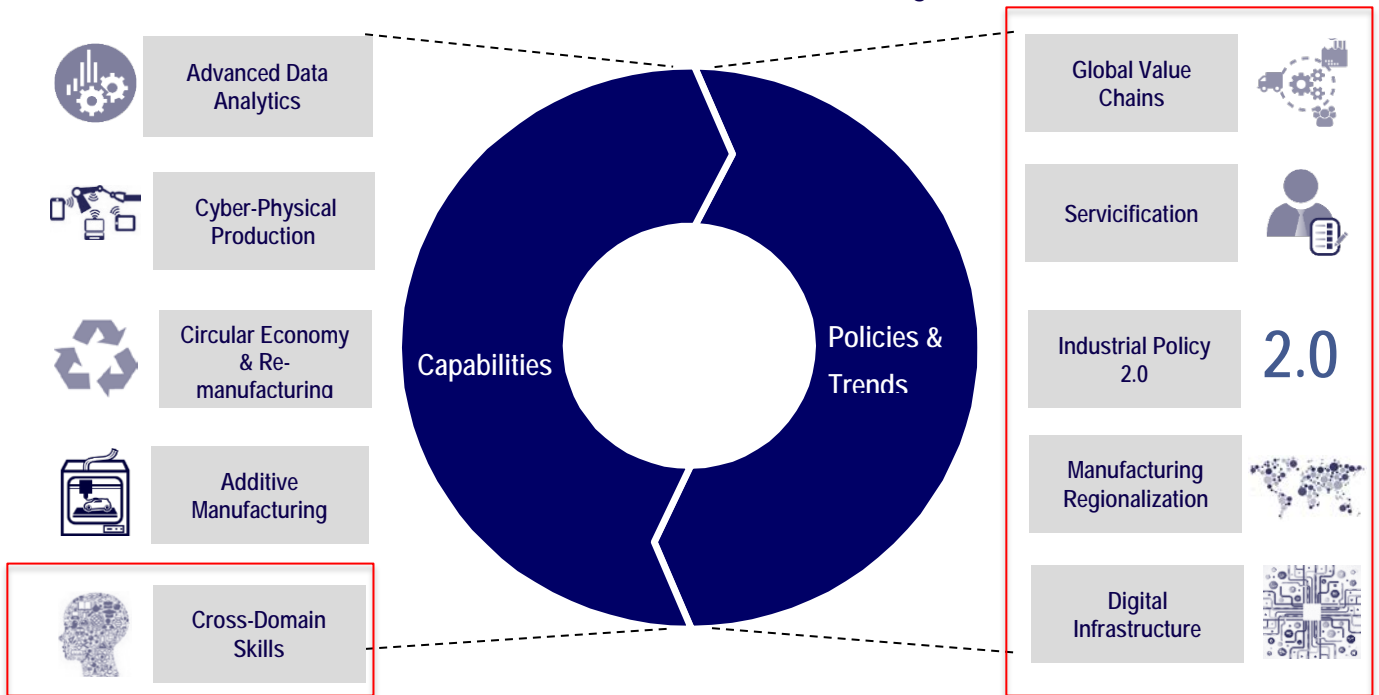


Case 15

Suzhou Industrial Park – Integrating Drivers of Competitiveness to Boost Global Value Chain Participation

Drivers of the Future of Manufacturing



Source: World Economic Forum Global Agenda Council on the Future of Manufacturing, Whiteshield Partners framing



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1. Challenge Confronted

From the early 1980s to the early 1990s, government-led development of Suzhou's economy focused on state-owned enterprises (SOEs) and low-end, collectively owned township and village enterprises (TVEs). While generally successful in stimulating economic growth and rural industrialization, this model ran into serious problems. Over-interference of local governments, lack of economies of scale, weak integration into global value chains (GVCs) and environmental pollution were all major impediments to sustainable growth. The challenge was how to upgrade the existing growth model to boost competitiveness and to better integrate the local economy into GVCs.

