GTI Greater Tumen Initiative

Policy Brief 1

Special Economic Zones in the Greater Tumen region: how to tap their full potential

Content

1. Regional cooperation: opportunities for sustainable economic growth in North-East Asia

North-East Asia offers great potential for economic development and value-adding transnational cooperation. Important initial steps towards sub-regional economic cooperation have already been taken, and countries within the region have strong trade ties. Since 2017, People's Republic of China has been the Russian Federation's second largest trading partner after the European Union and Mongolia's and the Republic of Korea's largest trading partner.

However, the region's potential has not yet been fully exploited because cooperation on industrial planning and infrastructure is still lagging. Further innovation, reforms and adaptation of political and economic strategies and practices are needed, and these can be enhanced through regional policy coordination. The establishment of Special Economic Zones (SEZs), including industrial parks (IPs), has been demonstrated to have a particular positive connection with economic development and the ability of regions to attract foreign direct investment (FDI). North-East Asian countries offer the advantages of high economic complementarity, relationships of trust underpinning economic cooperation, and experience in industrial clustering in the form of a variety of IPs. Now, further optimisation is needed so that trade can be reinvigorated, investments stimulated and business connections enhanced.

The Greater Tumen Initiative (GTI), in which China, Mongolia, Russia and South Korea already successfully work together, can serve as a platform for concerted action to help achieve this goal. With new technologies gaining traction and connectivity developing quickly along the global value chain, now is the time to take advantage of the opportunities that industrial clustering and regional cooperation have to offer.

2. Key findings from the data

The main finding to emerge is that the GTI member countries find it difficult to align their interests, their political strategies concerning IPs, and coordination between governments and local stakeholders. There is, however, consensus that IPs should be sustainable, environmentally friendly and innovative. Inadequate investment, management techniques and infrastructure are seen as a widespread and persistent problem for IPs. However, it has become clear that the region has examples of best practice to offer.

IPs specialising in IT industries and next-generation technology include the South Korean Seoul Digital Industrial Complex and the Daegu National Industrial Complex. The Novosibirsk region Industrial and Logistics Park, one of the largest IPs in Russia, was identified as a beacon in the logistics and manufacturing sector. Although still in the construction phase, the Mongolian IP in Emeelt serves as an example for an eco-friendly light industry IP focusing on leather, wool and cashmere, which has implemented a detailed environmental impact study. The following points present the key findings of the policy dialogue, the survey and expert inputs:

1. *IPs are in different stages of implementation and functionality.*
2. *GTI member economies are complementary, but there is a need for policy coordination.*
3. *IPs face similar implementation and operational policy issues in each country.*

Info About this policy brief

This policy brief addresses the issue of unlocking economic development potential through optimising SEZs/IPs and cross-border economic cooperation (CBEC) between GTI member countries. It is the direct outcome of a policy dialogue convened by the GTI Secretariat on 5 September 2018 during which regional stakeholders shared their experiences, reflected on difficulties and put forward their ideas for ways of creating IPs in the Greater Tumen region. The policy dialogue was accompanied by a survey of practitioners and experts from the region, including government officials, academics and representatives of the private sector. This policy brief summarises and analyses the data gathered to provide a concise and informative basis for the future planning and implementation of growth-generating and sustainable cooperation in the Greater Tumen region.

4. *Dissemination of best practice and lessons learned in the region help to avoid problems already encountered elsewhere.*
5. *IPs support economic development if certain key issues receive attention.*
6. *IPs provide opportunities to meet the Sustainable Development Goals (SDGs) set out under the United Nations' Agenda 2030.*
7. *Investment and policy support are crucial factors in successful IPs.*
8. *IPs should be environmentally friendly, energy efficient and sustainable.*

3. Why are SEZs and CBEC important for North-East Asia?

3.1 Current level of SEZ/CBEC implementation

The GTI member countries are connected by a long history of trade. SEZs are one aspect of efforts to promote trade and develop the economies in the region. SEZs take various forms and, depending on the level of domestic development within a country, are implemented and operated differently.

