

**Third Party Evaluator's Opinion on
DALIAN PORT DAYAO BAY FIRST PHASE CONSTRUCTION PROJECT**

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Relevance

Northeast China, dominated by heavy industry and State-owned factories, has been economically lagged behind since 1990, and the Central Government has determined to accelerate its development. As a response to the application of the provincial government of Liaoning, China's State Council agreed the establishment of Dayao Bay Bonded Harbor Area in Dalian in August, 2006, which is the third such port area in China. It reflects the importance of this Dayao Bay and the determination of China's government to enforce the national policy of boosting Northeast China's economy.

The planned Dayao Bay Bonded Harbor Area covers an area of 6.88 square kilometres and includes the container terminals in Dayao Bay (Dayao Bay First Phase Construction Project). It is one of three bonded port areas being constructed in the country. The other two are Yangshan Bonded Harbor Area in Shanghai, China's economic hub and Dongjiang Bonded Harbor Area in Tianjin, an industrial center in North China. Under the supervision of the Dalian Customs, the bonded harbour will be the freest economic zone in China and enjoy the most preferential taxation and foreign exchange policies. With specific operational rules, the harbour area allows goods to flow freely amongst Harbor Area. It integrates all the preferential policies granted by the central government to bonded areas, export processing area and bonded logistics parks. As a new policy, the establishment of this bonded port area will boost the project and improve the economic efficiency.

In Northeast China, 90% of international containers are currently handled at Dayao Bay, of which Japan accounts for 25%, Korea 17%, Europe 18%, USA 10% and other regions in the world 30%. Most of the traded goods are machines, electrical products and garments. The establishment of container terminals boosts the development of logistics industry and the construction of related facilities, including an expressway connecting to national super-highway system, which is under construction.

Because of the slow economic development in Northeast China and fewer containerizable cargos in this area, the container trade business here has had a tardy development in recent years. The container cargos handled in China in 2005 has increased by 22.8% as compared with 2004, while the increasing in only 10.2% in Dayao Bay.

Effectiveness

Co-managed by China and Singapore, the container terminals in Dayao Bay have adopted a set of effective management concept from Singapore and the most advanced computer management system in the world. The container terminals handled 2,160,000 TEU in 2005. The best gross crane productivity has risen from 38 TEU/hr in 1998 to 88 TEU/hr in 2004, and the best vessel productivity has risen from 98 TEU/hr to 294 TEU/hr in 2006. The facilities have kept working well without any severe accidents.

However, customs who utilize Dayao Bay complain the service quality provided by Harbor staff, showing indifference and slow response, hindering further efficiency improvement of the Harbor operation.