

Liaoning Province of China

Introduction:



Liaoning province is located in China's northeast. It is the ancestral home of the Manchu ethnic group who established their original seat of rule in the provincial capital, Shenyang, in the early 17th century. The Manchus later went on to conquer the country in 1644 and founded the Qing Dynasty, the last imperial rulers of China. Liaoning was later controlled by Russia and during the 1930s the province was under the control of the Japanese-puppet government of Manchukuo headed by the last Qing ruler, Puyi. In 1945, the province returned to Chinese government control under the Republic of China

and was passed onto the People's Republic of China in 1949.

The province's borders stretch from the Yellow Sea and the Bohai Bay in the south, North Korea on the southeast, China's Jilin province on the northeast, Hebei province to the west and the Inner Mongolia Autonomous Region to the Northwest.

The present Liaoning province is actually the amalgamation of a number of former provinces that existed under the Republic of China. The provinces of Liaodong and Liaoxi and the municipalities of Shenyang, Luda, Anshan, Fushan and Benxi were combined to form Liaoning province in 1954. A year later, parts of the former Rehe province (also known as Jehol) were added to Liaoning.

Geographically, Liaoning has three distinct areas. The hills in the eastern part are marked by the Changbai Shan and Qian Shan mountain ranges. These two ranges extend east to the coast and form the Liaodong peninsula. The central part of the province is a plain that contains rivers such as the Liao and Daliao. The western part of the province contains highlands such as the Nulu'erhu Mountains that stretch towards the provincial border with Inner Mongolia.

Liaoning is also known as one of the first provinces in China to build an industrial economy. Cities set up massive iron and steel works and



focused on heavy industry. This became a burden for the province since the late 1990s when many of large state-owned enterprises began to go through economic difficulties.

However, the economy in Liaoning is growing as the province has diversified its industries recently. Today Liaoning's economy is made up of manufacturing industries such as machine parts, shipbuilding and electronics. It also has strong apparel, information technology, service and tourism industries. Many of these are located in the coastal city of Dalian. There are also strong mining, seafood and agricultural industries in the province.

As of 2004, the province had a population of 42.2 million people and an annual per capita income of RMB 9,108.

Industries:

Apparel

Dalian, the commercial centre of Liaoning is also a major production hub for China's fashion and garments industry. The Dalian International Garment Fair is held there every year since 1988. Over 600 exhibitors and 35,000 buyers from both China and 30 countries attend the fair every year.

One example of the strong apparel manufacturing companies that are coming out of Liaoning is Dalian Dayang Trands Co. Ltd. The company was founded in 1979 and since then has manufactured men's suits and garments for many famous fashion houses and brands. It has also been China's largest manufacturer of menswear for the last 10 years. It was one of the founding members of the World Economic Forum's Community of Global Growth Companies. This is a major achievement for a garment company in China, where the average lifespan of most apparel producers is less than 10 years.

Being a successful OEM manufacturer for

western garment brands was not enough to satisfy Trands' founder Li Guilian however. She decided to build up the company's image by creating "Trands", a luxury line of men's suits to be sold in its own stores throughout China. They currently have four stores in the country: two in Beijing, one in Dalian and one in Taiyuan (Shanxi province). Trands current line of products includes suits, shirts, jackets, pants, overcoats and T-shirts. One Trands suit costs on average between RMB 6,000 and RMB 18,000.

Li sees China's premium menswear market as being a great growth opportunity for the company, especially since it has to deal with a rising renminbi and competition from other Asian countries such as Vietnam. The greatest challenge she sees, is trying to encourage Chinese people to value Trands' suits the same way they value luxury foreign brands. To make sure that her products can stand up to luxury, Li has hired Ivano Cattarin, the former head designer from Giorgio Armani to help Trands design team learn the skills necessary to create unique suits that haven't been seen on the Chinese mainland before. Therefore, allow Trands to develop itself as a brand something that the Chinese fashion industry lacks.