The **Republic of Korea** started to develop IPs in the 1960s, focusing on export-oriented light industry that laid the foundation for South Korea's overall industrial development. In the 1970s, heavy industry and large IPs were established and still exist today (e.g. the Masan Export Processing Zone and the Iksan Export Processing Zone). Because the country's regions developed unevenly, the next decade saw the promotion of small IPs throughout the country, with a special focus on agriculture. Since the 1990s, IPs have moved

Figure 1: *Locations of IPs and SEZ in the Greater Tumen Region*

towards high-tech, knowledge-based and IT industries. The government promoted specialist IPs (e.g. telecommunications IPs), the revitalisation of innovative industrial clusters, and the development of eco-IPs. Today, the nearly 2,000 South Korean IPs drive growth in the country's economy. In the manufacturing sector, they account for almost 70% of production, 78.5% of exports and approximately 50% of employment (2016 figures).

In **China**, SEZs have been used since the end of the 1970s to channel information, know-how and the inflow of investment as well as to test policies before rolling them out across the wider economy. IPs, established in China in 1984, initially struggled with lower levels of investment. They eventually took off in the 1990s after new laws and regulations helped to improve and optimise their management systems and industrial structure. After China's accession to the World Trade Organization in 2001, IPs were standardised and encouraged to cooperate and innovate. Today, the Chinese government emphasises the environmental sustainability and social compatibility of IPs with a view to harmonising them with their environment while remaining competitive and innovative. In summary, Chinese and South Korean IPs are quite comparable with regard to their level of implementation and operation and are able to serve as blueprints for IPs in the planning or construction phase to avoid problems already encountered elsewhere.

Russia is a relative latecomer to the establishment and operation of IPs. Russian IPs were first set up in 2006 without any specific legal basis as state- or privately-owned projects. In 2010, IPs were legally defined as 'manufacturing parks' - real estate units of at least 10 hectares that are managed by a single company and provide appropriate infrastructure.

The Association of Industrial Parks (AIPs), also established in 2010, functions as an intermediary between the state and the businesses affiliated with the IPs and provides consultative, organisational, and information services to the IPs. It was thanks to an AIPs initiative that a competitive federal funding scheme for IPs was introduced. Between 2013 and 2015, incentives for investors were adopted, subsidies for the special industries within IPs were outlined, and certain privileges for special regions were implemented (e.g. tax reductions). From 2015 onwards, the number of Russian IPs in operation increased steadily, while the numbers of IPs in both the planning and the construction phase also rose. However, the running of successful IPs faces difficulties, such as a lack of financial support, incomplete infrastructure, a business culture that

Info About Greater Tumen Initiative

Name: Greater Tumen Initiative

Established: 1995

Vision: to build a great partnership for common prosperity between neighbours. We are committed to strengthening cooperation under the GTI framework to increase mutual benefit, accelerate economic growth and promote sustainable development in Northeast Asia and in particular the Greater Tumen Region.

Member countries: Russian Federation, People's Republic of China, Republic of Korea, Mongolia

Priority sectors: transport, tourism, trade and investment, energy, environment, and agriculture

avoids competition, a gap between federal policy and regional implementation, and a legal framework that lags behind actual business practice.

In **Mongolia**, after an initial phase from 2003, the first legal framework for IPs was established in 2009 with the Law on Legal Status of Industrial and Technology Parks. Subsequently, the Mongolian Government passed a range of legislation to strategically plan and implement IPs, clarify the jurisdiction, funding and characteristics of IPs, and govern their establishment and operational standards.

In 2015, three stages for the implementation of IPs were laid down, covering the period to 2025. Currently, the second stage (2017-2020) is under way which includes the construction of IPs as well as the relevant infrastructure. In the third stage (2020-2025), IPs are scheduled to become fully operational. The Millennium Development Goals-based Comprehensive National Development Policy of Mongolia refers to the establishment of 13 IPs plus two eco-IPs. However, it should be borne in mind that the construction of IPs and the shift from light, heavy or agricultural industries to knowledge-based industries and ecologically sustainable parks is taking place over

