

## **Navigator 4th issue**

# **How can overseas industrial parks open a new chapter of the Belt and Road?**

July 2020

**EY** 安永

Building a better  
working world

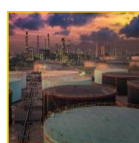


# Content



## 2.1 Current status and characteristics

13



## 2.2 Challenges and solutions

15



## 2.3 Future development trends

19





# Foreword



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Belt and Road Task  
Force Leader

The COVID-19 pandemic in 2020 dealt a major blow to the global economy. According to the World Bank, the global economy is expected to contract 5.2% this year<sup>1</sup>. Meanwhile, talks on "deglobalization" are raging, however, China has clearly shown its stance - "globalization represents an inevitable trend in the development of the world. Only by keeping the global production and supply chains stable and promoting the liberalization and facilitation of trade and investment, can countries jointly cope with downward risks to the world economy"<sup>2</sup>.

The Belt and Road Initiative (BRI) has been playing an important and positive role in deepening international cooperation, promoting geographical relations and advancing economic growth in countries along the route since its launch. At present, countries along the Belt and Road (B&R) have become the world's most important destinations for foreign investment and one of the world's largest trading blocs, second only to the EU<sup>3</sup>. Emerging from COVID-19, countries will have a stronger need to grow the economy and improve lives as well as a surging demand for public health cooperation. However, the gaps in infrastructure of health and telecommunication areas in B&R countries are still big, which will drive these countries to advance the development of "Health Silk Road" and "Digital Silk Road" and inject new impetus into global economic recovery.

The future of the BRI lies in expanding the cooperation to new areas. China overseas industrial parks are designed to be built in the major cities of B&R countries. With the advantages of integrating policies and resources, the parks always present strong clustering effect to attract enterprises along the industrial chain, creating new development opportunities for the BRI. As it enters the stage of in-depth development, through promoting international capacity cooperation, China overseas industrial parks will provide Chinese enterprises with ideal platforms to expand B&R markets. Also, in the "post-pandemic era", faced with the restructuring of the global industrial chain, they will be more strategically important in balancing regional economic development, optimizing the internationalization of Chinese companies, and diversifying supply chain risks. According to EY analysis, most of the China overseas industrial parks are still in the early stage of construction and development. It is necessary to strengthen systematic planning, enhance communication and collaboration among related governments and enterprises, and develop innovative operational models. Also, we need to actively learn from past experience to build a high-quality platform for international capacity cooperation. In the future, as the BRI accelerates to release each country's development potential, overseas industrial parks will continue to drive economic integration and achieve win-win results between China and B&R countries. Furthermore, the construction of overseas industrial parks will certainly be more economic, efficient and diversified.

In this issue of *Navigator*, we look at the latest development status and future trends of overseas industrial parks. Besides, we incorporate business cases that EY has assisted, providing Chinese enterprise with solutions on the challenges of the external environment, cooperation models and systematic planning.

This issue presents future development trends of overseas industrial parks:

- ▶ More digital in operation - will shift primary industry toward high-tech fields
- ▶ More diverse in operation - will promote collaboration in the development of parks and enterprises
- ▶ City-industry integration will become the orientation for the development of overseas industrial parks
- ▶ Connect with professional service providers to leverage their expertise for business expansion

1. Source: *The Global Economic Prospects*, the World Bank, 8 June 2020

2. Source: *Report on the Work of the Government 2020*, 22 May 2020; the excerpt from Chinese State Councilor and Foreign Minister Wang Yi's answers to journalists' questions on China's diplomatic policies and international relations, 24 May 2020; EY compilation

3. Source: *Belt and Road Trade & Investment Index (BRTII)*, China Center for International Economic Exchanges, University of International Business and Economics, Refinitiv, Research Institute of China Development Bank, May 2019

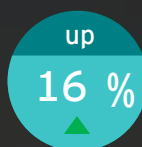


In the first five months of 2020  
Chinese enterprises in B&R countries:



Non-financial outward direct  
investment reached

**US\$ 6.5 billion**



**21.3**  
percentage points  
higher than China's  
overall growth rate

Proportion  
of the total

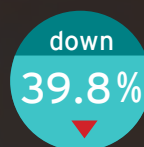


**2.9**  
percentage points  
higher than that of  
2019



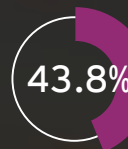
The announced value of overseas  
M&As totaled

**US\$ 4.8 billion**



**12**  
percentage points  
higher than China's  
overall growth rate

Proportion  
of the total

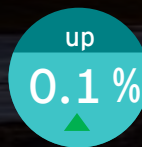


**8.7**  
percentage points  
higher than that of  
2019



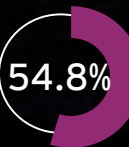
Value of newly signed overseas EPC  
projects reached

**US\$ 47 billion**



**10.1**  
percentage points  
lower than China's  
overall growth rate

Proportion  
of the total

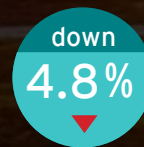


**5.5**  
percentage points  
lower than that of  
2019



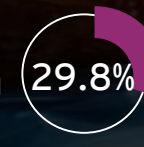
Total trade value was

**US\$ 490.6 billion**



**2.9**  
percentage points  
higher than China's  
overall growth rate

Proportion  
of the total



**0.9**  
percentage points  
higher than that of  
2019



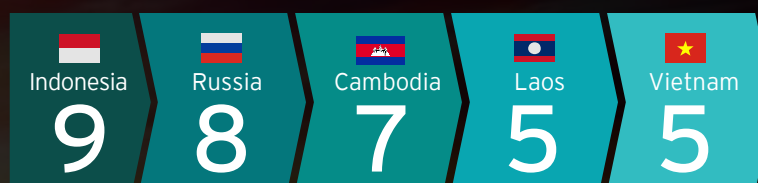
China signed **200** B&R cooperation documents with **138** countries and **30** international organizations (As of Jan 2020)



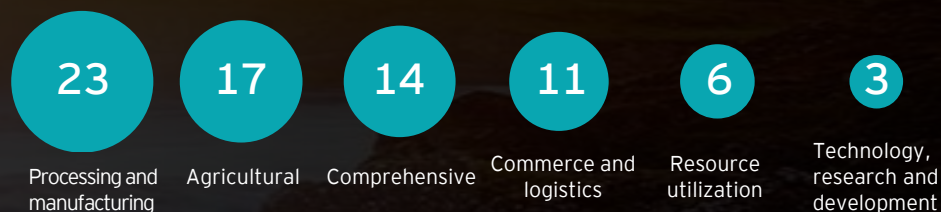
In the first five months of 2020, **top 5** B&R countries that increased highest value in trade with China are **Vietnam, Thailand, Iraq, Israel** and **Turkey**

Countries distribution and types of China overseas industrial parks in B&R countries (number of parks)