Menswear isn't the only apparel product available from Liaoning manufacturers. Companies in the region are also producing men's and women's swimwear using fabrics such as Lycra®, nylon, spandex and polyester. Their swimwear features off-set printing and embroidery.

Automotive Parts

The manufacturing of auto parts is one of Liaoning's major industries. One of its most successful auto parts manufacturer is Wander Auto Technology, manufacturer of electronic and suspension parts. It currently produces parts for many foreign automakers that have joint ventures



in China. These include Beijing Benz-DaimlerChrysler, SAIC-GM-Wuling, Shenyang Mitsubishi and Beijing Hyundai. It also produces parts for major domestic companies such as Chery.

Wander produces more than 220 different products and has an annual production capacity of 4 million units. According to the China Daily, the company has installed two new production lines this year and increased its annual production capacity to 4.5 million units in order to meet the growing demand for vehicles in 2008.

In 2006, Wander's generators were found in 16% of new cars and its starters were in another 13% of the new autos on China's roads. That helped to make it the second largest auto parts producer in China. The company's revenue also reached US\$ 27.3 million.

In November 2007, Wander listed on the NASDAQ stock exchange in the US, something that has been seen as a landmark achievement for the company. Wander's chairman and CEO Zhao Qingjie says he sees the listing as a way for the company to expand further into the US and European automotive markets.

China is currently the second largest country of origin for auto parts heading towards the US after the country passed Germany in the first quarter of 2007 to gain the title.

One month earlier, Volkswagen opened its first wholly owned foreign enterprise in Dalian Development Zone. The company already has a joint venture with China's First Automotive Works (FAW) in the same city. Construction on the factory will begin in 2008 and production will start in 2009. The facility will manufacture Volkswagen's DQ200 double-shift automatic gearbox for the company's two China joint ventures – its joint venture with FAW in Dalian

and Shanghai Volkswagen.

Volkswagen relationship with the city of Dalian is seen as very important for the city of Dalian and Liaoning as a whole. The company's involvement in the city is seen as an important development in attempts to help Northeastern China make the transition from being manufacturer concentrated solely on heavy industry to one that is much more diversified in its manufacturing options.

Besides producing components such as gearboxes, electronic controllers and generators, Liaoning is also a major producer of timing belts and hoses for vehicles. The mainland's other main production hubs include Tianjin, Guangdong, Shandong, Zhejiang, Jilin and Heilongjiang provinces.

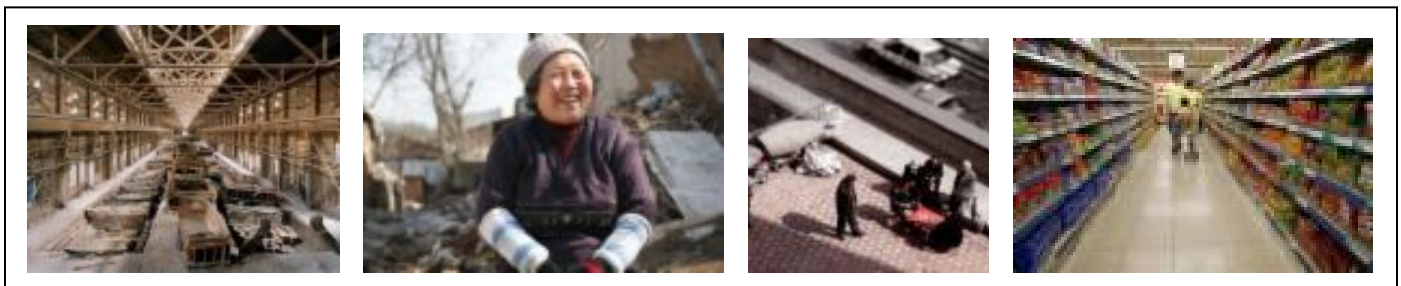
In the field of automobiles, one of the most successful companies is Brilliance China Automotive Holdings Ltd. The company has exported 158,000 of its Zhonghua Zunchi sedans to Germany and 80,000 Haise lightweight commercial vehicles to Russia.

