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*for a sustainable future*

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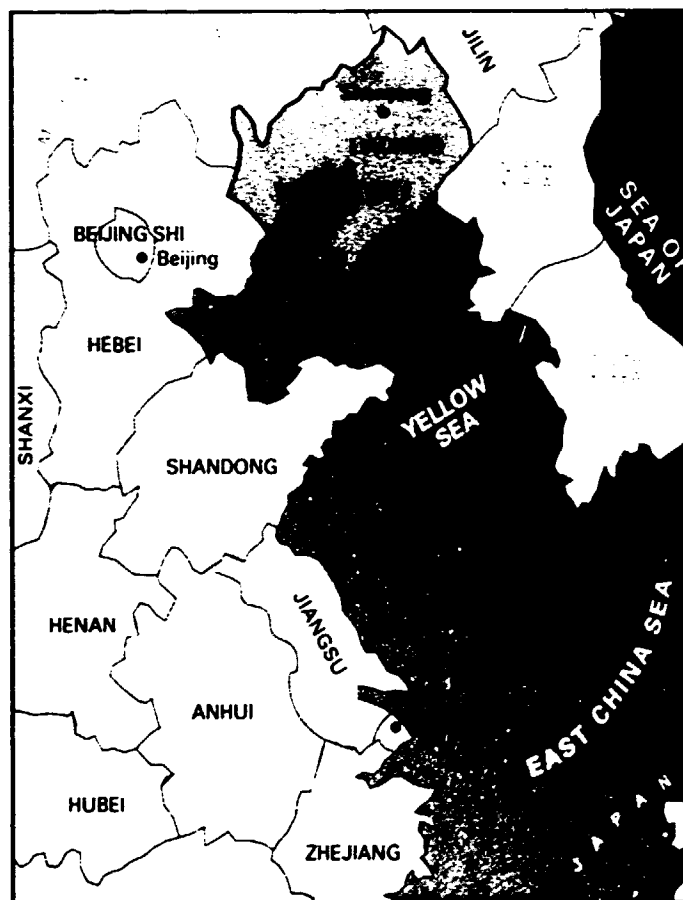
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# A coastal engine for growth

original contains  
color illustrations

*Yingkou offers a favourable investment climate and a track record of success in foreign investment.*



tion at the end of 1992 was 2.17m. Of this figure some 578,000 were living in the city proper.

## COASTAL-LED GROWTH

Its coastal position is the key to Yingkou's development. The coastal provinces have been promoted as the engines for growth in the take-off of the Chinese economy. And while up to now it has been the southern and eastern provinces that have attracted the most attention, during China's pursuit of openness it is the north-east that offers largely undiscovered and cheaper opportunities.

In 1984, 14 coastal cities were set up to have preferential investment policies. Yingkou's Economic & Technological Development Zone, situated at the city's second, and newest, port was added to this list in 1992. Yingkou also offers several small industrial zones for foreign investors in the main city.

## INDUSTRIAL ZONE

However, Yingkou's "new" zone varies from those elsewhere in the country, particularly the zones of Shenzhen, Xiamen and Zhuhai in the south which concentrate on foreign investment in labour intensive and small- and medium-sized enterprises.

Yingkou offers the advantage of an industrialised hinterland with vast natural resources and a large pool of skills. Investors will find the lower land rentals and labour costs attractive, while the area is also suitable for more high-tech and heavy industrial enterprises. And it benefits too from a supply of raw materials and a modern port for export.

**W**HILE CHINA'S SOUTHERN and eastern provinces have so far been attracting the lion's share of the country's foreign investment, investor attention may now switch to the largely undiscovered north-east.

Yingkou, in the north-east, is a mixed area of city and surrounding countryside covering 5,402 sq km in Liaoning Province. The city is one of China's old coastal Treaty Ports with a long shipping heritage, developed by the British and Japanese. The Chinese government has therefore attached great significance to Yingkou's development due to its economically strategic position.

One of two major port cities in the region, Yingkou is linked to the hinterland by the new Shenyang-Yingkou-Dalian expressway. Its popula-

Figure 1: **Actual investment by value**

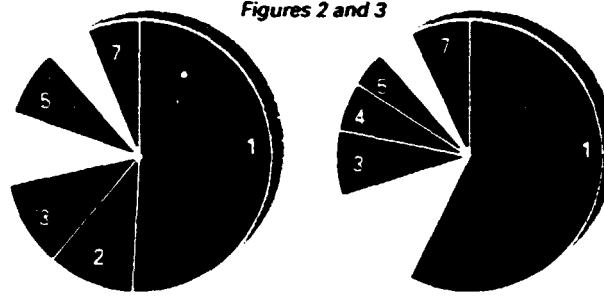
Year	Total Investment value (\$m)	Registered Capital (\$m)	No. of Companies
1987	14.8	10.0	5
1988	62.0	38.3	17
1989	9.6	8.8	9
1990	12.2	10.3	15
1991	28.1	22.0	30
1992	338.7	228.0	192
<b>TOTAL</b>	<b>467.1</b>	<b>318.9</b>	<b>268</b>

TOTAL INVESTMENT REFERS TO REGISTERED CAPITAL PLUS ALL LOANS

## Investment by Country

### Number of Projects

- 1 Hong Kong (136)
- 2 Japan (28)
- 3 South Korea (28)
- 4 Taiwan (23)
- 5 US (21)
- 6 Macau (14)
- 7 Others (17)



### Value of Investment US\$m

TOTAL: US\$465.5m

- 1 Hong Kong 267.7
- 2 Macau 60.6
- 3 US 35.5
- 4 Japan 26.7
- 5 South Korea 21.1
- 6 Taiwan 20.5
- 7 Others 33.4

### INVESTMENT SUCCESS

Foreign investors, primarily from elsewhere in Asia-Pacific, have already been discovering the attractions of Yingkou. Direct investment into the area was slow until 1992 when investment took off (see figure 1). This was also the biggest year of boom in the local economy. Including those investments which have been contracted on paper, although not actually contributed in cash or in kind, there were approaching 506 foreign investments into Yingkou by May 1993, indicating that 1993 was likely to be another record year for foreign investment.

Hong Kong companies have been far and away the most prolific investors in Yingkou with 136 projects followed a considerable way behind by Japan, South Korea, Taiwan, the US and Macau (see figure 2). However, in terms of actual investment, Macau (\$60.6m) is the second largest after Hong Kong

**Economic dynamism in China has come from four sectors: market forces, foreign investment and trade, the coastal provinces and the rural and township industries behind the coastal cities.**

(\$267.7m) (see figure 3).

Light industry has been the most interesting sector for foreign investment, accounting for 32.5% of the investments with a strong showing from textiles accounting for 18.7% of investments (see figure 4). The service and real estate sectors have put in a reasonably strong showing and there has been support for investment in other specialist local industries such as metal working and machinery.

### ECONOMIC REFORM

Economic dynamism in China has come from four sectors: market forces, foreign investment and trade, the coastal provinces and the rural and township industries behind the coastal cities. This last area, usually in the form of collective and township enterprises involving local government, village and private investment with free market forces, has been hugely successful.

As a result of the recent diversification of economic resources and the fast-developing township and village enterprise sector, the State sector is gradually losing its former predominant position and now accounts for less than 50% of national industrial production. Effort and resources are now able to go elsewhere, governed by market-determined supplies and price and distribution systems.