Top 5 countries



Types of industrial park



Source: Ministry of Commerce of The People's Republic of China (MOFCOM), General Administration of Customs of China (GACC), [www.investgo.cn](http://www.investgo.cn), BMI, All-China Federation of Industry and Commerce  
ThomsonOne, Mergermarket, including data from Hong Kong, Macau and Taiwan and the deals that have been announced but not been completed; EY analysis



# 1

## Shared growth and win-win results achieved through cooperation, as the BRI accelerates advancement



### Policy coordination

As of Jan 2020



China signed **200** B&R cooperation documents with **138** countries and **30** international organizations

China signed third-party market cooperation documents with **14** countries

China signed industrial capacity cooperation documents with more than **40** countries, including Kazakhstan, Egypt, Ethiopia and Brazil

Source: MOFCOM, The National Development and Reform Commission of China (NDRC)

Since the BRI was proposed, policy coordination has been enhanced, economic exchanges and trade with other countries have been deepened under the joint efforts of China and the world. At the Second BRIC, China proposed to further promote high-quality B&R development, embracing new concepts of open, green, clean and innovative development to pursue high-standard, livelihood-improving and sustainable development. China has been advancing cooperation in areas such as digital silk road, standardization, taxation, intellectual property, law enforcement, energy, agriculture, maritime affairs and international commerce, achieving extensive cooperation consensus among the global community.

The BRI is a long-term initiative. Over the past years, China and many other countries worldwide have been upholding the principle of achieving shared growth through discussion and collaboration and transformed the Silk Road Economic Belt and the 21st Century Maritime Silk Road from vision to reality. Due to multilateral efforts, achievements exceeded expectation and the BRI has created a new paradigm for international cooperation and common prosperity. In the future, China will continue to work with all parties to explore diversified cooperative approaches, strengthen policy coordination, place greater emphasis on the implementation of opening-up policy and further enrich B&R cooperation.

#### B&R countries launched new measures to promote foreign investment

The development in political, economic and legal environment vary among B&R countries with relatively underdeveloped infrastructure in transportation and energy, posing risks to investment. However, with the

the advancement of the BRI, countries along the route are gradually relaxing restrictions of FDI. Chinese enterprises' investments in the countries along the route keep increasing. From January to May 2020, China's non-financial ODI in B&R countries increased by 16%<sup>4</sup> against the downward trend, which indicates the BRI is playing an increasingly important role in the internationalization of Chinese enterprises.

According to statistics, 30 B&R countries have issued 96 new measures to promote foreign investment over the past three years, accounting for 59% of the world's total<sup>5</sup>, including simplifying investment procedures, establishing special economic zones to attract foreign investment, further opening up financial markets and easing foreign shareholding restrictions. The World Bank's Doing Business 2020 shows that B&R countries including Saudi Arabia, Jordan, Bahrain, Tajikistan, Pakistan, Kuwait and India ranked among the economies with the most notable improvement in doing business. This further reflects that B&R countries are seizing opportunities to improve their business environment and promote economic development.



The world will benefit from a Belt and Road Initiative that accelerates efforts to achieve the sustainable development goals.

United Nations secretary-general Antonio Guterres  
The Second Belt and Road Forum for International Cooperation (BRFIC), Beijing, April 2019

4. Source: MOFCOM

5. Source: United Nations Conference on Trade and Development (UNCTAD), EY analysis



## Unimpeded trade

Trade between China and B&R countries in the first five months of 2020:

**29.8%**

of China's total trade value (Jan-May 2019: 28.8%)

Trade value:

**US\$ 490.6 billion,**

down **4.8%** YOY

GACC signed Mutual Recognition Arrangements (MRAs) on Authorized Economic Operator

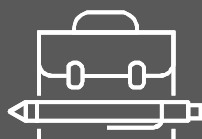
(AEO) with **42** countries and regions in **15** economies, including **18** B&R countries



China reached Free Trade

Agreements (FTAs) with **13** B&R countries, and negotiations

with another **21** B&R countries are in progress



China established e-commerce

cooperation with **9** B&R countries



Source: GACC, www.yidaiyilu.gov.cn, EY analysis

Unimpeded trade is an integral part of B&R development. Due to rapid economic development, China has become the world's largest trading nation in recent years and its global influence on foreign trade is also increasing. Besides, China has deepened economic and trade cooperation with B&R countries facilitating and liberalizing regional trade and investment. Affected by COVID-19 pandemic, in the first five months of 2020, China's total imports and exports reached US\$1.6 trillion, down 7.7%. Nevertheless, imports and exports between China and B&R countries decreased by 4.8% to US\$ 490.6 billion, with 2.9 percentage points higher than the overall performance. According to the World Bank, the transportation connectivity is expected to increase trade value of B&R countries by 2.5% - 4.1%<sup>6</sup>. Moreover, the *Review of Maritime Transport 2019* by UNCTAD highlights that the BRI is playing a positive role in promoting international trade in current volatile market.

In the first five months of 2020, among China's top 10 trading partners, four of them were B&R countries; among the top 10 countries that increased highest value in trade with China, six were B&R countries, including Vietnam, Thailand, Iraq, Israel, Turkey, and Ukraine.

Figure 1: China's top 10 B&R trading partners in the first five months of 2020

Ranking	Country	Trade value Jan-May 2020 (US\$ billion)	Growth rate Jan-May 2020 vs Jan-May 2019	Annual growth rate 2019 vs 2018
1	Vietnam	64.5	12.7% ▲	9.6% ▲
2	Malaysia	45.9	-2.1% ▼	14.1% ▲
3	Russia	40.9	-3.7% ▼	3.5% ▲
4	Thailand	37.1	4.6% ▲	4.8% ▲
5	Singapore	33.7	-2.9% ▼	8.5% ▲
6	Indonesia	29.3	-2.8% ▼	3.0% ▲
7	India	28.3	-23.1% ▼	-2.9% ▼
8	Saudi Arabia	27.6	-8.2% ▼	23.2% ▲
9	Philippines	19.4	-15.6% ▼	9.5% ▲
10	United Arab Emirates	18.2	-4.9% ▼	6.0% ▲

Source: GACC, EY analysis

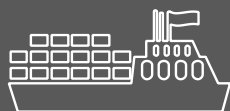
6. Source: The World Bank





## Facilities connectivity

**Railway:** In the first five months of 2020, the number of China-Europe freight trains made **3,953** journeys, increased **28%** YOY, transport volume increased **32%**, reaching **55** cities in **18** European countries



**Maritime transport:** China signed **38** bilateral and regional shipping agreements with **47** B&R countries (As of April 2019)

Source: NDRC, GACC, People's Daily

**Aviation:** China signed bilateral intergovernmental air transport

agreements with **62** B&R countries,

opened direct flights with **45** B&R countries, and signed cooperation documents on postal and express

delivery services with **21** B&R countries (As of April 2019)



The deepening urbanization and increasing population boost the demand for better infrastructure in B&R countries, leading to rapid growth of related projects. Since 2014, among all the announced projects in B&R countries, those with Chinese enterprises' participation accounted for 18% of the total<sup>7</sup>. Chinese enterprises play an important role in infrastructure construction of B&R countries, which greatly drive local economy and promote regional connectivity. Additionally, since many projects are still in their early stages and the participants have not been fully confirmed yet, the actual participation rate of Chinese enterprises may be higher.