Table 1: *Different types of IPs and SEZ in Greater Tumen Region*

Zone Type	Examples in GTR	Characteristics
Industrial Park	Dornod Industrial and Technology Park, Mongolia Selenge Industrial and Technology Park, Mongolia Undurkhaan Industrial and Technology Park, Mongolia Nadezhdinsky, Russia Ulsan Petrochemical Industrial Park, Republic of Korea Meihekou Development Zone, PR China	Offer facilities or services configured to the needs of specific industries such as food, light production, and heavy industry.
Logistic Park	Port of Busan, Republic of Korea Port of Pohang, Republic of Korea Jilin Tonghua International Inland Port Zone, PR China Northeast Asia International Logistics Park (Changchun New District), PR China	Offer logistical services, especially in hinterland areas.
Economic Free Zone	Busan Zhenhai Economic Free Zone, Republic of Korea Altanbulag Free Trade Zone, Mongolia	Established to build up high-tech industrial basis and enhance business environment of foreign-invested companies.
Border Economic Zone	Hunchun Border Economic Cooperation Zone, PR China	Set up to exploit comparative advantages of border areas due to factor endowment, and proximity to foreign markets.
Cross Border Economic Zone	Dongning-Poltavka, PR China-Russia Suifenhe-Grodekovo, PR China-Russia Manzhouli-Zabaikalsk, PR China-Russia Heihe-Blagoveshchensk, PR China-Russia	Spread over geographical proximate areas in border regions covering two or more countries. They are established by integrating BEZs on both sides of the border.
Comprehensive Bonded Zone	Changchun Xinglong Comprehensive Bonded Zone, PR China Yingkou Comprehensive Bonded Zone, PR China Suifenhe Comprehensive Bonded Zone, PR China	Established in inland areas as special customs supervision area with a combined function of bonded zones, export processing zones, and logistics port.

a much shorter time-span than in China or South Korea. This rapid development is creating deficiencies in basic structures, including the legal frameworks, infrastructure, and investment. As a result, implementation of IPs in Mongolia is not as smooth and progressive as desired.

Cross-Border Economic Cooperation Zones exist in several places along the borders of the GTI member countries (see figure one). The Free Trade Zones (FTZs) of Altanbulag in Northern Mongolia and Zamiin-Uud/Erenhot in Southern Mongolia lie within the Russia-Mongolia-China economic corridor and are connected by railway via Ulaanbaatar and the Sainshand Industrial Complex. The third Mongolian FTZ, in Tsagaanuur in North-Western Mongolia, connects with Russia and China via a direct overland route. On the Sino-Russian border, the cities of Manzhouli-Zabaikalsk, Heihe-Blagoveshchensk, Suifenhe-Grodekovo and Dongning-Poltavka are border economic zones that focus on diverse industries, including logistics, manufacturing, and processing. Although South Korea has no land border with any of the other GTI countries, its port cities of Busan, Sokcho, Ulsan and Pohang are well connected by transportation and shipping routes and are important container handling ports for the region.

3.2 Benefits of SEZs and CBEC in North-East Asia

SEZs and CBEC can have definite benefits for the development of the local economy. In general, the creation of SEZs enhances job opportunities, invigorates economic demand and improves economic and technological cooperation. By providing duty-free access to raw materials which are then processed and ex-

Table 2: *Relevant ministries and agencies concerned with IPs*

GTI member country	Ministry/ agency	Website
People's Republic of China	Ministry of Industry and Information Technology	http://www.miit.gov.cn/newweb/
Republic of Korea	Ministry of Trade, Industry and Energy	http://www.motie.go.kr
	Ministry of Economy and Finance	http://english.moef.go.kr
	Korea Industrial Complex Corporation	http://www.kicox.or.kr
Mongolia	Ministry of Food, Agriculture, Light Industry	http://zasag.mn/en/m/mia
	Ministry of Mining and Heavy Industry	http://www.mmhi.gov.mn
	Ministry of Finance	https://mof.gov.mn
	National Development Agency	https://nda.gov.mn
Russian Federation	Ministry of Economic Development	http://economy.gov.ru/home
	Ministry of Industry and Trade	http://government.ru/en/department/54

ported by companies in SEZs (i.e. EPZs), they create financial flows, such as wages, tariffs, taxes and profits, and attract FDI. This money subsequently flows into the domestic economy provided SEZs are well connected and embedded in the local environment. Moreover, the settlement of foreign companies in SEZs can serve as a link to global value chains and offers know-how in the areas of technology, skills, international best practice, capital and markets. Clustering and the specialisation created within clusters also attract skilled labour and drives down costs thanks to the joint use of infrastructure, communication and utilities. Special attention should be paid to the self-reinforcing character of SEZs regarding investments. After initial investments are made and a critical mass of activity in the SEZs is achieved, more companies (domestic and foreign) are attracted in to the SEZ, which results in further specialisation as well as greater investment inflows.