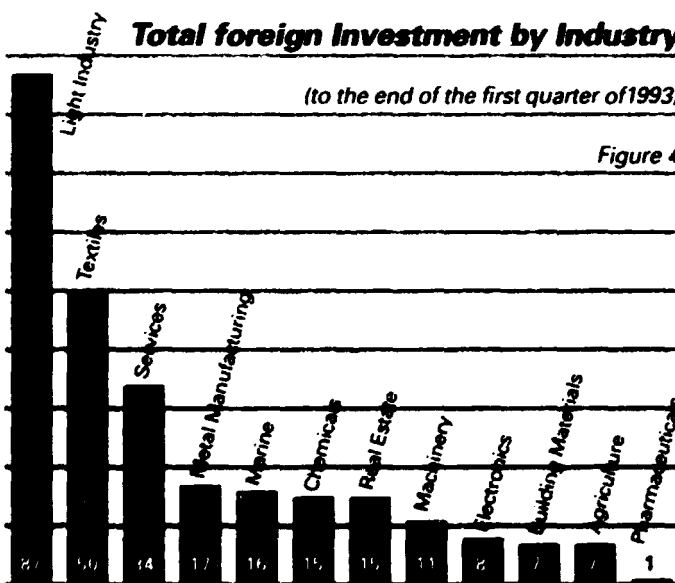
Gradual is the key word. Reforms may be progressing at a different pace in Yingkou compared with other places in China. Decentralisation combined with economic and investment competition between regions means that slightly different regulations or interpretations of them are present across China. Recruitment of labour in Yingkou, for instance, might be significantly easier than elsewhere in China. Efforts and resources are now able to go elsewhere, governed by market-determined supplies and price, and the distribution system.

An investor needs to spend time to get to know the local circumstances and investment conditions as they would apply to his manufacturing sector in Yingkou. ■

### Total foreign Investment by Industry

(to the end of the first quarter of 1993)

Figure 4



# Who to talk to

*Various bodies to help the foreign investor are available in Yingkou.*



*The Economic and Technological Zone has its own administration committee.*

**T**HERE ARE four basic tiers of government in China: national, provincial, city and district. Yingkou covers four city districts (Zhanqian, Xishi, Laobian and Bayuquan) and two county-level cities outside central Yingkou. However, in Yingkou the city tier is the one of crucial importance for foreign investors.

While national government is the only tier which can make laws, as part of China's process of decentralisation foreign investment is generally dealt with by regulations issued at city level.

Yingkou is also able to approve all foreign investment projects worth up to \$30m. Projects up to this value in the zone at Yingkou new port can be approved by the zone administration. Meanwhile, projects up to this level throughout the rest of Yingkou can be approved by the various district or county administrations in association with the municipal government. Anything over \$30m must go before the State Planning Commission and the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) in Beijing.

## GOVERNMENT BODIES IN YINGKOU

The key point of interface for foreign investors coming to Yingkou is the Yingkou Municipal Commission for Foreign Economic Relations and Trade. The Commission has a Foreign Investor Service Office which acts as a one-stop shop for investors - the go-between that links them with the various bodies they will need to deal with. The Commission is also able to introduce potential joint venture projects and partners to foreign investors and vice versa.

An investor must apply to establish a new facility or joint venture in Yingkou via one of the city districts of Yingkou or one of the two city-level counties depending in which of these six administrative zones he intends to base his facility. The application must first come to these bodies so they can advise on the necessary infrastructure for the application. If an investor decides to go ahead with a

project he needs to register his project with the Foreign Economic Comprehensive Examination and Approval Office. This must include a project registration application and letter of intent.

If the project is a joint venture then the Chinese and foreign partners must prepare all the material and provide it to the office. If the project is to be solely foreign owned then the investor himself or someone in China entrusted by him must finish all the materials. This, for example, could be a lawyer, although it is more likely to be the Foreign Investor Service Office which can deal with all the various tiers of bureaucracy on behalf of an investor.

## FOREIGN INVESTOR SERVICE OFFICE

It is the Foreign Investor Service Office's job to be of assistance to foreign investors in any way possible from the point of application through to the commencement of business operations. The Approval office can complete all approval formalities within one week.

After an investor has gained the initial agreement of the Approval Office, he must carry out a feasibility study for his project. This can be performed by the Service Centre. This must then be submitted to the Approval Office together with a contract between any joint venture partners for final approval. Although approval technically comes from the districts or counties it can only be given once the investment has been rubber-stamped by the Approval Office.

## NEW STRUCTURES

Two other bodies of interest to foreign investors, the "Office For Opening To The Outside" and the Foreign Trade Bureau, were being incorporated into the Municipal Foreign Economic Relations and Trade Commission during 1993. The openness office is responsible for making policy on how Yingkou should open up to the outside world and to ensure that these are put into practice by other government departments.

However, probably the most important person for foreign investors to know is the relevant Vice Mayor, Mr Zhou Xuezhi, who is in charge of foreign economic affairs and foreign affairs and to whom all the above bodies ultimately report.

Finally, while it is not necessary to contact Beijing at all in investments below \$30m, companies involved in certain industry sectors will wish to ingratiate themselves with the relevant ministries. For instance it is advisable that investors in electronics make contact with the new Ministry of Electronics before concluding their joint venture or wholly-owned foreign venture contract.

# Industrial locations

*A variety of industrial zones are the premier locations for business in Yingkou.*

**T**HERE ARE eight industrial zones in Yingkou, one huge state-level zone at the new port, two provincial-level zones (one of which at Hekou is actually subdivided into three zones) and five small city zones. In general, all the zones have been keen to build on Yingkou's advantages in labour and industrial heritage by attracting high added-value industry. The zones are, however, the premier locations for business in Yingkou.

## ADVANTAGES

While the city zones offer the advantage of cheaper land than the "new" zone, it in turn has a superior location and better facilities. Preferential state tax laws are applied in the new Yingkou Economic and Technological Development Zone (ETDZ) as well as in the other seven smaller zones (see taxation article).

## NEW ZONE

The ETDZ is located 45 km from Yingkou and one km from the new port and Shenyang-Dalian expressway. Most of the zone is in the Bawuquan district of Yingkou City.

Built in 1988, the zone's planned area covers 140 sq km (although half of this is hilly territory), including an initial fully-serviced development area of 5.6 sq km.

The zone has national status, meaning it was state-approved and benefits from preferential policies. There is a standard 15% tax rate in the zone and other tax exemptions are available (see taxation article). Management of the zone and its development are the responsibility of the Administrative Committee of Yingkou ETDZ.

