

# A proactive and steady approach for the building of the China-Belarus Industrial Park

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# Executive summary

China and Belarus are committed to building the China-Belarus Industrial Park into an international city that is eco-friendly, liveable, industrial, dynamic and innovative as well as a signature project on the Silk Road Economic Belt. In the past three years, the park has been moving faster with its construction, thanks to the personal support of Chinese and Belarusian leaders. However, the park still faces a myriad of challenges: the two countries do not have much experience in practising new development concepts; the industrial basis in Belarus remains weak; the park is highly dependent on Chinese financial institutions; the domestic market in Belarus is small; expansion into neighbouring

markets faces constraints; and product and service standards in the two countries are inconsistent. We recommend that the two countries actively exchange views on development and reform, build market institutions and promote industrial transformation of the park, put in place a responsibility-sharing mechanism and properly handle political and economic relations with regional powers, and promote comprehensive harmonisation of standards of the two countries and establish joint-venture intermediary service providers.

**Key words:** Belt and Road Initiative, Belarus, China-Belarus Industrial Park

The China-Belarus Great Stone Industrial Park (hereinafter referred to as the “China-Belarus Industrial Park”, the “industrial park” or “the park”), located in the suburban area of the Belarus capital Minsk, is the largest economic and technical cooperation project between the two countries. In March 2010, Belarus proposed to establish such a park and, in September 2011, the two governments signed a formal agreement. During his visit to the park in May 2015, President Xi Jinping stressed that the park should be built into “a pearl on the Silk Road Economic Belt and a model in China-Belarus mutually beneficial cooperation.”

China and Belarus are committed to building the China-Belarus Industrial Park into a “five-in-one” international new city that is eco-friendly, liveable, industrial, dynamic and innovative as well as a signature project on the Silk Road Economic Belt. With these goals in mind, the “International Development Cooperation” research team of the China Centre for International Knowledge on Development (CKID) recently made an initial assessment on the construction progress of the park and its prospects. During our visit to Belarus in September 2017, we interviewed the Belarus Presidential administration, the park administration, the Industrial Park Development Company, four Chinese resident companies in the park and major think-tanks in Belarus. Afterwards, we held discussions in China with government departments such as the Ministry of Industry and Information Technology, Ministry of Commerce (MOFCOM), State-owned Assets Supervision and Administration Commission (SASAC), Chinese companies such as Sinomach Group, China Merchants Group, the Suzhou Industrial Park, as well as the Chinese Academy of Social Sciences and Beijing Normal University. In March 2018, we collaborated with the European Bank for Reconstruction and Development (EBRD) in holding a seminar “Investing in Belarus—An Emerging Economy on the Silk Road”. Government officials and academics from China and Belarus were invited to discuss the China-Belarus Industrial Park as well as our initial research outcomes. Our main findings and recommendations are as follows:

## **I. A host of measures have been taken at different levels in an interactive way to make the park eco-friendly, liveable, industrial, dynamic and innovative.**

With planned coverage of 112.5 km<sup>2</sup>, the China-Belarus Industrial Park is expected to conclude its construction in 25 years via two stages. Since the first stage was started in March 2015, supporting infrastructure in the 3.5 km<sup>2</sup> start-up area has been built. With the industrial park, Belarus aims to develop its economy, upgrade its industry and diversify its trade. According to the plan, the park will become a “five-in-one” international new city that is eco-friendly, liveable, industrial, dynamic and innovative. It will attract more than 200 high-tech businesses and become a new international airport city with a more-than 120,000 working population and 200,000 residents. China and Belarus have taken a host of measures to ensure the park is aligned with its stated goals from the beginning.

### **1. The government of Belarus has issued three decrees to provide a special legal regime and favourable policy to the Industrial Park.**

The government of Belarus has issued three presidential decrees to improve administrative institutions, strengthen favourable policies and simplify administrative procedures in the park. The President of Belarus directly appointed the head of the park administration and put the latter directly under the Council of Ministers to increase its coordinating authority and administrative efficiency. Businesses in the park enjoy generous tax breaks—they are exempted from corporate income tax for 10 years from the year they make profits, and have their corporate income tax halved after the end of this exemption until 2062, and are exempted from land and property taxes. The government of Belarus has built a one-stop administrative service system and instructed that all approval procedures be completed within the park. It also provides a whole range of services including investment negotiations, company registration, project entry, transfer of land use right, construction approval, joint acceptance check, export and import approval, and approval of favourable policies.