The company will have the fourth overseas factory in Russia. The other three are in Egypt, Vietnam and North Korea. The company also has a joint venture with BMW to assemble and sell BMW's sedans in China.

Aircraft Manufacturing

Shenyang is a hub for small plane manufacturing. In early December 2007, it was announced that Shenyang Aircraft Corp (SAC) would be partnering with the US aircraft manufacturer, Cessna to assemble Cessna's new 162 SkyCatcher light sports aircraft in Shenyang. According to Shenyang Aircraft's senior vice-president, Chen Yongman, 900 of the planes have already been ordered. The shipment of the planes is expected to start in 2009.

Shenyang Aircraft has been producing aircraft



and aircraft parts for more than 50 years. It also provides aircraft components for Boeing, Airbus, Bombardier, Spirit AeroSystems and Singapore Aerospace.

Whether the Cessna-SAC joint venture will produce any planes for use in China is not known at this point. China's airspace is controlled by the country's military that keeps tight control over the commercial aviation industry in the country. Currently no civil or private aviation is allowed and the situation does not look likely to change any time soon.

Information Technology Outsourcing

In November 2007, SAP was the latest among more than 230 foreign companies to set up operations in Dalian. The company currently has 200 technicians working to manage software used by the European banks and the US auto manufacturers.

Other firms that have offices in the city include IBM, Hewlett-Packard, BT Group, and Yokogawa Electric Corp of Japan. The most talked about new resident is Intel. The US company has just begun manufacturing in a newly set up US\$ 2.5 billion manufacturing plant. The city government has helped ensure there is enough power to run all the high-tech applications in the city by beginning construction on a US\$ 6.5 billion nuclear power plant.

It is the support, like the new nuclear power plant, that keeps foreign high-tech firms coming to Dalian. A strong communications infrastructure, plus promised tax breaks and free rental periods to high-tech companies are just some of the incentives that keep companies coming to the city. Most companies that have set up their operations in the city are from the software writing, software testing or accounting outsourcing fields.

Most of all, however, it is the skilled workers that keep foreign companies coming to the city. Many workers are multilingual – English, Japanese and Korean languages are widely spoken -- and they are eager to learn. Starting wages are also lower here compared to other cities such as Shanghai or Beijing. A new graduate earns about US\$ 250 per month, approximately the same as IT workers in India – giving many Indian IT outsourcing firms the opportunity to set up their operations in the city.

Unfortunately, staffing is also what many foreign companies are saying is preventing them from growing their companies in the city. The provincial government has pledged to double the number of high-tech graduates from the region's 40 universities and technical schools to 80,000 by 2010. In the short term, the government is going to overseas job fairs in Japan and the US attempting to bring back Chinese with overseas experience.

Machinery Manufacturing

Dalian may venture into a new area with IT outsourcing, but the city has not given up on one of the city's and the province's traditional industries, machinery manufacturing.

The mayor of Dalian city said that the city might not become the biggest city in China for machinery manufacturing, but it will become a leader because of its transportation and low-cost manufacturing advantages.

One of China's largest machinery manufacturers is based in the city, DHI-DCW Group. DHI-DCW manufactures the largest wind-powered 1.5 MW generating sets in China. The company is in the process of developing a 3 MW generating set that it hopes to put into production by the end of the year.

Dalian's 18 universities and colleges and more



than 100 research institutions have developed many new machinery products in this region. The city also has seven national-level research centres. These centres work in collaboration with businesses and universities so that their research can be put into practice and product development, not just left as pure research.

Since 2001, enterprises in Dalian have created 6,500 new products. About half of the new products developed by Dalian based companies every year are collaborative efforts.

Shipbuilding

Being a coastal province, it may not be surprising that Liaoning has a large shipbuilding industry. What may be surprising, however, is that Liaoning's Dalian Shipbuilding Industry Corp. Ltd is the fourth largest shipbuilder in the world (China is also the world's second largest shipbuilder after South Korea).