The zone is divided into eight functional districts and while each is connected they are virtually independent:

- industrial
- shopping
- residential
- storage and bonded area
- science park
- finance and trade centre
- port
- tourist areas

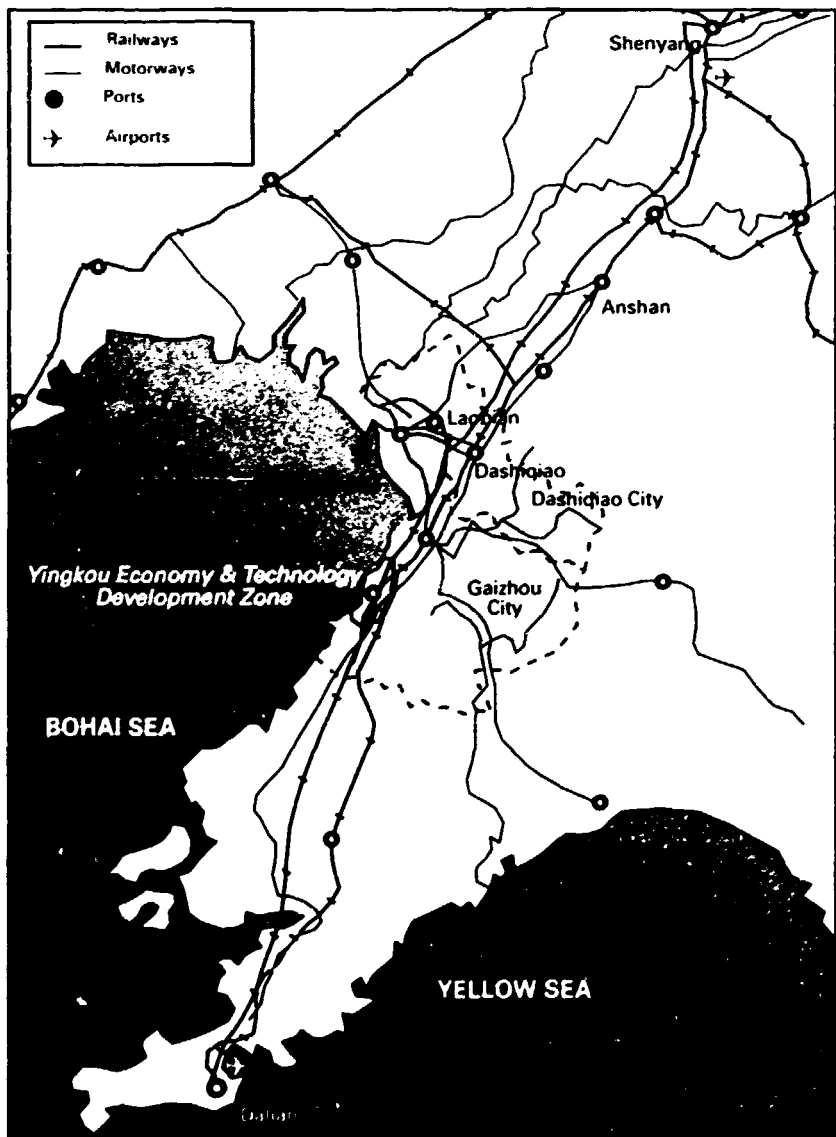
The zone incorporates hotels, flats for foreign managers and an entertainment centre.

## HEKOU INDUSTRIAL DEVELOPMENT ZONE

The provincial-level Hekou zone is divided into number one and number two districts and the high-tech garden district. No. One district, with an area of 0.8 sq km, is located in the western part of Yingkou city proper, on the coast near the mouth of the old port which is positioned slightly inland along the Liaohe river. The zone has all the basic utilities.

Projects at Hekou No. 1 include:

- Yingkou Gangxin Shaped Aluminium Co Ltd (a



## Property and land

**A** COMPANY seeking to construct or rent a property in Yingkou has two basic options. A company can gain the right to use land in any way it wishes by paying a land use fee. However, the land available may not have a completed infrastructure and the company must provide its own building and arrange for the installation of services.

The right of use of land fee in the old city of Yingkou is \$25-35 per sq m and in the new zone is \$40-50 per sq m. The fee varies depending on the surrounding environment and distance from the port. It also varies depending on the period of land use required by the company. The fees in the small economic zones in Yingkou are much cheaper varying from \$15-30 according to the local environment. If the land is to be used for commercial, residential or touristic rather than industrial purposes then these figures can increase by 50%-150%.

The cost of constructing a building is around \$180 per sq m and companies are free to sell this building on to third parties during their period of right of land use. If they do this a fee must be paid to the Land Use Bureau depending on the value of the property.

Paying the right of land use fee entitles the company to spend up to 50 years on the land if it is undertaking an industrial project.

The period of right of land use for commercial projects is 40 years. A year before the end of this period he can negotiate for a further lease of the land.

In addition, companies must pay a land use fee of \$0.2-0.4 per sq m per annum, according to the size of area

covered and nature of project.

There is a "united" office in Yingkou which is in charge of utilities and will arrange all the service needs of companies with individual connection charges paid for each service dependent on the type and range of services required. The united office incorporates individual service companies covering each utility.

### LEASING

A company can also lease land in which case the land comes complete with buildings and services. The company though has no right to transfer the use of such a building. The cost to purchase a factory built by the local real estate company with a full provision of services is 600-2,000 RMB per sq m including the land use charge. This is expensive as the Land Bureau is trying to encourage companies to build their own factories on currently non-serviced land.

If an organisation leases both land and an off-the-shelf building then the cost for an office will be 30-100 RMB per sq m per month, while for a factory it will be 10-30 RMB per sq m per month. The lease period is 25 years with no difference in the period of lease for manufacturing or service projects.

There is a large availability of vacant buildings in the old city, but very few in the zone where an investor will probably be faced with the option of construction.

If a company is leasing land it must pay the land use fee in addition to the leasing charge. But it does not have to pay the annual right of land use charge. ■

Sino-Hong Kong joint venture)

- Yingkou Xinxi Knitting Co Ltd (Japanese owned)
- Yingkou Xinda Garment Auxiliary Materials Co Ltd (Taiwanese owned)

The No. 2 district is situated at the juncture of the sea and Liaohe river and offers a total area of 0.99 sq km with initial development land of 0.25 sq km. Built in July 1992 and with a serviced infrastructure it had attracted four foreign enterprises and six domestic ones by the first quarter of 1993.

### HIGH-TECH GARDEN

Hekou High-Tech Garden district is the third part of the main provincial zone, with an area of 0.5 sq km. It is divided into four centres: administrative, scientific research, high-tech industrial and scientific trading and services. The zone emphasises five fields: electronic messages, integrated mechanical and electrical new materials, new energy resources, energy-saving and biological engineering.

A core project for the zone, in developing new energy materials, has already been set up. Four applications of this are high-effective temperature

## Enterprise Zones in Yingkou

Zone	Area (sq m)	Jurisdiction
New Zone	140	State
No. 1 Hekou	0.8	Provincial
No. 2 Hekou	0.99	Provincial
Hekou High-tech Garden	0.5	Provincial
Kunian	1	Provincial
Jinqiao	1	Municipal
Huzhuang	2	Municipal
Gaizhou	2.77	Municipal
Lutun	1.33	Municipal
Xiongyue	2	Municipal

increasing film, condensate collecting equipment, red mud plastics and non-saturated PR resin.

Other projects under way in the zone include companies working with magnets, film and computer software. ■

**All the zones have been keen to build on Yingkou's advantages in labour and industrial heritage by attracting high added-value industry**

# Low tax advantages

*There are a range of tax benefits available for foreign investors in Yingkou.*

**C**OMPANIES locating in Yingkou's industrial zones pay enterprise income tax at a rate of 15%. Elsewhere in Yingkou a rate of 24% is applied. However, companies in high-tech industries are taxed at 15% wherever they are located in Yingkou.

In the service sector joint equity ventures will pay tax at the same rates as above. Most joint ventures in services though are "contractual joint ventures" which have marginal tax rates under the Foreign Enterprise Income Tax Law of 20%-40%. In Yingkou a standardised tax rate of 30% is levied on these service ventures.

