing where few people use bicycles.

Two new expressways were recently completed linking the capital Chengdu with the provincial centres of Deyang, to the north, and Leshan, to the south. A 340-km link between Chengdu and Chongqing is currently under construction.

RAIL

Sichuan has a relatively dense and well-used rail network with over 300 stations in the province. Parts of the Chengdu-Kunming and Chongqing-Guiyang lines are to be electrified.

Six main lines link Sichuan to other provinces. Daily direct express trains from Chongqing and Chengdu offer links to Shanghai on the east coast and Beijing to the north-east. Routes are available to cities in neighbouring south-western provinces such as Kunming (south), Guiyang (south-east), Xi'an, Lanzhou, Wuhan and Zhengzhou.

Rail is an important mode of freight transport in the province carrying annual loads of nearly 55m tonnes of freight. It outstrips road freight growth which carries annually around 75m tonnes. The rail freight route between Chengdu and Chongqing has been expanded to boost the annual capacity to 1.3m tonnes.

Labour

THE LABOUR FORCE is the province's major competitive advantage. As the coastal areas continue to boom, wages are rocketing. In Sichuan, labour costs are well below most coastal areas. Average labour costs range from RMB300-400 (\$34.50-\$46) per month (1993). In Guangzhou, corporates can expect to pay nearer RMB750 (\$86.2, 1993).

The workforce continues to grow at fast rates. Every year, the number of people available for work is estimated to grow by over 2m although 85% of the new workers are in the agricultural sector.

Official unemployment statistics still show very low jobless totals (for instance in Chengdu only 1.8% of the labour force is unemployed) but the fast growing workforce should ensure continuing competitive wage levels.

Sichuan is well placed within China in terms of research and technology. With more than 900 research institutions, a total of 1.43m people are engaged in research activities within the province.

AIR

Air is the fastest growing mode of transport. Air freight use increased by 166% in the 1980s and continues to grow as more airlines and routes are available in Sichuan. There are more than 60 airlines currently operating from Chengdu and Chongqing airports and direct international routes are available to Hong Kong. New flights are also being introduced in 1993 from Sichuan airports to Singapore, Thai-

land and Japan. Domestic passenger and freight routes are available to most of the major Chinese cities including Beijing, Shanghai, Guangzhou, Lhasa, Xi'an, Kunming, Nanjing, Wuhan, Changsha, Guilin, Taiyuan and Shenyang. China's only

training school for pilots is situated in Chengdu, producing some 80 new pilots a year.

WATER

Waterway transport has declined in importance in recent years. It fell by 5.76% in the period 1980-1985 to around 21m tonnes handled per year. However, Sichuan is well located within the waterway network. Chongqing is the most important port in the province and is located on the Yangtze river which flows directly into the Pacific ocean through Shanghai.

The Yangtze is the backbone of a waterway network from Sichuan which serves 1,400 townships in 134 counties. Within Sichuan, there are 134 ports, of which 35 have a handling capacity in excess of 100,000 tonnes.

TELECOMMUNICATIONS

Telecommunications links look set to improve quickly as Sichuan is one of the provinces openly seeking foreign technological collaborations in this area. US telecommunications giant AT&T is to manufacture switching equipment in Chengdu by 1995.

IDD and fax machines are widespread in the main cities. Switching equipment generally remains electromechanical.

Long-distance circuits are being expanded, as are long-distance relays to which existing circuits can be connected. Digital lines will connect provincial centres Chengdu, Mianyang, Deyang, Zigong, Luzhou, Yibin and Leshan. This means high-speed data transfer and other high-tech services will be available on a limited inter-provincial basis. ■

The regional powerhouse

Sichuan's strong industrial base and natural resources are the main targets for foreign investors.

THE RECENT BOOM in foreign investment has seen a swing in the type of industry sector favoured by investors. Before 1992, the sewing industry accounted for around 22% of all foreign investment projects and was by far the biggest single investment sector.

By 1992, its share of the market had declined to 8% of new projects. Electronics, machinery and services have been the main growth sectors accounting for a total of 45% of all projects – up from 33.6% of projects in 1979–1992.

SERVICES

The growth of the services sector has been particularly impressive. Its share of the investment market doubled from 6.6% to 13% in 1992. The tertiary industry overall is now five times as big as it was in 1978. Tertiary industry growth in Sichuan has outstripped national growth in the industry which since 1978 has been 373%.

Foreign-owned legal and accountancy firms are much-needed. The new openness and resultant foreign involvement in the economy means international joint ventures need to be administered by international standards.

However, there are still restrictions on participation. For instance, foreign lawyers cannot represent clients in court or advise on Chinese law. Recent reforms are set to open the insurance and banking sectors.

TOURISM

Tourism has been a major growth area. Many of the hotels in the bigger cities are joint ventures with foreign partners (often from Hong Kong). Sichuan's main touristic products are based on its array of rivers and mountains.

Attractions include the Emei peaks, Yangtze gorges, plant reservations at Huanglongsi and Jiuzhaigou, fossilised dinosaurs at Zigong, the giant Buddha at Leshan, stone sculptures at Dazu and ancient water control installations at Dujiang.

One of its main sights is the 204-km Three Gorges comprising Qutang Gorge, Wu Gorge and Xiling Gorge. The attraction stretches from Baidi City in the West and ends at Nanjin Pass in the East.

Mount Emei, 3099 m above sea level, provides a scenic view of the province. With its Buddhist



Sichuan: a centre for technology and innovation

monasteries, it has developed into one of the growing touristic products.

Thirteen of Sichuan's regions have been designated as nature reserves, many boasting rare species of plants and animals, including the panda. Mt Gongga and Mt Siguniang are ideal for climbing.

MINERALS

To date minerals have been largely unexploited. Five foreign-backed joint venture projects in this sector have been reported from 1979–1992.

However, despite this, one expert visiting the province has described Sichuan as the "Urals of China".

Sichuan boasts 80 of the 137 known different

minerals that have deposits in China. It has large deposits of the following minerals: iron, vanadium, mirabilite, fluorite, titanium, lead, zinc, pyrite, phosphorous, bittern, limestone, asbestos and strontium. Encouraging mining projects is one of the priorities of the provincial government. Existing mining has suffered from underinvestment and outmoded exploitation techniques.

However, there is much potential. Mineral reserves are large and can often be mined concurrently. This means several different types of mineral could be exploited in one project. The general proximity of the deposits also opens the possibility of mining clusters. Major mining centres at Baima and Hongge are planned to open by 2000.

In late 1993, a large gold and silver refinery was set up near Chengdu by Australian engineering company Signet Engineering.

HEAVY INDUSTRY

Sichuan has the second largest heavy industrial base in China. Well over 50% of total industrial production comes from the heavy industries and mining. Major sectors are machine building, electronics, metallurgy and chemical engineering.

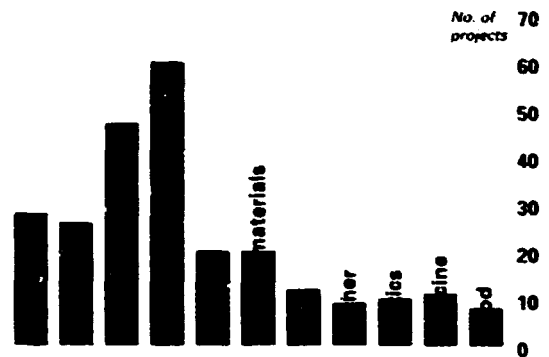
In 1992, these sectors formed the crux of foreign investment activity accounting for nearly 40% of all new foreign investment projects. They also were responsible for generating 31% of foreign capital committed to investment projects (around \$70m) in the province.

Machine building has received most of the investment. The sector generated around \$35m in foreign currency in 1992 and \$136m from 1979-1992. Sichuan is the fourth largest province for production of metal-cutting machine tools. Other existing industrial production strengths are in steel-works equipment, large rolling mills, production equipment for synthetic ammonia and vinyl, power-generating units, heavy trucks and mining equipment.

Metallurgical processing also offers opportunities. Sichuan is one of the top four provinces in China for steel production and contributes 10% to the national output.

Plans exist to develop the steel industry by the year 2000. These include a new steel works at Panxi and the further development of the iron and steel complex at Panzhihua. These moves will make

Foreign Investment Projects - 1992



Sichuan into the largest steelmaking complex in south-west China and one of the largest in the country, producing a targeted 10m tonnes per annum.

Manufacturing of seamless steel pipes is a key industry. Sichuan produces 25% of all such pipes in China. The Chengdu Seamless Pipes Plant is one of the largest plants of its type in the country. The plant manufactures around 400,000 tonnes of seamless pipes per year and employs 16,000 people. The company is seeking partners for collaborations and technical transfers.

Automobile manufacturing is another opportunity for investors. Obtaining foreign currency could become less of a problem as export growth in this sector in 1992 was nearly 50%. Although only \$10.5m worth of trucks were exported, the potential to serve nearby markets is huge. The province also offers easy access to supplies of raw materials. If steel-making operations are expanded, automobile manufacture could be an effective way of adding significant value to one of the province's main primary products.

