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*Cut Flowers in Yunnan Province of China  
ITC experience in technical cooperation for export diversification*

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In an increasingly interdependent global economy, the capacity of a country's business sector to export competitive products to the international market on a sustainable basis has become one of the major determinants of economic growth. In spite of some encouraging signs, many developing countries - the Least Developed Countries in particular - still lack this capacity. They continue to rely on only a few raw commodities for export. The commodity sector is still the principal source of their export revenues, employment, income and savings. Although the share of commodities in world trade as a whole is declining, their contribution to the export earnings, economic growth and investment potential in developing countries remains as great as ever.

The need to diversify export in these countries is obvious. Some developing countries have already made good progress to diversify their export by developing non-traditional products for export. However they are still facing lots of constraints. Foreign investments and advanced technology can expedite the diversification process. But when market forces alone are not sufficient to translate potential into actual trade, they should be complemented by technical assistance which can also make a big difference and is much needed in developing countries.

As the technical cooperation arm of UNCTAD and WTO for trade development and promotion, ITC has been an active partner of developing countries for technical cooperation in export development and trade promotion since its inception. Our objective in this regard is to assist the business community in partner countries in their efforts to develop competitive products and to market them more effectively with a view to expanding and diversifying their exports. To achieve this objective, ITC has been working with many developing countries at different levels over more than three decades and has acquired considerable experience in supporting export diversification of developing countries. In this paper, I would like to share with you ITC's recent experience in helping Yunnan Province of China diversify its export by developing an export-oriented floriculture industry.

## **I. Why cut flowers in Yunnan Province?**

### **From Tobacco Kingdom to flower Kingdom**

Yunnan's name is closely linked with tobacco and it is known in China as a Tobacco Kingdom. The province is the largest production base in China for tobacco, which produces 800,000 tones of tobacco and rolls more than 380 billion cigarettes each year. More than 2.3 million farmers in the province are engaged in tobacco cultivation. It is the home to most of the Chinese tobacco industry and is heavily addicted to cigarette taxes for revenue. Over 70 percent of the provincial tax income come from cigarette enterprises.

The tobacco industry 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. However Yunnan's strength in tobacco is also its weakness. With increasing competition and changing of consumer habits, it is evident that Yunnan will not be able to sustain its economic growth based on a single industry. Although the tobacco

industry has contributed a lot to the fast growth of Yunnan's economy, it has failed to spread wealth to the rural area where around 87 percent of the province's total population live. Out of a total population of 41 million, about 6 million people in the province still live below the national poverty level at an annual income below RMB 500. Furthermore, with this economic structure, the province has a very narrow economic base for export and is faced with an urgent need for diversification.

Against the vagaries of the tobacco industry and in an attempt to enable the rural poor to share the benefits of economic growth, the local government launched a bio-product development program of RMB 10 billion (US\$1.21 billion) 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 – a high-tech bio-resources industry, spanning horticulture, biotechnology, food production and processing, natural medicines and forestry. Cut flower is one of the 18 products supported by this program and is expected to achieve a total output of RMB 2 billion (US\$ 240 million) and an export value of US\$ 20 million in 15 years.

Although the province has a long history of growing flowers, commercial production of cut flowers started only in late 1980s. However, since the launching of this program, Yunnan has maintained the highest growth rate of flower production in China. The total cultivation area for cut flowers increased from 16 Ha in 1991 to 1,729 Ha in 1999 and production increased from 210 million stems in 1994 to 1,102 million 1999 at a value of RMB 474 million (US\$ 57 million). In less than 10 years time, Yunnan has turned itself from a Tobacco Kingdom to also a Flower Kingdom in China. Approximately 45 percent of cut flowers in the domestic market now come from Yunnan Province.

