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The "difficulties" and "opportunities" of Chinese-funded overseas industrial parks

Source: China Belt and Road Network
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On July 1, 2020, Thailand-China Rayong Industrial Park celebrated the 15th anniversary of the development and construction of the park.

On the 17th, Thailand's Chia Tai-Guangxi Construction Engineering Industrial Park, which is also located in Thailand's Eastern Economic Corridor (EEC), officially announced that the construction of the park will not slow down during the new crown pneumonia epidemic and is expected to be completed within this year.

The investment in Chinese-funded overseas industrial parks is in the ascendant. These overseas industrial parks invested by Chinese-funded enterprises are officially classified as "overseas economic and trade cooperation zones".

According to the "Assessment Measures for Overseas Economic and Trade Cooperation Zones" (Shanghefa [2015] No. 296) promulgated by the Ministry of Commerce and the Ministry of Finance of China, overseas economic and trade cooperation zones refer to the areas within the territory of the People's Republic of China (excluding Hong Kong, Macau and Taiwan). Region) registration, Chinese-funded holding companies with independent legal person qualifications, through Chinese-funded independent legal person institutions established overseas, invest in industries with complete infrastructure, clear leading industries, sound public service functions, and agglomeration and radiation effects park."

According to statistics from the China Chamber of Commerce for Import and Export of Machinery and Electronic Products, as of November 2019, the cumulative investment in overseas economic and trade cooperation zones included in the statistics of the Ministry of Commerce exceeded US\$41 billion, and nearly 5,400 enterprises entered the zone, paying US\$4.3 billion in taxes and fees to the host country. Create nearly 370,000 jobs.

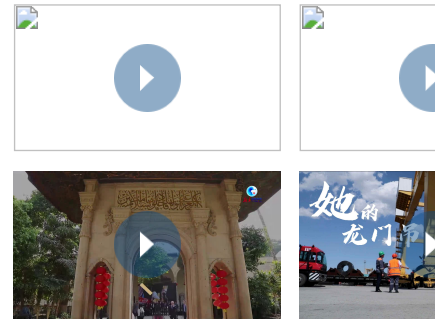
"In recent years, overseas economic and trade cooperation zones have driven Chinese enterprises to 'go global' and achieved good economic benefits, and have become an important starting point and vivid practice of China's 'Belt and Road' construction." The Ministry of Commerce's "China's Foreign Investment Development Report 2019" commented The practical value of the overseas economic and trade cooperation zone is highly appraised.

01 International direct investment model version 3.0

There is a saying that if the mode of setting up sole proprietorship or joint venture factories in the host country commonly used by multinational companies in developed countries in Europe and the United States is FDI version 1.0, Japanese manufacturing companies will lead related parts and components companies to concentrate investment in a certain area of the host country and form a partial industry. The model of chain matching and scale effect is version 2.0, so the model of Chinese-funded enterprises establishing industrial parks

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overseas can be called version 3.0.

Unlike version 1.0 and version 2.0, which mainly serve the production needs of the investment subject itself, the service objects of Chinese-funded overseas industrial parks are not limited to the investors and builders of the parks, and the functions of the parks are not necessarily consistent with the main business of the investors and builders. , so the types of Chinese investors in overseas industrial parks are more diverse.

Taking the 20 overseas economic and trade cooperation zones confirmed and assessed by the Ministry of Commerce and the Ministry of Finance as an example, Chinese investors include the following types:

Manufacturing enterprises, such as Haier Group;

Resource-based enterprises, such as China Nonferrous Mining and AVIC Forestry;

trading company;

Investment institutions, such as Huali Industrial Group and Shanghai Dingxin Investment.

Divided by leading industries, there are six types of Chinese-funded overseas industrial parks:

An agricultural industrial park focusing on the development, processing, purchase, and storage of grains and economic crops, etc.

A light industrial manufacturing park with textiles, machinery, electronics, building materials, etc. as the leading industries

A resource-utilizing park dominated by the development, processing and comprehensive utilization of minerals, forests, oil and gas and other resources

A science and technology research and development park dominated by high-tech and product research and development, design, experimentation and trial production

A commercial logistics park dominated by commodity display, transportation, warehousing, distribution, distribution, etc.

Comprehensive Industrial Park

China's key overseas economic and trade cooperation zones (source: China Chamber of Commerce for Import and Export of Machinery and Electronic Products)

02 The "Chinatown" of Chinese overseas enterprises

When Chinese enterprises, especially manufacturing enterprises, invest overseas, Chinese-owned industrial parks in the host country are often the first choice. Chinese-funded enterprises choose Chinese-funded overseas industrial parks mainly out of three considerations: safety, convenience and economy.