**2. The park has formulated strict regulations on eco-environmental protection and implemented a well-conceived master plan to build an eco-friendly and liveable new city.**

First, the park has formulated and enforced regulations protecting the environment and greenery in the park, and infrastructure construction and construction by residents must meet the green standards in the master plan. Second, the park has retained existing resident settlements and an ecological protection zone and brought its green coverage rate to 50 per cent. Third, the park has invited an environment management and audit scheme firm to conduct assessment and certification so that it has met the unified European environment standards and gone through the European Union Eco-Management and Audit Scheme (EMAS). Fourth, the industrial park has formulated a well-conceived master plan with such functional areas as a residential neighbourhood, business district, areas for science, technology, culture and education, and a green park, providing a comfortable living environment for 200,000 people in the future.

**3. The park has attracted business through multiple channels, made headway in going international and demonstrated its vigour and vitality.**

Committed to making the park an international platform, China and Belarus are working hard to attract international businesses other than from China. The Industrial Park Development Company has held marketing events in Germany, Italy and Russia, and received visits by Swiss, Japanese, Canadian and American companies. By August 2018, 36 businesses had entered the park with total contractual investment value of more than US\$ 1 billion. In addition to Chinese and Belarusian companies, six companies from five countries have become residents in the park. At the same time, Duisburger Hafen of Germany has a 0.67 per cent stake in the development company from the Belarusian shareholder. The industrial park has made important steps in going international, laying a foundation for its multi-party cooperation in the future.

**4. Committed to introducing high-tech industry, the Industrial Park aims to push for innovation and leapfrog development in Belarus.**

President Lukashenko has stated that Belarus regards the park as a high-tech park. It should attract high and new technology and innovative businesses, so as to help Belarus transform and upgrade its industrial structure and realise leapfrog development. At present, businesses in the park cover machine manufacturing, electronics and telecommunications, fine chemical engineering, bio-technology, new materials, comprehensive logistics, pharmaceutical, e-commerce, big data storage and processing, social and cultural events, research and development and testing etc. The 36 businesses that have signed investment agreements are basically aligned with the industries outlined in the master plan. At the same time, the park has launched a tech-incubating centre and an industrial investment fund to encourage innovation.

## **II. The two sides have risen to challenges and taken concrete actions to make the park a model on the Silk Road Economic Belt.**

Belarus is one of the most important partners China has in Eurasia. It is the first European country to recognise China's full market economy status and to support the Belt and Road Initiative (BRI). In building the Industrial Park, the two countries aim to conduct mutually beneficial cooperation for common development, follow the Silk Road spirit, and build a community of shared interest and a community of shared future.

### **1. A high-level coordination mechanism has been established to discuss major issues such as planning, policy and legislation for the park.**

In 2012, China and Belarus established the Intergovernmental Coordination Council as the highest authority for the Industrial Park to make decisions on its direction and strategic issues. In 2014, MOFCOM, SASAC and the Belarusian Ministry of Economy established a working group for the Industrial Park to coordinate and resolve such issues as financing, market access, operation and administration, and business attraction. By November 2017, the working group had held 10 meetings. China was also involved in drafting the master plan as well as presidential decrees on the Industrial Park.

### **2. The two sides jointly build the park by joining hands in setting up the Industrial Park Development Company and attracting businesses and investment.**

The Industrial Park Development Company, in which the Chinese side holds a 68 per cent stake and the Belarusian side almost 32 per cent, is responsible for planning, land development and operation, business attraction and property management. The park administration which is composed of departments from the central government and Minsk *oblast* takes care of policy formulation, administrative approval, land collection and business attraction. The Park administration and the Development Company work together in providing administrative, approval and consulting services to residents in the park. While working together in building infrastructure, China and Belarus have held seminars, business matching, workshops, advertisements, news reports and other publicity and marketing events to attract business.

### **3. Local human and material resources have been fully leveraged in economic development to share the benefits of the park.**

In its construction process, the park has delivered a boost to local employment and economic growth by project sub-contracting, local procurement and local hiring. The Development Company attaches great importance to hiring local people. As a result, 85 per cent of the staff at working level and 50 per cent of the staff at the middle level are locals. Chinese companies in the park, such as China Merchants Group and Zoomlion, have pledged to promote localised management by hiring more local staff. By the end of 2016, the Industrial Park had provided more than 5,000 jobs to local communities.