Also the industry has some synergy with former military industries now being converted to civilian use. For example, the fastest growing export product in Sichuan is motorcycles. Sichuan's exports of motorbikes grew by a staggering 647% in 1992. This follows the move by Japanese giant Honda to enter into a technical agreement with Chinese manufacturer China Jialing. The motorcycle production plant, in Chongqing, was converted from an arms factory. Now making 18% of the country's motorbikes, the factory aims to produce 1m per year by 1997.

Other heavy industries will require greater resources to reach their potential. Power equipment, currently made in Sichuan, is of relatively low quality. Exports fell by 25% in 1992.

ELECTRONICS

Sichuan is one of China's electronics powerhouses. The province accounts for around 25% of the country's production. The sector was responsible for 18% of all Sichuan's FDI projects in 1992 and 11.3% of contracted capital.

Industries in the province produce a wide range of products including radar, communications, radio and television equipment, computers, electronics components.

Some of these are at export standards although mainly sold to the lesser developed markets.

Tourism has been a major growth area





Electronic components produced less than 2% of Sichuan export revenue, although exports grew by 9% in 1992. The growth was sluggish compared to other Sichuan exports.

Sichuan plans more harnessing of hydro-electric power

as investor attention switched to electronics and heavier industry.

LIGHT INDUSTRIES AND TEXTILES

Light industries and textiles remain Sichuan's major investment and export sector. Accounting for 21% of all investment projects in 1991, the sector also produced 19% of contracted capital.

Light industrial products earned 46.1% of Sichuan's export revenue in 1992. However, this represents a significant drop in importance as in 1986 its proportion of exports was nearly 62%. Heavy industry is now almost as important as light – it earns 42% of export revenue.

One of the major casualties has been the silk industry. Although Sichuan remains one of the country's largest and most efficient producers of silk, exports fell by 36.51% in yarn and 24% in fabrics in 1992.

However, exports in the value-added garment industry grew by over 100% in 1992 as they became, after steel products, Sichuan's second most valuable export, producing some \$97m – 6.5% of export revenue.

Again this growth can be traced to nearby abundant supplier of raw materials as over 1m tonnes of cotton cloth and yarn is produced in the province every year.

This has been recognised by foreign investors. The garment-making industry received 29% of all investment projects between 1979–1992. However, this figure had declined to 14% of projects by 1992

AGRO-RELATED

Farming in Sichuan is labour-intensive with relatively low levels of productivity. The proportion of land ploughed by tractors was only around 10% in 1988. Despite this, irrigation is widespread and covers well over half the land under cultivation.

Farmers have shown a tendency in recent years to grow more cash crops and less grain. As a result products such as cotton, tobacco, tea, fruits, sugarcane and oilbearing seeds have all achieved significant growth levels.

This has impacted on the food processing industry as more raw supply is available for downstream processing. However, agriculture's share of export products continues to decline. In 1986, agricultural products generated 18.2% of export revenue, by 1991 this had fallen to 8.5%. The only sector to register strong export growth is vegetables which grew by nearly 50% in 1992. Canned products such as mushrooms and pork both had weak growth in 1992.

The domestic market is ready for better quality food products with an increasing awareness of nutritional value, quality, flavour and western-style products. However, gaining foreign currency could be a problem as the export market is limited.

The traditional medicinal herb market is still important. The ninth most important export product, it gained \$26m of hard currency in 1992. However, market growth was unspectacular – only 5.35%. ■

UNIDO Investment Projects in Sichuan

(not including Chongqing and Chengdu)

PAPER AND PAPER PRODUCTS, PRINTING & PUBLISHING

Project No.

CPR/SIC/003

Products: Absorbent Material for Diapers and Sanitary Napkins; **Planned annual output:** 10,000 tons; **Location:** Gong County, Sichuan; **Total investment:** \$10m; **Foreign resources sought:** Managerial Expertise, Equipment, Market access, Joint Venture.

MANUFACTURING OF FABRICATED METAL PRODUCTS

CPR/SIC/025

High Intensity Fasteners used in construction, 5m pcs; Xindu, Sichuan; \$0.38m; Equipment, Joint Venture.

CPR/SIC/027

Damping Springs, Diesel Valve Springs, 5m units; Yong Chuan, Sichuan; \$1m; Technology acquisition, Equipment, Joint Venture.

CPR/SIC/033

Milling Machines (Numeric controlled), 1,900 units; Zigong, Sichuan; \$4.7m; Technology acquisition, Equipment, Joint Venture.

MANUFACTURING OF TRANSPORT EQUIPMENT ACCESSORIES

CPR/SIC/044

Steering Gear and Drive Shaft/Assembly, 200,000 units; Jiang Jing, Sichuan; \$4.58m; Technology acquisition, Equipment, Joint Venture.

CPR/SIC/048

Diesel Engines, 10,000 units; Jianglin, Sichuan; \$60m; Technical/Managerial Expertise, Equipment, Joint Venture

USEFUL CONTACTS

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Department for Introduction of

Foreign Capital and Technology of the Commission

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Contact: Zhu Xixiang

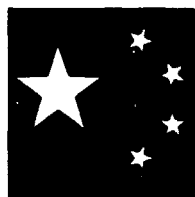
Chenghua Street, Chengdu, Sichuan

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TIBET

PEOPLE'S REPUBLIC OF CHINA



REGIONAL REPORT

Tibet

AUTONOMOUS REGION

INVESTMENT GUIDE



INTRODUCTION

INFRASTRUCTURE

INVESTMENT OPPORTUNITIES

ECONOMIC REFORMS

UNIDO PROJECTS



PREPARED FOR UNIDO BY CORPORATE LOCATION

Peak time for new business

Tibet is a remote, mountainous region which has been undiscovered by foreign companies despite its abundant natural resources.

TIBET IS AN AUTONOMOUS region within China which was formally established in 1965. The largest surface area of the south-western China provinces – Tibet is nearly as large as Western Europe. Tibet covers 1.2m sq km. However, it also has the lowest total population – only 2.21m.

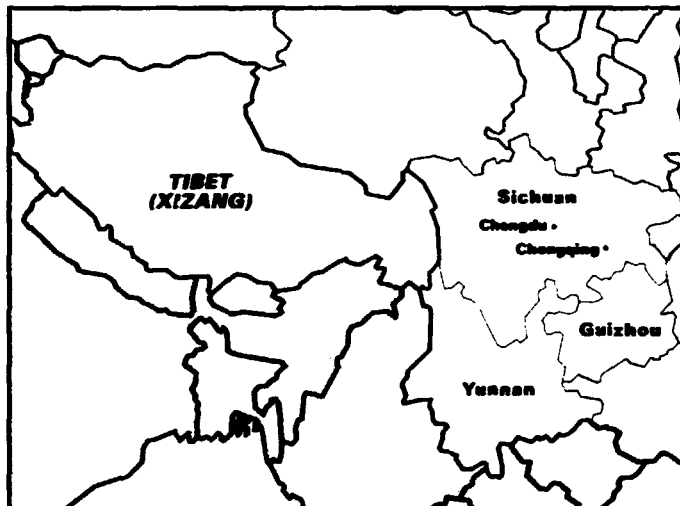
Situated to the west of the south-west China region, Tibet borders Nepal, Sikkim, Bhutan, Myanmar and northern India. Within China its boundaries are with Xinjiang province, Qinghai and Sichuan.

It is divided into six prefectures, one city, one township, two county-level administrative offices and one port. Tibet has 76 counties. Lhasa, the capital, has the status of a municipality.

ACTIVITY

Business activity almost exclusively centres in Lhasa although other important towns include Bayi, Chamdo, Zetang, Jiedexiu, Pagri, Xiasma, Nagqu, Shiquanhe, and Sigatze.

Although most of the regions in south-west China are mountainous, Tibet is almost entirely mountains. Known as the "roof of the world", the region is surrounded by three mountain ranges: the Himalayas in the south, and the Kunlun and Tanggula ranges towards the north. Around 0.18% of total surface area is under cultivation.



AREAS

The region can be split into four distinct geographic areas each with its own economic character – largely shaped by natural features.

- The Northern Tibet Plateau – Set between three mountain ranges, the area has an average altitude of 4,500 m above sea level. Covering two-thirds of the region's surface area, the main activity is pastoral farming.
- Southern Tibet Valleys – Level and fertile land. Where most of Tibet's farming takes place. Yarlung Zangbo River flows through it. Average altitude is 3,500 m.
- Eastern Tibet Canyons – Deep valleys in south-eastern Tibet. Average altitude varies from 5,200 m in the North to 3,000 m in the South. Variable climate with many types of economic activities.
- Himalaya Mountain region – Average altitude 6,000 m. Population density very low. Little activity.

CLIMATE

The climate in Tibet is a combination of sunny and dry yet often also cold and windy. Because of the proximity of the Himalayas, Tibet is well-insulated against heavy rainfall. The central region averages about 42 cm a year. The rainy season is from June to October. To the low-density north and west areas, rainfall is even lower.

Temperatures can reach -40 degrees C and less

The vibrant and varied colours of the Tibetan landscape.



than 100 days of the year are frost-free. In other areas there are more than 150 frost-free days annually, and the average annual temperature is between -5.6 degrees C and 20 degrees C. However, most of the Tibet Plateau averages over 3,000 hours of sunshine each year.

