

Dalian:

China's 'Bangalore'?

By **Michael W. J. Thompson**

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China's emergence as an industrial power took many nations by surprise, throwing vast, established industries into disarray. Now China is engaged in moving up the value chain, working hard to emulate Bangalore's success.

One city at the forefront is Dalian, one of China's primary IT-focus cities. With close proximity to major urban centers, an abundance of colleges and universities, and a moderate climate, Dalian mirrors many of the elements that enabled Bangalore to become India's Silicon Valley—home to more than 250 high-tech companies.

While Bangalore has consolidated its position as India's major provider of outsourced services to the United States, Dalian is assuming a similar role for Japan and South Korea. Dalian's software exports in 2004—mainly to these countries—were valued at US\$202 million, or 7.2% of China's total, and have been growing 80% annually. Dozens of global giants—including IBM, Accenture, and GE—have already established Dalian operations.

In May 2005, IBM enlarged its service delivery center in the Dalian Software Park. The center (one of three in China) provides Business Transformation Outsourcing to a range of Asian companies. Its employees are proficient in English, Cantonese, Mandarin, Korean, and Japanese.

GE's formerly wholly owned subsidiary, GECIS, has a 1,500-person center in Dalian. It serves the northeast Asian region, and foresees significant growth as the outsourcing trend common in the West begins to take hold among major Asian corporates.

Accenture's operation is also located in Dalian Software Park. Its center, which began in 2003 with a staff of 200, designs enterprise resource planning and other applications software for Japanese, Korean, and Chinese companies. Accenture views its operation as one of five strategic development bases worldwide.

Central Planning for Private Purposes

Dalian's growing success has little to do with serendipity. Its growth is the direct result of a government plan launched in 1998 that took advantage of a public-private partnership, similar to those used in the West for sports stadium development. Under the plan, Dalian Software Park Co., Ltd., bore responsibility for infrastructure construction, management, and service provision, while Dalian and other government entities provided tax credits and financial assistance, including US\$242 million to develop the three-square-kilometer (1.16-square-mile) area. By 2001, the park ranked third among China's

top 10 software industrial bases. In 2003, the city expanded the Park by starting construction of the second phase, which covers a total area of 8.6 square kilometers (3.32 square miles).

Generous Incentives

Dalian's overall incentive package is packed with bottom-line sweeteners, including a two-year tax holiday on profits, an 80% reduction in value-added taxes, and import tariff and VAT exemptions on equipment, software, and spare parts. Enterprises in the Park enjoy preferential treatment in buying or renting Park office buildings. More liberal immigration and residency policies are applied to Park employees.

Attracting and Growing Talent

To compete with Beijing and Bangalore's extensive talent advantages, Neusoft Group, northeast China's leading software development company, established China's first privately funded IT educational institution at the Park in 2000, Neusoft Institute of Information Technology. It's part of Dalian's substantial IT education facilities, which total 22 universities and colleges producing 4,000 IT majors each year. Combined with 10,000 engineers graduating from Training Colleges, Dalian has a depth of local, high-quality talent that few Chinese cities can match.

Location, Location, Location

Dalian is central to all the right places, and is quickly becoming a tourist attraction. It's 800 kilometers (500 miles) from Beijing, and is only a one-hour flight from Seoul and a three-hour flight from Tokyo. Known as "Apple Land," Dalian is one of the busiest tourist destinations in China, featuring attractive scenery and a pleasantly mild environment.

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GLOBAL STAGE WTO representatives attend a meeting in Dalian, China.



CHIEF COMMERCIAL PORT Busy shipyard in Dalian, China.

population (more than 300,000), a byproduct of Dalian's 40-year occupation by Japan (1905 to 1945). The city government is also encouraging residents to study Japanese to win more software deals from Japan.

All of these factors have made Dalian central to Japan's tech future. Sony and Toshiba have already landed at the Park. The huge demand for embedded software from Japanese companies has provided Dalian with an opportunity to build up a large-scale software industry. Software exports have become essential to Dalian, and especially exports to Japan, which account for 95% of the city's total software export volume.

Beijing still dominates China's IT sector. But Dalian is closing the gap fast, especially with the skyrocketing cost of real estate in Beijing. Dalian is now honing its image as a software-outsourcing center for North Asia. The Dalian city government forecasts exports of IT products to reach US\$1.5 billion by 2012.

On July 12, 2005, World Trade Organization ministers held a critical two-day meeting in Dalian. The meeting was held to inject momentum into the Doha Round negotiations in advance of the sixth WTO Ministerial Conference to be held in Hong Kong.

The choice of location was not lost on China's trend watchers. Dalian is a city on the move, elbowing its way into the spotlight. Stealing Bangalore's thunder is just the beginning. 🇨🇳

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