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The New Engine for China-EU Cooperation: Cooperation on Economic and Technology Parks between China and CEECs: The Case on China-Poland Cooperation on SEZs

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The New Engine for China-EU Cooperation: Cooperation on Economic and Technology Parks between China and CEECs – the Case on China-Poland Cooperation on SEZs

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Abstract: This paper is a study of the necessity, feasibility, and approaches of Sino-Polish cooperation on jointly establishing economic and technological parks. Poland has established the 14 Special Economic Zones (SEZs). Poland has become the center of manufacture in Europe by using its advantage of geographical location, high-skilled labor forces, investment incentive policies and industrial concentration in SEZs. The cooperation between China and Poland on Special Economic Zones depends on making full use of Poland's advantageous geographical locations and unique position in global economic and industrial value chains and giving full consideration to the EU and Germany factors. The cooperation between China and Poland on SEZs could help accomplish China's "Go Global" initiative and "New Four Modernizations" strategy.

Keywords: economic and technology parks, Special Economic Zones in Poland, China-Poland Strategic Partnership

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In April, 2012, the first China-CEE Leaders' meeting was held in Warsaw, Poland, thereby instituting the China-CEE 16+1 mechanism and ushering in a new era of closer relations between China and Central and Eastern Europe. Mr. Wen Jiabao, then Chinese Premier, outlined 12 new measures to promote China-Central and Eastern Europe Cooperation, the fifth among which was to "encourage Chinese enterprises to jointly establish an economic and technological park with CEE countries in the next five years in light of the realities and requests in these countries. The Chinese government is willing to encourage and support more Chinese enterprises to involve in the development of existing CEE economic and technology parks." [1] We conducted a research on Sino-Polish economic and technology park cooperation, analyzing its necessity, feasibility and approaches.

[1] "China announces twelve measures to promote friendship and cooperation with CEE countries", *Xinhua News Agency*, April 26, 2012, http://news.xinhuanet.com/2012-04/26/c_123043845.htm.

I. Advantages of the Special Economic Zones in Poland

In order to attract more foreign investment, Poland decided to set up Special Economic Zones (SEZs) in 1994. Legislation on Special Economic Zones was enacted in Poland in October, 1994. Beginning in 1995, SEZs were established to attract foreign investment through tax exemptions, preferential land leasing and purchasing policies. There are altogether 14 SEZs spread across almost all provinces in Poland, operational until December 31st, 2026. Enterprises entering the SEZs are entitled to tax reliefs, such as exemptions for corporate incomes, real estate tax, transport tax, land leasing tax, administrative fees, etc. Corporate income exemption is the biggest benefit with tax exempted up to 30%-50% of the total investment. [2] The attractiveness of SEZs comes largely from their well-developed infrastructure, sufficient high-skilled labor force, pro-business policies, industrial cluster effect, convenient transport conditions, and advantageous geographical locations and so on. Due to the investment threshold, SEZs are the choice of large and medium-sized enterprises, especially multinational corporations from EU members, Japan, and South Korea. By the end of June 2012 Polish SEZs(in total) had issued nearly 1,500 business permits, entrepreneurs active in SEZs had invested over PLN 82 billion and employed over 240,000 people.[3] The *FDI Global Free Zones of the Future2012/2013* report published in late June 2012 and containing a ranking of the best 50 special economic zones mentions as many as five Polish SEZs. Poland is the 14th most attractive investment location in the world, according to UNCTAD's (United Nations Conference on Trade and Development) *World Investment Report 2012*.

(1) The geographical location advantage

Poland is located at the center of Europe, bordering Germany to the west, the Czech Republic and Slovakia to the south, and Ukraine, Belarus and a bit of Lithuania to the east. 14 SEZs have their unique geographical location. The west SEZs are close to the border of Germany, the north SEZs are close to the Baltic Sea, and some SEZs locate in the middle of Poland. Apart from the geographical advantage, Poland boasts a comparatively well-developed transport network in Central and Eastern Europe that is connected to the whole of Europe. Poland's convenient location at the juncture of the East-West and North-South communication routes makes it an ideal investment destination. This advantage offers investors access to the east, west, south, and north of Europe.

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[2] "A Guide to Special Economic Zones in Poland", PKMG in Poland, 2009, p. 17, http://www.paiz.gov.pl/files/?id_plik=10800

[3] "Special Economic Zones—Edition 2012", kpmg.pl, 2012, p. 4, http://www.paiz.gov.pl/files/?id_plik=20342.

