

## CHAPTER 11

# Yunnan's Industrial Development Policy and Intermediate Goods Trade with MRBCs

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# **CHAPTER 11**

## **YUNNAN'S INDUSTRIAL DEVELOPMENT POLICY AND INTERMEDIATE GOODS TRADE WITH MRBCS**

*Zhu Zhenming*

### **INTRODUCTION**

To research change and development in industry is a key for understanding Yunnan's economic and social development. Since the founding of the People's Republic of China, significant changes have taken place in Yunnan's industries. Yunnan has been an agricultural province for a long time. The policy of "taking grain as a key link" had been carried out before the reform and opening. Although Yunnan is rich in natural resources, basic industry foundation lags at inland and coastal areas in China.

In 1978, China began a great reform and opening process and Yunnan also entered a new development period. Since the reforms and opening up, Yunnan has identified an economic development strategy, especially for the rational distribution of industry based on research of its resources, economic development level, and markets at home and abroad.

In the early 1990, the Yunnan Provincial Government decided to develop five pillar industries, namely tobacco, mining, power (mainly hydropower), biology and tourism. Up to today, the five industries still play a major role in Yunnan's economic development. In recent years, the Yunnan Provincial Government has readjusted the

industrial structure and decided to develop the top 10 industries based on changes of Yunnan's economic and social situation.

In Yunnan's opening up, the province attaches importance to opening to Southeast Asian countries, especially the MRBCs (Mekong River Basin Countries): Cambodia, Laos, Myanmar, Thailand and Vietnam. Foreign trade is an important aspect in Yunnan's opening to Southeast Asian countries despite not being a pillar industry of Yunnan Province, although it has great prospects and potential.

This report will discuss issues of Yunnan's industrial development policy and intermediate goods trade with the MRBCs.

## **1. YUNNAN'S BASIC ECONOMIC SITUATION**

Yunnan is situated in the southwest frontier region of China. It has a total territory of 394,000 square kilometers, ranking eighth in China with a straight line distance of 864.9 kilometers from east to west and 990 kilometers from south to north. By the end of 2008, Yunnan had a population of 45.43 million,<sup>1</sup> mostly ethnic minorities. Yunnan borders on Guizhou Province and the Guangxi Zhuang Autonomous Region in the east, the Tibet Autonomous Region in the northwest and Sichuan Province in the north. It has a boundary line of 4,060 kilometers bordering on Myanmar, Laos and Vietnam in the west and in the south. It is close to Thailand, Cambodia, Malaysia and Singapore and some South Asian countries such as Bangladesh and India. Based on these conditions, Yunnan Province is called a bridge or a passageway connecting China to Southeast Asia and

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<sup>1</sup> Bureau of Statistics of Yunnan Province, Statistics Communiqué of Yunnan Province on the 2008 National Economic and Social Development, published on March 31, 2009.

South Asia by land.

Yunnan is known for its rich natural resources and is rightfully called the “kingdom of plants, animals and non-ferrous metal.” To date, 142 minerals have been found in Yunnan, 83 percent of all known kinds. Eighty-six minerals have been proved, of which 62 rank among the top 10 in China, with 25 ranking among the top three. Its reserves of lead, zinc, zirconium, thallium, strontium and diatomite rank first in China. There are 19 minerals, including tin, nickel, cobalt and copper, that rank either second or third in China.<sup>2</sup> Some non-ferrous mineral deposits have also been found in Yunnan.

Yunnan is an upper stream of three international rivers, the Mekong, Irrawaddy and Hong (Red) rivers. The reserve of Yunnan’s water resource is 222 billion cubic meters, accounting for 8.4 percent of the total in China. The big rivers running through Yunnan bring in a flow of 194.3 billion cubic meters (15 percent of the total in China), much higher than the average elsewhere in the country. The hydropower resources in Yunnan reach 103 million kilowatts, accounting for 15 percent of the total in China. The potential installed capacity is over 90 million kilowatts, or 20.5 percent of the country’s total, which can produce 394 billion kilowatt-hours, ranking second in China.<sup>3</sup>

But owing to historical reasons, although Yunnan possesses rich natural resources and the geographic advantage of access to the Southeast Asian market, the province was in a poor state and stayed underdeveloped for a long time. Up to 2008, there still were 5.5 million people living in rural and remote areas of poor state in Yunnan

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<sup>2</sup> Yunnan Nationalities University ed, Yunnan, Yunnan Education Press, 2000, p5, and Yunnan Daily Sept. 4, 2009.

<sup>3</sup> Yunnan Nationalities University ed, Yunnan, Yunnan Education Press, 2000, p6.

Province. To eliminate poverty and catch up with the national development level is a hard task.

After China carried out policies of reform and opening up, Yunnan met with a rare opportunity of development. In the 1990s, the Yunnan Provincial Government put forward a development strategy, namely building Yunnan as a power province with a “green” economy, a province with a rich and colorful national culture and a major passageway toward Southeast Asia and South Asia.

Through difficult and lengthy efforts, substantial changes have been achieved in Yunnan Province. The province has realized three important transformations. These are a highly concentrated planned economy turning into a socialist market economy, a self-enclosed economic and social operation style turning into an open economic and social operation style, and the food and clothing for the people becoming sufficient overall.