In the Greater Tumen region, the markets of the GTI countries have complementary strengths. Mongolia and China's North-Eastern provinces have natural resources, such as wood and coal. In the Eastern parts of Russia, there is petroleum, gas, metals, fish, and water, while South Korea has technologies and capital to offer and needs natural resources. These comparative advantages, along with the countries' spatial proximity, make economic cooperation across borders practicable, as the pooling of resources offers economies of scale. Furthermore, IPs and cross-border trade via CBEC enhances the development of rural areas through job creation, while foreign and domestic investment benefit certain industries, such as manufacturing.

Finally, there are opportunities to contribute towards achieving the United Nation's Sustainable Development Goals (SDGs). The transformation of outdated IPs into eco-parks with use of clean energy and innovative technologies and the enhancement of infrastructure would address three SDGs: SDG 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation), SDG 11 (Makes cities and human settlements inclusive, safe, resilient and sustainable), and SDG 12 (Ensure sustainable consumption and production patterns).

4. Conclusion: what have we learned?

The GTI member states have a range of strategic reasons for setting up IPs. In Russia, they serve as a tool to spur long-term socio-economic development. In Mongolia, IPs were seen as an opportunity to develop the Mongolian export sector and high-tech manufacturing and services. For China and South Korea, the objectives were job creation, strategic innovation, decentralisation, interlinking of specialised industries, promotion of efficiency through clustering, and attracting FDI. Some reasons were very pragmatic, such as establishing IPs to make use of derelict industrial sites. These strategic differences represent both a benefit to and a challenge for cooperation. They underline the complementarity of the economies on the basis of their different economic development levels and production. This means that best practice and experience are available within the region. However, the strategic differences also hinder policy alignment and, as a result, the efficient exchange of products and services.

Specific problems in implementing and operating IPs in the region as outlined by the policy dialogue participants and the survey are summarised below.

In summary, clear national policies and effective regional policy coordination are crucial for the success of IPs and of CBEC. Exchange between the GTI member countries at central level, between government and the local authorities, and between local stakeholders across borders is therefore important to overcoming existing challenges. Moreover, the implementation and successful operation of IPs also depends on the political will and coordination between the government agencies involved. This includes access to finance and labour but also the existence of a clear legal framework and incentives for businesses (e.g. tax benefits and a simplified customs procedure). Flexible but strategic policies, and clear information channels are necessary so that involved actors have orientation, the environment, and the ability to act. To achieve regional economic cooperation, it is imperative to find a way of aligning the national interests and policy priorities of the GTI member countries. Finally, infrastructure and transport corridors are essential for the success of IPs and CBEC and need further expansion and assimilation. However, this will have a positive effect on business operationalisation only where IPs are included in planning transport networks.

5. Implications and recommendations for policymakers

Industrial clustering is a way of generating economic growth. In terms of their policies and actions, it is clear that China, Mongolia, Russia and South Korea have recognised the opportunity to tap into this potential. However, the problems identified by the stakeholders in the region indicate that this potential is not yet being fully exploited. There are failed projects but also best practice examples to learn from. It is now important to sustain momentum and continue the path on which North-East Asia has already embarked. Strategies must be adopted so that resources are not wasted and benefits squandered.