In the industrial zones, those companies scheduled to operate for over 10 years qualify for an exemption from tax during the first two years they make a profit. During the next three years they make a profit they pay only 7.5% tax.

After the potential five year period of preferential exemptions those companies in the enterprise zones who are exporting at least 70% of output pay 10% tax. Companies in the rest of the area exporting this amount then pay 12% tax. Otherwise companies begin paying the basic zone rate of 15%.

Foreign investors which receive interest, rentals, royalties or other forms of income (except dividends) from operations in Yingkou are taxed at 10% of income. Dividends remitted abroad are no longer subject to a 10% withholding tax, and the foreign partner's profits which are reinvested are subject to a 40% refund of tax. Subject to the approval of the city government, if the foreign investor has provided "advanced technology" to a joint venture it may qualify for further tax reductions.

## OTHER TAXES

The standard rate of local income tax is 3%. However, productive enterprises establishing in an industrial zone are exempt for five years and then pay 1.5% tax for the following five years before paying the full rate.

A city real estate tax is calculated in two parts. A 1.2% tax is paid on 70% of the original value of a company's property. There is also a 12% tax calculated according to the rental value of the property.

A vehicles tax is paid on trucks at 40 RMB per tonne p.a. and on cars at 140-180 RMB per car p.a.

Consolidated Industrial and Commercial tax (CICCT) is a sales tax paid on the sale value of a product. There are about 100 examples of this tax. For example, the tax on machinery is 5%, while on "class A" cigarettes it is 66%.

Exemptions from customs duties and CICCT are issued for the following:

- equipment and construction facilities which are imported for production as part of the foreign

investor's participation

- equipment, parts and other materials which China cannot produce
- raw materials, parts, components and packaging materials imported for production of exports
- vehicles and reasonable amounts of stationery
- housing items imported by staff employed by foreign investors

If products manufactured with duty-free raw materials, parts or components are later sold on the domestic market then both CICT and customs duties will be imposed on the imported raw materials. Various customs duties are set for some 9,000 articles. For instance waste steel attracts a duty of 5%, while the duty on machinery is 30%.

Exports from the zone (except grain, non-ferrous metals, petroleum and finished oil) are exempted from industrial and commercial consolidated tax. ☺

## Enterprise Income Tax applicable to foreign investors

	ETDZ	REST OF YINGKOU
Productive	15%	24%
Non-productive <sup>1</sup>	30%	30%
Export oriented <sup>2</sup>	10%	12%
Technology intensive <sup>3</sup>	15%	15%

### Exemption and deduction period (operation period over 10 yrs)

Productive	Exemption for 2 yrs and 50% deduction for 3 yrs
Technologically advanced	After exemption and deduction expiry, another 50% deduction for 3 yrs (ETDZ rate is 10%)
Other <sup>4</sup>	After exemption and deduction expiry upon approval, 15-30% deduction in income tax in following 10 yrs

ETDZ = Economical and Technological Development Zone

<sup>1</sup> The rates given apply to contractual joint ventures. Joint equity ventures are subject to the 15% tax rate in the ETDZs and 24% in the rest of Yingkou.

<sup>2</sup> After tax exemption and deduction period, if export value reaches 70% of total production value in any one year.

<sup>3</sup> Enterprises engaged in technology or know-how intensive projects with foreign investment over US\$300,000 and with a long payback period, in energy, transportation and harbour construction projects, upon approval by State Tax Bureau.

<sup>4</sup> Enterprises in agriculture, forestry and animal husbandry and those located in backward or remote regions.

# Routes of entry

*Joint ventures are the most common route of entry into Yingkou's market place.*

**F**OREIGN ownership is welcomed in Yingkou, particularly if it is deemed to be beneficial to the economy, probably by either exporting or introducing advanced technology. There are few objections to wholly-owned foreign ventures in Yingkou. Equally there are fewer opportunities and advantages in such investments, best demonstrated by the fact that among over 500 foreign investments approved to date, only 20 are wholly-owned foreign ventures.

Chinese companies in Yingkou are keen to have new funds pumped into their businesses to allow them to expand. The companies do not usually have the necessary liquid assets and the desire for fresh money usually takes precedence over all other aspects. Difficulties in understanding local culture and accessing the market will frequently mean foreign investors will prefer to work with the assistance of a local partner.

## JOINT EQUITY VENTURE

There are two main forms of joint venture in China of which the first is the joint equity venture. This is a limited liability company in which both the local and foreign partners invest in and jointly manage. Profit and loss is shared according to the proportion of investment. The foreign partner must own a minimum of 25% of the venture's equity.

## CONTRACTUAL JOINT VENTURE

The second form of joint venture, the contractual joint venture, is a much more flexible arrangement under which the rights and obligations of each partner are specified in a unique contract. The Chinese partner will usually provide contributions in kind, such as buildings or land, while the foreign investor will usually provide capital and advanced technology or equipment. One of the reasons for constructing a contractual joint venture can be so that the foreign partner may take a higher share of the profit than he has of the equity. Provision to do this can be made in the contract. There is also no minimum stipulation on the foreign partner's equity. There are other differences between the two forms of venture which the many international accounting firms now in China are used to advising on.

## JOINT VENTURES IN YINGKOU

About two-thirds of the joint ventures which have been established in Yingkou have been with collectives and one-third with state-owned companies. Investors have the option to either set up joint ventures with a part of a Chinese company or with the whole company.

Yingkou is keen to emphasise the success foreign investors have had in joint ventures with state

companies. While the state owns the stake of the Chinese partner and receives its share of the profits there is no management intervention, according to the Yingkou municipal government.

It points to the German company Fuchs, which is producing high grade lubricant in collaboration with the Yingkou Petrochemical Factory as a good example of a foreign investor in a link-up with a local state company.

Sub-contracting is also taking off in Yingkou, with state companies buying parts from small local enterprises. The state piano company and local refrigerator manufacturer are good examples of companies pioneering this approach.

Under capacity utilisation in Yingkou can offer many foreign investors' partners the ability to access spare manufacturing capacity immediately. Capacity utilisation varies between 20% and 100%. However, companies are advised to investigate these figures thoroughly, as measurements of capacity differ from firm to firm. One company might claim to be working at full capacity when it could extend the number of shifts it works, while another might rate capacity at 20% over three shifts and therefore be able to effectively rationalise.

The reasons for under-utilisation also vary. It could be routed in lack of demand or over-investment or some other factor.

## DEBT/EQUITY REQUIREMENTS

Foreign investors are subject to certain China-wide debt equity requirements which will determine the amount of capital which has to be invested in their projects and the ceiling on loans obtained from banks. In ventures where the total investment is below \$3m, the registered capital must be a minimum of 70% of the total. For projects involving \$3m to \$10m in total investment, the registered capital must be not less than 50% of the total. However, investments from \$3m to \$4.2m must have a minimum \$2.1m of registered capital. For projects involving \$10m to \$30m in total investment, the registered capital must not be less than 40% of the total investment. For investments from \$10m-\$12.5m then a minimum amount of \$5m must be in registered capital. From \$30m to \$36m at least \$12m should be in registered capital. For investments above \$36m a standard rate of 33% in registered capital applies.