POPULATION

The predominant economic activity is agriculture. Around 87% of the 2m population are peasants or herdsman. The rural labour force totals nearly 900,000 - approximately 50% of the region's population. Of these, 61% are in farming and 34% livestock breeding. The remainder of the workforce are in various assorted industries.

The Tibetan population is made up of a number of different nationalities. Tibetans account for around 95% with around 34 other nationalities also represented. These include Hans, Mojbais, lhobas, Huis, Naxis, Tus, Manchus, Bais, Bouyeis, Koreans, Uygurs, Miaos, Yis, Xiaerbas and Chengs. Population growth averages around 13.29% annually.

INVESTMENT

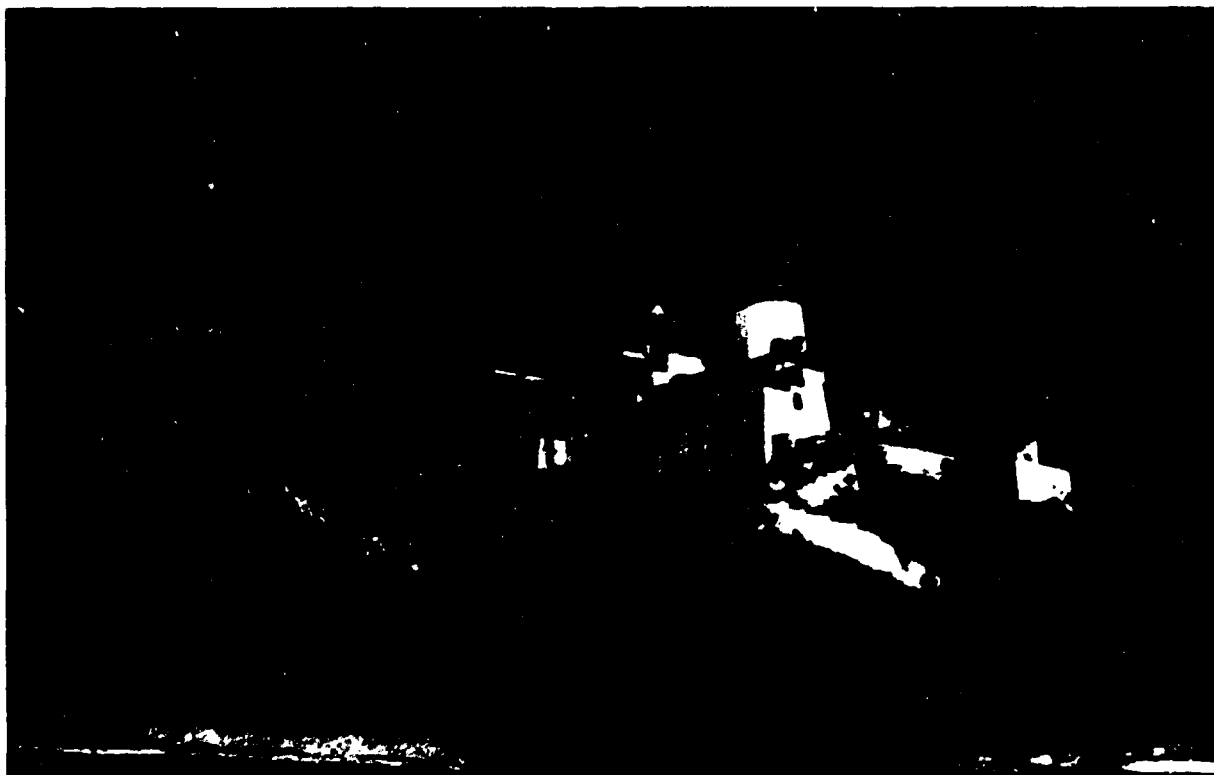
Foreign investment figures are low compared to other regions in the south-west area. Total industrial investment in fixed assets in 1990 was around RMB200m (\$23m). Tibet has a small industrial base

Tibet remains largely an agricultural region.

with most of its output in the agricultural sector. Gross industrial output value is RMB300m (\$34.48m) (less than 1% of the total for the south-west region).

Most of the projects recommended (see list on page 8) for foreign investment are in the agro-processing sector - canning produce grown in the region or bottling Tibet's natural spring water. Also, textiles is an important area - adding value to the region's leather and wool industries. Most of the manufacturing projects occur in the craft sector where traditionally made carpets, bags and other goods could be exported, partly based on their cultural market appeal. Tourism is increasing to the region since a more open policy was adopted. Energy production is another area with potential.

The Potala Palace, Tibet.



Powerful resources

Tibet's infrastructure development is based on increased power generation to meet industrial needs.

UNABLE TO DRAW electricity supplies from other provinces, Tibet has to produce its own supplies. Without dramatic capacity improvements, supply will fail to match rising demand. As a result, electricity costs can be as much as three to four times higher than in the rest of China. However, heavy government subsidies mean that the cost to the consumer is, in general, below national levels. Prices are not liberalised and are decided at regional government level.

Tibet's altitude means it has the perfect conditions to develop solar power. Plans already exist to build solar power stations. However, these will be dependent on attracting foreign technology. The direct solar radiation coefficient in Tibet has been measured at 1.8 calories per sq cm per minute - one of the highest rates found in the world.

There are three main electricity sources used in Tibet: geothermal, hydropower and diesel. The total electricity produced is around 170MW. Hydropower is the most important and cheapest source.

There are a number of plans in place to improve capacity by the year 2000. These include the construction of the world's biggest hydro-electric power station where the Brahmaputra (Yarlung Zangbo) River turns.

LINKS

Tibet has no indigenous rail or waterway system. Development of transport systems is the main aim of regional authorities.

Air transport is to be developed. The central gov-

ernment has agreed, in principle, to allow international flights into Lhasa airport.

Tibet's airport was recently refurbished but is located around 95 km from the capital city. There are direct flights to Kathmandu, Chengdu, Beijing (one weekly flight via Chengdu) and some infrequent services to Xi'an (via Golmud). Future flights are planned to Shanghai and Canton. At present, these flights are via Chengdu - where travellers from Hong Kong also hub through.

There are five main highways from Tibet to Nepal, Qinghai, Sichuan, Xinjiang and Yunnan. These are often impassable during winter months.

In general, roads are unsurfaced throughout the region. ■

Doing Business

A series of preferential policies is in place to attract investment to the Tibet Autonomous region.

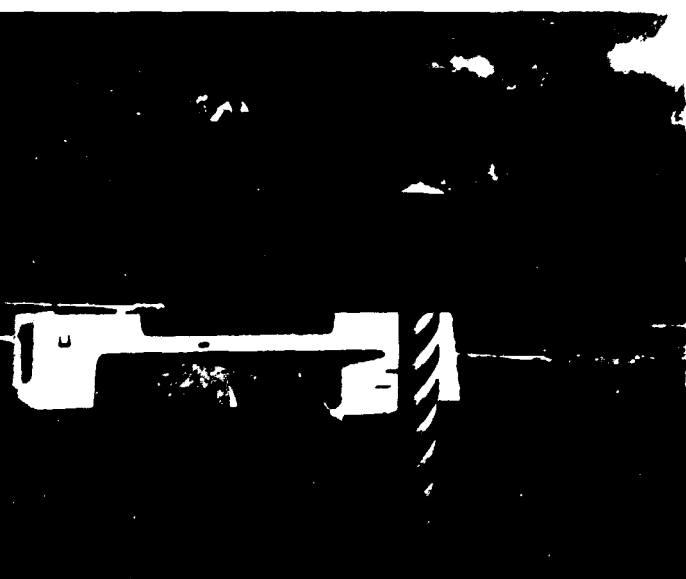
- Customs taxes are 50% below the national rate
- Income tax is 10%.
- Complete tax exemption for companies that fail to make a profit
- Longer periods of preferential treatment
- Exemption from import duties for machinery and equipment used in setting up the joint venture

Perhaps surprisingly, given the emphasis on developing the secondary sector, primary sector investments are given more favourable tax treatment than secondary.

- A tax holiday of up to five years for investments (over 10 years duration) in the energy, transportation, farming and animal husbandry sectors is available. This is followed by tax reduction of 50% for the sixth to eighth year of the investment.
- A tax holiday of up to four years for investments (over 10 years duration) in production and processing in agricultural products, animal husbandry by-products, native produces, handicrafts and tourism is available. This is followed by a 50% reduction for the fifth and sixth year of the investment.

These only apply to years when the project makes a profit. One of the major incentives is an 80% refund on corporate income tax where it is used for reinvestment purposes.

Lhasa airport was recently expanded.



Growing a basic industrial appeal

Tibetan investment opportunities tend to be in more basic industries where its considerable mineral, agricultural and touristic resources can be exploited further to develop more downstream industries.

ANIMAL HUSBANDRY IS a prominent activity within Tibet. The region is one of the top five animal husbandry centres in the country with around 22m animals. Pastoral farming is centred in two areas: Nagqu and Ari. These account for about 80% of Tibet's available pasture. Tibet has 13.3m ha of pastureland available for livestock rearing. It is one of the most important areas in China for these activities. Main types of livestock are: yak, cattle, sheep, goats, horses, mules and donkeys. Of the 12m Yaks within China, Tibet has around one-third.