According to the Yunnan Statistics Bulletin of National Economy and Social Development of Yunnan Province, in 2009 Yunnan’s GDP reached 616 billion yuan (RMB, about 92 billion USD), an increase of 12.1 percent over the previous year. The per capita GDP reached 13,539 yuan (about 1,983 USD), up 11.4 percent over the previous year.<sup>4</sup>

City and town dwellers’ per capita disposable income reached 14,424 yuan, an increase of 8.3 percent, and farmers’ per capita net income reached 3,369 yuan, up 9.8 percent.<sup>5</sup> The value added of Yunnan’s tertiary industry reached 252 billion yuan, an increase of 13.4 percent. The number of tourists from home and abroad reached 120

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<sup>4</sup>Statistics Bulletin of National Economy and Social Development of Yunnan Province, published by Statistics Bureau of Yunnan Province April 13, 2010.

million. The general tourism income reached 81 billion yuan. Yunnan has trade contacts with more than 70 countries and regions around the world after the reforms and opening up. The province's foreign trade increases year after year, but as influenced by the global financial crisis, the foreign trade volume in 2009 reached only 8.2 billion USD, down 16.5 percent from the previous year.<sup>6</sup> However, in the first three quarters of 2010, the figure hit 10 billion USD for the first time in the history of the province's foreign trade.<sup>7</sup> This indicates that Yunnan's economy has reached a fair scale.

As for infrastructure, up to 2009, Yunnan's roadways totaled 167,000 kilometers, the most of all provinces in China, of which super highways accounted for 2,500 kilometers, ranking at the top in Western China. The main highways from Kunming, Yunnan's capital, to the China-Vietnam border, China-Laos border and China-Myanmar border have entirely become high-grade highways. In aviation, Yunnan has built 12 airports and shaped an aviation network linked domestically and to Southeast Asia and South Asia.

These figures show that Yunnan's conditions of development have improved to reach a well-off level. However, cross-provinces comparisons show that the gap between Yunnan and developed areas in China in economic, social and cultural development is still large. Yunnan's industrial structure is unitary and the level of industry development is lower than at the coastal areas. These factors restrict Yunnan's development.

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<sup>5</sup> ditto.

<sup>6</sup> ditto.

<sup>7</sup> Yunnan Daily, Oct 14, 2010.

## **2. YUNNAN'S MAIN PILLAR INDUSTRIES**

### **(1) Tobacco industry**

The tobacco industry has been Yunnan's most important strategic pillar industry. Yunnan is the largest production base in China for tobacco, turning out 800,000 tons of tobacco and more than 380 billion cigarettes each year. More than 2.3 million farmers in the province are engaged in tobacco cultivation. The tobacco industry has played a driving role in Yunnan's economic and social development. It has been largely responsible for the economic growth of the province, which maintained an average growth rate of 10 percent over the past 20 years. Over 70 percent of the provincial tax income comes from cigarette enterprises. The tax revenue and profits of the tobacco industry reached 62.5 billion yuan in 2009,<sup>8</sup> a record high.

### **(2) Mining industry**

The mining industry is Yunnan's traditional industry. Characteristics of the mineral resources in Yunnan are complete kinds, wide distribution, large recoverable reserves and high value. At present, workable reserves reach 3 trillion yuan.<sup>9</sup> Forty percent of this is from fuel minerals, 7.3 percent from metallic minerals and 52.7 percent from non-metallic minerals. Another major resource in Yunnan is coal, which serves as the leading form of energy used in the province. Yunnan's estimated coal reserves amount to 67 billion tons, with 23 billion tons already proven, ranking eighth in China. Seventy-six percent of the reserves are brown coal, and 21.6 percent are bituminous.

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<sup>8</sup> Yunnan Daily, Dec. 26, 2009.

<sup>9</sup> China News Agency, Sept. 1, 2010: <http://www.chinanews.com.cn/ny/2010/09-01/2503419.shtml>.

In the past 30 years, the scale of Yunnan's mining industry has greatly expanded. Yunnan has become one of China's key mineral bases. Yellow phosphorus, phosphate fertilizer and non-ferrous metal are the main products. The number of people employed in the mining industry directly and indirectly reaches more than 1 million. Of the large and medium-sized enterprises in Yunnan Province, 27.9 percent belong to mineral sectors. The Yunnan mining industry's annual output value is over 200 billion yuan.<sup>10</sup> In the mineral industry, Yunnan has set up a complete industrial chain from prospecting, exploiting and mineral separation to smelting and processing, involving ferrous metal, non-ferrous metal, rare metal, chemical products and other non-metallic minerals. By September 2010, Yunnan had carried out risk geological prospecting cooperation with well-known companies from Canada, Japan, Australia, England and South Africa, and had signed over 50 projects of risk geological prospecting with a prospecting area of 4,000 square kilometers.<sup>11</sup>

### **(3) Power industry**

The power industry is Yunnan's most competitive industry. Hydropower development is the focal point of development in Yunnan's industry. Yunnan's hydropower resources are quite abundant. The province has six major river systems comprised of over 600 rivers. The extensive river systems and variations in elevation offer Yunnan massive hydropower potential, with an estimated potential of 97 million kilowatts of power. Its generation capacity can reach 470,000 million kilowatt-hours, accounting for 25 percent of the national generation capacity. Hydropower resources of Yunnan's Jinshajiang

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<sup>10</sup> Yunnan Daily, Sept. 6, 2009.

<sup>11</sup> Yunnan Daily, Sept.1, 2009.