When entering into a contractual joint venture, foreign investors need to take care of how the value in kind that their partner puts towards equity is measured. The actual job of making these assessments will fall to the relevant local bureaux such as the Land Bureau and the state-owned Property Administration Bureau which is responsible for ver-

**Difficulties in understanding local culture and accessing the market will frequently mean foreign investors will prefer to work with the assistance of a local partner.**



## Market opportunities

**L**IAONING Province has a GNP per person of about 2,750 RMB, some 50% higher than the national average. With growth rates increasing consistently (14% growth is estimated for the first quarter of 1993) this figure is soon likely to exceed 3,000 RMB.

Liaoning is the fourth wealthiest province out of China's 30 provinces, placing after the city-provinces of Shanghai, Beijing and Tianjin. Half of its population of over 40m are urban residents, making the province the most urbanised in the country. Liaoning also acts as the gateway to the other two north-east provinces of Jilin and Heilongjiang. Meanwhile, the whole Chinese market is now in excess of 1.2bn consumers.

Yingkou is well-positioned for market access through-out Liaoning. Road and rail links mean most cities are within easy reach. Yingkou is only 200 km away from the city-group that makes up the middle of Liaoning Province. This includes the capital Shenyang, Fushun, Benxi, Liaoyang, Anshan and Panjin. One of Yingkou's critical advantages is that it is closer to this hinterland than the larger port of Dalian further down the coast.

Yingkou itself is also a thriving market, anticipating growth in GNP of at least 10% in 1993. Growing affluence in Yingkou will trigger a change in local consumer tastes opening up possibilities for new products. Changing housing requirements, for example, are likely to mean new apartments being built. This could introduce a need for a new array of household gadgetry. One Yingkou company is already looking for a joint venture partner for a basic product for which demand is likely to soar: low pressure gas water heaters to fit in the new apartments in the city and indeed throughout north-east China.

### REGIONAL LINKS

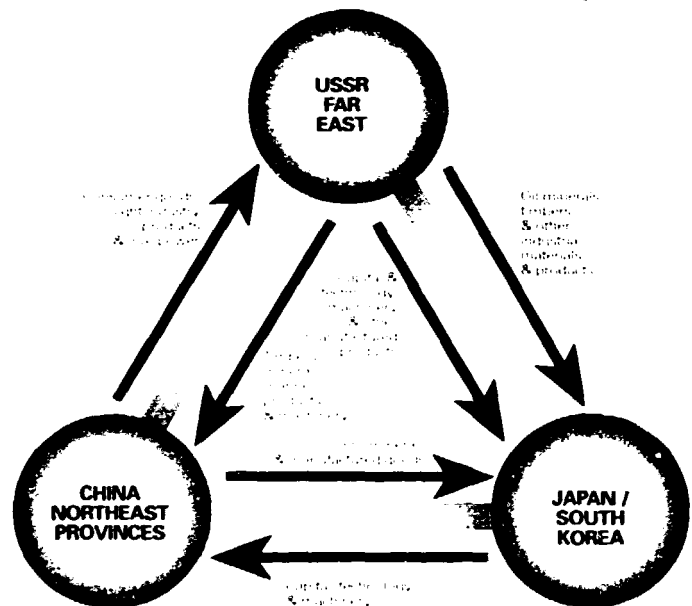
Yingkou's port opens the city's way into the regional economy. North-east Asia is increasingly co-operating economically, as the various countries' economies complement each other to a large degree (see chart). The region includes China's north-east provinces, Russia's far eastern provinces, the Koreas and Japan.

The Trans-Siberian Railway provides an effective bridge between the north-east Asian region and Europe. By rail, via Manzhouli in China and connecting to Chita in Siberia, the distance from Yingkou to Hamburg is 8,400 km - 38% of that by sea.

Most of the countries of north-east Asia are strong

investors in Yingkou, particularly the Koreans. With 20,000 Koreans living in Yingkou there may be good opportunities to take advantage of residual expertise in accessing that market.

The largest amount of investment into Yingkou though has come from the Hong Kong and Taiwanese Chinese. These two developed tiger economies offer good opportunities for export from Yingkou by sea. Yingkou also has sister city relationships with Jacksonville in Florida and Ota, one and a half hours north of Tokyo in Japan. This second relationship has



already yielded industrial co-operation in the field of plastics in Yingkou.

There are no limits on access to the domestic market for investors in China and foreign companies can also export freely with the exception of a handful of quotas. Quotas for export must be approved by the Ministry of Foreign Economic and Trade Co-operation in Beijing. Quotas apply where a foreign country limits imports, for example the US with textiles, or in a few cases where there are limits for export from China, for instance with rice and oil. ■

itying the value of buildings and other fixed assets.

Investors should also investigate any previous history of state subsidisation. For instance, if a company possesses good equipment but this was subsidised by the state then that equipment should not be reflected in the company's real value. An investor should also investigate whether its potential partner has been forced to sell its produce at artificially deflated or inflated prices as this may increase or decrease the value of the company accordingly.

Investors should also be aware that most

Chinese partners will suggest that at least 70% of the joint venture's production be exported. This request should be investigated thoroughly as it is usually difficult to achieve such a high export rate initially. Furthermore, because of the large size and relatively untapped nature of the domestic market, most Chinese ventures achieve maximum profitability on their domestic sales. The request by Chinese partners to seek to achieve 70% export levels is driven by a desire to earn foreign exchange as well as to qualify for income tax reductions (see taxation article). ■

# A variety of sectors to invest in

**Yingkou offers investment opportunities across the whole range of its specialist industrial activities.**

**Y**INGKOU is one of the most industrial cities in China. A wide range of industrial activity covers textiles, light industry, machinery, electronics, petrochemicals, pharmaceuticals, metal manufacturing and building materials. The city is the location of China's largest washing machine factory and hosiery factory. It is also one of the country's largest manufacturers of denim fabric, musical instruments and paper.

The textile industry, which ranks first in Yingkou, is well-developed including the weaving and dyeing of silk, cotton, wool and flax to make a variety of garments, denim and bed linen.

Meanwhile, the city's main light industrial products are paper and paper goods, canned foods, cigarettes, matches, plastic goods, washing machines, refrigerators, fluorescent powder and hand-crafted articles.

The main machinery manufactured includes presses, offset duplicators, grinding machines, auto parts and cranes.

Electronic products include radio-cassettes, organs, fire alarms and detectors. Petrochemicals include rubber goods, boronic products and high-grade lubricating oil and grease. Building materials include fibreglass and cement. Metal products are mainly shaped aluminium and steel plates.

**Yingkou Sanxi  
Processing Co.  
Ltd**

## NATURAL RESOURCES

Together with neighbouring provinces Liaoning can call on an enviable supply of petroleum, iron,

coal, minerals, forestry products, livestock and agricultural produce.

Yingkou's magnesium mine is one of the four largest in the world, while its reserves of talcum and borum rank first in China. Granite, fluorspar and marble are also readily available. Local research institutes have carried out pioneering research into applications of rare earths which leave room for innovation and commercial application. Meanwhile, 800,000 tonnes of sea salt is produced annually, providing an abundant resource for the salt-chemical industry.

Yingkou is located at the centre of three major oilfields, Liaohe, Bohai and Shenbei, which are backed by China's largest oilfield in the north - Daqing. A pipeline which conveys oil from Daqing and Liaohe oilfields to Dalian passes by Yingkou economic zone. This has led to great interest in Yingkou as a potential location for an integrated refinery, petrochemical and heavy chemical complex. Now a six company Japanese consortium, including Marubeni and Nissho Iwai, has agreed to establish a 450,000 tonne per annum ethylene complex with joint venture partners the China Petrochemical General Corporation (SINOPEC) and Liaoning provincial government.

