

Policy Brief

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The Role of Industrial Parks in the Greater Tumen Region: How to Enhance Industrial and Supply Chain Connectivity Post-pandemic



1. Impact of COVID-19 on Value Chains and Industrial Parks

Northeast Asia offers great potential for economic development and value-adding cross-border cooperation. Important initial steps towards sub-regional economic cooperation have already been taken and countries within the region have strong trade ties. Nonetheless, the region's potential has not been fully exploited and cooperation on industrial planning and infrastructure is still lagging behind. The establishment of industrial parks (IPs) like special economic zones (SEZs), has been demonstrated to have a par-ticular positive correlation with economic development and to improve the ability of re-gions to attract foreign direct investment (FDI). The Greater Tumen Initiative (GTI), in which China, Mongolia, Russia and the Republic of Korea successfully work together, serves as a platform to jointly improve regional economic cooperation.

In 2020, the COVID-19 pandemic has created challenges for IPs and key stakeholders. The pandemic situation remains globally severe and the economic outlook is uncertain. Therefore, it is difficult to predict future trends on the development of global value chains (GVCs). However, changes of GVCs come about not only due to COVID-19 but also innovative technology, trade conflicts, and new industrial structures. Although the pandemic is not solely responsible, it has escalated these changes. IPs in Northeast Asia have to adjust to these new patterns and have the ability to respond to changing GVCs during and post-pandemic.

The World Free Zone Organization (WFZO) surveyed the impacts of COVID-19 on SEZs (81 Zones from 41 countries). Globally, around 90% of free trade zones mentioned that their economic activity has been impacted at

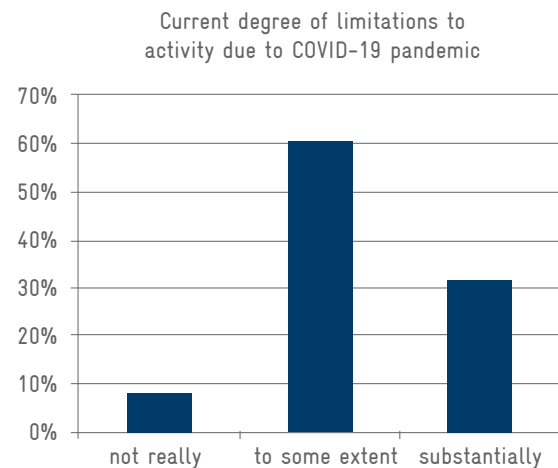
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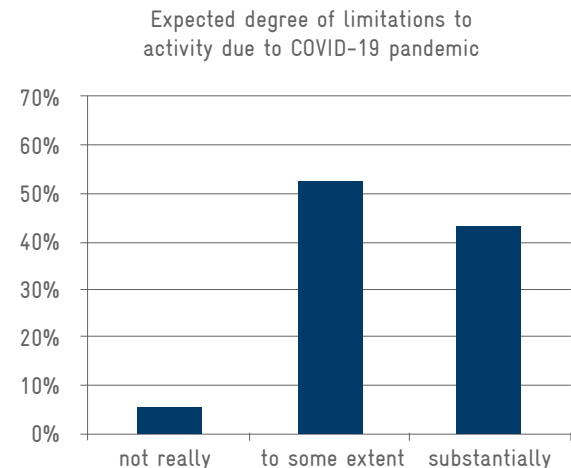
the early stage of COVID-19. By mid-2020 more than 60% were impacted to some extent, and 30% were substantially impacted with more zones most likely being seriously impacted in the near future.

SEZs are often engines for local employment. The pandemic has already and will further heavily impact the

welfare of workers. Many will be laid off or can only work reduced hours. The loss of jobs is intensified simultaneously by the uncertainty of investors caused by supply chain disruptions as well as a lack of viable business opportunities. This is especially severe for micro, small and medium sized enterprises (MSMEs) working within the supply-chains for and in IPs.