By region, Chinese enterprises participated most projects in South and Southeast Asian, and the projects are concentrated in a few countries. Statistics show that project value of top 10 countries account for 66% of the total value of all projects with Chinese enterprises' involvement.

Figure 2: Top 10 B&R countries with the highest value of the projects participated by Chinese enterprises (2014-May 2020)

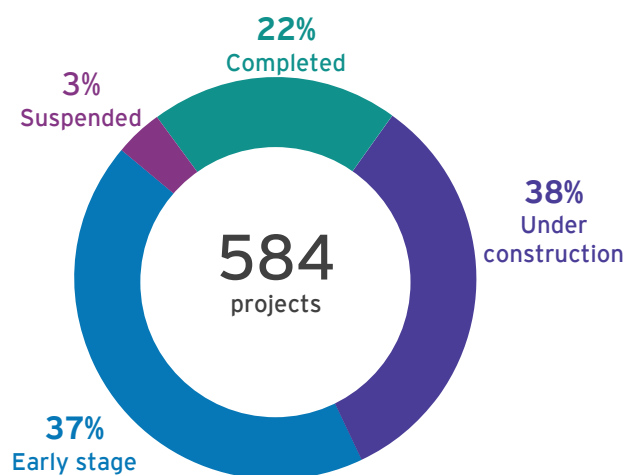
Ranking	Country	Project value (US\$ billion)
1	Indonesia	95.9
2	Russia	83.5
3	India	77.7
4	Pakistan	77.4
5	Vietnam	74.5
6	Bengal	46.5
7	Malaysia	46.2
8	Belarus	31.6
9	Laos	23.2
10	Turkey	22.6

Source: BMI, EY analysis

7. Source: BMI, EY analysis

With the advancement of the BRI, the implementation of infrastructure projects has sped up in recent years. According to statistics, more than half of the projects announced since 2014 have already been completed or are under construction.

Figure 3: Status of B&R infrastructure projects participated by Chinese enterprises (2014-May 2020)



\* Projects in the initial stage include those that have been approved, announced, tendering and awarded contracts

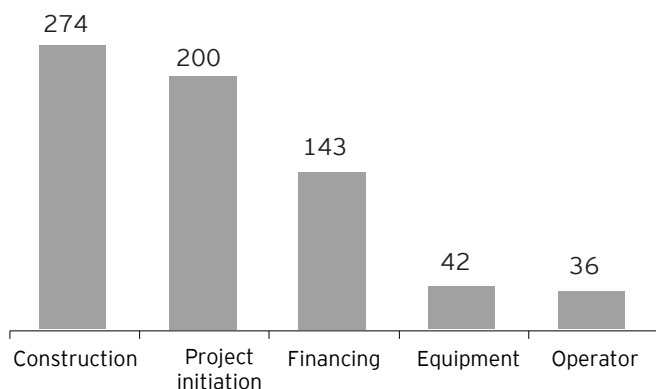
Source: BMI, EY analysis, project progress is updated as of May 2020





From the perspective of Chinese enterprise' roles, we found construction is still the major role (accounting for 47% of the projects), followed by project initiation (accounting for 34% of the projects) and financing (accounting for 27% of the projects). However, with the need of Chinese enterprises' internationalization, EY expects that they will continue to diversify their roles in B&R infrastructure projects by participating more in investment and operation areas, and drive equipment export, increasing involvement in design and management to realize integrated "going abroad" strategy.

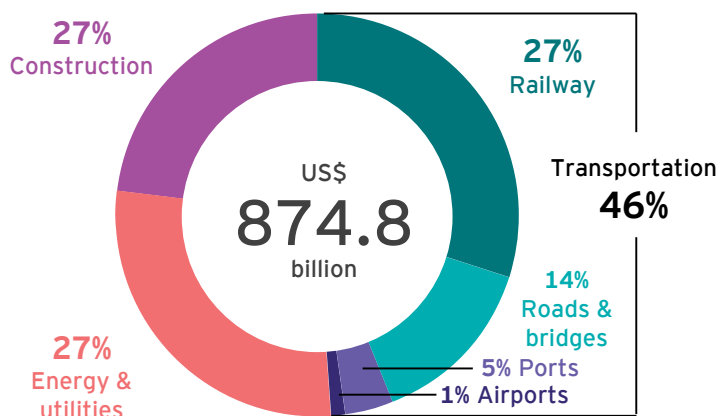
**Figure 4: The major roles of Chinese enterprises in B&R infrastructure projects (2014-May 2020, number of projects)**



Source: BMI, EY analysis, only including the project information disclosed as of May 2020

In terms of sector, transportation infrastructure projects made up the largest, accounting for 46%, they were mainly railways (accounting for 27%), roads and bridges (accounting for 14%). Energy and public utilities projects accounted for 27%, over 80% of which were electric power projects. Construction projects accounted for 27%, in which commercial construction projects accounted for 60%, and industrial ones are about 40%.

**Figure 5: Sectors of B&R infrastructure projects by Chinese enterprises (2014-May 2020)**



Source: BMI, EY analysis



## Financial integration

### Improving policy cooperation mechanism and regulation

China has been strengthening financial cooperation with B&R countries, promoting regional financial integration and improving global financial governance system. For instance, the Ministry of Finance of China has been striving to pursue high standard project financing by establishing a financing policy framework for high-quality development under the BRI and implementing the *Guiding Principles on Financing the Development of the Belt and Road* approved by multiple countries. The CBIRC and China Securities Regulatory Commission have also been actively promoting international exchange and cooperation with financial authorities in B&R countries by signing memorandums of understanding (MOU) or exchange of notes on bilateral cooperation in financial supervision aspect. Sound and sustainable financial cooperation between China and B&R countries is underpinned by a well-established supervision mechanism. Looking ahead, China will continue to enhance financial policy coordination with B&R countries and establish an efficient and transparent regulatory coordination mechanism to improve the capability of cross-border supervision and maintain national financial security.