### **The pioneers and driving force of cut flowers in Yunnan**

The success of cut flowers as a new product was due to the initiative of farmers in a village with 1,619 households called Dounan which used to grow vegetables in the suburb of Kunming, the capital of Yunnan Province. During a business trip to Guangzhou, one of the farmers in the village found that there was a growing demand for cut flowers in the cities. He brought back some bulbs of gladioli and planted them in his land. Nobody in the village understood at that time why he was growing something which was not edible on a land which was the only source of his income. In 1988, vegetable price in the province fell sharply due to over supply and the vegetable growers in Dounan village suffered heavy losses. However the first farmer who grew cut flowers in the village build a nice house and bought a three-bedroom apartment in Kunming with the income he earned from flower sales. Inspired by their fellowman in the same village getting affluent, many Dounan villagers also decided to grow cut flowers. The flower cultivation area expanded quickly to 100 Ha in the village. In less than five years time, Dounan Village became one of the production and wholesale centers for cut flowers in China.

Cut flower development has brought a dramatic increase in rural incomes. A tobacco grower in Yunnan earns an average of RMB 1,000 per Mu (1 Mu = 666 Square meters). A vegetable farmer earns an average of RMB 4,000 per Mu, whereas the average income of a flower grower is RMB 15,000 per Mu. In Dounan village, the highest income reaches RMB 30,000 per Mu. Thanks to cut flowers, Dounan has

become the richest village in the province and built the first village-owned flower wholesale market in China in 1994 with its own investment. During the peak season, the daily volume of transaction in this market reaches 4 million stems at a value of around RMB 960,000 (US\$ 116,000). As many as 4,000 people come to the market to sell and buy flowers each day. 170 flower dealers from over 20 regions of China have set up their purchase offices in the village.

Cut flowers not only increased substantially the living standard of Dounan Village but also farmers in other rural areas in the province. Over 10,000 households in rural areas are now engaged in flower production and trade. Due to increasing demand in China and its potential for export, more farmers will switch to this high value commodity in the near future and will increase substantially the use of technology for managing natural resources.

The success of flower growing by farmers inspired also many private entrepreneurs and attracted the attention of state-owned companies in the province as well as foreign investors. At present, 291 enterprises are engaged in flower production in the province. 21 joint ventures for the production of flowers, ornamental plants and young plants have been established between local enterprises and companies from Hong Kong, Taiwan, Japan and USA. The first agricultural zone specializing in export production of cut flowers covering an area of 5,000 Mu (333 Ha) is being set up in the province. It is expected that by year 2005, the floriculture industry will generate about 300,000 new opportunities of employment and considerably increasing the living standard of an additional number of 10,000 farmers.

### **Constraints to export cut flowers from Yunnan**

Although Yunnan has been highly successful in developing a new product for the domestic market, it is much less so in the international market for cut flowers where it is still dominated by traditional exporters like The Netherlands, Colombia and Israel. In 1999, in spite of big increase in percentage terms, exports of cut flowers from Yunnan Province amounted only to US\$5.28 million and accounted for merely 10 percent of its total production. An assessment by ITC of the situation shows that a number of reasons are responsible for the low export of cut flowers from Yunnan Province. The main constraints include:

- Lack of an organized marketing system

At present, approximately 55 percent of Yunnan cut flowers are sold by growers through the wholesale market in Dounan Village. Only a few large enterprises and farmers sell to wholesalers outside the province or foreign buyers directly. Most of exports are done through a trading company acting as agent which does not specialize in flower export. Both flower producers and trading company have little understanding and knowledge of the principles of cut flower marketing, whether for export or domestic market. Lack of market information leads to frequent over production and low price.

- Inadequate support infrastructure

The province has yet to establish a proper infrastructure to service effectively this new but rapidly developing industry. The current capacity of air transport is low and the rates are high, causing some 65 percent of the flower export shipments through other provinces. Procedures for export licensing and operations are complicated and cumbersome. Service fees levied by departments responsible for quarantine and customs are high. Packaging, transportation and other customer service can not meet the demand of the rapid expansion of the industry.

- Insufficient number of farmers and enterprises capable of exporting flowers

Out of a total number of 291 enterprises and over 10,000 household farmers in the floriculture sector, only a few are engaged in export at present. This is largely due to lack of knowledge of and contacts with export markets as well as low quality of their products. Although much experience has been gained on flower growing, the level of technology and knowledge of production remain low in the case of most of the enterprises and household farmers.