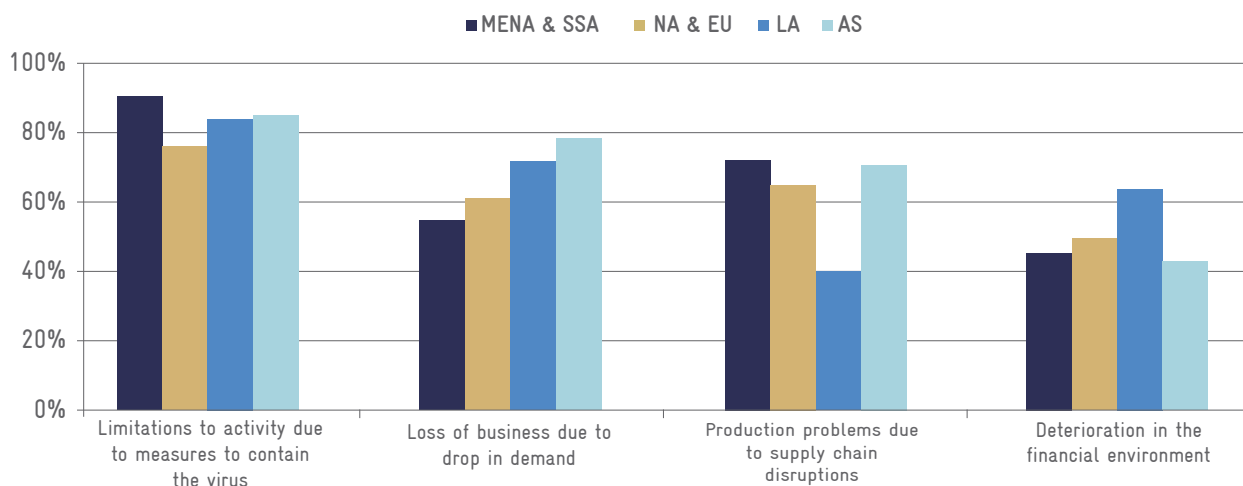
Source: F-WEB survey.



Source: F-WEB survey.

Four main impacted areas can be clustered as follows: 1) Limitation to economic activities due to various measures to contain the virus including business shut-down, stricter environmental sanitation measures, protective gears, social distancing, etc.; 2) Loss of business due to dropping demand postponing both production and consumption; 3) Production problems due to supply chain disruptions since many factories have shut-down or produce at lower capacity; 4) Deterioration of the financial environment due to the stressed environment for business and investors.

Regarding main impacts at regional level, stakeholders in Africa, North America and Europe reported mainly disruptions in production, whereas stakeholders in Asia mentioned a higher loss of business. The WFZO survey shows that the most severe impacts for economic activity derive from measures limiting those activities, implemented to contain the virus.



Note: Region acronyms: MENA (Middle East and North Africa), SSA (Sub-Saharan Africa), NA (North America), LA (Latin America and the Caribbean), EU (Europe), AS (Asia).

Source: F-WEB Survey.

2. Response to COVID-19: Challenges and Opportunities

Best practices of IPs show the need of an overall strategic planning to ensure they are flexible enough to respond to changing market scenarios and investor dynamics due to the pandemic. One focus is to strengthen coordination between enterprises, financial institutions, IP operators, and the local government to launch new financing and loan models and to establish risk sharing mechanism. Especially in Northeast Asia, resumption of work and production is the key to ensure the continued connectivity and stability of value chains. Special working committees combined with an improved overall coordination, analysis, research, inventory management, and emergency responses comprehensively supported enterprises and IP operators.

Many countries provide emergency relief funds, developed worker welfare regulations or protection insurance schemes. The Dubai Free Zones Council, for example, has introduced temporary job contracts that allow the free movement of workers between companies in IPs for 2020 and potentially also in 2021. In Haiti, an IMF loan package helped pay salaries of over 55,000 workers that were laid off, many of whom from factories in IPs.

Additionally, IP operators support tenants with free business strategy consulting services during the pandemic to align approaches to cushioning the impacts of the COVID-19 pandemic. Some operators started to partner with commercial banks to facilitate low interest or interest free loans to companies in distress, especially SMEs. To bolster impacts more, some governments allowed SEZs to sell products not only internationally but also to the domestic market they are based in. Many SEZs require the export of 80% or more of their products. The Kenyan government, for example, has temporarily removed the requirements of companies in SEZs to export most of their production. During the crisis, companies in SEZs can now sell 100% of the products to the domestic market.

