



BY DANIEL INMAN

Space to Grow



IMAGINECHINA

Residents of Inner Mongolia are used to having plenty of space. The region represents 10 percent of China's landmass but less than 2 percent of the nation's population. But that doesn't mean there is little activity there. For four consecutive years between 2002 and 2005, Inner Mongolia saw the fastest GDP growth rate in all of China, peaking in 2005 at 23.8 percent.

The main driver behind this growth is the profusion and diversity of resources in Inner Mongolia. The region's potential to be a major supplier of commodities and energy makes it an increasing important player in China's growth strategy.

The periodic table

Inner Mongolia contains substantial stocks of key resources, such as 2 to 3 billion tons of oil and between 270 billion and 1 trillion cubic meters of gas; and there are sizable reserves of key metals such as iron, zinc, tin and lead. Dig deeper and a list of Inner Mongolia's resources starts to resemble a chemistry laboratory's inventory. It has the world's largest stock of beryllium, an alloying agent; and more tantalum, an element used in electronic components, than anywhere else.

Only recently have market forces drawn

companies to quantify and extract them. "It's like the wild west in Inner Mongolia. When the commodity market hit a record high, people just rushed to find new resources," says Henry Liu, a commodities analyst for Macquarie Bank.

One company that is taking advantage of Inner Mongolia's stock of rare materials is Magplane, a Boston-based company that specializes in creating transportation systems that employ magnetic technology. Magplane has already found local suppliers to produce magnets to their specification.

"Because Inner Mongolia has the largest deposits and a very low-cost manufacturing environment, it has quickly become the world's leading supplier of finished rare-earth magnets," says Dr. Bruce Montgomery, chairman and president of Magplane. He adds that foreign companies who want to go into the business of extracting ore and making magnets in Inner Mongolia are likely to require local joint venture partnerships.

Resource rich

Within Inner Mongolia's treasure trove of commodities, there is one that is particularly prominent: coal. In the first half of 2007, Inner Mongolia's coal output was 170 million tons, or 16 percent of the country's total stock, making it the second largest producer in China after

Abundant resources in Inner Mongolia will make the region a major supplier of energy in China – once the local infrastructure catches up with output.





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Shaanxi Province. Extensive surveying also reveals that Inner Mongolia’s proven coal reserves amount to 658 billion tons, the nation’s largest stock.

As 70 percent of China’s electricity comes from burning this fossil fuel, Inner Mongolia plays a strategically important role in fuelling China’s growth.

The search for more coal has not stopped. In August, a new coalfield estimated to contain 5 billion tons of the fuel was found in Hulunbuir, in the eastern side of Inner Mongolia. Another 20 billion tons of coal had been discovered in the vicinity a month earlier in June.

The government is stepping up extraction to take advantage of these new found stocks. According to the 11th Coal Industry Plan, Inner Mongolia will receive the largest boost in its mining capacity, growing from 256 million tons in 2005 to 380 million tons in 2010. “Inner Mongolia will become an emerging big player in supplying coal to China,” says Macquarie’s Liu.

However, China will need to solve the bottleneck created by deficiencies in the transport network as coal from Inner Mongolia is transported to major burning centers along the eastern coast. “Coal in western Inner Mongolia is mainly transported out to east China via Hebei Province. This has put rather big pressure on National Highway 110. In recent years, traffic congestion has occurred from time to time,” says Yuan Ying, an analyst at CCID Consulting’s Energy Industry Research Center.

In an attempt to counteract this clogging up of the network, new roads are being built. Work on a new expressway between Inner Mongolia and Hebei, exclusively for the transportation of coal, was started in April this year. Its completion in mid-2009 will ease the burden on the network, says Yuan.

A strong blow

With sustainability on the front burner of the government’s agenda, Inner Mongolia hopes to eventually balance its contribution to the environmentally pernicious activity of burning fossil fuels by harnessing more wind power. A variety of factors combine to make it the windiest place in China: the Gobi Desert has no trees and therefore nothing to obstruct the winds; hot air rises from the plains; and

strong winds blow in from Siberia and Mongolia.

With 40 percent of China’s wind reserves, it is no surprise that many of the country’s largest wind power centres are located in Inner Mongolia. An area called Huitengxilei already has China’s second largest wind power farm in terms of power generation and a further RMB3 billion investment in the region is being used to establish Asia’s largest wind farm, creating a total of 1.2 million kilowatts of electricity. Big wind farms mean big opportunities for companies that make the turbines. A recent example is when a Danish company, Vestas, received two orders this August to supply 25 two-megawatt turbines to state-owned Long Yuan Electric Power Group for their wind farm in Chifeng, Inner Mongolia.

Alberto Méndez, China general manager of wind farm development at Gamesa Energy China, a Spanish wind power company, thinks that the Inner Mongolian government is taking advantage of this new resource. “Tens years ago, they did not know that they had it. But now it is a reality,” he says. Every strata of the local government, he says, from the local level, the city level, and the provincial is offering the necessary resources and backing to facilitate the growth of wind power.

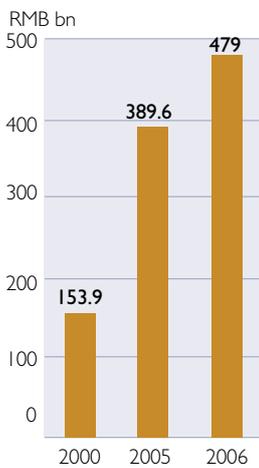
Wind power faces a similar obstacle to coal: Inner Mongolia’s location at the extremity of the country makes it difficult to get the power from source to consumer. It is a province with a low population and relatively little industry, which means that its power network is undeveloped. This means that the theoretical potential that could be developed by wind farming is dramatically lowered by this bottle neck. “The good news is that the government is concerned about this and it is planning a large expansion of its electrical network so it can absorb more power,” says Méndez.

Integrating Inner Mongolia’s infrastructure with the rest of the country will be necessary to sustain its progress. While capacity to power China’s growth gives the northern province an indispensable role in expanding the economy, it will ultimately need to evaluate the continued development of its nascent renewable energy industry as local coal reserves are rapidly depleted.



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Inner Mongolia GDP



Source: Inner Mongolia Bureau