## **II. The ITC approach for technical cooperation**

Against the above background, ITC conducted a feasibility study on export of cut flowers from Yunnan Province which concluded that, in spite of the constraints identified above, the province has a good potential and a number of competitive advantages over many other flower exporting countries. The feasibility study also analyzed the specific needs for technical assistance of this sector. Subsequently, at the request of the Government, ITC designed a project for technical assistance in 1998 with the following objectives:

- To improve the marketing system for flowers by creating a central flower market in Kunming in order to regulate effectively the sales and distribution of the province's floriculture products.
- To upgrade and reinforce the existing support infrastructure to the floriculture industry by improving and enhancing the services of the organizations concerned.
- To promote and increase the export of Yunnan flowers to selected markets in Southeast and East Asia by developing a core group of 8 leading exporters as model enterprises/household farmers for the floriculture sector.

To reach the above objectives, ITC focussed its technical assistance in the following areas:

### **Development of an export strategy for cut flowers**

ITC believes that a well-designed export strategy is the key to the development of an export-oriented floriculture industry in Yunnan Province. Therefore priority was given to assist the province in developing an export strategy for cut flowers. A special task force consisting of national experts was set up for the formulation of the strategy under the technical guidance of ITC specialists.

While preparing the strategy, the task force made a through analysis of supply capacity of cut flowers in Yunnan including its strengths and weaknesses, world's demand and market opportunities for Yunnan flowers especially in the neighboring countries. Studies tours led by key decision makers of the province were organized to world's major flower producers and exporters such as The Netherlands, Israel, Colombia, Ecuador and Kenya in order to learn from the experiences of other countries and avoid similar mistakes. A series of seminars and workshops were held to discuss the recommended strategies. Based on extensive consultation with the stakeholders concerned, the first export strategy for cut flowers was completed last year and has become an important guiding document for the floriculture sector. The strategy aims at making Yunnan Province the largest flower production, export base and trading center in China as well as Asia as a strategic goal for the province's floriculture sector. While the sector will continue to base itself on the booming domestic market, especial efforts will be made to expand its export to the neighboring markets in Asia.

### **Creating a flower auction market in Kunming**

As an important part of this export strategy, ITC recommended that priority be given to build a central market in the form of flower auction based on the Dutch model in Kunming. Again a local team of experts was set up to conduct a comprehensive feasibility study of the flower auction market under the technical guidance of ITC flower auction specialists. Study tours were undertaken by the local team as well as the provincial leaders to existing flower auction markets. Based on the feasibility study, a decision has been made to build a flower auction market in Kunming with a total investment of RMB 120 million (US\$ 14.5 million) for the first phase. Detailed planning of the auction market is now underway and construction of the auction market is expected to start soon. Once it is in full operation, the auction market is expected to change fundamentally the marketing channel of cut flowers in the province, improve considerably product quality and realize eventually Yunnan's potential as a major exporter of cut flowers.

To ensure the success of this important project, ITC has not only provided technical guidance for the conceptualization, feasibility study and design of the auction market, but has also given its full support for the human resources required to manage the market. In January 2001, ITC organized a training course on flower auction in Holland for the first group of future flower auction managers from Yunnan Province. More training will be provided in world's leading flower auction markets and in the province in the near future. In addition, thanks to ITC's matchmaking efforts, Aalsmeer Flower Auction of The Netherlands has signed an agreement with Yunnan Province to provide complementary technical assistance and training for the auction market in Kunming. This will enhance considerably the effectiveness of ITC's technical support in a specialized area.

### **Upgrading and reinforcing the existing export support services**

To upgrade and reinforce the existing export support services to the floriculture industry, a study has been undertaken by a working group consisting of local and ITC experts to assess the present status of export support services. Based on extensive consultations with service providers and users, the working group has

prepared a report on the bottlenecks and solutions to the problems identified. This report was submitted to the organizations concerned and the Steering Committee for the development of floriculture industry and was reviewed seriously by the parties concerned during a recent workshop in Kunming.

Action plans are now being developed by the organizations concerned to remove the obstacles and improve their support services with concrete measures. They will be supported by advisory missions to these organizations by ITC experts as well as in-service training of selected staff of the export support organizations concerned in counterpart organizations abroad during the remaining period of the project. The involvement of the support organizations in the technical assistance program will enhance the understanding of users' needs by these organizations and thereby facilitate the export of cut flowers from the province.