River and Lancangjiang River are at No. 1 and No. 3 of the national hydropower bases.<sup>12</sup> The output value of the power industry reached 100 billion yuan and value added reached 67 billion yuan in 2009. The development of hydropower resources not only meets Yunnan's demand but is also extended to other provinces and even Southeast Asian countries such as Vietnam and Laos. Up to 2010, the Manwan Hydropower Station, Dachaoshan Hydropower Station, Xiaowan Hydropower Station and Jinghong Hydropower Station on the Lancangjiang River have been completed and have started generation. The Manwan Hydropower Station has an installed capacity of 1.25 million kilowatts, the Dachaoshan Hydropower Station has 1.35 million kilowatts, the Xiaowan Hydropower Station has 4.2 million kilowatts and the Jinghong Hydropower Station has 1.5 million kilowatts. By the end of 2009, Yunnan's total installed capacity reached 31.9 GW, of which hydropower was 21.1 GW. The output of generation overflowed 110 billion kilowatt-hours, growing at an average annual rate of 17 percent.<sup>13</sup> The power industry not only plays an important role in Yunnan's economic growth and the people's lives but also contributes to economic and social development in South China and East China through transmitting power (transmission of electricity from the west to the east).

However, the rate of development of hydropower resources in Yunnan is only 5.5 percent, lower than the 17 percent rate nationally. There is huge room for development of hydropower resources.

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<sup>12</sup> Yunnan Daily, April 29, 2010.

<sup>13</sup> ditto.

#### **(4) Bio-industry**

The bio-industry is an emerging industry in Yunnan Province. The special geographical environment and climate has led to Yunnan becoming a treasure-house of natural resources in China, with biological resources being one of the most advantageous resources. Yunnan's species rank first in China. Its kinds of high-grade plants and flowers account for more than 50 percent of China's. This creates outstanding conditions for Yunnan to develop the biological industry.

Bio-industry began to develop in the mid-1990s. The Yunnan Provincial Government launched a bio-product development program in 1996 to foster businesses that can exploit Yunnan's natural plant resources. The objective of this program is to build an alternative pillar to the provincial economy by 2010. Under the program, Yunnan Province would develop a high-tech biological resources industry, with supported development of horticulture, biotechnology, food production and processing, natural medicines, and cut flowers and forestry, among others. In order to build up as a power province with a developed green economy, Yunnan must develop its biological industry in a big way. Through efforts over a long time, the bio-industry has become Yunnan's pillar industry. Output of tobacco, fresh cut flowers, coffee, walnuts and wild edible mushroom ranks first nationwide. The value added of Yunnan's bio-industry accounts for 34 percent of the value added of the national bio-industry.<sup>14</sup> Yunnan's bio-industry involves 12 industrial sectors and its total value of output increased to 279 billion yuan in 2007, up from 148 billion yuan in 2002, with an average annual increase of 13.4 percent. The value added increased to 168 billion yuan from 91 billion yuan, at an average annual increase of 13 percent. The contribution of the bio-industry

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<sup>14</sup> China Daily, June 5, 2009.

to Yunnan's economic development reached 34 percent.<sup>15</sup>

### **(5) Tourism industry**

The tourism industry is also an emerging pillar industry. Yunnan's geographical and climate conditions are richly endowed by nature with color and variety that create quite excellent conditions for the tourism industry. After reforms and opening up, Yunnan's tourism industry started to develop. As a pillar industry, the development of tourism went fast. A perfect system for the tourism industry was shaped by efforts for many years in Yunnan. In 2005, Yunnan became one of the top 10 tourism provinces in China. The Yunnan Provincial Government put forward the principle of "start the second business" in the tourism industry the same year. Yunnan's tourism industry started a new round of development. During 2006-2010, Yunnan received an accumulative total of 12.5 million overseas tourists and 520 million domestic tourists. Yunnan's foreign currency earnings reached 5 billion USD and domestic tourism revenue reached 307 billion yuan, an increase of 107 percent over the previous five years (2000-2005).<sup>16</sup> In 2009, the total revenue of Yunnan's tourism industry reached 81 billion yuan, and value added was 38 billion yuan. Yunnan's tourism industry provides jobs for over 1 million people, of which 720,000 are directly engaged in tourism. The province's tourism industry draws social general revenue of over 100 billion yuan and promotes the development of tertiary industry.<sup>17</sup> Some poor areas in frontier and remote areas are getting rid of poverty and going down the road to prosperity by relying on tourism industry development.

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<sup>15</sup> China Food Quality, June 11, 2009.

<sup>16</sup> Yunnan Daily, Sept. 12, 2010.

<sup>17</sup> ditto.

### **3. YUNNAN'S INDUSTRIAL DEVELOPMENT POLICY**

Although each industry has its own industrial development policy, generally speaking Yunnan's industrial development policy shares common principles. These include emphasis on strengthening the macro-control effort leading to a readjustment of industry structure, and promoting the transformation of ways of economic growth.