During the Second BRIC, **27** large international financial institutions signed the *Green Investment Principles for the Belt and Road*



The China Banking and Insurance Regulatory Commission (CBIRC) signed cooperation documents with financial regulators in **35** B&R countries to boost cooperation between banks and financial institutions (As of April 2019)

The People's Bank of China (PBOC) signed local currency swap agreement with central banks and monetary

authorities in more than **20** B&R countries; Cross-

border Interbank Payment System (CIPS) covered **63** B&R countries and regions; China formed RMB clearing

arrangements with **7** B&R countries

Source: www.yidaiyilu.gov.cn

## Establishing a diversified capital system and strengthening cooperation between domestic and foreign institutions

B&R development involves numerous of projects covering infrastructure, energy and production capacity cooperation, which are all costly and have long construction cycles. Thus, a diversified investment and financing platform is necessary and it should integrate policy-based institutions, commercial financial institutions and international development financial institutions, etc. For instance, international development financial institutions usually value social benefits highly, and they invest more in energy, housing and health care projects to fill the funding gaps after commercial loans. In addition to providing access to low cost and long-term funds, multilateral financial institutions, such as the Asian Infrastructure Investment Bank and the World Bank, can also help diversify and mitigate political risks effectively through their multilateral nature and political balancing power. Projects that are endorsed by international multilateral banks are also more likely to appeal to other international banking groups.

However, there are advantages and risks in different types of financial institutions. It is necessary to integrate resources from banks, industrial funds, insurance and asset-backed securities and establish a risk-sharing mechanism and an efficient multi-level communication and coordination system with wide coverage to manage financial risks. Meanwhile, a diversified financial support system is essential to achieve financial integration. Only by leveraging the advantages of various financial institutions across different regions, maximizing resources from all parties in the market and avoiding excessive homogeneous competition, can we effectively guarantee the funding supply of B&R development and achieve mutual benefit and win-win results.

11 Chinese-funded banks established  
**80** first-tier subsidiaries in **29**  
B&R countries (As of 2019)



The Belt and Road Inter-bank  
Regular Cooperation Mechanism had  
**89** members from **55**  
countries and regions, implemented  
**55** B&R projects with loan-based  
fund totaling **US\$ 43 billion**  
(As of April 2019)



Trade and investment supported by  
China Export & Credit Insurance  
Corporation along the route  
exceeded **US\$ 813.3 billion**  
(As of 2019)



Source: [www.yidaiyilu.gov.cn](http://www.yidaiyilu.gov.cn), CBIRC





## Promoting market-oriented development and innovation of financial products

**14** B&R bonds worth a total of **RMB 18.3 billion** were issued via the Shanghai Stock Exchange and the funds raised are all used for B&R development (As of October 2019)

Source: Shanghai Stock Exchange, PBoC, Xinhua.net

Panda bonds worth a total of **RMB 400 billion** were issued in China's interbank bond market (As of June 2020)

Overseas RMB funded-business reached **RMB 300 billion**, investing in key sectors such as transportation, power and energy, finance and manufacturing (As of Q1 2019)

With the high-quality development of China's economy and the deepening of B&R development, enterprises have more opportunities and platforms to raise capital through onshore and offshore markets for further development. Meanwhile, financial institutions are also steadily raising the level of internationalization according to their own situation and striving to provide innovative and customized financial products to meet the needs of different enterprises.

### Deepening the development of the bond market

Lower costs and longer maturity make bond one of the ideal financial products to support B&R development. In March 2018, the Shanghai Stock Exchange and the Shenzhen Stock Exchange jointly released a notice on launching the pilot program of B&R bonds, which specified the main institutional arrangement and designated personnel to be specifically responsible for accepting and reviewing applications for listing of B&R bonds to increase their listing efficiency, showing innovative efforts of the Exchanges to support B&R development. However, bonds currently only account for a small proportion in B&R project financing. EY believes that the gradual opening up of the Chinese capital market, for example, opening the credit rating market to foreign capital, will accelerate marketization and specialization of China's bond market, and increase interconnectivity with overseas bond markets. Subsequently, it will attract more foreign investors to invest in B&R bonds, broaden funding channels, and help increase RMB trade settlement overseas and promote RMB internationalization.

### Promoting internationalization of the futures market

At the national level, futures markets play a very important role in stabilizing commodity prices. B&R countries are rich in many natural resources such as crude oil, iron ore, natural rubber and palm oil products, making them key players in international commodity future markets. With the deepening of B&R development, trade relations between China and these countries of origin become closer which generate huge demand for hedging from Chinese enterprises and traders. These provide potential motivation for the internationalization of China's futures market. EY recommends that China works closely with B&R countries to accelerate integration of the trading infrastructure, trading rules, and the internationalized regulatory systems of the futures market. Furthermore, China and B&R countries should develop an internationalized futures market platform with pricing rules that are consistent with regional development status and diverse trading currencies and bring in more domestic and foreign investors to participate in futures investment. Meanwhile, they should focus on developing regional specialty products as well as new products with varieties, providing more risk management tools for Chinese enterprises to go abroad, further promoting B&R development.

### Promoting overseas RMB fund business

Promoting overseas RMB funds to invest in B&R projects will encourage financial institutions to provide RMB funding support to eligible overseas projects. EY believes that the rapid development of overseas RMB fund business is a general trend. On the one hand, China's high savings rate effectively ensures a source of supply-side RMB funds. On the other hand, as China's economic and trade exchanges with B&R countries continue to deepen, the demand for RMB will keep growing. The use of RMB in investment and financing not only solves the problem of the large capital gap, but also facilitates overseas partners to purchase Chinese goods and services, forming a "closed loop" of RMB utilization in cross-border investment and trade to significantly reduce exchange rate fluctuations. In the future, overseas RMB fund business may accelerate financial integration among B&R countries.

### Developing green finance to ensure sustainability

Facing increasing challenges in the environment and climate change, green finance has become an important agenda for the sustainable development of the BRI. EY suggests that the development of green financial services requires multi-level guarantees: Firstly, governments and regulators should build green financial infrastructure from policies, standards, laws and regulations, and emphasize the roles of guidance and supervision. Secondly, financial institutions should actively explore product and institutional innovation and enrich green financial instruments, such as green credit, green bonds, green insurance, green funds and so on. Thirdly, enterprises should incorporate low-carbon and sustainable development concepts into their strategic planning and daily operation, and actively monitor (potential) costs, benefits, risks, returns and other factors related to the ecological environment. They should also continuously optimize management and improve efficiency, and explore more green and sustainable business models, in order to gain favor in the capital market and turn green into productivity. Lastly, third-party professional agencies, as the "booster" of green finance development, actively support and facilitate the green financial system. For example, on the one hand, they can provide financial institutions with green financial products certification services and introduce green financial management system to financial institutions to improve their capabilities in managing and analyzing the green financial data. On the other hand, they can provide certification services to green entities issuing corporate bonds and help enterprises to establish a disclosure framework for the qualitative and quantitative indicators of environmental and social impacts.



## People-to-people bond

With the advancement of the BRI, people-to-people bonds have also achieved remarkable results in long-term exchanges between China and B&R countries. China has enhanced communication and established closer cooperation with B&R countries in education, health, culture and tourism areas to consolidate the public opinion foundation, which made unique contributions to the smooth development of the BRI. The COVID-19 outbreak since early 2020 further pushed forward health cooperation and promoted people-to-people bonds under the BRI.