The host country's industrial infrastructure is usually very backward, land property rights are not clear, and electricity, water supply, sewage, roads, public security, etc. are difficult to guarantee. If foreign-funded enterprises want to set up factories and operate locally, they must first solve the infrastructure problem.

For foreign companies that are newcomers, it is bound to invest a lot of time, manpower and capital costs in order to solve these obstacles, such as laying a dedicated high-voltage power line.

As a bridgehead for Chinese investment, the industrial park has completed



infrastructure construction ahead of schedule, legally obtained local land ownership or use rights, and has the water, electricity, transportation and other conditions required for production and operation in the park. Chinese-funded enterprises have settled in the park. The risk of unsuitable infrastructure can be avoided.

The Chinese-funded overseas industrial park also meets the needs of Chinese-funded enterprises overseas to "hold together for warmth". Most of the enterprises settled in Chinese-funded overseas industrial parks are Chinese-funded enterprises.

On the one hand, the clustering of enterprises in the same or related industries in the park may form a micro-industrial chain locally, so as to achieve resource complementarity and scale effect as much as possible.

On the other hand, most parks also provide services such as business investigation, enterprise registration, preferential application, financial accounting, tax declaration, customs declaration procedures, visa recruitment, life support and other services for the settled enterprises, so as to solve the worries of enterprises and expatriate employees as much as possible.

For example, some parks have introduced professional institutions such as accounting firms and law firms, so that enterprises can obtain services nearby. In short, Chinese-funded enterprises settling in overseas industrial parks can save a lot of hidden costs.

In addition to operating costs, tax burden is a more important factor for enterprises to settle in the park. Since the risk of overseas investment and operation is higher than that of domestic investment, Chinese-funded enterprises have higher expectations for the rate of return on overseas investment, and correspondingly speaking, they are more sensitive to tax burdens.

Therefore, tax incentives are the trump card for attracting investment in most Chinese-funded overseas industrial parks. Corporate income tax reductions and exemptions are the most common preferential measures; for processing and export-oriented enterprises, reductions and exemptions of raw material import tariffs, finished product export tariffs, and value-added tax are also very attractive.

China-Egypt TEDA Suez Economic and Trade Cooperation Zone (Source: China Chamber of Commerce for Import and Export of Machinery and Electronic Products)

03 The road to garden building is not smooth

The risks faced by Chinese-funded overseas industrial parks are actually the same as other types of Chinese-funded overseas investment projects. Due to the characteristics of large-scale investment, large area, and long operation cycle of industrial parks, political risks, capital risks, and operational risks are particularly prominent. .

The vast majority of Chinese-funded overseas industrial parks are located in developing countries or even underdeveloped countries. In most of these countries, the political situation is relatively turbulent, the legal system is backward, the administrative efficiency is low, and corruption is common. This investment environment often brings great difficulties and uncertainties to Chinese-funded park investment enterprises in key aspects such as project approval, contract negotiation, land acquisition, development and construction, labor employment, and taxation policies.

Since industrial park investment is usually a major investment project in an

economically backward host country, the local government is often deeply involved. Once the project gets into trouble due to improper behavior or inaction by the host country government, the investor's remedies will be extremely limited, time-consuming and often With little success.

For example, in a Chinese-funded park project in Africa, the local government promised to bear 30% of the park's infrastructure costs, and enterprises in the park could enjoy preferential tax treatment for two years more than those outside the park, but these promises have not been effectively fulfilled.

The construction of overseas industrial parks requires a lot of funds, and financing is the most troublesome problem for Chinese investors. There are three main reasons for financing difficulties:

The host countries of China-funded industrial parks are usually economically backward countries with backward financial infrastructure and scarce financial institutions, especially Chinese-funded financial institutions. The local financial system has not been effectively connected with the international credit and settlement network;

The main asset of the park is land, but due to unfavorable factors such as imperfect property rights protection, political turmoil, and currency depreciation in the host country, it is difficult for park projects to use land to secure financing for themselves;

Due to the low credit rating of the host country and the high operational risk of the project itself, even if there are financial institutions willing to provide cross-border financing, the corresponding terms, conditions and credit enhancement measures may discourage ordinary investors.

At a symposium on private enterprises investing in overseas industrial parks convened by the All-China Federation of Industry and Commerce in December 2018, some private enterprise bosses complained: "In the most difficult and sad moment, we even have to sell domestic assets to support the development of overseas parks."

The single profit model of the park is also one of the reasons for the difficulty in financing.

At present, there are three main profit models for most overseas industrial parks: land transfer, real estate leasing, supporting or value-added services.