AGRICULTURE

The region is well suited to animal husbandry for four main reasons:

- High quality grass rich in protein
- Livestock adaptable to mountainous conditions
- Room exists for expanding activities
- Abundance of water for irrigation

This means the region has favourable conditions for more downstream activities. These include wool and leather products.

Main crops grown are barley, wheat, peas, broad beans and rape. These account for around 90% of all crops grown. Few cash crops are grown in Tibet. The region's low temperature and high altitude means growing conditions are generally unfavourable.

However, there are a number of advantages. Cold weather crops tend to have higher yields. Oil-bearing and tuber crops fare particularly well in Tibet's unique growing conditions. And, because of the high levels of sunlight, there is strong potential for siting greenhouses.

FORESTRY

Forestry has grown in importance. The main activity takes place in the middle and lower reaches of the Brahmaputra (Yarlung Zangbo) River. The total timber resource in this area is 1.43bn cubic metres. From no timber industry in the region in 1955, there are now 10 large state-owned enterprises employing 3,600 people in the sector.

Other important agricultural sectors are apple orchards (around 600 ha), walnuts (4,666 ha) and tea (217 ha). Tea-oil and tung-oil trees have been

planted in experimental farms with some success.

MINING AND MINERALS

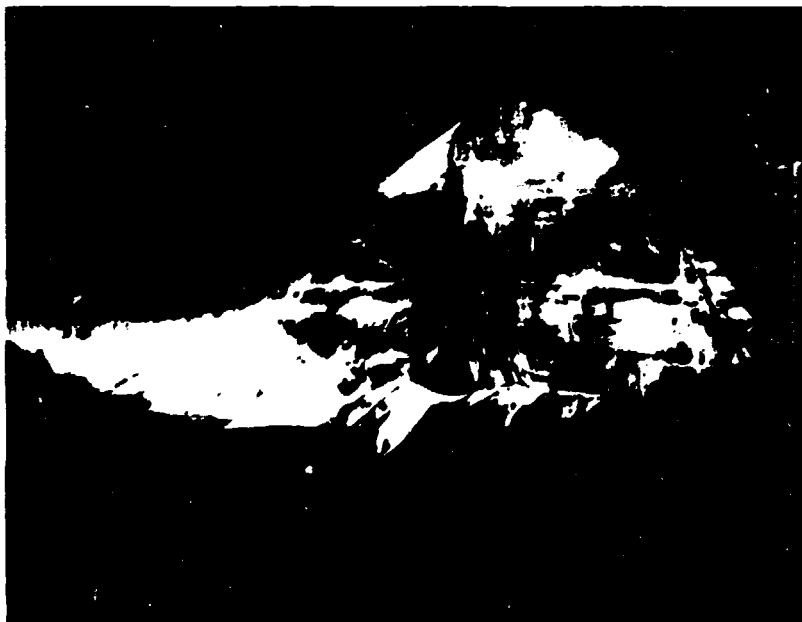
Tibet has some huge deposits of chromium and copper. Around 100,000 tons of chromium are produced every year (80% of all chromium mined in China) and the copper deposits are estimated to be the second largest in the country.

In all there are 94 different mineral resources in Tibet - only 26% of which is currently under exploitation. Chromium is an obvious opportunity for investors. The estimated national demand for chromium is 650,000 tons per year. Tibet has 80% of the country's resources of this mineral, however the technology and mining methods used are outdated and need upgrading.

Tibet has the world's largest lithium mine. The proven deposits there are estimated to constitute half the world's total.

Mineral resources in Tibet include: oil-shale, asphalt, coal, iron, manganese, magnesium, tin, copper, lead, zinc, salt, arsenic, borax, sulphur, mica, graphite, talc, gypsum, jade, uranium, radium and titanium.

Tibet's tourist appeal is based on its dramatic Himalayan mountains.





INDUSTRY

In the past 40 years, efforts have been made to industrialise the strongly agrarian region. From a base in the early 1950s where virtually no industries existed, there are now around 215 industries employing 69,000 people. These enterprises manufacture over 80 products.

One of the main industrial centres is situated at Linzhi, 440 km from Lhasa. The Linzhi Wool Textile Plant, which was moved from Shanghai in the 1960s, is located there. It employs 1,300 people and produces various wool products for the Chinese market.

Apart from Linzhi though, industry almost exclusively centres around Lhasa. Industries there include power plants, machinery plants, printing shops, and chemical, woollen textile, leather processing, grain processing and carpet factories.

HANDICRAFTS

Light industry is being encouraged - particularly in the handicrafts sector. In 1993, the industry received RMB2.7m (\$0.3m) in subsidies. Although these only went to state-owned enterprises.

The growing tourist market, and general foreign interest in Tibet guarantees a market. Major handicraft sectors include aprons, rugs, urns and saddles. The anticipated growth in the secondary sector is

The city centre of Lhasa.

expected to occur in textiles and light industry. Around 40 years ago, Tibet had no secondary industry other than handicrafts. Now there are over 120 enterprises - most of which have been set up in the private sector - around 70%.

ENTERPRISES

Industrial enterprises employ a total of 23,000 people and manufacture over 1,000 varieties of products. Sectors include food, plastics and textiles.

The industries are widespread within the Tibet region and tend to be small-scale. The level of industrialisation within them is low. Technology needs upgrading in nearly all enterprises and the skill level of staff needs improving.

Local planners aim to boost the sector by combining natural resources with more downstream processing. They hope to put the emphasis on small, value-added products such as carpets and souvenirs. Joint ventures are being encouraged in light industry and textiles.

Food and drinks processing is to receive some large cash injections from government. RMB17m (\$1.95m) has been earmarked for 20 projects. This money covers new production processes of bread, pastries, ready-made food, drinks, meat and milk.

With this new investment, production is expected to increase substantially by 2000 (see table below).

TOURISM

Tourist levels have grown since 1990. According to the local government, the plan is to increase tourist arrival levels to 200,000 a year by 2000. Total income is planned to reach RMB200m (\$23m).

A 500-bedroom Holiday Inn hotel is located in Lhasa. Set up in 1985, it continues to run profitably.

The region has many natural and cultural touristic products. Tibet is one of the most unusual places to visit in the world. The altitude ranges from 2,000 to 5,000 m above sea level in the valley and plateau area. Surrounded by the Himalayan mountains, the region is known as the "roof of the world".

Its cultural heritage is very rich. A plethora of elegant Buddhist temples punctuates the sparse landscape. The most prominent of these is the Potala Palace in the hills above Lhasa. Built in the seventh century, the huge palace overlooks the capital and dominates the skyline.

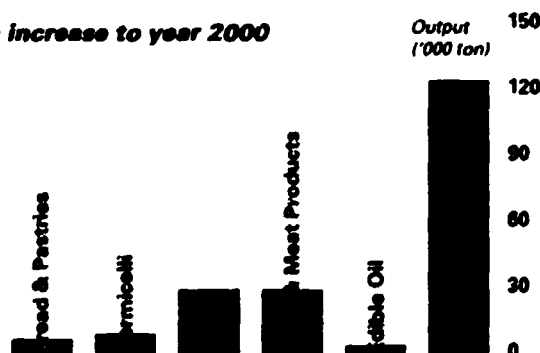
Other historical products include the remains of the Guge kingdom, Tombs of Tibetan Kings, Sakya Monastery, Jokhan Monastery, Trashiunpo Monastery and Daipung Monastery.

INCENTIVES

There are some specific incentives that apply to the tourism sector. Any company whose investment exceeds \$5m or RMB30m and operates for over 10 years, qualifies for a three-year tax holiday. In the fourth year a 50% tax break is available. These only apply when the company is in profit.

Investments below \$5m and for less than 10 years are exempt from paying tax for the first two years and receive a 50% break for the third year. ■

Production increase to year 2000



Private sector traditions surface

Economic targets depend on new enterprise reforms and attracting investments.

THE PRIVATE SECTOR is traditionally stronger in Tibet than in the rest of China. Most hotels, restaurants and small shops are in private hands. The only exclusively state-run sectors are forestry, gold and electricity.

In 1993, a stock exchange was established in Tibet with a handful of companies listed. In addition all prices, apart from food, have been liberalised. This also applies to most of the property market. Generally industrial rents have been freed up. All retail and office prices have been liberalised.

Public ownership is supplementary to the private sector rather than an alternative replacement. There are 500 state-owned enterprises.

Tibetan enterprises are being rationalised as the local government seeks to boost efficiency levels. Around 34 state-owned enterprises have been closed down as part of this drive. Many of the enterprises suffered from duplication of markets.

Also, there are initiatives underway to reduce the state's role in running the businesses. The separation of management and ownership is a key task for future development.

The eventual aim is to create larger, more autonomous enterprises which have control over business activities which are currently in the state domain. These include: finance, distribution, labour and production.

The planned economy in Tibet provides more of a guideline than the rigid system it is in other areas of China. Internally, the region is, in practice, almost a free market. Boundary trade with the neighbouring Asian countries does take place on a small scale within the sphere of the private sector and is growing fast. However, formal exports are still controlled by central government.

Despite its huge surface area, compared with other south-west regions, the Tibet economy is very small. Out of a regional total of 1.4m enterprises, Tibet accounts for 5,000. Total industrial investment in fixed assets is RMB200m (\$23m).