China signed mutual recognition agreements on higher education

qualifications with **24** B&R countries  
(As of April 2019)

**200** institutions around the world joined the B&R Health Professional Development Alliance established by the China National Health Commission  
(As of 2019)

Since COVID-19 pandemic, China has provided assistance to **122** B&R partners, and sent medical teams to **25** countries  
(As of May 2020)

Traditional Chinese Medicine (TCM) overseas centers were established in **35** B&R countries; **43** TCM international cooperation bases were built  
(As of April 2019)

China signed mutual visa exemption agreements

with **57** B&R countries, and reached **19** agreements or arrangements to simplify visa procedures with **15** countries  
(As of April 2019)

Source: Xinhua News Agency, China News Agency, China Ministry of Culture and Tourism, People.cn

### Education and training

Education is one of the best ways to forge people-to-people bond. The Ministry of Education of China looks at the needs of B&R countries, understanding the role of education in connecting people. It actively promotes Chinese language and traditional Chinese culture to bridge the gap and promote education development with B&R countries.

### Healthcare cooperation

In the early stage of the pandemic, China received assistance and support from many B&R countries. After its situation was mitigated, China quickly joined various international cooperation to share its experience in combating the outbreak with B&R countries, through video conference, dispatch of medical teams, etc. Meanwhile, many Chinese enterprises are actively fulfilling their corporate social responsibilities in host countries. They work closely with local governments and people to take anti-epidemic measures and develop feasible plans for work and production resumption in a safe manner, to contribute and drive economic recovery in host countries.

We believe COVID-19 will only strengthen and re-energize B&R cooperation and open up new possibilities. In the future, China will vigorously promote the development of "Health Silk Road", continue to deepen multilateral cooperation with B&R countries in health area and accelerate development of related industries with more guidance and support.

### Culture and tourism cooperation

Since the BRI was proposed, the Ministry of Culture and Tourism of China has proactively promoted cultural connectivity with the people in B&R countries, and successively established the Silk Road International theatre, museum, art festival, library, and art gallery alliances. As of April 2019, 319 overseas cultural institutions from 88 countries and regions have joined and used these platforms to carry out cultural and artistic exchange to promote the comprehensive development of cultural exchange in B&R countries<sup>8</sup>.

8. Source: www.chinanews.com

“

China will work with its partners to develop the Belt and Road into a model of cooperation for meeting challenges through unity, a model of health for protecting people's safety and well-being, a model of recovery for restoring economic and social activity, and a model of growth for unlocking development potential.

Xi Jinping, Keynote Speech at the High-level Video Conference on Belt and Road International Cooperation, Beijing, Jun 18, 2020



# 2

## Co-developing China overseas industrial parks to build a new landscape of the B&R

### 2.1 Current status and characteristics of China overseas industrial parks in B&R countries

Overseas industrial parks are derived from China's reform and opening-up. After a period of early exploration (1995-2004), development and re-adjustment (2005-2012), the overseas industrial parks have been developing rapidly since the BRI launched in 2013. Due to the various economic development circumstances of B&R countries, China overseas industrial parks along the route (hereinafter referred to as "overseas industrial parks") also exhibit the following characteristics:

#### 1. Reducing the barriers of enterprises' "going abroad" through cooperation and joint construction

Overseas industrial park is a type of industrial cluster for foreign direct investment. At present, there is no universal definition of such parks. It usually refers to various types of parks invested by Chinese enterprises in host countries. Most of the parks are jointly promoted and developed by Chinese and foreign governments or enterprises. These parks usually have better infrastructure, more integrated value chain and distinctive featured industries, which can drive all-round development. Overseas industrial parks could help the stationed enterprises obtain more favorable preferential policies and better business environment including comprehensive supporting facilities such as land, capital, technology and talent, to reduce overall barriers of enterprises' "going abroad". Overseas industrial parks are important platforms for China to further promote the BRI and international economic and trade cooperation, to enhance deeper economic integration with B&R countries and achieve win-win results.

#### 2. Promoting trade and optimizing industrial structure of host countries

Chinese enterprises could not only enter into the local market through overseas industrial parks, but also enjoy the host countries' special trade and preferential tariff policies, such as the Generalized System of Preferences<sup>9</sup>, to circumvent trade barriers in the areas such as European Union ("EU") and the US, expanding their business to more overseas markets. The settled Chinese enterprises will also continue to push forward the localization of technology and talent, especially in the industries where China has advantages, such as chemicals, electronics, steel, construction materials, light industry, automobiles, machinery, minerals and agriculture, which play an important role in optimizing industrial structure and stimulating economic growth of host countries.

#### 3. The distribution of overseas industrial parks shows a characteristic of "generally dispersed and regionally concentrated"

Based on an analysis of 74 overseas industrial parks<sup>10</sup> under construction or completed in 64 B&R countries, these parks spread across Asia, Europe and Africa, covering all six B&R economic corridors. The overall distribution is "generally dispersed and regionally concentrated" (i.e., overall, they are widely scattered, but concentrated in small areas). In terms of continents, these parks are mainly located in Asia. Of the 74 parks, 58 are in Asia, 14 are in Europe, and 2 are in Africa. Among those in Asia, 34 are in Southeast Asia, representing nearly 60% of the total, which is the most concentrated area of overseas industrial parks, while South Asia and Central Asia have 9 parks respectively, accounting for nearly 30% of the total.

#### Top 5 B&R countries with most overseas industrial parks:



9. Note: Generalized System of Preferences (GSP) is a generalized, non-reciprocal and nondiscriminatory preference scheme beneficial to developing countries extended by developed countries. It involves reduced tariffs or duty-free entry of eligible products, especially manufactured and semi-manufactured goods, exported by developing countries to the markets of developing countries.

10. Source: MOFCOM, www.Investgo.cn, EY analysis

Figure 6: Distribution of China overseas industrial parks in B&R countries



Source: MOFCOM, www.Investgo.cn, EY analysis

From an industry perspective, the overseas industrial parks invested by Chinese enterprises along the route are dominated by traditional industries, mainly focusing on the areas of manufacturing, energy, mineral resources and agricultural product processing. Among all, the number of processing and manufacturing parks is the largest, accounting for more than 30% of the total. Cross-border cooperation in technological parks and innovative research & development center parks are still at the early stage of development.