The Chinese government is also in negotiation with Japanese and German companies about the establishment of a 100,000 tonne per annum silicon and fluorine engineering project in the area.

With the Bohai offshore oilfields having an estimated reserve of several billion tonnes, Yingkou is also ideally placed to serve as an exploration production supply base. By doing so it could attract a variety of high value-added industries including the construction of offshore drilling platforms, drilling equipment manufacture, shipbuilding and other marine engineering activities.

Yingkou boasts over 80 different kinds of seafood products. In addition, rice, with 400,000 tonnes produced annually, and fruit, with 270,000 tonnes produced each year, are noted agricultural products - especially apples, in the case of fruit.

Despite being an industrial area, agriculture still accounts for 26% of the Yingkou workforce. Investment opportunities lie in feedmills, poultry and pig farms and animal husbandry.

Yingkou is particularly keen to encourage investment in the following areas:



**Research Institutes in Yingkou**

<i>Field</i>	<i>No. of Employees</i>	<i>Specialities</i>	<i>Commercial Applications</i>
Energy resources	109	Energy resources and energy saving	Energy saving in factories
Electronics	100	Micro-computers	Used in local factories
Automation	50	Automated production lines	Used by washing machine manufacturers
Knitting	70	Knitting and dyeing	-
Petrochemicals	60	Petrochemical products	-
Magnesium	100	Refractories research	Used in a steel plant

- new equipment and materials which cannot be produced in China
- high grade and export-oriented products which can open up new markets and increase foreign exchange earnings
- technically-advanced projects
- projects in energy resources, transportation, raw materials and infrastructure

Certain sectors though are likely to be out of bounds to foreign investment as a result of the changes in China's economy and industrial production. As a result of booming consumer demand the country already suffers an over-capacity in major consumer durables such as televisions, washing machines and cassette players. Investors in these sectors may have a hard time in gaining an investment approval.

However, that still leaves many sectors to go for. Amongst the most promising sectors of local expertise for investors seem to be metal-working, chemicals and food processing. Electrical goods assembly may be more suited to the southern and eastern provinces as the North-east is more suited to more developed skills such as process manufacturing in basic chemicals and basic metals.

The service sector in China accounts for only 20% of GNP (slightly more in Yingkou) and also offers a good opportunity to absorb workers cast off by state industry. The best local opportunities are felt to be in tourism, restaurants and real estate.

Investors will also have the advantage of sitting amongst a large amount of Japanese and Korean investment. In addition, because Yingkou is a relatively new location for investment, investors, particularly from new countries of origin, are treated in a special fashion.

**DIVERSIFICATION**

Good opportunities exist for foreign investors who can find the right local partner whose activities they can diversify. Many local companies in Yingkou have products that are suitable for adaptation to achieve wider local or international penetration. For example, one local project involves a manufacturer of motors for washing machines. The washing machine industry has been a boom business in China, but rapid growth in demand has fuelled an

overcapacity in supply. Now the Yingkou motor manufacturer wants to begin production of an adapted motor for use in automobiles, exporting these to Korea. A good project waiting for a joint venture partner. Similar examples are not hard to find.

**RESEARCH INSTITUTES**

High-tech investment is supported by Yingkou's strength in key research disciplines. Institutes specialising in energy resources, electronics, magnesium materials, automation, petrochemicals, textiles and marine products are all present in the city (see table).

The jewel in the crown of these institutes is the Liaoning Energy Resources Research Institute. This concentrates on studying and exploiting new power resources, energy saving and new materials technology. The institute is at the forefront of Chinese investigation into solar energy utilisation.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

**YINGKOU  
INTERNATIONAL INVESTMENT & BUSINESS FORUM**

**Yingkou, Liaoning Province, China  
12-14 October 1993**

Sponsored by the United Nations Industrial Development Organization (UNIDO), the Yingkou Municipal Government is organising the Yingkou International Investment & Business Forum to be held in Yingkou, 12-14 October 1993. Its main purpose is to promote investment opportunities in Yingkou by facilitating discussion between Chinese and foreign entrepreneurs on specific industrial investment projects and other forms of business co-operation. The Forum is supported by the Ministry of Foreign Trade and Economic Co-operation.

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# Finding a workforce

**Skilled industrial labour is available at a competitive cost.**

**T**HE AVERAGE industrial wage in Yingkou is around 250 RMB per month. However, the range is from less than 200 RMB to 400 RMB. For technicians or managers one can expect to pay between 400-800 RMB per month.

Wages for staff employed by foreign joint ventures and wholly-owned foreign ventures must be at least 25% higher than the wages of those employed by the state in the same industry locally.

Where no comparison in wages is possible because a foreign investor intends to bring a new industry to Yingkou then the minimum wage is determined by the Labour Bureau.

In addition to the basic wage the employer must also pay the following:

- work injury insurance - 0.3%-1.2% of total wage (depending on industry sector)
- unemployment insurance - 1% of total wage
- pension insurance - 20% of total wage
- housing allowance - 25% of total wage
- enterprise allowances
- monthly bonus and annual bonus
- overtime pay and allowances
- welfare allowances (including leave)

## COMPARATIVE

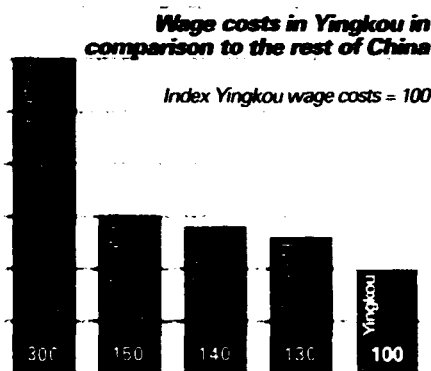
Low wage levels combined with the city's industrial expertise give Yingkou a comparative labour advantage over many other Chinese cities. Wages are 30%, 40% and 50% higher in Shenyang, Dalian and Shanghai respectively. Wages in Guangzhou over the border from Hong Kong are three to four times higher.

Wage rates in Yingkou generally account for 12%-17% of a company's production costs. Productivity has been increasing at rates of 3%-7% per annum.

Yingkou's workforce totalled 430,000 in the first quarter of 1993, but given the rapidly expanding nature of the young popula-

tion some 22,000-24,000 new workers enter the local job market each year. Technicians are estimated to make up around 20% of the total workforce.

Yingkou University, a merger of a local college and high-level vocational training school has 500 students. In addition, there are over 30 colleges and institutes of further education in Shenyang and over 20 in Dalian.



## RECRUITMENT

Projects with foreign investment can recruit their own labour with the permission of the local Labour Bureau, or can ask the Bureau to recruit candidates for interview and selection by the venture's management.

In addition, a contract must be signed with the trade union at the factory and a copy of this must be approved by the bureau.

While a company must recognise a trade union there is no compulsion for individuals to join it and the company is able to sign contracts with individual employees.

There are no restrictions on where and how an employer can recruit. Recruiting workers already employed elsewhere is permitted and workers changing jobs rather than being loyal to one company for life is now a more common occurrence in Yingkou. Companies may also take workers away from over-staffed state industry.

However, the recruitment of workers from outside Yingkou is not permitted unless the company concerned can demonstrate to the Labour Bureau that the labour resource required is not available in Yingkou.