### **III. The China-Belarus Industrial Park faces multiple challenges in the future.**

- 1. The park faces a series of challenges in building a “five-in-one” new international city—experience deficit, weak industrial basis, homogenous structure of human resources, and a difference in the Chinese and Belarusian economic systems.**

**First, the vision for a “five-in-one” international new city is aligned with China’s new development concepts, but both sides lack practical experience.**

A “five-in-one” international new city that is eco-friendly, liveable, industrial, dynamic and innovative is far different from economic and technical development zones, industrial parks or high-tech parks of which China has rich building experience. Such an international new city calls for a high-tech industrial cluster to promote economic development as well as ecological and social endeavours to build a sustainable, modern and international new city. This vision is similar to that of the Xiong’an New Area in China. Both China and Belarus have little experience in this and are still exploring.

**Second, with a weak industrial basis and the homogenous structure of human resources, Belarus can hardly support multi-industrial and leapfrog development in the park.**

Belarus has retained most of its industrial processing capacity left over from the former Soviet Union era and maintained its leading position internationally in machine manufacturing, electronics, optics and laser technology. It has high-quality college programmes in mathematics and engineering and a pool of talent in these fields. However, except for machine manufacturing, electronics and telecommunications, the other priority industries in the park suffer from a weak basis and a homogenous structure of human resources.

China has followed a gradual approach in industrial upgrading and therefore does not have experience of all-round and leapfrog development. For example, the Suzhou Industrial Park, a benchmark for the China-Belarus Industrial Park, upgraded its industries and product technologies during its course of development.

**Third, China and Belarus have quite different economic institutions, and the park faces a number of barriers in promoting the role of the market.**

Belarus is committed to building “a socially-oriented market economy”, but its economy is still centrally planned and the state sector is still dominant. State-owned enterprises (SOEs) follow state plans in their production and operation. SOE executives, held accountable by the government, have little incentives to innovate. Belarus is very cautious about privatisation as it usually will not put more than 25 per cent of stakes of an enterprise up for sale. Foreign businesses find it hard to have controlling stakes and, even if they have, the Belarusian side retains the veto power. The general public, satisfied with the relatively equitable and slow way of life in a centrally planned economy, could be reluctant to see too much change.

Even the intelligentsia have some concerns over the economic policy of the park. Alexandr Chubrik, Director of the Research Center of the Institute for Privatization and Management in Belarus argues that excessive favourable policies might lead to such consequences as unfair regional competition and a widening income gap. He expressed concerns that the absence of a positive spillover effect would make it difficult for the park to contribute to the whole Belarusian economy. Alexander Uspenskiy, Director at Republican Center for Technology Transfer believes that the park is producing and exporting with imported technology rather than procuring and utilising Belarusian technologies, which would create lower added-value.

2. **In building a signature project on the Silk Road Economic Belt, the park relies heavily on Chinese financial institutions, faces restraint in expanding potential markets, and needs to address inconsistency in Chinese and Belarusian standards.**

**First, the park platform and the industrial development fund are heavily dependent on the Chinese side, making it hard to forge a community of shared responsibilities in the near future.**

Construction in the park takes a long time and needs large investment, which calls for long-term and sustainable financial resources. The high- and new-tech industry also needs huge investment. Infrastructure construction, if fully completed in the park, needs US\$ 5 billion to US\$ 6 billion. The government of Belarus is candid about its financial restraint and said it could only shoulder 3.8 per cent of investment on infrastructure. The financial industry in Belarus is still under-developed. It is difficult to apply for loans; even if one succeeds, the interest rate could be as high as 30 to 40 per cent in the Belarusian rouble. The terms of loans would be even more stringent for foreign companies and small and medium-sized enterprises.

To this end, China has established an all-round financial support system including grants, concessional loans, commercial loans and investment funds, including a nearly US\$ 600 million industrial development fund, to support infrastructure construction and residents in the park. While this financial support has broken the financial bottleneck of the park at the beginning of its development, it also made the park heavily reliant on China in financing and investment.

**Second, the Belarus market is small and it is difficult for the park to expand into its neighbouring markets.**

Belarus's domestic market is small, with a total population of less than 10 million. In 2016, fixed-assets investment in Belarus reached US\$ 9.13 billion, total retails hit US\$ 18.28 billion, and GDP per capita averaged US\$ 4,989. There are a number of restraints if Belarus wants to leverage its neighbouring markets. Negotiations on the Eurasian Economic Union (EAEU) are still under way and it's difficult to realise free flow of goods and services within the Union in the near future. In the past decade, the European Union (EU) has imposed sanctions repeatedly on Belarus for various reasons, leading to no substantial improvement in their relations. In discussions over market expansion, senior Belarusian officials, including the Belarusian ambassador to China H.E. Kirill Rudy, expressed the hope that China would introduce zero tariffs to imports from the China-Belarus Industrial Park.