Figure 7: Types of China overseas industrial parks in B&R countries

Type	Number	General description
Processing and manufacturing	23	Mainly to help the industrial transfer from China, avoid trade barriers and gain foreign exchange through exports, e.g. China-Egypt TEDA Suez Economic and Trade Cooperation Zone
Agricultural	17	To develop based on local unique advantageous agricultural industries such as planting, forestry, animal and crop husbandry, e.g. Yunnan Rubber Investment's Rubber Plantation Zone in Laos
Comprehensive	14	Some parks have very diversified and comprehensive types of business, e.g. Sino-Thai Zone; the others are the newly established parks that haven't decided clear themes yet, e.g. China-Nepal Friendship Industrial Park
Commerce and logistics	11	More export-oriented with integrate functions such as merchandise display, cargo distribution, logistics, warehousing and information services, , e.g. Central European Trade and Logistics Cooperation Zone
Resource utilization	6	Take advantages of local resources and energy, focusing on scarce minerals, natural resources in China and new energy development, e.g. China-Oman (Duqm) Industrial Park
Technology and research & development ("R&D")	3	Utilize foreign advanced technological innovation networks and innovative resources, e.g. China-ASEAN Beidou Technology City, which focus on the area of satellite guidance, transportation communications, Internet of Things, big data, etc.

Reference of classification: *Administrative Measures on the Accreditation Assessment and Annual Assessment of Overseas Economic and Trade Co-operation Zones*, issued by MOFCOM and Ministry of Finance of China; All-China Federation of Industry and Commerce, EY analysis



## 2.2 Challenges faced by the development of overseas industrial parks

Along the route are mainly developing countries or regions with relatively unstable politics and economy, unfavorable business environment and insufficient supporting services. Meanwhile, some overseas industrial parks lack systematic planning and some enterprises lack skills for overseas market development. In this chapter, we analyze the main challenges and propose some solutions for the development of overseas industrial parks.

### Challenge 1: Macroeconomic and political instability and unfavorable business environment in host countries

- 1 Political level:** political instability, governments' inaction and inconsistent policies are the most common political risks faced by overseas industrial parks. For example, the China-led CHEC Port City Colombo project kicked off in September 2014, but soon after the new President of Sri Lanka took office in January 2015, he announced the suspension of this largest China-backed project. After relentless communication and coordination between the two governments, Sri Lanka finally agreed to restart the project after 18-month suspension in September 2016.
- 2 Economic level:** B&R countries are mostly developing countries with relatively weaker economic conditions and lower industrial attractiveness. Some overseas industrial parks have also encountered the issue of market consumption. Taking the China-Belarus Industrial Park as an example: the park is located in Belarus - a country has small population with a GDP of US\$ 60.5 billion in 2019<sup>6</sup>. Due to lack of local purchasing power in Belarus, most of the products produced in the park need to be exported to other markets, such as Russia and the EU, which leads to increased transportation cost and tariff. Although the park positions itself as a bonded logistics park, its advantage is weakened under the same circumstances.
- 3 Business environment:** At present, many B&R countries are suffering from weak infrastructure and lack of supporting policies and inefficient policy implementation. Thus, the average ease of doing business index of the countries or regions where China overseas industrial parks located is only 67.2, ranking 85<sup>th</sup> worldwide. The overall business environment needs to be improved. Although some of the overseas industrial parks received strong support from the governments in host countries, the gap still exists between the support provided and the real needs due to lacking deep understanding of the parks' development plan. For example, the China-Saudi Capacity Cooperation Project has been supported by the Saudi government since its launch, but the efficiency of solving problems during the construction stage is still relatively low. It takes longer for Saudi government to evaluate and approve the project than what Chinese expected, and the progress of the implementation of the project is also slower.



### Solution 1: Performing thorough external environment analysis prior to investment

Sufficient pre-investment preparation is the solid foundation to reduce risks and ensure returns. Generally speaking, enterprises who make their first overseas investment should conduct comprehensive macroeconomic, industry and market analysis, assess business environment and formulate corresponding risk prevention and control mechanisms.

#### Macro-environment analysis

Conduct in-depth analysis of host country in politics, economy, and financial market to fully understand the general conditions, resource endowments, development strategies and other relative factors.

#### Industry & market analysis

Conduct in-depth analysis of host country's industry development status, trends, and critical success factors to understand the market competition landscape of the industry to invest.

#### Assessment on business environment

Clarify the gaps by horizontally comparing the relevant business environment indicators with those of the surrounding industrial parks and areas with favorable business environment. Understand the supporting policies and services to formulate the site selection plan.

#### Establish risk prevention & control mechanisms

Clarify the risk monitoring indicators, establish risk warning mechanism, and introduce risk feedback, prevention and control mechanism through process optimization.

Figure 8: The number of China overseas industrial parks and the ease of doing business index in each country / region

Continent	Country / region	Number of parks	Ease of doing business index (Average)
Asia	Southeast Asia	34	(62.4)
	Indonesia	9	69.6
	Cambodia	7	53.8
	Laos	5	50.8
	Vietnam	5	69.8
	Thailand	3	80.1
	Burma	2	46.8
	Malaysia	1	81.5
	Brunei	1	70.1
	East Timor	1	39.4
	South Asia	10	(59.7)
	India	4	71
	Pakistan	3	61
	Sri Lanka	2	61.8
	Bangladesh	1	45
	Central Asia	9	(69.7)
	Uzbekistan	3	69.9
	Tajikistan	3	61.3
	Kazakhstan	2	79.6
	Kyrgyzstan	1	67.8
	West Asia	5	(78.2)
Europe	United Arab Emirates	3	80.9
	Georgia	1	83.7
	Oman	1	70
	East Europe	14	(74.4)
	Russia	8	78.2
	Hungary	2	73.4
Africa	Serbia	2	75.7
	Ukraine	1	70.2
	Belarus	1	74.3
	North Africa	2	(60.1)
	Egypt	2	60.1

Note: Regional data are calculated based on the countries where the 74 overseas industrial parks are located

Source: *Doing business 2020*, World Bank, October 2019; EY analysis

Challenge 2: Cooperation model requires more protective mechanisms

During investment and operation process of overseas industrial parks, many disagreements will need to be resolved in the long-term, due to the differences in culture, working habits, laws and regulations between China and the host countries.