## TRAINING

Great efforts are being made in Yingkou to promote training. Young, new workers are obliged to receive training course before entering work, unless they have graduated from a professional school or similar. Courses are provided by the Labour Bureau. It has its own training centre which produces 5,000-7,000 trainees each year in several industrial and commercial fields.

Furthermore, students at Yingkou's schools now receive training courses in fields such as technology, computing, garment manufacture and accountancy.

**Low wage levels combined with the city's industrial expertise give Yingkou a comparative labour advantage over many other Chinese cities.**

## Yingkou's ports

**Y**INGKOU is known as the "city with two ports". The old port has a total cargo handling capacity of 1.5m t/a (tonnes per annum). It has a special dock for cereals bulk loading. There are six berths of 3,000 tonnage and three berths of 1,000 tonnage.

However, the old port is silted and frozen in winter. This necessitated the construction of a new port. This is situated at Bayuquan, now the site of the new enterprise zone. Work on the port, which now has a cargo handling capacity of 7.5m t/a began in 1984. A deepwater, all-weather port, it has nine berths which can handle 30,000 tonne class vessels, plus one berth of 3,000 tonnage for liquified gas vessels. The channel depth in the port is 9.2m and the quayside water depth is 12m.

The port has a 5m t/a capacity computer-controlled dock of 30,000 tonnage for coal automatic discharging vessels and a dock for the annual export of 100,000 tonnes of liquidified gas.

The annual capacity for handling containers at Yingkou new port is 50,000 TEU. In fact, while this is the designed capacity, the port could handle more containers than this. The port has a container discharging and loading warehouse of 3,000 sq m whose daily container discharge capacity is 50 TEU. Two feeder railway lines in the port facilitate the import and export of containers via the nearby railway station.

### LINER SERVICES

Two regular liner services call at Yingkou. Twice a month (on the 7th and 22th) a 273 TEU, 6,000 tonne vessel leaves for Japan. Osaka and Nagoya are reached in three days, Kobe in three and a half and Yokohama in five days.

There is also a service to Hong Kong once a month on the 10th of every month and also on the 30th of every second month. The 4,500 tonne vessel, a mixed general cargo and container ship with a capacity of 165 TEU takes five days to reach its destination.

The cost of sea freight varies depending on the goods being transported. However, in the first quarter of 1993 the basic shipping prices were \$70 per TEU to Shanghai, \$800 per TEU to Hong Kong, \$870 per TEU to Osaka, \$1,610 per TEU to Singapore and \$2,150 per TEU to Rotterdam.

The standard rates from Yingkou are exactly the same as those from Dalian, offering customers a saving of \$200 land freight on each container.

Other irregular services reach more than 100 ports in 40 counties and regions. Destinations are not fixed and depend upon there being sufficient cargo in Yingkou to justify a stop at the port. Ships can also be diverted from Dalian if there is enough demand. Otherwise, exporters can tranship from Hong Kong or Japan.

Domestic services reach Shanghai, Yantai, Qingdao, Ningbo and Guangzhou via the Pearl river estuary.

### EXPANSION PLANS

In 1992, Yingkou's two ports handled 4.9m tonnes of cargo. In 1993 this figure is expected to rise to 5.5m tonnes. The projection for 1997 is 18m tonnes increasing to 25m tonnes, by 2000.

Phase two of the port's development plan will help it to achieve these figures. This will add a 30,000 tonne berth and two 50,000 tonne berths. Five key new docks are scheduled to be operational by 1995:

- ro-ro - 190,000 cars p.a.
- grain - 3m t/a
- bulk cement - 800,000 t/a
- oil products - 3m t/a
- liquid chemicals - 500,000 t/a

In addition, by 2002 two more container piers and two more multifunctional docks will be complete, increasing the annual container handling capacity to 250,000-350,000 TEU. ■

All sectors of the population are being encouraged to learn foreign languages as part of the process of "openness". English is now a compulsory subject in the city's schools from primary school onwards.

There is also a drive on to increase the skills and learning of existing workers through television and correspondence courses and evening classes.

Legally, every company is obliged to train its workers to a certain standard before offering them a full-time job. If a worker does not attain the required standard he has to be re-trained. If he still does not reach the necessary target then the company is not obliged to recruit the worker and can send him back to the Labour Bureau for redeployment.

### WORKING WEEK

Companies get more for their money in China with a six day working week. The working day in Yingkou is eight hours, not including lunch. Some factories will begin work at 7.00, others later. Sunday is the usual day off, but to spread the use of

LEARNING ENGLISH AT THE YINGKOU LANGUAGE LABORATORY



energy more equitably some firms work on Sunday and have a day of holiday during the week. Absenteeism runs at around 10%, compared to a national standard of 15%.

# Communications and utilities

*Yingkou provides advanced services and infrastructure.*

**Y**INGKOU can be reached via Dalian or Shenyang airports. The city is a two and a half hour drive from Dalian airport and two hours from Shenyang. The ETDZ, which lies to the south of Yingkou is roughly 200 km from each airport.

## AIR SERVICES

In addition to domestic connections, both airports offer a limited number of international flights. Hong Kong can be reached from both airports. Shenyang offers flights to Irkutsk, while Tokyo and Fukuoka can be reached from Dalian (see page 16 for full details).

Flights are also planned from Shenyang to Seoul as soon as an agreement is finalised between China and the South Korean national airline.

Businessmen travelling to Yingkou from Beijing tend to fly to Shenyang where possible and fly back from Dalian. This is because these flights take place at night allowing a full day's business in Yingkou.

Flights to and from both destinations are frequently full or near full – a sign of the vibrant economy in the North-east and early booking is recommended. As demand continues to grow increased services will be likely.

Meanwhile, long-term plans exist for an international airport between the city and the new zone at Bayuquan. This features in plans up to the year 2000. While it has received city and provincial approval, preparations are underway towards receiving central government approval. Funding would be split three ways and any final go-ahead is expected in the near future.

## ROADS

The Shenyang-Dalian expressway, running north-



*Yingkou's Foreign Investor Swap Centre.*

south and passing through Yingkou, is widely recognised as China's best highway. Traffic on the expressway attains speeds not achieved elsewhere in China. The building of the highway, which now allows relatively quick access from Yingkou throughout the North-east, has done much to enhance the region's gateway status.

Yingkou itself contains 1,500 km of highway. It is also connected with an east-west highway which opens up access throughout the North-east from Yingkou. Road freight is possible to any destination in China from Yingkou. Road freight into neighbouring countries though is not possible.

The basic cost of transporting freight by road from Yingkou is 0.35 RMB per tonne per km. However, if an expressway is used there is a surcharge of 0.25 RMB per truck per km. With trucks varying in carrying capacity between 10-20 tonnes it is necessary to know the capacity of the truck before the exact surcharge per tonne carried can be calculated.

The standard size measurement used for road freight cargo is 4 m high by 2.5 m wide with no limit on length. Cargo over this size will attract an extra fee.

## RAIL

The Changchun-Dalian railway, the main rail artery in north-east China runs through Yingkou. Changchun, the capital of Jilin province, is a significant centre of heavy industry and the automotive industry and a good potential market for Yingkou industry.