Tibet's output is growing at around 6% a year. Considerably slower than coastal areas but on a par with other south-west China growth rates. In 1979, gross output was RMB100m (\$11.5m). By 1993 it had risen to RMB3.65bn (\$420m).

The local government aims to improve this figure to an annual average growth rate of 8% between 1993 and the year 2000. However, this is likely to require a significant increase in subsidies. For the



2000 targets to be met it is estimated that the national government would have to pour in around \$1.53bn in state subsidies.

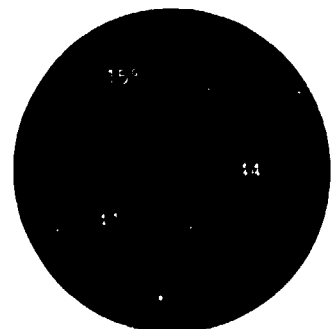
If the growth targets are achieved much also depends on the continued growth of the fast-expanding tertiary sector. Between 1985 and 1992, it averaged 5% growth. Primary and secondary industry averaged 1.25% and 1% respectively.

In terms of population, over 95% is employed in the agriculture-related sector. About 60% in farming and 34% in livestock breeding.

The economy, as a whole, suffers from an overdependency on the tertiary and primary sectors. There is little production and manufacturing. The secondary sector accounts for 13.4% of GDP and tertiary almost 37%.

Government estimates for future growth in these three sectors between 1993 and 2000 are optimistic. Primary industry is predicted to grow by 10%, secondary industry 11.7% and tertiary 10.5%.

Economic breakdown-1992



UNIDO Investment Promotion projects in Tibet

Project No.

Manufacture of Food, Beverage and Tobacco

- CPR/TIB/001** Products: Fruit Processing: Candied fruit, dried fruit and fruit juice; Quantity: 975 Tons; Location: NyingZhi, Tibet; Total investment: \$0.32m; Foreign Resources Required: Managerial Expertise, Equipment, Joint Venture.
- CPR/TIB/002** Tea Processing, 300,000 Kg; NyingZhi, Tibet; \$1.21m; Equipment, Market access, Joint Venture.
- CPR/TIB/003** Mixed Animal Feed, 15,000 Tons; Shigatse, Tibet; \$1.25m; Joint Venture.
- CPR/TIB/004** Beer, Light and Dark, 12,000 Tons; Lhasa, Tibet; \$9.39m; Technical/managerial Expertise, Joint Venture, Equipment, Market access.
- CPR/TIB/005** High Quality Natural Spring Mineral Water, 19,200 Tons; Amdo, Tibet; \$13.71m; Equipment, Market access, Barter, Joint Venture.
- CPR/TIB/006** Processing of Natural Mineral Water, 6,000 Tons; Lhasa, Tibet; \$1m; Managerial Expertise, Market access, Joint Venture.

Textile, Wearing apparel and Leather Industries

- CPR/TIB/007** High Quality Woollen Carpets, 5,000 sq m; Xigaze City, Tibet; \$2.1m; Technology acquisition, Equipment, Joint Venture, Market access, Barter.
- CPR/TIB/008** Leather Consumer Goods, such as coats and shoes, 200,000 Pcs; Shigatse, Tibet; \$0.7m; Managerial Expertise, Equipment, Market access, Joint Venture.
- CPR/TIB/009** Finished Leather Goods: Shoes, Case covers, Clothing, Fur Coats, 155,000 Pcs; Nagchu, Tibet; \$6.26m; Technical Expertise, Equipment, Market access, Joint Venture.

Paper and Paper Products, Printing & Publishing

- CPR/TIB/011** Offset Paper for Books and Periodicals, 3,000 Tons; Paper Board, 1,500 Tons; Toilet Paper, 300 Tons; Lhasa, Tibet; \$5.36m; Managerial Expertise, Equipment, Joint Venture.

Manufacture of Chemicals and Chemical, Petroleum, Coal, Rubber, Plastic Products

- CPR/TIB/012** Plastic Weaving Bags, 7m; Plastic Films, 400 Tons; Plastic Tubing for construction, 150 Tons; Lhasa, Tibet; \$3.2m; Joint Venture.

Other Manufacturing Industries

- CPR/TIB/013** Arts and Crafts: Knives, Masks, Tapestries, Carpets, Botanical Medicines; Lhasa, Tibet; \$1.65m; Market access, Joint Venture.

Restaurants and Hotels

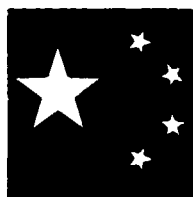
- CPR/TIB/014** Tibetan Shigatse Hotel, 100 Rooms; Shigatse, Tibet; \$8m; Joint Venture.



Useful contacts

Office of the Economic
Co-ordination Commission of the
Tibet Autonomous Region for External
Introduction and Internal Co-operation
155, East Beijing Road, Lhasa
Tibet, China
Tel: 22598 22948 35237
Fax: 35237

YUNNAN



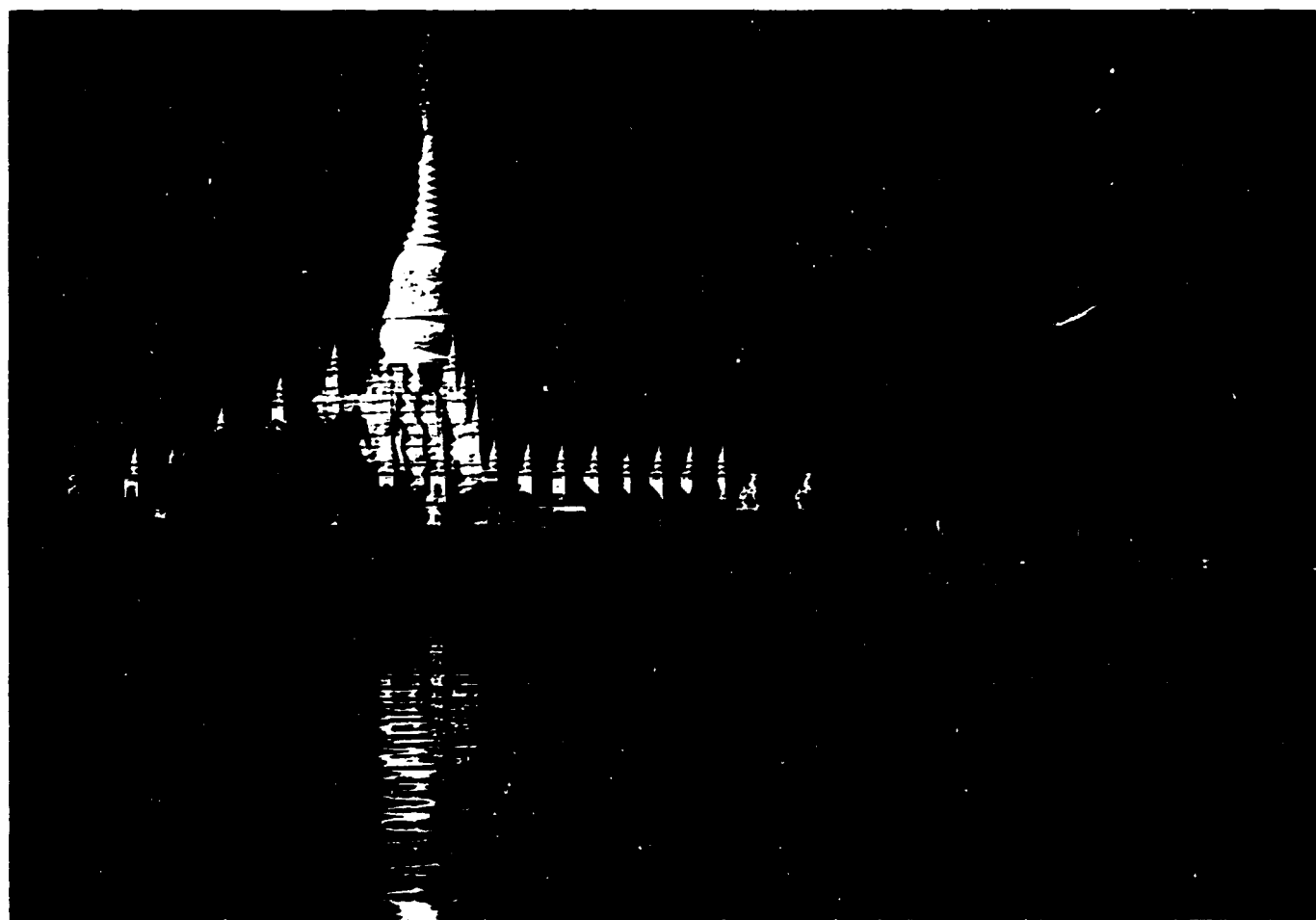
REGIONAL REPORT

PEOPLE'S REPUBLIC OF CHINA

Yunnan

PROVINCE

INVESTMENT GUIDE



INTRODUCTION

INFRASTRUCTURE

INVESTMENT OPPORTUNITIES

UNIDO PROJECTS



PREPARED FOR UNIDO BY CORPORATE LOCATION

Transport links lead growth plans

The strategically positioned province of Yunnan is close to some of Asia's key emerging markets. To take advantage of this the provincial government plans a platform of new transport and communications projects.