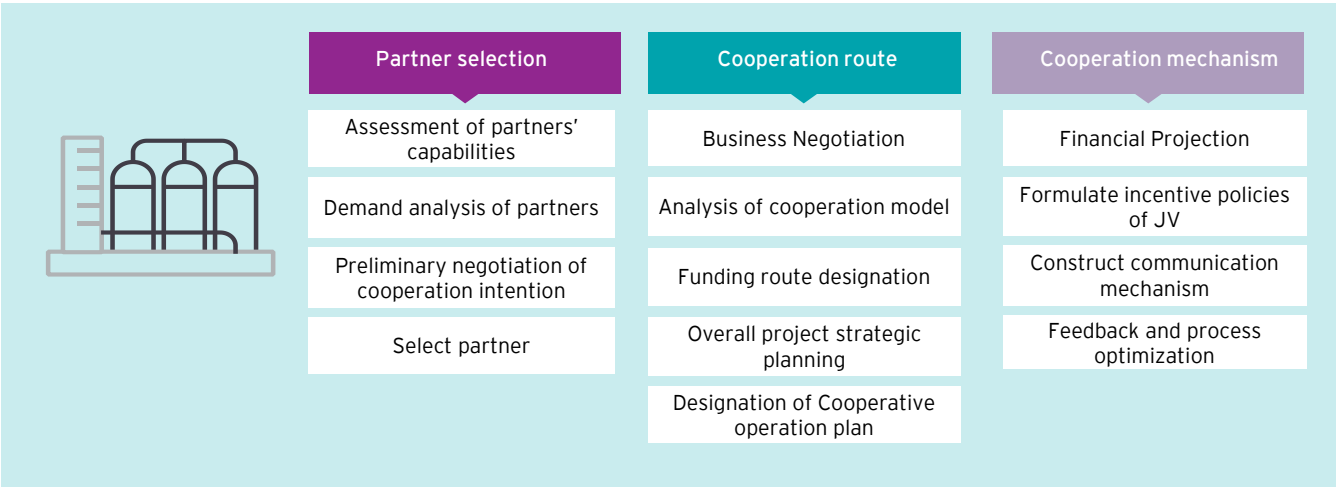
Enterprises investing overseas industrial parks are usually at a disadvantageous position when they negotiate policies with the host government. For example, it is often difficult to achieve ideal outcome on major issues such as the park’s desired operating model and profit-sharing scheme. In addition, there are also business overlaps and lack of coordination among government agencies in the host country. As a result, the park's investors often face challenges such as slow approval of administrative procedures, failure of receiving sufficient supply of requested raw materials in pre-agreed price and quantity, and long response time from host government.



Solution 2: Establishing a win-win industrial park cooperation model through business model planning

When Chinese enterprises invest in overseas industrial parks, finding a local partner in the host country to jointly invest and participate in park operations will enable Chinese enterprises to understand local market rules and regulations in a more efficient manner. Having a strong local partner is also more conducive to gaining the local market’s recognition and develop

business. When designing a business model of a joint venture (“JV”) company, first of all, the suitable cooperative enterprises should be selected through research and investigation in the early stage. After the partners are identified, the two or more parties will jointly formulate key plans, such as development strategies and operating models, and establish communication and divergent coordination mechanism to achieve a win-win cooperation.







## Case 1: China-Saudi Capacity Cooperation Project

### The kick-off of China-Saudi Capacity Cooperation

**Project in 2016:** On January 19, 2016, witnessed by Chinese President Xi Jing Ping and King Salman bin Abdul-Aziz of Saudi Arabia, the Memorandum of Understanding on strategic cooperation was signed by state-owned investment platforms from Guangzhou and Yinchuan, and Royal Commission for Jubail and Yanbu and Saudi Aramco. China and Saudi Arabia agreed to set up a JV to jointly develop special development zone for Chinese enterprises in Jazan City for Primary and Downstream Industries (JCPDI). EY (Ernst & Young (China) Advisory Limited), as the professional advisor for this project, based on the Saudi's Economic City Plan, the "Vision 2030", the BRI, the *Joint Venture Framework Agreement* and Saudi's relevant regulations and policies, prepares feasibility reports and provides advices on JV's organizational structure and its business and operation model.

Multiple difficulties had been encountered in the establishment of the JV. There were different interpretations between China and Saudi Arabia in terms of park's operation and management, as well as the role of the government in guiding and intervention, coupled with personnel changes from both parties, as a result, both China and Saudi Arabia had been unable to reach a consensus on the positioning and cooperation model of the park for a long time, and the negotiations were going nowhere. On the basis of its extensive domestic and overseas industrial parks' planning experience and in-depth understanding of the local governments, EY, assisted China and Saudi Arabia in organizing a number of post-meetings for both sides to communicate and clarify issues separately, in order to minimize the misunderstanding, and to express their thoughts and ideas in a better approach.

Eventually, with the establishment of the cooperation mechanism, the project is moving on in an orderly manner. With the continuous efforts of many parities, the two countries finally established a Sino-Saudi JV (Saudi Silk Road Industrial Services Limited Liability Company) successfully. Based on the JV framework, both parties will carry out coordination and business meetings regularly after establishing a stable cooperation and communication mechanism, to promote Saudi Arabia in investment services and trade in industrial supply chain, while assisting the diversification of the Saudi's industry and bringing benefits to the Chinese government and enterprises. At present, the first chemical polyester production capacity project was completed in January 2019 in the JCPDI, and a number of companies have showed their interests to invest in Saudi Arabia. Key projects, such as e-commerce platform projects, aquatic product projects, bilateral industrial parks, port operation cooperation and 3D printing centers, are under developed with the joint efforts of China and Saudi Arabia. Currently there are more than 40 projects are under negotiation.



### Challenge 3: Overseas industrial parks lack systematic planning

Although overseas industrial parks are often led by governments, the operation will eventually be implemented by enterprises. However, many enterprises are limited by their own small scale and insufficient experience in overseas investment, and sometimes they even proceed without a plan. This always leads to frequent changes of primary industries of the parks, or lack of specialized supporting services for a long time. As a result, the parks will face difficulties in attracting investment. Moreover, site re-selection and capital withdrawal may happen.

- 1 The positioning and functional arrangement of the park do not match the actual conditions of the area:**  
Due to the lack of systematic research and planning at the early stage, some parks didn't fully utilize the resources of the area when determining the primary industry and the park layout. As a result, issues arise such as mismatch of primary industries with the park's industrial functions, unreasonable spatial structure layout and unscientific site selection. These issues will create a wide range of barriers when the parks striving for supports from local government and market resources. For example, the China-Belarus Industrial Park focuses on high-end manufacturing, electronic information technology and fine chemicals industries, etc. However, Belarus's rainy and snowy weather couldn't meet the temperature and humidity

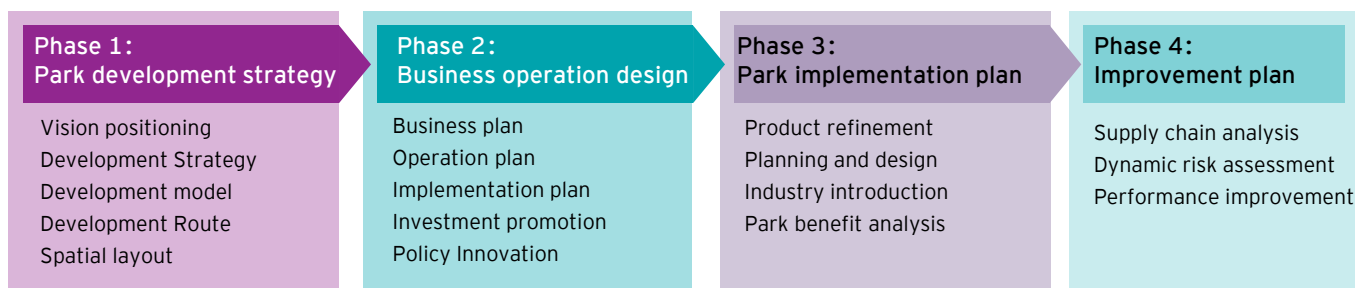
requirement of these industries. Although Belarus has technical solutions such as air dehumidification and plant drying, other countries, e.g. Kazakhstan can actually provide the same preferential offers without having these natural conditions problems. The mismatch between the industrial positioning and the natural conditions of the park will affect enterprises' investing decision.