The pandemic also led to IPs leveraging their companies' assets and capacity for innovation to become more resilient and competitive by transforming into digital parks. Digital transformation will also attract more investment. For example, SEZs in Barcelona are using 3D printing to produce mobile ventilators for Spain's healthcare system. The Wuhan Human Resources Service Industrial Park in China launched a cloud service to help resume work and production during the pandemic. The platform provides HR and accounting services to firms in the IP. Through the online cloud service, the IP provided more than 5,000 jobs in March 2020. The Menai Science Park in Wales, in association with Bangor University, is a local hub for small startup companies and scientific research. It supported small companies to develop innovative products such as a hands-free door handle (using 3D printing) and a snood with a viral-free coating to be used by hospitals and consumers.

A lot of IPs supported the re-adjustment of supply and production chains to quickly meet the pandemic demand by producing disposable medical masks, disinfectant products, or protective gear. Introducing modern industrial systems with new materials, intelligent manufacturing and healthcare as the main leading industry during the pandemic saved many IPs in Northeast Asia and globally.

Digital transformation is one of the main drivers to cushion the impact of the COVID-19 pandemic in IPs. It is also an effective long-term investment for future GVC development. The pandemic accelerates digitalization in IPs and enterprises. Digitalization can support the development of intelligent manufacturing, linking industrial chains of companies within IPs as well as along GVCs. IP operators can utilize the pandemic to support capacity building for tenant companies and set up demonstration projects to guide enterprises. Digitalization can support IPs to become one-stop supply and industrial chain systems reducing costs and using resources more efficiently and environmentally friendly. A strengthened cooperation with the local as well as national technical vocational and academic sector would be necessary to guarantee a well-trained work force for the transformation and future tasks.

3. Roles & Future of Industrial Parks in Northeast Asia to Enhance Value Chain Development

The pandemic crisis is urging most industries to establish new global production networks or updating established networks on safety and risk management as well as resilience. In East Asia, production centers seem to shift from the coastal areas towards Southeast Asia. The movement is not just due to COVID-19, but it has been accelerated by it. Within this trend, the Greater Tumen Region (GTR) in Northeast Asia can be an effective alternative for global production centers since it connects Chinese, Korean, Japanese, Russian, and Mongolian production centers via water, rail- and airways.

Still, the share of trade in intermediate goods between the four Northeast Chinese provinces (Heilongjiang, Jilin, Liaoning, Inner Mongolia) and the other GTI member countries needs to be improved. The Grubel-Lloyd (GL) Index shows intra-industry trade indices in intermediate goods as a proxy of a country's insertion in GVCs. According to the result of the GL index, there is little production linkage between four Northeast Chinese provinces and other GTI member countries. However, the four Northeast Chinese provinces, especially Jilin, could be utilized as a hub of regional value chain development across the GTR. The ongoing digital transformation can support IPs in the GTR to become production centers linked to regional and global value chains.

IP networks in the GTR need to develop stronger cross-border connections by rail-, airways, roads, and marine transportation as well as profound information and communications technology (ICT). Existing transport corridors need to be improved. Hinterland connectivity with eastern Mongolian and Russian provinces needs to be improved to tap into the potential of further production and logistic hubs in Northeast Asia. Transport corridors like Changchun-Manzhouli-Europe or Changchun-Hunchun-Europe of Jilin Province need to be linked economically, environmentally and socially reasonable with other IPs in the GTR. That also means to

improve land-sea transport corridors and link ports around the Bohai Sea, Yellow Sea, East China Sea and Korea East Sea (Japan Sea) to inland production and supply centers. Air-Land freight routes would additionally strengthen IP networks in the GTR to develop cross-border e-commerce and special produce for regional and international markets.

Building up or consolidating industry clusters centered in the GTR, upgrading traditional industries and developing advantageous pillar industries such as non-ferrous metals, textiles and garments, while cultivating and expand emerging industries to enlarge and strengthen areas like electronics processing, health technology, sustainable agri-food production is of the utmost importance. IPs can be one of the production centers for the GTI Member States to make the best possible use of complementarity in the region. In the end, enhancement of the connectivity in production would lead to closer cooperation and this in turn would be a driving force for sustainable growth in Northeast Asia.