### **Developing a group of model enterprises/household farmers as leading flower exporters**

All ITC's technical cooperation effort is geared to the benefit of exporting enterprises who are the ultimate beneficiaries. ITC's project in Yunnan province is no exception. To achieve the maximum impact with limited financial resources, we selected a group of eight flower growers and enterprises with best potential to become models in the floriculture sector for direct support under the project. Detailed technical assessment was made on each participating flower growers and enterprise in order to determine their strengths and weaknesses, identify areas where problems can be resolved through technical assistance.

Based on the above, assistance have been given to each flower grower and enterprise in developing their own realistic marketing strategies. Market research have been carried out to identify target markets for Yunnan flowers, followed by contact missions with potential importers in selected markets to identify specific export opportunities. To improve the quality of flowers of these growers and enterprises, on-the-spot advice and training have been provided on all aspects of flower production and more training have been planned for the remaining period of the project. An addition, arrangements are being made for growers to be trained abroad following the learning by doing method.

At the same time, information collected through market research and market contact missions as well as the ITC weekly Market News on cut flowers are widely disseminated to other growers and enterprises in the same sector in order to broaden the impact of technical assistance.

As a result of the above, the participating flower growers and enterprises have gained a much better knowledge of market requirements, established contacts with new importers in target markets and have improved considerably the quality of their products. More growers and enterprises have shown their interest in exporting. Exports of cut flowers to Japan, Republic of Korea, Hong Kong and Thailand have increased considerably during the recent years.

### **III. Lessons learnt in supporting export diversification**

Based on ITC's 37 years of experience in export development and trade promotion and particularly its recent experience in Yunnan Province of China, we have learnt a number of lessons in supporting export diversification in developing countries. I would like to conclude this paper by summarizing some of these lessons:

- Supply related constraints can not be easily eliminated. They call for a good understanding of world demand, a capacity to forecast market trends, and an ability to attract investment and technology. Therefore, to diversify export, the country and enterprise concerned should first take a hard look of its supply capacity in light of world demand and then take the necessary steps to enhance its supply capacity.
- Export diversification does not come about itself. It is not simply a by-product of sound macro-economic policies. Sustained export diversification requires concrete national, sectoral and enterprise-level strategies which are based on realistic assessment of supply capacities and international demand and an understanding of international commercial practices, and which reflect existing institutional, technical and entrepreneurial strengths.
- Export diversification can only succeed if public and private sector work closely together. The Government's vision and creativity of the private sector are the key to success. Governments have an important role in establishing policies and measures to stimulate new export sources. They should make strenuous efforts to eradicate the climate of mistrust between the public and private sectors. Governments would then be in a better condition to act as facilitators or partners in fixing the aims and nature of initiatives to diversify and promote exports in conjunction and coordination with the business sector.
- A greater diversity of exports in developing countries calls for more technical assistance in export development, promotion and diversification. Technical assistance by development partners should be directed to viable diversification programs of developing countries within a broad economic policy framework and in a context of growth-oriented structural adjustment.
- Export-led growth has a close linkage with poverty reduction. At the macroeconomic level, the economic and social development performance of a country is very much linked to its exposure to international trade. Aggregate changes to a country's international trade have positive effects on its growth, income and sustainable human development. At the microeconomic level, the employment effects of broad-based export growth with backward linkages to SMEs can have a significant impact on poverty reduction. Therefore priority should be given to support export diversification programs which have special bearing on poverty reduction.

- Technical assistance for export diversification can only be effective if it reaches the product and market development efforts of the business sector. While enterprise-level assistance has often yielded commercial success, more attention should be given to the sustainability of results, the replication of export success models and capacity building among multiplier organizations, such as product and exporters associations.
- The countries know their own situation best and national expertise is widely available in developing countries. In carrying out technical activities, the development partners providing technical assistance should involve national experts as much as possible for tasks such as supply surveys, feasibility studies and formulation of export strategies. This approach can ensure a stronger local ownership of the strategy development process and enhance the national capacity to pursue export diversification programs.
- Whenever possible and appropriate, cost sharing arrangements should be encouraged for technical support to export diversification programs. This can be an effective way to ensure serious commitment of beneficiaries to technical assistance and sustainability of product and market development activities.