(2) European market advantages

At the very center of Europe, Poland benefits from the European and domestic markets advantage. Entrepreneurs may establish business activity and not only sell products in Poland but also gain vast export opportunities and export to big markets situated both in the West and East of the continent. Poland's biggest trade partner is Germany. In January-October 2012 the share of Germany in total exports amounted to 25.2% and in total imports to 21.3%. The UK, Czech Republic, France, Russia, Italy were the next destinations.[4] It is easy to access and utilize the EU market, if a company invests in SEZs.

(3) Manufacture and cluster advantages

Poland's strategic sectors include automotive, aviation, BPO/SSC, electronics, energy, food industry, household appliances, IT and R&D. Poland is now making efforts to become EU's manufacturing center. The automotive sector has become Poland's economic pillar and the country is gradually becoming the foreign manufacturing base for prestigious car makers from Germany, France, and Italy and so on. Major car manufacturers have made Poland their main producer of parts and components and the final assembly center. Poland is the third largest player in CEE in terms of vehicle production.[5] SEZs with high industrial concentration and clusters have contributed greatly to the development of manufacture in Poland. Due to Poland's geographical proximity to Germany and the two country's close economic ties, the automotive industry has become not only one pillar of the Polish economy but also a major sector in SEZs. The Katowice SEZ and Legnica SEZ near the border of Germany have high concentration of automotive manufacturers.[6] The aviation industry is another well-positioned sector in Poland. The SEZ with the highest concentration of aviation investors is the EURO-PARK MIELEC. The Pomeranian SEZ concentrates investors in household appliances and electronics.

(4) Investment incentive advantage

Investments of foreign companies in SEZs could benefit from SEZ preferential terms. The preferential terms in SEZs are corporate income tax exemption, real estate tax exemption and state aid. The maximum income tax exemption depends on the investment location, the size of the enterprise, and the amount of investment

[4] "Why Poland?", Polish Information and Foreign Investment Agency and PwC, 2012, p. 16., http://www.paiz.gov.pl/investment_support/investment_incentives_in_SEZ

[5] "Why Poland?", Polish Information and Foreign Investment Agency and PwC, 2012, p.23,24, Http://www.paiz.gov.pl/investment_support/investment_incentives_in_SEZ

[6] "Investing in Poland, 2014", Warsaw Business Journal Group, 2014 , pp. 78-79, http://www.pwc.pl/pl_PL/pl/publikacje/assets/investing-in-poland-2014.pdf.

expenditure. The value for large enterprises is from 30% to 50% of eligible costs, for mid-sized enterprises, from 40%-60% of eligible costs, and for small enterprises, from 50%-70% of eligible costs.[7]

II. The implication of Chinese investment in SEZs in Poland

(1) To become a new engine of China's "Go Global" strategy

The "Go Global" strategy was adopted in the 2000 National Congress meeting and has been promoted ever since. At the third plenary session of the Chinese Communist Party's 18th Congress in 2013 the top leadership unveiled a strategy committed to comprehensive and in-depth reforms and opening up, continued to develop the "Go Global" strategy, which will enable China to be involved in the process of global resource allocation and advanced China's manufacturing.

Generally speaking, in the early years of the strategy, efforts were mainly focused on investing in resource-intensive regions like Africa, Latin America, Central Asia, through the extensive purchase of local resources and energy. In recent years, given the ongoing financial crisis in the United States and the debt crisis in the EU, China has begun to shift its attention to strategic assets by mergers and acquisitions in the US and the western part of the EU. Chinese investment has been mainly directed at high-tech enterprises, intellectual property, sales networks, prestigious brands, and R&D. With Central Eastern European countries' accession into the EU and their industrial value chains linked up to the EU value chains, CEE countries began to attract China's attention. Due to CEE's unique industrial advantages and sound investment conditions, increasing Chinese investment in the region will make the CEE market a new growth point and engine for China's "Go Global" strategy.

(2) To upgrade manufacture of China

The global value chain can generally be divided into four sections. At the upstream section are European and American strategic intangible assets and German and Swiss high-end manufacturing sectors. At the downstream section is African and Latin American resources and energy. The lower-to-mid-sections manufacture is located in China and Southeast Asian. And the mid-to-high end manufacture is located in the CEECs, especially in Poland, Hungaryand the Czech Republic etc.