THE PROVINCE OF Yunnan is in the south-west of China, bordering Burma (Myanmar), Vietnam and Laos. It covers a mountainous region of more than 394,000 sq km in area, running 865 km east to west and 990 km north to south.

POPULATION

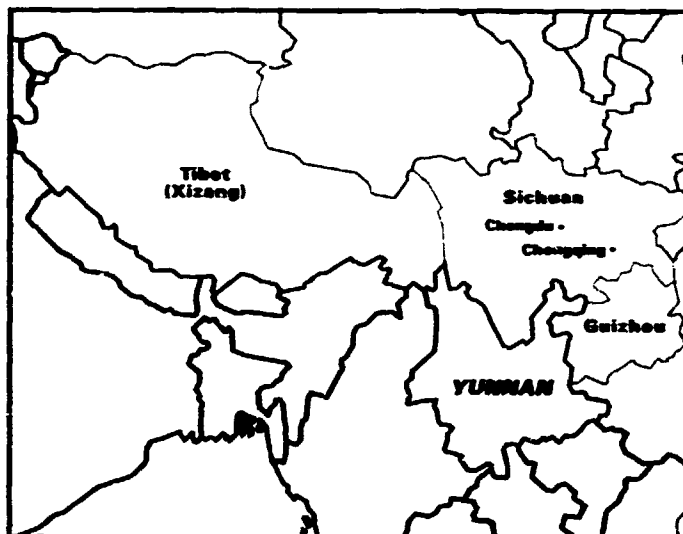
Population density reflects this topography with more than 300 people per sq km in certain areas and districts in the flatter south and east of the province, while in Yunnan's north-west mountain-valley area it is as low as seven people per sq km. The population of Yunnan is 38.85m - accounting for around 3% of the total population of China.

With mountains and plateaus covering more than 94% of Yunnan, economic and infrastructural development has been constrained to southern and central areas. The centrally located capital, Kunming, is the administrative, political, communications and economic centre of the province. Other major cities include Ruili, Wanding and Hekou. All are open to foreigners.

RICH

The province, rich in natural resources and having a favourable climate, has earned itself in China the title of "kingdom of plants", "kingdom of non-ferrous metals" and "garden of ever spring". The GNP of the province doubled during the period of the seventh five year plan (1986-1990).

The province has a relatively low level of industrialisation. There are 172,000 enterprises (around 22,000 less than Guizhou which has a lower popula-



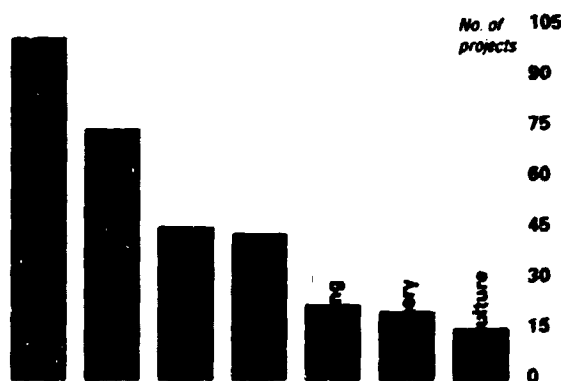
tion) with a recorded total industrial investment of RMB1.3bn (\$149m) in 1990 (RMB200m less than Guizhou).

But the province could develop into an attractive investment location. Yunnan is throwing its weight behind new transport and communications initiatives. The aim is to develop the province into a gateway location to the emerging south-east Asian markets that it borders. If these markets develop, then Yunnan is likely to as well.

The province's performance in attracting foreign capital is expected to improve as these changes are made. The local government is aware that Yunnan has a widening economic gap with the coastal areas. Steps have been taken towards introducing enterprise reforms. Proposals have been forwarded to Beijing that would increase Yunnan enterprises' autonomy.

As the emphasis has been on developing transport links, Yunnan has attracted much of its foreign capital in the form of loans. It differs from other south-west provinces as its attraction strategy is two-tiered. It relies on attracting loans as much as private-sector direct investment. Foreign loans were initially sought in 1983. There are now 32 agreements with foreign institutions for loans with a contracted value of over \$300m. Most of this is used to develop infrastructure. Around 30% of the funds have been used on telecommunications pro-

Main Investment Sectors



jects. Unlike attracting foreign direct investment, the business of getting loans has not been devolved to provincial government. It is still controlled nationally.

FOREIGN INVESTMENT

Yunnan began work to attract inward investment in 1984. Preferential policies to encourage investment were introduced in 1991. A series of regulations for encouraging foreign investment was issued by the Yunnan Provincial Government in September 1992. These regulations provide favourable tax, land, and industrial policies to protect the interests of investors and to improve the relevant service systems. A foreign investment management and service centre has also been established. Local authorities plan to target three main industry sectors for investment:

- Agriculture and agriculture-related
- Basic manufacturing
- Transport

Between 1984 and 1991, joint venture levels were low (only 73 projects). In 1992, more than 200 joint-venture projects were attracted and in 1993, there were around 370 approved projects.

The growth in projects has been mirrored by a growth in the number of countries investing. Before 1991, only six countries were represented by companies in Yunnan, compared with 23 presently. However, investment is dominated by Hong Kong and Taiwanese businesses which together account for 60% of all projects.

Since the process of reform and opening to the outside world began 15 years ago, the economy of Yunnan Province has been growing at an annual rate of 10%, and its aggregate economic strength has increased remarkably.

Light industry has attracted 101 projects and is the largest investment sector. Real estate is the second most important with 74 projects. The tertiary sector is expected to develop. Representative offices of banks from Singapore, Thailand, Malaysia, Hong Kong all have announced an intention to set up offices in Yunnan.

Corporate income tax rates are being lowered to increase the competitive position of the province. Local government officials are trying to have the rate lowered to close to 15% (in coastal areas the average tax levied is around 24%).

Yunnan has borders with Burma, Myanmar and



Venue of the Kunming & Commodity Export Trade Fair.

Laos. Cross-border trade and investment is growing between these countries and Yunnan. The Chinese yuan is acceptable currency in these bordering countries and can be used in setting up joint ventures.

DOING BUSINESS

Foreign firms can enter Yunnan in three ways:

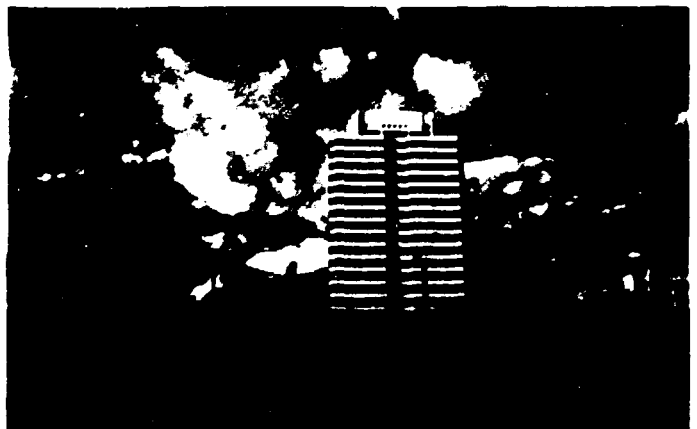
- joint venture/co-operation
- shareholding
- sole ownership

Projects with an investment value below \$10m can be approved by the provincial government. However, the procedures are cumbersome. Feasibility studies for joint ventures have to be approved by the Provincial Planning Commission. Regulations and contracts have to be approved by the local commission, and registration is at the local level. However, once the project is up and running, approvals are granted at the provincial level. And, if the investment exceeds \$10m, then it is administered at the national level.

The provincial planning commission has plans to simplify the procedures and reduce the intensely bureaucratic system.

Four industrial areas have been earmarked for preferential treatment in Yunnan: basic infrastructures, processing of raw materials, high and new technologies and agriculture. ■

Office Building of Yunnan Provincial Foreign Trade & Economic Co-operation.



The Top 10 Investors in Yunnan province.

- | | |
|--------------|--------------|
| 1. Hong Kong | 6. Thailand |
| 2. Taiwan | 7. Macao |
| 3. US | 8. Australia |
| 4. Burma | 9. Italy |
| 5. Singapore | 10. Canada |

Access open to new markets

New transport links will improve market access and also provide investment opportunities.

Infrastructure is being upgraded in all areas across the province. The local government has prioritised the transportation sector as a major investment opportunity and several projects are underway which will boost road, rail and air links from Yunnan. Most of these are open for foreign funding.

Yunnan has the geographic advantage of being located on the borders of the three emerging south-east Asian markets of Laos, Myanmar and Vietnam. The province is only 200 km away from the Thai border. It has nine state ports and eight provincial ports, and 90 passages are open leading to neighbouring countries.

Most of the new infrastructure projects reflect the increased need to improve access to these markets. Yunnan is at the gateway to these areas but does not have the infrastructure to take advantage of its favourable location.

RAIL

At present, the province has 16,930 km of railway with an annual volume of freight of more than 26m tons.

Passenger trains run directly from Kunming to Beijing, Hangjia, Chongqing, Chengdu and

There are around 50,000 km of highways in Yunnan.

Guiyang, transporting more than 10m passengers each year.