#### **3.1. Development Policy of Yunnan's Pillar Industries**

##### **3.1.1. Policy of tobacco industry**

According to the development program of the Yunnan Provincial Government, the tobacco industry is identified as a major pillar industry. Yunnan will continue to develop its tobacco industry in a big way. This principle is based on the following considerations. Firstly, the tobacco industry has played an irreplaceable role in Yunnan's economic and social development. Secondly, based on judgment and analysis, the tobacco industry is a sunset industry but it has a long while to go before finally withering away. It will still be a pillar industry for a long time in Yunnan.<sup>18</sup> Therefore, the tobacco industry not only has relatively large existing space but also has development prospects. Meanwhile, Yunnan's policy-makers also are aware that China has signed the framework convention on tobacco control and must fulfill the convention. Even though the tobacco industry plays a highly important role in Yunnan's economic growth, tobacco harms citizens' health and economic development cannot overly depend on the tobacco industry. The

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<sup>18</sup> Yunnan Daily, Nov. 7, 2008.

government should support and push forward development of other pillar industries.<sup>19</sup>

The key points of the basic policy of the tobacco industry include:

(1) Continuing to regard the tobacco industry as Yunnan's major pillar industry in the future, promoting better and faster development of the tobacco industry,

(2) Enlarging the scale of the tobacco industry, making it keep an absolute advantage nationwide,

(3) Enhancing competitiveness in international and domestic markets,

(4) Pushing forward the tobacco industry to a new level,

(5) Upgrading cigarette brand competition and carrying out a high-end product strategy,<sup>20</sup>

(6) Increasing an independent innovative capacity, keeping a leading position in tobacco science and technology nationwide,

(7) Establishing tobacco industry groups and several large-scale groups of enterprises, constructing a modern tobacco industry base that integrates scientific research and production in China,

(8) Strongly pushing forward modern tobacco agriculture, ensuring tobacco quality and enhancing resistance against natural disasters in tobacco planting areas, and

(9) Continue playing the pillar role in economic and social development.<sup>21</sup>

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<sup>19</sup> Kunming Daily, June 24, 2009.

<sup>20</sup> The goal of the high-end product strategy is that high-end brands must have a clear influence on the whole nation and must be in a strong and leading position. The concrete aim is to develop four famous cigarette brands and realize sales revenue of 330 billion yuan in five years.

<sup>21</sup> See Yunnan Daily, Nov. 7, 2008; May 19, 2009; Jan. 17, 2010; April 19, 2010.

In order to implement the policy of developing the tobacco industry, the government identified measures such as amalgamating nine cigarette factories into three factories by integrating enterprises, separating the tobacco industry from commerce, and putting into force seven key innovative projects.

### **3.1.2. Policy of mining industry**

As it is a major pillar industry, development of the mining industry has received more attention from the Yunnan Provincial Government. A series of regulations and documents on developing the mining industry have been published by the Yunnan Provincial Government since the 1990s. Particularly based on the Yunnan Province Master Plan of Mineral Resources (2008-2015), we can understand the policy of the mining industry.

Yunnan's policy on the mining industry includes these key points:

(1) Converting the resources advantage into an industry advantage and an economic advantage through the government's guidance and policy and funding support,

(2) Taking phosphorus chemicals and non-ferrous metal as focal points of the mining industry, developing priority in phosphorus chemical products and non-ferrous metal minerals,

(3) Strengthening construction of the Kunming Exchange Center of Mining Industry both in software and hardware, upgrading enterprises' bargaining power and making the Exchange Center a financing center of the mining industry,

(4) Enhancing the competitiveness of the mining industry in the international market,

(5) Combining development and protection of mineral resources, firmly carrying out regulations on developers' responsibility in protecting mineral resources, fighting against pollution, and affording redress,

(6) Strengthening management of mineral resources and closing mines which damage the environment,

(7) Encouraging foreign traders to invest in prospecting and developing mineral resources,

(8) Widening international cooperation, going global to invest and set up factories,

(9) Integrating mineral resources and concentrating better resources on advanced enterprises, and reducing waste of resources, and

(10) Promoting sustainable development of the mining industry.<sup>22</sup>

Under the policy of the mining industry, some concrete targets are put forward. These include increasing the value of mining industry output to 400 billion yuan and profit and tax to 50 billion yuan by 2015; building a series of key mining industry projects; producing 130 million tons of coal, 35 million tons of iron ore, 28 million tons of phosphorus and 40 tons of gold by 2015, limiting the number of mines to about 6,500 but with large and medium-sized mines going up by more than 10 percent by 2015.<sup>23</sup>

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<sup>22</sup> See Yunnan Province Master Plan of Mineral Resources (2008-2015), published on Aug. 31, 2010. Xinhua News agency, Dec. 14, 2009. Yunnan Daily, Sept. 1, 2010.

<sup>23</sup> Kunming City Times, Sept. 1, 2010.

### **3.1.3. Policy of power industry**

After the Yunnan Province Government decided to turn the power industry, with hydropower at the center, into a pillar industry, the development policy of the power industry gradually became perfect. Under the development plan of the power industry, Yunnan identified its policy for the industry.

Key points of the policy for the power industry are as follows.