Continuing use of the GTI as a platform for exchange between central and local level and between the public and the private sector offers the opportunity to make use of existing cross-border communication channels and networks of relevant actors. The following specific steps can be taken to exploit the full economic potential of the Greater Tumen region:

Specific policy recommendations

- *Involve local authorities in the policy-making process regarding the establishment and development of IPs to benefit from their expertise.*
- *Before planning an IP, improve the assessment of local economic conditions (regional value chains, logistical chains, transport corridors) by conducting thorough feasibility studies to meet market needs and avoid ineffective investment. To this end, utilise regional expertise from neighbouring regions to create synergies.*
- *In the implementation phase, establish an appropriate management structure within IPs and a strong monitoring and control system to ensure future planning certainty and stable operation of businesses.*

Info Main obstacles to implement IPs

1. ***Policy support from central governments regarding the operation of IPs remains inadequate. Policies need to be more clearly defined and better targeted at specific problems (e.g. attraction of foreign investment and skilled labour, cost reduction) and should reflect actual business needs.***
2. ***IPs often face delays in their operationalisation because of inefficiency resulting from an unsuitable legal framework. In some countries, the jurisdiction over IPs changes very often, meaning that IP operators and companies have to deal with constantly changing government agencies. IP operators also face significant red tape and lack of information from the authorities. This leads to a difficult business environment, which hinders the establishment and operation of businesses in IPs.***
3. ***The lack of information also applies at regional level. There is no central database with information on IPs in the region, which hampers interested companies wishing to make sound decisions on investments and business development in other GTI member countries.***
4. ***Coordination between local and regional authorities is poor because local stakeholders have competing interests and goals, leading to a lack of policy alignment, ineffective planning and absence of joint projects. The monitoring and management of IPs also suffers from a lack of coordination.***
5. ***The lack of effective planning results in a density of IPs of the same or very similar type and operation in some areas, while in other regions, IPs are too general and not specialised but 'all-inclusive'. This leads to loss of locational advantage. Furthermore, inadequate planning means poor infrastructure and access to transportation, which diminishes the attractiveness of IPs for businesses and investors.***
6. ***Old or non-environmentally friendly IPs need to be updated. They pose a risk of negative impact on nature, animals and the local population. The environmental damage done by IPs also fuels their image as polluters in the local community, hindering their development as well as the development of the region.***
7. ***The volatile geopolitical situation on the Korean Peninsula impacts on the implementation of IPs because of the problem of finding suitable and efficient locations to set them up.***

- *Establish key performance indicators (KPIs) as a basis for funding decisions. IPs should be ranked according to their conditions, potential, and feasibility to serve as a benchmark for investments. The final aim of funding strategies should be self-sufficient IPs once they have reached a benchmark of revenue generation.*

- *Create a multilingual repository of current national policies and specialised dialogue to enhance access to information as the first step to further policy coordination.*

- *To attract and retain investors and businesses, provide sustainable benefits/advantages for enterprises within IPs (tax benefits, favourable trade regulations) and establish customs zones where feasible. Improve infrastructure (electricity, water supply, wastewater system, internet) as well as access to transport routes (railway, road, aviation, ports), to enhance the attractiveness of IPs to foreign investors.*

- *To ensure sufficient supply of workers, establish IPs close to residential areas, provide a non-exclusive environment for different cultures, and ensure the harmonious integration of IPs in the local environment and community. This can be done by remodelling outdated and energy inefficient industrial complexes into eco-IPs. These measures encourage movement to IP locations, which can alleviate urban problems created by population concentration in major cities.*

In terms of the overall evaluation of current trends in the Greater Tumen region and the potential for development, better coordination of policies and alignment of interests between the GTI member countries as well as local authorities has the ability to solve many of the problems identified. Intensifying regional integration through joint projects represents a possible solution. A cross-border multinational and high-quality IP as a joint investment project between GTI member countries could serve as a testing ground for policy coordination on national economic development and trade strategies. Furthermore, a joint funding mechanism could be established, such as a GTI investment fund for joint projects or projects that serve the integration of the region. High standards for the planning, implementation, and operation of those project would serve as criteria for the allocation of financial resources. However, a joint fund could spur competitive behaviour between the IPs and might impede knowledge exchange due to competition.

To counter this, a regional information exchange platform would facilitate cooperation between IPs in GTI member countries. Therefore, existing structures such as the GTI Trade Facilitation Committee can be involved, fostering dialogue and cooperation, trade and investment across the region. By embarking on strategic adaptation and procedural optimisation, the GTI member countries will pave the way for the next steps towards achieving a sustainable life and prospects for their people.

Imprint

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