The first model generates short-term cash flow, but is subject to the scale of the park's land bank and the legal restrictions of the host country;

The second model can generate long-term cash flow, but it is not conducive to quickly recovering the investment in the park;

The profitability of the third model depends on the level of demand of the enterprises settled in the zone and the service capabilities of the park operator, which requires higher comprehensive capabilities of the park operator.

Property services and investment-related services (such as business registration, labor introduction, application for tax incentives, etc.) are relatively common types of services. A small number of industrial parks are exploring the provision of financial management and RMB settlement services.

Relatively speaking, the "prospering the park through production" model, which is invested and operated by a leading enterprise in the industry, attracts investment around the main business of the investor, and forms an industrial agglomeration centered on the park, has a relatively good profitability.

Joint ventures with local enterprises with certain resources and strength are also a common path for Chinese investors to solve financing problems and avoid investment risks. From the perspective of operation, local joint venture partners can also play a positive role in attracting investment in the park, and the rate of enterprise occupancy in the joint venture park seems to be higher.

Cambodia Sihanoukville Special Economic Zone (Source: China Chamber of Commerce for Import and Export of Machinery and Electronic Products)

04 Still riding the wind and waves

In recent years, the state's emphasis on and support for overseas industrial parks has continued unabated.

The Ministry of Commerce and the Ministry of Finance promulgated the "Administrative Measures for Confirmation and Annual Assessment of Overseas Economic and Trade Cooperation Zones" (Shanghefa [2013] No. 210) in 2013, and revised the measures in 2015 to form the "Overseas Economic Cooperation Zone" Assessment Measures for Trade Cooperation Zones (Shang He Fa [2015] No. 296).

According to the assessment method, overseas economic and trade cooperation zones that pass the assessment can apply for special funding from the central government. According to the official website of the Ministry of Commerce, a total of 20 overseas economic and trade cooperation zones have passed the assessment so far.

List of overseas economic and trade cooperation zones that have passed the confirmation assessment. (Source: "Going Global" public service platform)

According to the Ministry of Commerce and China Development Bank's "Notice on Supporting the Construction and Development of Overseas Economic and Trade Cooperation Zones" (Shang He Han [2013] No. 1016), in addition to relying on domestic shareholders' credit to provide loans, China Development Bank will also actively explore Relying on the credit of overseas financial institutions, the pledge of the project itself and other assets, the pledge of land transfer accounts receivable, etc., to provide financing support for the enterprises implementing the cooperation zone, and through cooperation with powerful financial institutions in the host country, through on-lending, syndicated loans, etc. Ways to provide financing services for enterprises entering the park.

On April 25, 2019, at the second "Belt and Road" International Cooperation Summit Forum for Overseas Economic and Trade Cooperation Forum, Vice Minister of Commerce Qian Keming introduced that a number of economic and trade cooperation zones will be built and upgraded in Africa, and plans should be made Guide and steadily promote the construction of regional cooperation zones in Southeast Asia, South Asia, the Middle East, Eastern Europe and Latin America.

The "Guiding Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the High-quality Development of Trade" issued in November 2019 proposed: "Deepen international production capacity and equipment manufacturing cooperation, and cultivate a number of overseas economic and trade cooperation zones with clear industrial positioning and promising development prospects."

Overseas economic and trade cooperation zones also appear more and more frequently in diplomatic statements between China and other countries.

For example, the "Joint Statement between the People's Republic of China and the People's Republic of Bangladesh" published in July 2019 mentioned: "Both

sides appreciate the construction progress of the China Economic and Industrial Park in Chittagong and encourage Chinese enterprises to invest in the Bangladesh Economic Park."

The "Joint Press Statement of the Governments of the People's Republic of China and the Kingdom of Thailand" published in November 2019 stated: "The two sides agreed to promote the in-depth integration of industrial planning policies and continue to expand production capacity cooperation relying on cooperation platforms such as the China-Thailand Rayong Industrial Park."

Encouraged by the performance of the joint venture park in Thailand, a Chinese-funded company began investing in a new industrial park in Mexico in 2017 to replicate Thailand's experience. After four years in a Chinese-funded industrial park in Africa, a footwear company in Guangdong decided to invest US\$1 billion to build its own African industrial park, and plans to attract investment by 2020. At the end of April 2020, the second phase of a Sino-Indonesian joint venture steel industrial park located in Sulawesi, Indonesia was officially put into operation.

With the continuous and in-depth advancement of China's "One Belt, One Road" construction, Chinese-funded overseas industrial parks will continue to ride the wind and waves, and carry more and more Chinese-funded enterprises' overseas ambitions.

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