(1) Implement a scientific outlook of development, considering development of the power industry for promoting the economy, meeting people's needs, protecting the environment and adhering to sustainable development of economic construction and energy by adhering to the principle of paying equal attention to development and protection,

(2) Continue to regard the hydropower-led power industry as Yunnan's major pillar industry, constructing Yunnan into a hydropower base in China,

(3) Combine hydropower development with utilization of water resources, building Yunnan as China's clean energy base and marshalling hub, a power trade center among the MRBCs,

(4) Ensure power transmission from the west to the east, upgrading transmission scale, increasing power supply to South China and East China,

(5) Attach importance to construction of small hydropower, strengthening management of small hydropower,

(6) Properly resolve problems of reservoir resettlement in hydropower construction, carrying out a new policy in land expropriation and compensation, improving management of reservoir resettlement, and

(7) Carry out a "go global" strategy, actively developing the power market,

strengthening power cooperation with ASEAN countries, realizing power interconnection with Vietnam and Laos.<sup>24</sup>

#### **3.1.4. Policy of bio-industry**

Bio-industry is an emerging industry in Yunnan Province. Speeding up development of bio-industry is a focal point of the province. The Yunnan Provincial Government has pushed forward development of the bio-industry, made a master plan, and published regulations on accelerating the bio-industry. The policy on the bio-industry includes some key points as follows.

(1) Speeding up bio-industry development, strengthening the eight industries of tobacco, green food, modern medicine, special forestry, bio-energy and bio-chemical, livestock, natural rubber, and flowers and horticulture, realizing the important transformation from a biological resources province into a strong province of green economy.

(2) Establishing strategic focal points of the bio-industry, giving priority to the tobacco, green food, modern medicine, green forestry, bio-energy, bio-chemical, livestock husbandry, natural rubber and silk, hemp, flower and horticulture industries.

(3) Promoting Yunnan's bio-industry development, trying to make it become a large industry with output value over 1,000 billion yuan within 10 years,

(4) Focusing on development of 12 kinds of advantageous bio-industries, namely tobacco, tea, bio-medicine, flowers, rubber, fruit, vegetables, livestock products, potatoes, bamboo processing and paper pulp.

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<sup>24</sup> See Yunnan Daily, Aug. 9, 2009, Aug. 30, 2010; Yunnan Economy Daily, April 22, 2010, Aug. 25, 2010; Decision on Speed Development of Small Hydropower, published by Yunnan Provincial Government, Yunnan Grid website, China Electricity Council website.

(5) Building leading enterprises, forming a batch of large enterprises and large groups to lead development of the bio-industry,

(6) Concentrating efforts on construction of the national bio-industry base in Kunming, pushing on with modern agricultural science parks,

(7) Carrying out a brands strategy, cultivating high quality, special and superior products, raising competitiveness, cultivating over 10 Chinese famous brands and Chinese well-known trademarks in the bio-industry by 2010,

(8) Intensifying innovation of biological science and technology, focusing on resolving key and important technical problems, supporting the setting up of a batch of high-tech enterprises, increasing enterprises' innovation capacity,

(9) Expanding the internal and external exchanges and cooperation, cultivating talent, funds and advanced techniques to boost development in the bio-industry, carrying out a strategy of going global, fully taking advantage of Yunnan's biological resources, strengthening cooperation with ASEAN countries in bio-industry,

(10) Intensifying protection of biological resources, carrying out investigations on biological resources, developing a biological information service, carrying out natural forest protection projects, the Returning Farmland to the Forest project and other biological resources protection projects, promoting sustainable development of the bio-industry, and

(11) Increasing input to the bio-industry, establishing special funds, and expanding funds year by year based on financial resources and economic development.<sup>25</sup>

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<sup>25</sup> See China Daily, June 5, 2009; Yunnan Daily, June 5, 2009, Dec. 22, 2009; China Food Quality, June 11; New Life, June 9, 2009; Suggestion on Accelerating Development of Bio-industry, Yunnan Provincial Government, 2008.

Under the bio-industry policy, the government has set some concrete targets. These include (a) the total value of bio-medicine output reaches 25 billion yuan in 2012 and 140 billion yuan in 2020, bio-agriculture reaches 332 billion yuan in 2012 and 700 billion yuan in 2020, bio-energy reaches more than 40 billion yuan in 2020, and bio-forestry hits 68 billion yuan by 2012 and 180 billion yuan by 2020; (b) total value of output of 12 kinds of advantageous bio-industries reaches 400 billion yuan by 2012 and 1,000 billion yuan by 2020; and (c) the number of processing enterprises climbs to 1,200 by 2012.<sup>26</sup>

### **3.1.5. Policy of tourism industry**

The tourism industry is an advantageous industry for Yunnan, with high potential and sustainable development. As a developing industry, Yunnan's tourism industry is entering a new period. The Yunnan Provincial Government makes the policy of the tourism industry based on new situations and pushes further development of the industry. The policy for the tourism industry includes some key points as follows.

(1) Deepening the understanding of the development of the tourism industry from the whole situation, letting the tourism industry play the roles of economic booster and pilot industry, upgrading the level of modernization and internationalization in Yunnan's tourism industry, cultivating the tourism industry as Yunnan's strategic pillar industry,

(2) Identifying development goals of the tourism industry such as striving to become a major regional and international tourist destination as a tourist center in Southwest China and a passageway to Southwest Asia, realizing transformation from a

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<sup>26</sup> Yunnan Daily, June 5, 2009.

big tourist province to a strong province in tourism,

(3) Establishing concrete targets for the tourism industry, namely completely fulfilling tasks of comprehensive reform, with key targets doubling by 2015 compared with those of 2010, and value added of the tourism industry accounting for over 10 percent of Yunnan's GDP by 2020,

(4) Carrying out comprehensive reform based on the agreements signed by the National Tourism Administration and the Yunnan Provincial Government, exploring new ways of speeding tourism industry development, promoting development of the tourism industry in Yunnan Province and nationwide,