Utilizing digital instruments like traceability systems can furthermore impact the quality within supply and industrial chain structures. Studies show, that especially in sequential supply chains where each supplier belongs to a different tier, tracing improves the production process efficiency and product quality. IP operators have to make sure to implement a robust traceability system, encompassing complete and necessary information that is also demanded by law. The system would need to follow internationally recognized certification system and supported by strict testing systems to ensure product sustainability. Additionally, it should be easy to implement across a large supply base to effectively connect respective suppliers in different IPs.

4. Implications and Recommendations for Policymakers

Policies need to emphasize the importance of planning IPs with enterprises working complementary to each other or in related industries to create an efficient and sustainable industrial chain. Administering new laws or regulations on traceability according to international standards would support efficiency and sustainability in not only industrial but also the supply chain upstream and downstream.

IPs, especially inland IPs, without transportation systems, with non-functioning logistic and no supply channels linked to domestic, regional or global markets are just isolated islands contributing little to sustainable economic development. It is highly supportive that policies include special customs supervision areas to improve the flow of supply chain goods and services. The construction and development of IPs should focus around existing special customs supervision areas, if possible, as well as respective transportation channels. Moreover, policies need to contain improved cross-border connectivity regulations. These regulations should aim at the development and upgrading of IPs and mandate that value chains be more conducive for regional development. To strengthen MSMEs in regional and global value chains, national policies as well as bilateral and regional free trade agreements need to emphasize that small local suppliers, producers and distributors are better included. Therefore, trade facilitation measures need to be included by removing trade barriers and ensuring smooth transport and customs procedures.

To maintain a dynamic business environment for entrepreneurship and innovation, policies need to improve the efficiency of public-private dialogue. The exchanges should promote digital transformation, the application of policies and the implementation of digital one-stop services. These one-stop services should also include more effective recruitment channels for enterprises of IPs targeting graduates from universities and technical colleges. In that regard, policies on academic and technical vocational education need to be aligned with future challenges of GVCs.

Given the current situation, policies need to focus more on supporting IPs in terms of their resilience. This is not only important regarding the current pandemic situation, but also with regards to the impacts of climate change. Policy makers need to develop frameworks for a sustainable and green development of industrial chains and GVCs. To do this, policies regarding SEZ development must be included in long-term frameworks like the “Vision 2050” from the Mongolian Government. An urgent issue is to address the access to finance for enterprises in IPs in general and MSMEs in particular. New approaches like support from non-banking financial institutions need to be included in respective policies. Future policies should enforce building-up of more resilience to value chain distortions. In that regard, Russia is going to develop IPs within the framework of special investment contract (SPIC). SPIC is a measure of state support in the form of an agreement between an investor and government authorities represented by the Russian Federation as well as regional authorities of the Russian Federation. The SPIC aims at modernizing industrial production, introducing the best available technologies, and developing certain industrial production which is not yet manufactured in the Russian Federation.

Since 1992, the Chinese Government implements preferential policies for Northeast Revitalization. The Hunchun Border Economic Cooperation Zone, the Sino-Russian Trade Zone, the International Cooperation Demonstration Zone, the Comprehensive Bonded Zone, the Marine Economic Development Demonstration Zone and others in the GTR were developed to promote Northeast Asian economic development, trade and industrial cooperation. Additionally, Hunchun was selected





as a national cross-border e-commerce comprehensive pilot zone, with its supply chain being expanded to five countries in Northeast Asia. Jilin Province introduced new investment policies aligned with relevant national strategies for improved structural transformation and upgrading of industrial chains. Industrial policies thereby include specific sectors with a huge potential for economic and sustainable development in the region, for example automotive, tourism, agricultural and food processing, pharmaceutical and health industry.

To fully reap the benefits of industrial policies from all GTI member countries and further nations in Northeast Asia, deepened communication and cooperation is necessary. Mechanisms such as the GTI and others need to be utilized further for relevant discussions, roundtables and other regional exchange formats.

Imprint

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The views expressed in this policy brief do not necessarily reflect the views and policies of the Greater Tumen Initiative (GTI) or its member countries.

Text compiled based on the inputs during the online GTI Policy Dialogue on Industrial Parks on 23 September 2020

This policy brief was produced with support from:



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