- 2 Lack of specialized supporting services in the park:**  
The specialized supporting services for overseas industrial parks are still at the initial development stage. So far, overseas industrial parks that have developed into a certain scale are mainly processing & manufacturing and agricultural parks with extensive mode of management. The number of high-quality parks is still relatively small and most of the parks don't value much of supporting services in construction stage. For example, in terms of development planning, unlike the parks in developed countries, most of China overseas industrial parks didn't pay enough attention on introduction of various supporting services, including banking, insurance and other capital market services to help companies solve financing issues, as well as providing sufficient producer & customer-oriented supporting services such as transportation, logistics, education, professional services, etc.



### Solution 3: Comprehensive design of overseas industrial parks' strategy, operation and implementation plan

Since the development cycle of overseas industrial parks is often long, the design of strategy, operations, and detailed park implementation plans are crucial. Also, by doing a competitive analysis, investors could better understand the competitive landscape and formulate more reasonable and feasible strategies. In addition, a detailed business operation and implementation plan can help investors implement the development strategy smoothly. Also, it is recommended to continuously seek for performance improvement during the whole operation phase.



### Case 2: Strategic planning for the development of a national science park in a B&R country

The project sponsor is a state-owned enterprise founded by the head of a country along the B&R, aiming to contribute in the development of the country's nanotechnology-based innovative industries. One of the enterprise's project is "Nano City" science park, which is also supported by the former head of the country. The planning of "Nano City" science park focuses on developing innovative industries based on nanotechnology. Meanwhile, it will drive the development of other high-tech industries such as biomedical and information technology and build the infrastructure and innovative environment necessary for industrial development - universities (or other R&D educational institutes), R&D, testing and production facilities and institutions, as well as the industrial and urban environment that promotes the generation, implementation and upgrading of innovative ideas.

Considering the importance (head of country and government level project) of the project, and China's rich experience in industrial park construction, the project actively introduced EY to design a development strategy for the project. Based on the latest status of local industrial development and the urban environment, and combined with the case studies and benchmark analysis of advanced parks (science parks, high-tech zones, innovation and technology city, etc.), EY developed plans for key industries (such as nanotechnology, biomedical and information technology), formulated suggestions for urban function construction, and eventually realized the overall strategic planning and development of "Nano City". This is also a good example of experiences exchange between China and another B&R country.



## 2.3 Future development trends

1

More digital in operation – will shift primary industry toward high-tech fields

At present, China overseas industrial parks are dominated by traditional industries such as comprehensive and processing & manufacturing industries. Under the backdrop of China-US trade frictions, the development potential of traditional industries will be limited, while the transformation and upgrading towards high-end industries will be accelerated. In the future, there will be a growing number of Chinese high-tech enterprises (e.g. internet, cloud computing, artificial intelligence, Internet of Things, smart cities and other related industries) to cooperate enterprises in B&R countries, which also aligns the development aspirations of B&R countries. With the entry of high-tech enterprises and the advent of the 5G era, overseas industrial parks will be able to gather multiple parties such as enterprises, operators, resource integrators, and industrial research related organizations to participate in digitalization of the parks. Through digital technology, enterprises can also solve the problems encountered in overseas investment and operation, improve the park's business environment, reduce operating cost, increase the core competitiveness and finally enhance investment attractiveness to achieve win-win results.

2

More diverse in operation – will promote collaboration in the development of parks and enterprises

Future operators of overseas industrial parks will integrate more participants including governments, implementation enterprises and external companies. All participated parties will work together to promote the development of parks. For example, if the two governments have reached a consensus, the park investors and operators can be led by one main party, and jointly establish a joint venture company between the two countries. All parties are jointly responsible for investment development and operation management of the park in the form of equity cooperation, forming a model of complementary advantages and coordinated development. Under this model, government and enterprises will establish closer communication and cooperation mechanisms with the support of bilateral governments and parks. This will link governments, industrial parks and enterprises all together in the same channel. At the early stage, the model will promote business visit, investment approvals, project implementation and preferential policy applications. In the later period, it will help facilitate regular business gathering (in the form of weekly or monthly meetings) of senior personnel from both government and enterprises to focus on solving problems in development and operation during the development process, such as government approval, market development, etc., to help enterprises expand overseas business.

3

City-industry integration will become the orientation for the development of overseas industrial parks

In recent years, the development of China's new industrial cities has achieved remarkable results. China's extensive experience in city-industry integration can be replicated to B&R countries and regions after applicable adjustments. Through the help of industrial parks, host countries can form characteristic leading industries such as, high-end manufacturing, information technology, etc. By combining supporting services such as real estate, business and urban services, city-industry integration can be realized to promote economic and social development of host countries.

4

Connect with professional service providers to leverage their expertise for business expansion

As more Chinese enterprises move into overseas industrial parks, the future enterprises' demands will be more diversified, and various professional supporting services demand will also increase. Examples include the need of professional financial institutions to assist corporate overseas financing, professional consulting services, such as legal, accounting and taxation, etc. The establishment of a professional service platform in the park will help companies quickly connect with relevant service providers, make full use of local expertise to enter the local market in compliance with international standards. At the same time, enterprises should better manage and control compliance risks caused by differences in laws and regulations, take root locally as a responsible international investor, and better penetrate into the local market.





# Summary and outlook

Today, China overseas industrial parks have become an important medium to promote B&R development and international capacity cooperation. The overseas industrial parks effectively encourage China's advantageous industries to "go abroad". For host countries, these industrial parks have attracted more Chinese enterprises to invest and build factories in their countries, which will not only drive employment and tax revenues, expand exports and foreign exchange, but also strongly promote their industrialization and upgrade of industries. The overseas industrial parks also create favorable conditions for enterprises to "go abroad" and reduce operating costs. At present, the number of China overseas industrial parks is on the rise, and their functions are diversifying. On the other hand, governments also play more effective roles in guiding the construction while the enterprises are still being the dominant power in the construction. Therefore, the development of overseas industrial parks requires both governments and enterprises in China and host countries to work together to achieve mutual benefits and win-win results.

Global economy thrives on development and multilateral cooperation. Looking ahead, although B&R development faces many problems and challenges, opportunities are unprecedented. With deepening joint development of the BRI, China will continue to advocate opening-up, environmental protection and integrity, strive to achieve high standard, people oriented and sustainable goals, and promote economic globalization toward greater opening-up, inclusive, balanced and win-win development.



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