I will mainly talk about the relationship of the economy of South China respectively with that of
China as a whole and the world, and later about the economic transformation of South China.

I. Position of South China in China’s Economy

Firstly, South China’s economy contains a geographic sphere which we refer to as South China
Economic Circle. It is composed of inland South China, Hong Kong, Macau and Taiwan. According to
the division of the geographical districts in China, South China is referred to as the area at the south of
the Yantze River, including Guangdong Province, Guangxi Autonomous Region, Jiangsu Province,
Zhejiang Province, Jiangxi Province, Hunan Province, Fujian Province and Hainan Province (totally 7
provinces and 1 autonomous region).

If Shanghai is not included in South China area, the above 7 provinces and 1 autonomous region
still play an important role in China’s economy. Take the relevant data of 2005 in this area as an
example:

◇ The GDP of South China is RMB7532.3 billion Yuan, accounting for 38% of the national GDP.
The gross output of the second industry (industrial manufacturing industry) is RMB 3808.6 billion
Yuan, accounting for 39.7% of the nation; the financial income is RMB556 billion Yuan, accounting
for 37.36% of the nation; and the social construction volume is RMB9566.958 billion Yuan,
accounting for 35.31% of the nation.

◇ About the index of industrial enterprises, the number of industrial enterprises is 657721,
accounting for 47.83% of the nation; the gross industrial output value of the area is RMB9906.034 billion Yuan, accounting for 44.56% of the nation; the gross industrial fixed asset value is RMB8996.109 billion Yuan, accounting for 37.37% of the nation; the gross income of major business is RMB9659.676 billion Yuan, accounting for 44.22% of the nation; the gross profit is RMB469.29 billion Yuan, accounting for 35.92% of the nation; and the gross electric consumption capacity is 884.247 billion KWH, accounting for 35.72% of the nation.

Regarding to cargos transportation, the gross cargo volume of the area is 5483.79 million tons, accounting for 52% of the nation. Cargo transportation volumes by railway is 388.91 million tons, accounting for 14.44% of the nation; cargo volume by highway transportation is 3901.15 million tons, accounting for 29.07% of the nation; and water transportation volume is 1193.73 million tons, accounting for 54.35% of the nation.

Regarding to the length of transportation line, railway transportation mileage is 14800.9km, accounting for 19.62% of the nation; highway transportation mileage is 517465km, accounting for 26.80% of the nation. The mileage of the roads at different levels is 415958km, accounting for 26.13% of the nation; inland water transportation mileage is 71635.65km, accounting for 58.12% of the nation.

With regard to the economic relationship, the major part of South China Economic Circle includes Guangdong Province, Fujian Province, Taiwan, Hong Kong and Macau. If we view from the industrial network, especially the integrated network of export oriented industries, the central circle of South China Economic Circle is the Pearl River Delta in Guangdong Province plus Hong Kong, Taiwan and Macau. However, if we consider the areas that are related to Hong Kong, Guangzhou, Taipei, Kilong, Kaohsiung, Shenzhen and Shantou, the industrial portfolio and market range of South China Economic Circle should be enlarged to a wider area which may include some provinces and autonomous areas in southwest China and even certain countries and areas in the Southeast Asia.
We should point out that South China Economic Circle is not a closed space but rather a growing space that is changing its core circle. For example, with China Mainland’s signing of CEPA with Hong Kong and Macau as well as the establishment of ASEAN 10+1 Free Trade Zone, a C-P-C passage has come into being. So South China has become a major area in cooperation with ASEAN. Besides, Guangxi has become an intersection center where Guangdong, Hong Kong, Macau and ASEAN meet; and this center will continue to expand to southwest area. However, we should still regard South China as such a dynamic area developing mainly within China.

II. Relationship between South China’s economy and World Economy

As one of the most advanced area in China, Guangdong has always been an important area for domestic commerce and tourism as well as one of the centers of South China Economic Circle. With the strengthening of the economic cooperation in Pan Pearl River Delta, South China market represented by Pearl River Delta becomes more and more prosperous. Guangdong, as a successful case, has demonstrated that South China market has powerful capability of mobilizing production elements and self-organization.

According to the study of Daiwa Institute of Research, South China Economic Circle across Guangdong, Hong Kong and Taiwan not only gathers international famous enterprises, but also OEM enterprises of electronic equipment. This area controls the information of production plan, stock and prices of finished goods or parts for Europe, Japan and America market, and exchanges such information every day. The largest electric machinery production base in the world has been created here. In Asia, South China Economic Circle is the only intersection point that exchanges IT information.

The physical economy of South China is closely connected to that of the United States. The sales volume of Taiwan computer manufacturers and the export volume of Dongguan City in Guangdong
Province almost follow the trend of the United States consumption market. For the global computer production, Taiwan manufacturers account for 40% of the total number and Guangdong is the largest base in producing copying machines and printers. Many cases have shown that a trend of products and information exchange has occurred between the United States, the largest market in the world, and South China Economic Circle, the largest factory in the world.

Therefore, some people hold a view that the forecast of the trend of global economic development on the basis of the economic status of South China Economic Circle is half a year earlier than that based on the economic status of Japan.

III. Direction of South China’s Economic Transformation

After being a pioneer in reform and opening-up for over 20 years, South China’s economy has developed into a critical point. Therefore, a requirement of upgrading its industry is brought up by itself, i.e., adjustment and upgrading of the industrial structure as well as transferring of its industry to its neighboring middle and west area.

The direction of South China’s economic transformation is to decrease its dependence on the low value-added manufacturing industry, and speed up the development of service industries such as R&D, logistics and finance and high-end manufacturing industries, so as to form a central economic zone with strong absorption and radiation capability.

The other direction of South China’s economic transformation is to keep good relationships with its surrounding areas in industrial cooperation. Since China has been developing into a new heavy industrial stage, a new prosperity cycle will possibly come into being in China. Because of the good heavy industrial and chemical industry basis, the middle and west China areas can cooperate with South China Economic Circle on mutual beneficial basis. If South China’s economy can successfully
cast off its old self, it can not only promote regional cooperation by means of market division of its industries, but also can push mid-south and southwest area of China forward to realize industrialization and modernization.

For regional industrial cooperation, “9+2” regional cooperation system of Pan Pearl River Delta is an important stage for South China. If we can make good use of this stage, we will not only help to form a good infrastructure joint and network to achieve an overall cooperation, radiation and integration in the aspects of financial capital, industry capital, logistics system, consumption market, tourism, science and technology, agriculture, culture, etc., but also help to remove various trade barriers in different provinces in China.

At present, “9+2” system is only like a club. Its borders are opened to the outside. In the future, it should cover the whole South China area. Besides, the cooperation methods and contents should be open too. Besides Guangdong, Hong Kong and Macau, the other seven provinces and one autonomous region should not only join this club but also join other clubs. For example, Fujian not only joins Pearl River Delta, but also joins the Yantze River Delta. Fujian also has brought up with an idea of establishing an independent western strait bank economic zone; Jiangxi has brought up with a plan of joining three deltas; the northern Hunan area will take part in the cooperation with Middle and West Economic Circle more frequently; and because Sichuan and Guizhou are relatively far from Pearl River Delta and they are included in Chengyu Economic Circle already, that area is more independent.

As a traditional axis of South China Economic Circle, how Pearl River Delta, Hong Kong and Macau further play their roles in such a new pattern will be decided by the attractiveness and radiation degree of its overall economy, by the force of its transformation as well as by the successful rate within the shortest possible time.