2. Solution Used

Suzhou adopted an export-oriented strategy to target foreign direct investment (FDI) in high-end manufacturing sectors with an eye toward the future. These included information and communication technology (ICT), automotive and aeronautical parts, pharmaceuticals, and, more recently, software and outsourcing services. In support of this strategy, the Government of Suzhou, with the strong backing of the central government, did the following:

- Set up the Suzhou Industrial Park (SIP) in partnership with the Government of Singapore. SIP has been governed by the China-Singapore Joint Steering Council (JSC). This partnership has helped Suzhou to tap into Singapore's advanced knowledge and know-how of zone development and operations.
- Established a highly conducive business environment, including sound legal, regulatory and incentive regimes, including a "one-stop shop" service centre, which provides a streamlined and more transparent approach on registration, licensing, permits, taxation, immigration and customs clearance, etc.
- Implemented preferential policies. Besides a rather standard exemption of income tax for the first two years (once making profit) and half the normal rate for the following three years, the Government of Suzhou also gives special tax incentives and refunds for specific new and high-tech sectors. Incentives for firms in the export processing zones within the SIP include exemption of import and export licenses, export taxes and import duties.
- Developed and built first-class hard infrastructure, including power, water, roads, telecom and high-quality green facilities.
- Carried out many experimental programmes addressing services trade, eco-friendly and smart city development, human resources management, labour relations and social protection.

3. Outcomes and Results

By the end of 2013:

- SIP had attracted 5,029 foreign investment projects, including 91 Fortune 500 companies, with a cumulative utilized foreign investment of \$24.8 billion
- Total exports reached \$42.5 billion
- New and high-tech industries accounted for 61% of total industrial output
- Total population within SIP reached 780,500 with a total employment of 694,647

China's Suzhou Industrial Park – Integrating Drivers of Competitiveness to Boost Global Value Chain Participation

Dates: 1995-2013

Keywords: industrial park, FDI attraction, global value chain

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Key Facts:

- By partnering with the Government of Singapore, the Chinese government learned the best practice of developing a conducive ecosystem to attract FDI.
- High-quality "soft" and "hard" infrastructures are key foundation for make these industrial zones "special".
- SIP has become a major growth engine of the local economy, achieving annual average economic growth of around 30% since its inception.
- Workforce training and talent development are an important part of the strategy for pursuing advanced manufacturing.

There has been rapid agglomeration of industries in ICT, including firms specializing in integrated circuits, thin-film transistors and liquid crystal display screens. The automotive and aeronautical parts industries have also grown significantly. In more recent years, there has been a rapid emergence of high-end sectors in the zone that include software, outsourcing services and pharmaceuticals. While most of the high-tech manufacturing and service sectors were created through attraction of new firms (especially anchor firms or top and second tier suppliers) and new workers, many of the traditional sectors such as the machinery and paper products have been upgraded.

SIP has become a major growth engine of the Suzhou economy, achieving an annual average economic growth of around 30% since its inception. With only 3.3% of the total land, 7.4% of the population and 6.3% of the industrial land, SIP contributes about 15% of Suzhou's GDP, 13% of its industrial output, 29% of its total trade and 16% of its public revenues.

4. Lessons Learned

The success of SIP offers many useful lessons on SEZ and urban development that could be relevant for the future of manufacturing in other developing countries/economies. Such lessons include, but are not limited to, the following:

- ***A sound legal and institutional framework with strong, long-term government commitment.*** Besides national legislation, the Jiangsu Province and Suzhou Municipality passed many regulations and provisions regarding the institutions, planning, development, operations, management, etc., to govern SIP and other zones. Such a legal framework helps to provide a stable macro-environment and boosts investor confidence.
- ***A conducive business environment inside the zone.*** Thanks to very proactive governance and learning spillovers from the Singaporean experience, SIP boasts first-class infrastructure and efficient public services. These are run by dedicated and professional personnel; aftercare services are also effective through a three-day response system.
- ***Adapting international knowledge into the local context.*** One of the key factors that has allowed Chinese zones to be successful is that the government does not just copy what other countries have done. Instead it tries to adapt successful international experiences and lessons into local conditions. In SIP, the successful experiences of Singapore, such as the one-stop shop services, urban planning, provident fund⁴ and community centres, were effectively designed to fit the local context.
- ***Skills training, technology transfer and industrial upgrading.*** This is crucial for zones to acquire sufficient manpower, enhance productivity and sustain long-term competitiveness. SIP has several on-site, well-equipped technical and vocational colleges and secondary schools, with market-driven curriculum and management. To maintain the zone's competitiveness, SIP management and the local government have tried to catalyse and facilitate industrial upgrading by promoting technology innovation/transfer in high-valued sectors.
- ***A good balance between industrial development and social/urban development.*** One of the important features of SIP is that the zone programme was part of the broader urban development agenda and was included in urban planning from early on. This ensured integration between the zone and Suzhou City, in terms of infrastructure and social services.
- ***Heavy reliance on foreign investment and limited spillover effects.*** FDI has played a critical role in the success of SIP, helping it to become a high-tech enclave. However, knowledge spillovers and learning effects have been limited. Despite some supply and skills linkages with local industries, foreign firms operating in SIP often have their own preferred global supply networks, and tend to keep key technological activities in their home countries. This lack of spillovers may be the result of concerns over intellectual property rights (IPR) protection and contractual enforcement regimes by foreign firms. The government's FDI attraction strategy has also likely played an unintended role in limiting the participation of domestic firms.

5. Common Lessons

- The future of global manufacturing will increasingly rely upon developing a conducive ecosystem which includes

a solid legal and institutional framework, necessary labour skills, innovation and efficient infrastructure. Industrial zones/parks can be focal points where these key drivers of competitiveness become better integrated into production capabilities, and can, therefore, act as an effective instrument to promote industrialization, attract FDI, generate employment and link a local economy to global production networks.

- For such a programme to work, it requires a clear strategy with careful planning and strong, long-term government commitment. It also requires a “whole of supply chain approach” with sound legal, regulatory and institutional frameworks. High-quality “soft” (such as one-stop-shop, aftercare and customs services) and “hard” (such as power, water, roads and logistics) infrastructure must be available to make these zones truly “special.”
- In a weak market environment, a facilitating host government, coupled with foreign expertise and knowledge adapted to the local context, can go a long way in developing industrial zones.
- To maximize FDI spillover effects on the local economy, it is necessary to reinforce IPR protection and contractual enforcement systems. Meanwhile, governments should also explore ways to strengthen the absorptive capacity of local firms, universities and R&D institutes. This includes creating a level playing field for domestic firms, especially small- and medium-sized enterprises, and improving their access to finance, technology and skills, as well as encouraging foreign investors to build more linkages with local firms and R&D institutions.

Drivers & Enablers



Policy to attract foreign direct investment and open market access



Conducive Business Environment



- Rapid agglomeration of high-tech industries
- Skills and employment
- Exports

Barriers

Despite the remarkable success of SIP, there are also some key challenges and threats for the zone to maintain its competitiveness and development momentum:

- Heavy reliance on foreign investment and limited local spillover effects. FDI has played a critical role in the success of SIP, helping it to become a high-tech enclave. However, knowledge spillovers and learning effects in the local economy have been limited. Despite some supply and skills linkages with the local industries, foreign firms operating in SIP often have their own preferred global supply networks, and tend to keep key technological activities in their home countries. There are a dozen foreign R&D centres, but they serve as product or process development facilities for Chinese markets. This lack of spillovers is often due to a poor contractual environment in the host country, in particular protection of intellectual property rights and efficiency and unbiasedness of contractual dispute resolution system. On the other hand, the government’s FDI attraction strategy has also likely played an unintended role in limiting the participation of domestic firms. This calls for a more level playing strategy.
- Further promoting technological innovation and industrial upgrading. Given the rapidly rising costs of production, especially in China’s coastal regions, and the transformation of the country’s development model from low-cost manufacturing towards high-end knowledge and a technology-driven economy, there is no other way for SIP to continue its success but further improving its technological innovation capacity and upgrading in GVCs. Despite the rapid increase of China’s global competitiveness position, its innovation and skills aspects are still relatively weak compared to the global frontiers. This may partially explain the fact that close to 80% of the firms in China offer formal training to their employees, a figure much higher than most of the world.