(5) Boosting international tourism cooperation, consolidating cooperation with Southeast Asian countries, pushing cooperation with South Asian countries, attaching importance to cooperation with West Asian countries, upgrading the level of opening up,

(6) Actively exploring the tourist markets both at home and abroad besides the traditional domestic and international markets, strengthening central China, northeast China, India, Russia and the Middle East as new tourist markets,

(7) Actively developing tourist commodities, attracting international brand hotels, cultivating local brand tourist hotels, developing hot springs and golf courses as high-end tourist commodities, building ecological tourist zones,

(8) Fully giving play to Yunnan's ethnic cultural resources, promoting integration of the culture industry and the tourism industry, creating a unique industry advantage, pushing forward with transformation and upgrading of the tourism industry,

(9) Strengthening "software" construction, putting this into a most important position, pursuing standardized management, enhancing the reception level,

(10) Speeding up a batch of large projects, including national parks, recreation holiday bases, small tourist towns, tourist model counties with a character of ethnic culture, convention and exhibition business bases, and branch highways to tourist scenic spots, and

(11) Transforming the functions of the government, enhancing functions of the government in policy guidance, planning, market regulation and public service, reducing government direct intervention to operators of the tourist market, and creating a fair, standard, and orderly competitive market environment.<sup>27</sup>

### **3.2. Yunnan's New Industries and its Development Policy**

In recent years, in the wake of changes to the international economic situation and the various reforms, Yunnan's economic development is facing challenges. In order to cope with the challenges, the Yunnan Provincial Government is undertaking a series of deep reform measures, with the development plan of the industry as a focal point for consideration. At present, an outline of the program for industries development has been published. It serves as a development blueprint for Yunnan Province in the coming five years.

According to the new outline of the program for industries development, besides the original top five pillar industries of tobacco, hydropower, minerals, bio-industry and tourism, another five industries including photoelectric industry, ferrous metal, non-ferrous metal, petrochemical trade and circulation, and equipment-manufacturing are also listed for priority development. As measured by the outline of program, annual

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<sup>27</sup> China Daily, May 31, 2009; Yunnan Daily, Sept. 12, 2010; Chun Cheng Evening News, Sept. 15, 2010; Outline of Program for Tourism Development and Reform of Yunnan Province (2008-2015) 2009.

sales revenue of the 10 industries will reach 2,000 billion yuan by 2015.<sup>28</sup> Yunnan's industries development will enter a new phase.

#### **4. YUNNAN'S TRADE WITH MRBCS**

Although foreign trade is not a pillar industry, its growth is rapid. Foreign trade total volume was 966 million USD in 1992. Since the late 1990s, the development of Yunnan's foreign trade has accelerated. By the end of September 2010, Yunnan's foreign trade volume reached 10 billion USD.<sup>29</sup>

In Yunnan's foreign trade, ASEAN members are the province's major trade partners. The five MRBCs have the closest economic ties with Yunnan Province.

In recent years, especially since 2004, Myanmar and Vietnam have been Yunnan's No.1 and No.2 trade partners, respectively, based on trade volume. Thailand ranks third, Laos fourth and Cambodia fifth.

Yunnan's trade with ASEAN, including the MRBCs, shows certain characteristics. First, bilateral trade is steadily developing on an upward trend. In 2009, the volume of trade reached 3.1 billion USD, up 390 million USD from the previous year or by 13.8 percent. Of this, exports increased 7.1 percent and imports increased 30 percent year on year. ASEAN's share of Yunnan's foreign trade increased 39.3 percent.<sup>30</sup> Yunnan's trade with Myanmar, Vietnam and Laos increased 11.6 percent, of which the province's exports reached 1.5 billion USD and its imports stayed at 660 million USD. Yunnan's

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<sup>28</sup> Yunnan Daily, Sept. 7, 2009.

<sup>29</sup> Yunnan Daily, Oct. 14, 2010.

<sup>30</sup> Kunmin Customs:

<http://kunming.customs.gov.cn/publish/portal174/tab2503/module12201/info214917.htm>.

trade with Cambodia and Thailand saw negative growth.<sup>31</sup> But in the first half of 2010, Yunnan's trade with Thailand and Laos grew rapidly by 66.2 percent and 85.4 percent, respectively.<sup>32</sup>

Second, the structure of import and export commodities is basically stable in bilateral trade. Yunnan mainly exports mechanical and electrical products, vegetables and flue-cured tobacco-led agricultural products, electrical power and textiles to the MRBCs, while importing mainly agricultural products and metallic mineral ore. In the first half of 2010, these reached 300 million USD and 150 million USD, respectively, with year-on-year growth of over 50 percent.<sup>33</sup> In fact, the structure of import and export commodities between Yunnan and the MRBCs has not changed significantly for years.

Third, the export of electrical power is becoming a highlight in Yunnan's trade with the MRBCs. Electrical power exports increased 38.3 percent in 2009, with turnover at 206 million USD.<sup>34</sup> Yunnan's power trade with Vietnam and Myanmar started in 2004. Along with the increase in demand, Vietnam and Myanmar are constantly expanding their power trade with Yunnan. Yunnan's power cooperation has high potential and much room.

Fourth, border trade still plays an important role in Yunnan's trade with the MRBCs.<sup>35</sup> Border trade between Yunnan and Myanmar, Vietnam and Laos has been carried out for years. Since 2007, owing to the influence of the international financial

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<sup>31</sup> ditto.