The company says its production schedule is currently booked to capacity until 2011. This is driven by strong demand from both domestic and overseas buyers. In fact, over 70% of Dalian Shipbuilding's orders are from overseas. The company's revenue reached US\$ 1.6 billion last year and is expected to reach US\$ 2.7 billion by 2010.

Dalian Shipbuilding is not content to rest on its profits, however. A senior official of the company, Wen Daozhang, said that the company would continue to be innovative and work to move their products to the higher end of the market. Currently the company is working to build first very large crude oil carrier (VLCC) for Iran. Once that project is finished, Dalian Shipbuilding plans to work on designing more innovative models in an attempt to corner a larger share of the market.

Tourism

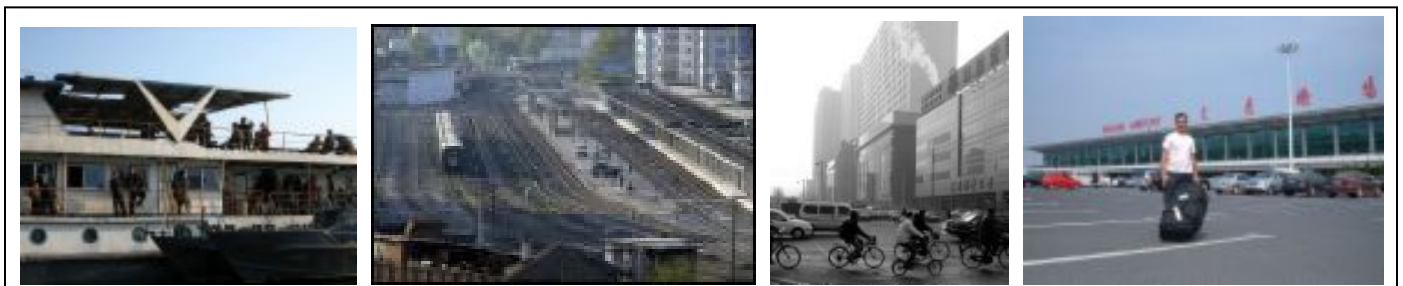
Liaoning has also been a tourist destination for

decades, particularly the coastal city of Dalian. Being situated on the coast and surrounded by mountains, it is not a surprise that the city has been a resort town since the early 20th century.

The city also has many historical sites. As it remained under occupation of Japan and Russia, many of the sites are of interest to both Chinese and foreign visitors. This has led to the establishment of many tourist companies in the city.

One example of these tourist companies is 'Discover Dalian', founded by American Leigh Matz, who goes by the Chinese name SongLi. Known as the English-voice of Dalian, Matz was the first foreigner in Northern China to host a local evening news program in Chinese. He was also a keynote speaker when the city hosted the World Trade Organization in 2005. His company was one of the recommended sites for visitors to the World Economic Forum when the city hosted the event in the fall of 2007.

Matz's 'Discover Dalian' company offers personalized tours of Dalian for groups of four people or less. Matz personally leads English-language tours and personalizes the tours by documenting them with photos along the way. He can be reached at <http://www.discoverdalian.com>.



Transportation:



Source: Fiducia Management Consultants

Liaoning's railways are considered some of the best in China and the amount of freight shipped by them are considered the second highest of any province in the country. The main railroad that runs through the province is the Ch'ang-ch'un-Lü-ta railway, which passes through the capital, Shenyang.

In terms of roads, Liaoning is looking at making improvements. In 2005 the provincial government decided to build a 1,433 km-long coastal highway that will connect six provincial cities, 21 counties and 113 towns. This would connect the Bohai Bay area of the province where much of the province's economic development is taking place. It is expected to be completed by 2009.

The government also plans to build the ports at Dalian and Yingkou in order to help the cities grow into world-class ports.