A railway link is being built between Kunming and Bangkok, Thailand. The \$690m project will strengthen links between Yunnan and the south-east Asian markets of Laos, Thailand, Kampuchea and Malaysia. The link will be 1,320 km long and will be constructed by the Yunnan provincial government. The Government is looking for foreign partners to help with funding either through joint ventures, loans, compensation trade, or equipment.

Other new rail projects include a link between Anbian and Sushushe, on the Kunming-Neijiang line. When complete, the new 364 km line will provide the quickest access to the South China Sea and Yangtze River from south-west China. The project is estimated to cost around \$420m. Already a \$30m foreign loan has been approved for the line.

Another line is to be built from Dali to Ruili city in Yunnan. This link will mean a direct line is available from the coastal Guangdong province through Kunming to Dali. It is likely to be a well-used line as it will provide one of the major links to south-east Asian markets from coastal China. The line will cost around \$636m to build. It is potentially profitable with the likely goods traffic the line could eventually carry.

The \$172m Guang-Da railway is due to be completed in 1995. To the west of the province, the railway will link eight prefectures, regions and cities in an area rich in natural resources.

ROADS

Roads are of great importance to Yunnan as the mountainous topography severely limits railway development. Around 60,000 km of highways are open to traffic in the province.

The Yunnan Provincial government has invested heavily in infrastructure during the past decade to improve its investment environment. In the next year three new high-grade highways will be completed, linking Kunming with Yuxi, Chuxiong, and Qujing. Meanwhile, highways leading to Vietnam, Laos and Myanmar are also being constructed.

Highways are generally of a very low grade, however, with less than 38,000 km unsurfaced and only 7,800 surfaced. Nevertheless, 98% of towns and 64% of the province's villages have transport services.

AIR

Kunming International airport, already one of the five largest gateway airports in China, is undergoing further expansion. This \$36m investment includes a new \$18m passenger lounge, a \$9m freight distribution centre and a \$9m aviation services centre. Foreign partners are being sought to finance these projects.

Direct flights link Kunming to Beijing, Guangzhou, Shanghai, Changsha, Xian, Nanning, Guilin, Chongqing, Chengdu and Guiyang as well as Rangoon and Hong Kong. In addition, international flights to Thailand, Malaysia and Singapore have recently been added.

Yunnan has four other civil airports: Simao, Baoshan, Zhaotong and Lijiang.

TELECOMMUNICATIONS

Yunnan's telecommunications links are inadequate for the needs of modern business, and upgrading facilities has been one of the priorities for the provincial government. Around 30% of money received from foreign loans has gone towards telecommunications.

International and local post and telecoms businesses have been opened to offer services covering telegrams, telex and telecasting. All communications, however, are centred in the provincial capital, Kunming. Post and telecom services remain con-

siderably under-developed in much of the province. Outdated equipment and backward techniques make services unreliable and unable to meet demand.

ENERGY

There are many rivers in Yunnan offering opportunities for industrial and power exploitation. The trunk streams, with more than 300 branches, of the six major rivers which run across the province provide more than 5,000 km of waterways.

Of Yunnan's rivers, 300 provide a potential energy of 10,000 kilowatts each. The main streams of the Jinsha, Lancang and Nujiang rivers provide more than 85% of the province's potential hydro-electric energy. The Jinsha River alone has the generating capacity of 196bn kilowatt hours per year.

The Chinese authorities have undertaken surveys which indicate there is potential for 213 power stations to be built in Yunnan with a generating capacity of more than 10,000 kilowatts.

Scope exists for those with a capacity of more than 750,000 kilowatts each. A number of power station projects have been established, and foreign involvement is being actively sought.

At present, there is a large number of small and medium sized hydro-electric power stations, providing an adequate energy supply to the province. ■

Doing Business

JOINT VENTURES

Foreign-owned companies looking to set up a joint venture with a Yunnan-based enterprise are advised to carry out the following steps:

- Discuss the proposal with the relevant enterprise or economic entity, and sign a letter of intent or agreement.
- The Yunnan partner must present a preliminary feasibility study or project proposal to the relevant local authority. The project proposal must then be approved by the local authorities and the Yunnan Provincial Planning Commission.
- After this approval is granted the two sides present a feasibility study report to the Commission for approval. The Commission will reply within 40 days of receipt.
- After the feasibility study is approved, the two sides sign and present the joint venture contract for approval to the Yunnan Provincial Foreign Economic Relations and Trade Bureau. A decision will be made by the Bureau within 20 days.
- After approval, the joint venture partners must apply to the Administration for Industry and Commerce of Yunnan Province for registration and a business licence.
- The date the business licence is issued constitutes the start of the establishment of the joint venture.

WHOLLY FOREIGN-OWNED SUBSIDIARIES

The following procedures are suggested:

- Submit application report to Yunnan Provincial Foreign Economic Relations and Trade Bureau.

- The Bureau shall reply within 30 days upon receipt of the report.
- After receiving the reply, the foreign investor is asked to hand in the following documents:
 - Application form for setting up the wholly foreign-owned enterprise
 - Feasibility study report
 - Articles of association
 - List of legal person(s) or members of board of directors
 - Legal documents supporting the identity and credit of the foreign investor
 - Other necessary documents.
- The Bureau shall decide whether to approve or disapprove the establishment of the enterprise within 90 days of receiving all the documents.
- After approval foreign investors must apply to the Yunnan Provincial Administration for Industry and Commerce for registration and a business licence within 30 days after the date of approval and go through the formalities of tax registration.



Foreigners meeting with Yunnan officials.

Favoured sectors

Yunnan's natural resources are the core of most of the investment opportunities in the province.

Forests cover more than one-quarter of the province, 85% of which is capable of yielding timber. Yunnan has more than 2,700 species of trees including varieties of pine, oak, magnolia and birch.

The north-west mountain conifer region has the majority of the province's forest resources with two other major pine forest varieties spread throughout Yunnan. A subtropical broadleaf forest region lies in the southern border areas.

It is estimated the province's annual growing volume of forestry is around 42m cubic metres while the consumption of forest resources runs at around 45m cubic metres providing a ready market.

The forestry industry has some restrictions on foreign participation. However, this mainly applies to projects which are deemed harmful to the environment.

AGRICULTURE

The main cereal crops in the region consist of cultivated rice and maize. Economic crops such as rape, wild cabbage, sugar cane, tea and fruit trees are also grown.

Tropical cash crops include pine, camphor, rubber, coffee, tea, mango, banana, teak, oil palm, and cashew nuts as well as over 1,000 kinds of medicinal herbs such as pseudo-ginseng, Chinese angelica, and fuling (*Poris cocos*).

Important sectors are farming, animal hus-

bandry, sideline production and fish. Agriculture prospers in the region with its mild climate giving small change in the air temperature throughout the year. In spring and winter it is sunny and rain is infrequent. In summer, the air temperature never exceeds 35 degrees C, and rains are not severe. Rainfall generally tends to be lighter in the higher-altitude northern areas.

More downstream activities are being encouraged. The food industry has been the single most important sector for the province in recent years, making up more than 30% of total industrial output value. More than 3,600 enterprises employ 100,000 people in tobacco, sugar, tea, cereal, oil, animal by-products, fruit, vegetable, dairy and beverages, canning and processing. New technology is being introduced to increase production in the rubber, tea, tobacco and sugar sectors.

Tobacco is the single most important food-related industry. It generates around 50% of provincial food industry revenue. Investments made in upgrading production technology during the period of the seventh five-year plan have boosted output of cigarettes. Yunnan now produces 12.7% of the national total. Exports increased to \$410m during the same period.

MINERALS

Yunnan is home to a wealth of minerals, metals and rare elements. In total, proven reserves of all minerals totals around 17.7bn tons. Reserves of brown coal are the largest in China.

The province is one of the richest mineral areas in the whole of China with the first, second or third largest deposits of 20 mineral types of anywhere in the country. A further 34 rank fourth to 10th nationwide by size of deposits. There are 82 identifiable different types of minerals in Yunnan.

Yunnan is known to have 24,000m tons of coal deposits with potential for a total of 67,400m tons. Of known coal deposits, 15,000m tons is low grade brown coal which is found throughout the region and in Zhaotong, Honghe, Chuxiong and Qujing prefectures in particular. This is used to heat power plants and for the domestic chemical industry. Qujing is home to the majority of bituminous coal, 3,600m tons has already been discovered.

There are 340m tons of proven high quality anthracite reserves although prospective deposits may total more than 20,000m tons. Nearly 80% of known anthracite deposits lie in Qujing prefecture.

Ferrous metals such as iron, manganese, chromite, ilmenite and vanadium can also be found in abundance. Known deposits are 2,200m tons.

Yunnan has the largest iron deposits in China.



One of the varieties of orchid being cultivated by foreign investors in Yunnan.

These are concentrated in the central and southern parts of the province. Manganese deposits are good quality with reserves around 30m tons. The province also has the second largest reserves of ilmenite with 5.5m tons.

The "kingdom of non-ferrous metals" boasts 20 different metals including lead, zinc, copper, platinum, nickel, bismuth, mercury, cobalt, tungsten, molybdenum, gold and silver. These are found in more than 100 counties across Yunnan province with proved reserves of more than 34m tons.