Yingkou's Dashiqiao rail terminal is an important freight centre with its 32 tracks, 20,000 sq m

**Table 1 Train Services from Yingkou**

Destination	Trains per day	Journey time (hours)
Dalian	5	4
Beijing	2	13
Shenyang	3	3
Harbin	3	13
Changchun	3	7

goods yard and switchyard of 300,000 sq m. There are, however, several other smaller rail terminals in Yingkou. In total, all the terminals handled 20m tonnes of goods in 1992. The destination, frequency and journey time of passenger trains from Yingkou is shown in table 1.

Freight trains pass through Dashiqiao station (although they only stop on demand) every four-and-a-half minutes. It is possible to send goods across borders by rail.

The cost of transporting a 10 tonne container from Yingkou by rail is 73.1 RMB per 100 km travelled. The equivalent price for transporting a six tonne container is 45.5 RMB. The costs of transporting one tonne of some common goods for 100 km is:

- iron and steel - 8.35 RMB
- minerals - 8 RMB
- grain - 7.1 RMB
- cotton cloth - 8.65 RMB
- cotton - 7.65 RMB
- salt - 6.7 RMB

#### BANKING

There are five main banks in Yingkou: the Bank of China, the People's Construction Bank of China, the Agricultural Bank of China, the Industrial and Commercial Bank of China and the Communications Bank of China. There is also the People's Bank of China, but this is purely an organisational bank which is responsible for the administration of the other banks. It offers no direct facilities as such.

There are 31 sub-offices underneath the five main banks in Yingkou, although this figure does not include the plethora of very small branches which are to be found in the countryside. All the banks have at least one branch in the new zone for instance, with a number of others under approval. There are, however, no international banks in Yingkou.

There are no limits on bank lending. Loans are made according to the individual conditions of companies. The debt over equity ratio is 30%.

#### FOREIGN EXCHANGE

All the banks are able to deal with foreign exchange. A company earning foreign currency is able to change it freely into RMB and is also able to repatriate foreign currency freely to its own country.

**Table 2 International Telephone Charges (RMB per min)**

North Korea	5.1
Vietnam	11
South Korea, Japan	12.1
Singapore	16.4
Australia, Indonesia, US & Canada	17.5
Malaysia, Philippines, Thailand, Europe & Middle East	19.7
Africa & Latin America	26.3



*The control room at Yingkou's telecommunications centre.*

However, the foreign exchange market in China is limited and RMB may not be changed into foreign currency at the official exchange rate without the approval of the Foreign Exchange Administration Bureau. This is lower than the market rate for foreign currency.

For ventures which do not have an export income or lack sufficient foreign exchange, a Foreign Exchange Swap Centre exists in Yingkou. This can be used by foreign investment projects to exchange their RMB into foreign exchange (and vice versa) at an agreed market rate. The market rate in May 1993 was at a level two-thirds higher than the official bank rate.

#### TELECOMMUNICATIONS

Yingkou was the first city in north-east China to have a digital telephone network. This offers direct dialling to 198 countries and regions plus China's cities. Microwave telecommunications have been introduced and fax and portable telephone facilities are available.

The city Post and Communications Bureau is responsible for fitting telephones. After an application for the provision of telephone, fax and telex facilities, these can be installed within one week.

The cost of local calls to some major Chinese destinations is as follows (for international charges see table 2):

- Shenyang/Dalian - 0.5 RMB per minute
- Beijing - 0.7 RMB p/m
- Harbin - 0.8 RMB p/m
- Shanghai - 1 RMB p/m
- Guangzhou - 1.2 p/m

#### ELECTRICITY

The Yingkou Electricity Supply Bureau is responsible for the installation of electric supply which is charged for industrial use at 0.3 RMB per kwh throughout Yingkou.

#### WATER

The cost of water for industrial use is 1.75 RMB per cubic metre. The Yingkou Water Supply Company is responsible for water provision. There are no limits on the use of water for industrial purposes. ■

# FLIGHT INFORMATION

## Flights from Dalian to

Destination/ Origination	Departure Time	Arrival Time	Frequency
Beijing	06.50	07.55	M
Guangzhou	06.55	10.20	Tu/F
Beijing	07.15	08.15	W/Sa/Su
Shanghai	07.20	09.05	ex Tu/F
Shanghai	08.00	09.45	Tu/F
Fukuoka	10.55	13.20	W/Sa
Tokyo	11.35	14.45	M/Th/Su
Beijing	11.50	12.50	Tu/Sa
Guangzhou	12.10	15.35	ex M/Th
Hong Kong	12.25	15.55	M/W/F
Guangzhou	12.30	15.50	Tu/Sa
Hong Kong	13.05	16.40	Sa
Tokyo	15.40	20.00	
Beijing	18.10	19.20	W/Sa
Beijing	18.25	19.30	W/Th/Su
Shanghai	19.05	20.55	ex M/Su
Beijing	19.20	20.25	daily
Beijing	20.40	21.45	M/W/F
Beijing	21.00	22.10	M/Th/Su

## Flights to Dalian from

Guangzhou	08.20	11.35	Tu/Sa
Beijing	08.35	09.35	W/Sa
Hong Kong	08.40	12.05	Sa
Beijing	09.00	10.05	M/Th/Su
Beijing	09.15	10.15	W/Sa/Su
Beijing	09.30	10.30	Tu/Sa
Shanghai	09.55	11.30	ex Tu/F
Beijing	10.40	11.40	M/W/F
Tokyo	10.55	13.35	
Fukuoka	14.30	17.00	W/Sa
Hong Kong	15.00	19.50	M/W/F
Beijing	16.05	17.05	W/Th/Su
Guangzhou	16.25	19.30	ex Tu/F
Shanghai	16.25	18.15	ex M/Su
Tokyo	17.00	19.55	M/Th/Su
Shanghai	18.15	19.50	Tu/F
Beijing	18.55	19.55	M
Guangzhou	19.40	22.45	Tu/F
Beijing	21.05	22.05	daily

## Flights from Shenyang to

Destination/ Origination	Departure Time	Arrival Time	Frequency
Beijing	6.45	8.05	ex W&F
Shanghai	6.50	9.00	Th/Sa
Beijing	6.55	8.15	Tu/F
Shanghai	7.00	9.15	daily
Beijing	7.05	8.25	F
Beijing	7.15	8.35	daily
Beijing	7.50	9.20	W
Beijing	8.00	9.20	Th
Irkutsk	8.20	12.00	MF
Beijing	8.35	10.00	Sa
Beijing	9.25	10.45	M/Th
Hong Kong	11.25	15.25	Tu
Hong Kong	12.40	16.40	M/Th/Sa
Guangzhou	12.55	16.35	daily
Beijing	15.50	17.10	W
Shanghai	17.15	19.25	Tu/Su
Beijing	17.25	18.45	MF

## Flights to Shenyang from

Shanghai	9.45	11.45	Th/Sa
Irkutsk	13.20	16.30	MF
Hong Kong	16.15	20.15	Tu
Hong Kong	17.30	21.30	M/Th/Sa
Guangzhou	17.45	21.20	daily
Beijing	18.05	19.15	W
Beijing	18.25	19.35	Th
Beijing	18.45	19.55	M/Th
Beijing	19.15	20.25	F
Beijing	19.40	20.50	MF
Beijing	20.20	21.30	daily
Shanghai	20.20	22.20	Tu/Su
Shanghai	20.30	21.40	daily
Shanghai	20.30	22.30	daily

*Flight details are for summer 1993 and liable to change. You are advised to consult a travel agent before making travel arrangements.*

## KEY CONTACTS

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