<sup>32</sup> Yunnan Daily, July 14, 2010.

<sup>33</sup> Yunnan Daily, July 14, 2010.

<sup>34</sup> Kunming Customs:

<http://kunming.customs.gov.cn/publish/portal174/tab2503/module12201/info214917.htm>.

<sup>35</sup> See Table 3.

crisis, border trade has slumped, although it began to turn upward again in 2009. Yunnan's border trade reached 1.26 billion USD, an increase of 5.3 percent, to account for 15.7 percent of the province's total foreign trade.<sup>36</sup> Since the beginning of 2010, Yunnan's border trade has continued to grow rapidly. The volume of border trade reach 800 million USD in the first half of 2010, up 46.5 percent year on year to account for 40 percent of Yunnan's trade with ASEAN countries. In Yunnan's trade with Myanmar and Laos, border trade separately accounts for 82 percent and 55.1 percent, respectively,<sup>37</sup> reflecting the fact that border trade remains an important aspect of the province's trade with the MRBCs.

**Table 1: Yunnan's Export to 5 MRBCs**

Unit: Ten thousand USD

	2005	2006	2007	2008	2009
Cambodia	322 Growth rate:	351 Growth rate: 9%	990 Growth rate: 182.1%	1684 Growth rate: 70.1%	293 Growth rate: -82.6%
Laos	2874 Growth rate:	3469 Growth rate: 20.6%	3591 Growth rate: 3.5%	5712 Growth rate: 57.3%	7434 Growth rate: 30.4%
Myanmar	41047 Growth rate:	52113 Growth rate: 27%	64068 Growth rate: 22.9%	72769 Growth rate: 12.3%	77506 Growth rate: 6.4%
Thailand	12952 Growth rate:	10919 Growth rate: -15.7%	15680 Growth rate: 43.6%	22888 Growth rate: 44.9%	20265 Growth rate: -12%
Vietnam	26404 Growth rate:	37463 Growth rate: 41.9%	77773 Growth rate: 107.6%	49331 Growth rate: -36.9%	66132 Growth rate: 33.8%

Source: Department of Commerce, Yunnan Province.

<sup>36</sup> Yunnan Daily, Feb. 10, 2010.

<sup>37</sup> Website of the Ministry of Commerce of the People's Republic of China, July 23, 2010: <http://www.mofcom.gov.cn/aarticle/difang/yunnan/201007/20100707040065.html>.

**Table 2: Yunnan's Import from 5 MRBCs**

Unit: Ten thousand USD

	2005	2006	2007	2008	2009
Cambodia	1 Growth rate:	351 Growth rate: 350%	0 Growth rate: --	0 Growth rate: 0	74 Growth rate: --
Laos	1339 Growth rate:	3463 Growth rate: 158.6%	4748 Growth rate: 37.1%	5334 Growth rate: 12.3%	8067 Growth rate: 51.2%
Myanmar	22102 Growth rate:	17095 Growth rate: -22.7%	23289 Growth rate: 36.2%	46510 Growth rate: 99.7%	45227 Growth rate: -2.8%
Thailand	1494 Growth rate:	2150 Growth rate: 43.9%	6341 Growth rate: 194.9%	2087 Growth rate: -67.1%	3320 Growth rate: 59.1%
Vietnam	5470 Growth rate:	13282 Growth rate: 142.8%	19494 Growth rate: 46.7%	15160 Growth rate: -22.2%	12868 Growth rate: -15.1%

*Source:* Department of Commerce, Yunnan Province.**Table 3: Proportion of Border Trade in Yunnan Foreign Trade (2007-2009)**

Unit: mullion USD

	Turnover of border trade	Total turnover of foreign trade	Proportion
2007	10.1	87.8	11.5%
2008	12.1	96.05	12.5%
2009	12.61	80.2	15.7%

*Source:* Department of Commerce, Yunnan Province.

## 5. YUNNAN'S INTERMEDIATE GOODS TRADE WITH MRBCs

It is a pity that except for detailed catalogues of export and import goods in 2005 and 2006, up to today we cannot find detailed statistics in commodity catalogues about Yunnan's trade with the MRBCs, although we can find statistics on trade turnover. Through analysis of the situation in those two years, we can obtain some knowledge.

(1) In Yunnan's intermediate goods trade with the MRBCs during 2005-2006,<sup>38</sup> the situations were different. Myanmar is Yunnan's largest trade market. Of Yunnan's 10 export goods of over 5 million USD, half are intermediate goods. In Yunnan's seven import goods of over 2 million USD, six items are primary products. Vietnam is Yunnan's No. 2 trade partner. In Yunnan's trade with Vietnam, eight goods are intermediate goods. Of the 10 exports of over 5 million USD, five are intermediate goods. In Yunnan's trade with Thailand, of the nine exports over 2 million USD, eight are intermediate goods. Of Yunnan's eight import goods, six are intermediate goods. In Yunnan's trade with Laos, of the province's eight export goods, six items are intermediate goods. Of the four import categories, three are intermediate goods. In Yunnan's trade with Cambodia, of the three export goods, two are intermediate goods.<sup>39</sup>

(2) Yunnan's export goods to the MRBCs are mainly in the categories of mechanical and electrical products, chemical products, iron and steel products, agricultural products, and electrical power. Yunnan's import products from the MRBCs are mainly logs, metallic mineral ore, vulcanized rubber products, and agricultural

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<sup>38</sup> See Tables 4-8.