Industrial Parks:

Liaoning province has five development zones:

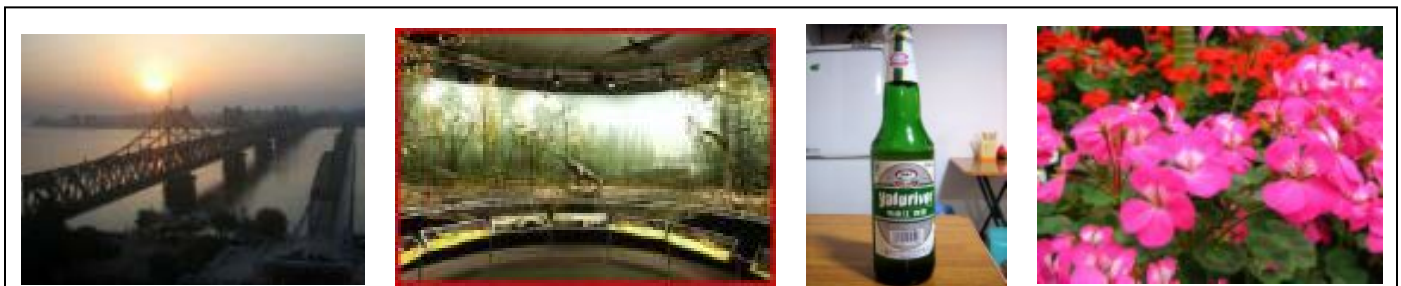
- Changxing Island Harbor Industrial Zone in Dalian
- Yingkou Coastal Industrial Base
- Liaoxi Jinzhou Bay Coastal Economic Zone
- Dandong (on the border with North Korea)
- Zhuanghe Huayuankou Industrial Zone

The Yingkou Coastal Industrial Base is of great importance to Liaoning, especially in view of the central government's emphasis on the development of the Bohai Bay region where Yingkou is located. The zone will be built over an area of 200 km². The first phase of the project having an area of 44 km² is under development.

As the land around the zone is marshy, it is easier to develop. Also there is no need for relocation of existing residents, which has been a big problem with other zones. Land prices are also comparatively cheap. They are about 30% lower than prices in the city of Dalian and 20% lower than in the municipality of Tianjin. A number of foreign Fortune 500 companies have already committed to set up their offices in the zone.

Currently under the phase one of development, there are about 4,000 industrial businesses in more than 40 industries such as:

- Metallurgy
- Petroleum and chemicals
- Machines
- Construction materials
- Magnesium materials
- Spinning and weaving
- Light industry



- Pharmaceuticals
- Electronics

Yingkou is also home to the Dongbei Piano Factory that was bought out by Gibson Guitars Corp of the US in December of 2006.

Areas for Improvement:

While much of this report has been made to speak about the numerous diversified industries that exist in Liaoning province, a large number of these industries such as the IT industry exist around the city of Dalian. The remaining areas contain many money losing state owned enterprises that are on their way to being closed or have been closed. The central government launched the “Revitalize the Northeast” campaign in 2003, but it has not brought forth the tangible benefits that were promised. Infrastructure and education and training programs need to be put in place to encourage businesses to set up in the province. Until that is done, Liaoning will never be revitalized.

There have been some attempts by Liaoning provincial government to do this. In 2005, the

Communist Party Secretary for the province, Li Keqiang proposed the “Five Points and One Line” plan.

The five points listed were the provinces’ five development zones (see the Industrial Parks section above) and the one line was the proposed new coastal highway (mentioned under the Transportation section above). The purpose of this plan is to better facilitate transportation and business inside the province’s economic hub. But this doesn’t carry into the northern areas of the province where it is needed more. Infrastructure needs to be built in the northern areas in order to encourage businesses to move to the northern areas of the province.

Conclusion:

Liaoning is an economically growing province of China. But, unfortunately, most of the growth is confined to the city of Dalian. The province needs to balance and spread out its economic growth to the rest of the province in order to make it sustainable.



Confederation of Indian Industry



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