**Third, inconsistency in Chinese and Belarusian product and service standards has limited the project progress.**

The Belarusian presidential decrees clarified that, in the park, Chinese and other technical standards could be used in park planning, design, implementation and acceptance; equipment and materials imported for park planning, design, construction and production, unless prescribed in international conventions to which Belarus is a party, are not subject to compulsory certification in the Belarusian certification system. However, they must meet the Belarusian legal requirements on safety, environmental protection and fire control. Thus, the issue of transforming product, service and design standards comes up, which has affected, to some extent, the construction progress in the park.

#### **IV. A proactive-yet-steady approach needs to be taken in building the China-Belarus Industrial Park for its sustainable development.**

The China-Belarus Industrial Park has come a long way in the past three years, thanks in no small part to the strong endorsement from the Chinese and Belarusian presidents, favourable policies from Belarus and financial support from China. There is no denying that the park still confronts many challenges and the general public in Belarus has not yet reached consensus on it. In this context, we recommend that in the next step the Industrial Park takes a proactive-yet-steady approach, focusing on the following aspects:

##### **First, China and Belarus need to have active and candid exchange on their development concepts and take steps in exploring new development concepts.**

The per capita GDP of Belarus is only half that of China in current US dollar terms, but higher than China's in purchasing power parity (PPP).<sup>1</sup> Belarus, like China, has reason to pursue comprehensive, balanced and sustainable development. Chinese managers and workers must fully understand that experience of building development zones or industrial parks in China should not be blindly copied or imposed on the China-Belarus Industrial Park. As it is exploring how to practise new development concepts at home, China should not rush for quick results in this new international endeavour. It needs to work with Belarus in learning from the experience in China, Belarus and other countries. The two sides need to take a steady and learning-by-doing approach.

##### **Second, the two countries need to have active exchange on their experience in reform and development, take steady steps in building market institutions and promoting industrial upgrading in the park.**

China followed a gradual approach in reforming its economic system and fostering its industry. Belarus is conservative in reform, but highly ambitious in development. China needs to conduct targeted policy communication with Belarus at different levels and in various ways. More discussion on issues such as institutional reform and industrial upgrading should be included in technical assistance such as human resources training to make the Industrial Park a testing ground in the market-oriented economic reform as well as gradual economic and industrial transition in Belarus.

In positioning and selecting industries for the Industrial Park, Belarus needs to follow the objective rules in international industrial relocation and industrial clustering. In light of its industrial basis and pool of human resources, Belarus needs to formulate a plan and supporting policies to develop its priority industries. Other industries with promising market prospects could also be allowed to enter the park, with differentiated treatment in favourable policies.

<sup>1</sup> According to the World Bank, in 2016, the per capita GDP of Belarus was 18,066.3 international dollars, while that of China was 15,529.1 international dollars.

**Third, the two countries need to establish a responsibility-sharing mechanism, and properly handle political and economic relations with regional powers.**

As the two main sponsors of the Industrial Park, China and Belarus should follow the principle of equality and mutual benefit, the responsibilities in financing and constructing should be shared to build a genuine community of shared interest and a community of shared future. When it comes to financing for businesses in the park, in addition to tapping financial resources in Belarus, the two countries can turn to third countries, multilateral development financial institutions, venture capital funds and equity funds. For example, the EBRD has invested in Belarus for a long time with rich, local experience. The two countries can further engage with the EBRD to encourage it to provide funding for businesses in the park.

China and Belarus need to give full consideration and carefully assess the changes this large project may bring to the geopolitical and economic landscapes, and properly address political and economic relations with regional powers. First, the two countries need to take seriously the concerns of Russia and the EU, hold dialogue with them, and attract more Russian, European and American companies to the park. Second, the two countries need to move faster in aligning the BRI and the EAEU, leverage multilateral cooperation mechanisms such as the Shanghai Cooperation Organization, seek the best model of working together, and promote regional integration at a higher level and in broader areas, in order to foster a relatively stable regional political environment for the park.

**Fourth, the two countries need to promote comprehensive harmonisation of standards of the two countries and establish joint-venture intermediary service providers.**

The two countries need to step up research on laws, regulations and systems governing standards in Belarus and the EAEU as well as standards in key areas. The two sides can jointly establish a research institute or Belarus can provide certification to Chinese design agencies in order to promote technical transformation of standards and facilitate investment. Seizing opportunities in the BRI cooperation, the two countries need to establish a stable cooperation mechanism on national standards, sign a detailed agreement, and encourage Chinese companies and institutions to participate in the making of standards in Belarus.

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