Lead and zinc are two of the most abundant minerals with reserves of more than 23m tons, the largest in China. They are also easy to exploit. Copper deposits lie mainly in Dongchuan, Yimen, Dayao, Muding, Xinping, Gejiu and Zhongdian with proved reserves of more than 7m tons.

Yunnan ranks second in China for its reserves of platinum. It is also home to 14 different rare earth elements some of which rank first in China in the size of their deposits.

The province is also rich in industrial chemicals and non metallic minerals. There are proven reserves of 3,000m tons of phosphorous.

Many non-metallic minerals, for use as building materials, are also present. Mica, quartz for glass, raw materials for cement, graphite, feldspar and gypsum have all been found in large quantities. Special non-metallic minerals, auxiliary materials for metallurgy and gems and jades also offer potential.

BASIC INDUSTRY

Non-ferrous metals and chemicals are the main basic industries. Coal and power production are currently sufficient to meet energy-intensive industries' requirements. However, the growth of the industry will be reliant on a parallel growth in power generation projects.

Yunnan has several large enterprises engaged in the processing of metals and minerals. The province is now one of the metallurgical production centres for China. Although foreign investment in the precious metals sector is restricted, all other metals sectors, such as steel, are unfettered.

The emphasis is on developing the steel industry. The Kunming Steel Co. is one of China's largest. New technologies are to be introduced as a greater range of steel products is developed.

Yunnan's chemical industry is centred around Dianchi, employing more than 81,500 people. There are over 150 chemical enterprises in 52 counties and districts of 11 prefectures and cities. Only two, however, are large-scale operations and a further 10 are medium sized.

The principal activities of the chemical industry cover fertilisers, rubber processing, mining, agricultural chemicals, basic chemical materials and organic chemistry. Yunnan has established itself as the leading Chinese producer of phosphorous.

MANUFACTURING

The machine building industry is one of Yunnan's key activities. Its output value ranks second or third in the province's major industries and accounts for around 6% of its total industrial output value.

A workshop of Kunming Baite Norton Pharmaceutical.



Machine tools, electrical appliances and trucks form the core of manufactured goods. There are 10 sectors covering instrumentation, meters, and machinery for the petro-chemical, mining, and food-processing industries.

The building materials sector is also considerable in Yunnan, with more than 1,500 enterprises across 12 sectors employing 76,000 workers. Major products are cement, bricks and tiles, and plate glass.

Nevertheless, the Yunnan authorities are aware the province is heavily reliant on imports of many finished materials. Yunnan has begun to develop new types of building materials, and with the abundant resources in the region, local authorities expect Yunnan to become a major centre for the building materials industry.

The electronics industry has been a late arrival into Yunnan. In 1987 it only had six production lines involved in the manufacture of micro computers, TVs, radios, audio equipment and tapes.

There are not many major investment projects in the manufacturing sector.

TOURISM

The development of the tourism sector began in 1978. There are two main types of tourism resources in Yunnan: natural resources and cultural resources. The east Asian tourist market is to be developed as transport links improve to Vietnam and Thailand. Growth in Yunnan tourism has averaged between 20 and 30% every year from 1978. and overseas arrivals have grown by 48% a year.

The new transport links are aimed at boosting tourism figures. Arrivals from Thailand and Singapore have increased almost fourfold since direct air routes to those two countries were introduced from Yunnan. A number of joint venture projects in the hotel and restaurant sector have been established to attract foreign capital.

Projects include a \$5m tourism amusement centre in Kunming, a fleet of tourist boats which will sail along the Lancang-Mekong River, a cable car to Lijiang Yulong Snow Mountain (\$30m), an extension to the Stone Forest Hotel, motorboats for Erhai lake, a \$10m holiday village in Ruili City and various projects in Dali Tourism and Holiday Zone.

Until now, there has been little foreign investment in Yunnan tourism. This has been largely due to Yunnan's low profile and its lack of a defined tourism investment programme. Guidelines regarding investment in tourism have recently been prepared by the local government to address these problems. ■

UNIDO Investment Promotion projects in Yunnan

Project Number

Textile, Wearing apparel and Leather Industries

- CPR/YUN/001** Products: High count, wide grey fabric; Quantity: 80m sq.m; Location: Kunming, Yunnan; Total investment: \$13m
Foreign resources required: Technical/managerial Expertise, Equipment, Technology acquisition.
- CPR/YUN/002** Sisal fibre, Saponin and cloth; 2050 Tons; Chuxiong, Yunnan; \$4.3m; Equipment, Market access, Technology acquisition Joint Venture.

Manufacture of Chemicals and Chemical, Petroleum, Coal, Rubber, Plastic Products

- CPR/YUN/005** Organic Silicon Monomers, Chloric Methane and Polymers, 50,000 Tons; Kunming, Yunnan; \$13m; Technical expertise, Equipment, Market access, Joint Venture.
- CPR/YUN/006** Calcium-Carbide products, 1,000 Tons; Qujing, Yunnan; \$1.18m; Technology acquisition, Joint Venture.
- CPR/YUN/007** Metal Sodium Production, 2,000 Tons; Kunming, Yunnan; \$5.2m; Technical expertise, Equipment, Market access.
- CPR/YUN/008** Polyester Spunbond, 3,000 Tons; Kunming, Yunnan; \$12.25m; Technology acquisition. Equipment, Joint Venture.
- CPR/YUN/009** Latexed Polyester Fiber Cord, 2,000 Tons; Kunming, Yunnan; \$8.8m; Technology acquisition, Equipment, Joint Venture.
- CPR/YUN/010** High Purity Zinc Oxide, 40,000 Tons; Kunming, Yunnan; \$20m; Equipment, Market access, Joint Venture.
- CPR/YUN/011** Antibiotics: Ribomycin, Ribomycin sulphate; Kunming, Yunnan; \$7.3m; Technology acquisition, Equipment, Market Access, Joint Venture.
- CPR/YUN/012** Antibiotics: Cenalaxinum, Cefazolinum, Cefradine, Cefacetrile, 100 Tons; Yu Xi, Yunnan; \$50m; Technology acquisition, Equipment, Market Access, Joint Venture.

Manufacture of Non-Metallic Mineral Products

- CPR/YUN/013** Coloured Glass Produced by the Float method, 108,000 Tons; Kunming, Yunnan; \$57.6m; Technical expertise. Equipment, Market Access, Joint Venture.
- CPR/YUN/014** Marble and Granite slabs, 100,000 sq.m; Finished stone Handicrafts, 30,000 pcs; Kunming, Yunnan; \$2m; technical expertise, Equipment, Market access, Joint Venture.

Manufacturing of Fabricated Metal Products

- CPR/YUN/015** Cylinder Sleeves, Cast Iron 85-135 mm, 2m Units; Yunnan; \$10.6m; Equipment, Joint Venture.
- CPR/YUN/016** Wire Cord for Meridian Tires, 2,000 Tons; Qujing, Yunnan; \$14.5m; Technology acquisition, Equipment. Joint Venture.

Manufacturing of Machinery and Equipment

- CPR/YUN/019** Clear water, Industrial and Vacuum Pumps, 20,000 Units; Kunming, Yunnan; \$8m; Technology acquisition, Joint Venture.
- CPR/YUN/020** Refrigerators, Development of non-freon refrigerator, 200,000 Units; Kunming, Yunnan; Technical/Managerial Expertise, Technology acquisition, Equipment, Market access.

Manufacturing of Electrical Machinery Appliances and Supplies

- CPR/YUN/021** High-efficiency motors, Spindle motors, service motors, 30,000 Units; Kunming, Yunnan; \$5m; Technology acquisition, Equipment, Joint Venture.
- CPR/YUN/022** Telecommunication-equipment incl. TV-phone, Mobile phone, Fax Machines, 30,000 Units; Kunming, Yunnan; \$0.8m; Technical/Managerial Expertise Equipment, Market access, Joint Venture.

Manufacturing of Transport Equipment Accessories

- CPR/YUN/023** Passenger Bus, Development and Production, 5,000 Units; Kunming, Yunnan; \$30m; Technical/Managerial Expertise, Technology acquisition, Equipment, Joint Venture.
- CPR/YUN/024** Four cylinder direct injection chamber diesel engine, 80,000 Units; Kunming, Yunnan; \$25m; Technical Expertise, Technology acquisition, Joint Venture.
- CPR/YUN/025** Luxury bus and chassis, 1,000 Buses, 2,000 Chassis; Kunming, Yunnan; \$17m; Technology acquisition, Equipment, Joint Venture.
- CPR/YUN/026** Automobile Gear Boxes and Crank Shafts, 70,000 Units; Kunming, Yunnan; \$10m; Technology acquisition, Equipment, Joint Venture.
- CPR/YUN/027** Automobile Dies and Welding Fixtures, 850 Units; Qujing, Yunnan; \$34m; Technical Expertise, Technology acquisition, Equipment, Joint Venture.

Electricity Gas and Steam

- CPR/YUN/028** Electric Power from Thermal Power Station, 7.2 bn KWHrs; Kunming, Yunnan; \$1000m; Technology acquisition, Equipment, Joint Venture, Subcontracting.
- CPR/YUN/029** Electric Power from Hydro-Power Station, 7.2 bn KWHrs; Kunming, Yunnan; \$1000m; Technology acquisition, Equipment, Joint Venture, Subcontracting.

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