<sup>39</sup> See Tables 4-8.

products. They belong under intermediate goods with raw or resource properties.

(3) In Yunnan's trade with the MRBCs, intermediate goods account for a relatively large proportion, in both exports and imports. The structure of import and export goods did not change much in the two years. In fact, this continued in the following years based on published fragmented data.

(4) This situation shows that both Yunnan and the MRBCs have high demand for intermediate goods. Economically, the two sides are complementary. It shows that while the China side has strong processing capability, Vietnam and Myanmar have also improved their processing capability.

**Table 4: Yunnan's Trade with Myanmar**

Unit: USD ten thousand

Yunnan's Export Goods				Yunnan's Import Goods			
SITC		2005	2006	SITC		2005	2006
77	mechanical & electrical products	12669	14931	24	log	9517	7252
65	textile	213	7557	24	saw timber	5837	3423
52	paraffin wax	3392	3752	28	metallic mineral ore	2109	1631
67	steel and steel products	2249	3871	23	smoked rubber sheet	650	1350
65	clothes	1241		28	minerals	345	360
54	medicine	937	903	08	feed meal	294	
41	butter	662	710	22	sesame seed	281	
11	beer	487	614	06	sugarcane	74	156
62	rubber soled shoes	486		24	vine	170	212
07	ajinomoto	304	1280	05	longan	416	553
66	porcelain table ware	296		89	collections	144	
52	glutamate	265					
66	cement	265	410				
71	electric power	249	405				
58	plastics for packaging	233					
58	plastic products		925				
65	rug		782				
62	tire		495				
07	tea		225				

Source: Department of Commerce, Yunnan Province.

**Table 5: Yunnan's Trade with Vietnam**

Unit: USD ten thousand

Yunnan's Export Goods				Yunnan's Import Goods			
SITC		2005	2006	SITC		2005	2006
51	diammonium phosphate	5294	6609	28	metallic mineral ore	2684	4572
77	mechanical and electrical products	4705	4571		long shaped rice	703	559
67	steel and steel products	3205	10356	62	vulcanized rubber products	585	
71	electric power	1116	2675	62	smoked rubber sheet		1834
	urea	888		62	rubber		3218
32	coke and semi-coke	827	476				
52	sulfuric acid isodium	672					
52	sulfuric acid hydrogen calcium	657	768				
05	fruits	648	505				
05	vegetables	603	864				
52	ammonium nitrate	488	333				
12	flue-cured tobacco	434					
07	starch	371	329				
52	soda	287					
52	ammomium sulfate		1050				

Source: Department of Commerce, Yunnan Province.

**Table 6: Yunnan's Trade with Thailand**

Unit: USD ten thousand

Yunnan's Export Goods				Yunnan's Import Goods			
SITC		2005	2006	SITC		2005	2006
69	unwrought silver	7296	181	05	longan	660	922
52	phosphoric acid	1158	1118	66	diamond not for industry	601	
89	non-tax certificate of imported goods	450		62	rubber cord	173	
77	mechanical and electrical products	382		03	shrimp	80	114
52	diammonium phosphate	317	358	23	smoked rubber sheet	56	114
68	lead	255		34	butane	31	
67	iron	251		33	polyethylene		53
05	fruits		453	69	copper matte		397
52	sodium tripolyphosphate		301				

*Source:* Department of Commerce, Yunnan Province.

**Table 7: Yunnan's Trade with Lao PDR**

Unit: USD ten thousand

Yunnan's Export Goods				Yunnan's Import Goods			
SITC		2005	2006	SITC		2005	2006
77	mechanical & electrical products	1556	1491	24	log	345	808
65	clothes	120	236	24	saw timber	204	438
62	rubber soled shoes	87	100	62	smoked rubber sheet	302	635
	cement	50	111	06	sugarcane	89	148
05	apple	37					
59	polymer hard tube	20					
59	ammonium nitrate	12	65				
33	diesoline		70				

*Source:* Department of Commerce, Yunnan Province.**Table 8: Yunnan's Trade with Cambodia**

Unit: USD ten thousand

Yunnan's Export Goods				Yunnan's Import Goods			
SITC		2005	2006	SITC		2005	2006
112	cigarette	157	172	63	furniture	82	
77	mechanical and electrical products	62	149				
26	textile	20					

*Source:* Department of Commerce, Yunnan Province.

## 6. CONCLUSION

Yunnan Province is speeding up its industrial development. Readjusting industry structures and transforming the economic growth mode are key to Yunnan's economic development. Building on the original pillar industries, Yunnan Province is developing new industries and indentifying policies of industrial development. Rounding out the development strategy of "constructing a bridge to open up to Southeast Asia and South Asia," Yunnan's industries are seizing a great development opportunity. The province's policy of industrial development should undergo some adjustment in order to adapt to new situations.

Yunnan's trade with the MRBCs is an important aspect of the province's opening up. Yunnan has embraced trade as the new key industry in the coming 10 years, and has identified targets of foreign trade. The trade scale and demand between Yunnan and the MRBCs will expand along with improvement in the infrastructure of the Greater Mekong Subregion (GMS) and the development of GMS cooperation and the China-ASEAN Free Trade Area. Expansion of trade between the two sides also promotes their economic and social development.

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