Major CEE countries like Poland, Hungary, and Czech could be a priority for the next round of China's foreign direct investment. The high-end manufacturing

[7] "A Guide to Special Economic Zones in Poland", PKMG in Poland, 2009, p. 17, http://www.paiz.gov.pl/files/?id_plik=10800

sector in these countries should be the most attractive destination for Chinese capital, as this sector is the upstream in the global value chain. The objective and key of China's industrial restructuring efforts is to move China's industries upward from its current position to the mid-to-high end. As Europe's mid-to-high-end manufacturing center, Poland's unique position and competitive advantage in the global and European value chains is now in full play. After its accession to the EU, it has been merged into the extended section of west European (Germany, Austria, Italy, The Netherlands, Switzerland) manufacturing value chain, and played a unique part in the global and European mid-to-high-end manufacturing sectors.

Chinese investment in Poland could help China make full use of Poland's comparative advantages and better align with European manufacturing, especially with German manufacturing, to upgrade China's manufacturing capabilities and facilitate the New Four Modernizations. The cluster effect in Poland's automotive and aviation industries is well-established. China needs to develop its automotive industry and aviation industry. Chinese investment in Poland will help upgrade China's technological strength in the strategic sectors of automotive, aviation, etc., accelerating China's neo-industrialization initiative and advancing model of "Made in China".

III. Recommendations on China-Poland cooperation on SEZs

(1) Valuing the strategic implications and high-level coordination

China-Poland cooperation on SEZs should serve as important pilot projects for China-CEECs cooperation. Such projects have strategic importance whether from the perspective of promoting China's Go Global strategy or of implementing the China-Poland strategic partnership within the China-CEECs cooperation framework. The Chinese side should take a strategic approach and treat China-Poland cooperation on SEZs as flagship and demonstration projects for furthering China-CEECs cooperation. The large number of SEZs in Poland offers a wide array of choices for potential Chinese investors. Moreover, Poland could also serve as a springboard for Chinese investors to enter into other major European markets. It is necessary to set up high-level intergovernmental communication and coordination mechanism between two countries, for example the vice-premier level, to guarantee the success of joint economic and technological park.

(2) To encourage flagship projects

The success stories of Poland's SEZs with clusters of trans-national companies demonstrated the importance of flagship projects. The "16+1"format has put

China-CEECs cooperation on a fast track and it is the CEE countries' hope that China's flagship projects can push this cooperation forward. But for some reasons, monumental projects are few in terms of bilateral direct investment. Therefore, Sino-Polish cooperation on SEZs should start and focus on high-end, flagship, and monumental projects. Flagship projects usually have two essential features.1) large enterprises' collective entry. The Chinese side should encourage large Chinese enterprises to establish joint development corporations or make direct investment to keep the joint parks running at a high level and create the demonstration effect for other Chinese enterprises. This practice could gain recognition for Chinese enterprises operating in Europe. 2) Cluster development. The value of cluster investment lies in that it enables Chinese enterprises to support each other by building a system of well-connected supply chains. At the same time, the cluster effect could help Chinese enterprises gain Polish local government's support by strengthening their bargaining power. In a word, government support, large enterprises' participation, and cluster investment are important guarantees for the success of Chinese investment projects.

(3) Importance of specialized participation

The success of a joint park depends first and foremost on reliable and competent development partners on both the Chinese and Polish part. The Chinese side, in particular, should identify and recruit certain competent and related cities and parks in the development and management of the joint parks, for example, Minhang Industrial Park, which is focused on aviation industry, and Jiading Industrial Park, which is focused on auto industry in Shanghai. They could be entrusted as major Chinese undertakers to ensure specialized development of China-Poland joint parks. In terms of Sino-Polish cooperation, a Chinese economic and technological park and one of the SEZs could build a sister park relation. The two sides could set up the management boards to take charge of the construction of a joint park and manage their daily business activities.

(4) Paying more attention on the Germany factor

Poland boasts numerous advantages for attracting foreign investment, the most notable of which, for Chinese investors, is that it has become an integral part of Germany's industrial chain. In recent years, Germany has gradually moved its manufacturing industry to the Central and Eastern Europe, especially to Poland. Poland has already become Europe's center for traditional sectors such as automotive, household appliances, electronics, construction materials, chemical engineering and so on; its position in EU manufacturing industry has been increasingly remarkable. The Germany factor must be taken into account while planning for Sino-Polish joint parks when China considers the SEZ for investment.

The three SEZs of Walbrzych Special Economic Zone “INVEST-PARK”, Katowice Special Economic Zone, Kostrzyn-Slubice Special Economic Zone could be regarded as the candidate SEZs to cooperate, which are all near the border of Germany and concentration of German and European trans-national companies.